WULING MOTORS HOLDINGS LIMITED
五菱汽車集團控股有限公司

(Incorporated in Bermuda with limited liability)

Entering the Era of
HIGH PERFORMANCE with
CLEAN ENERGY

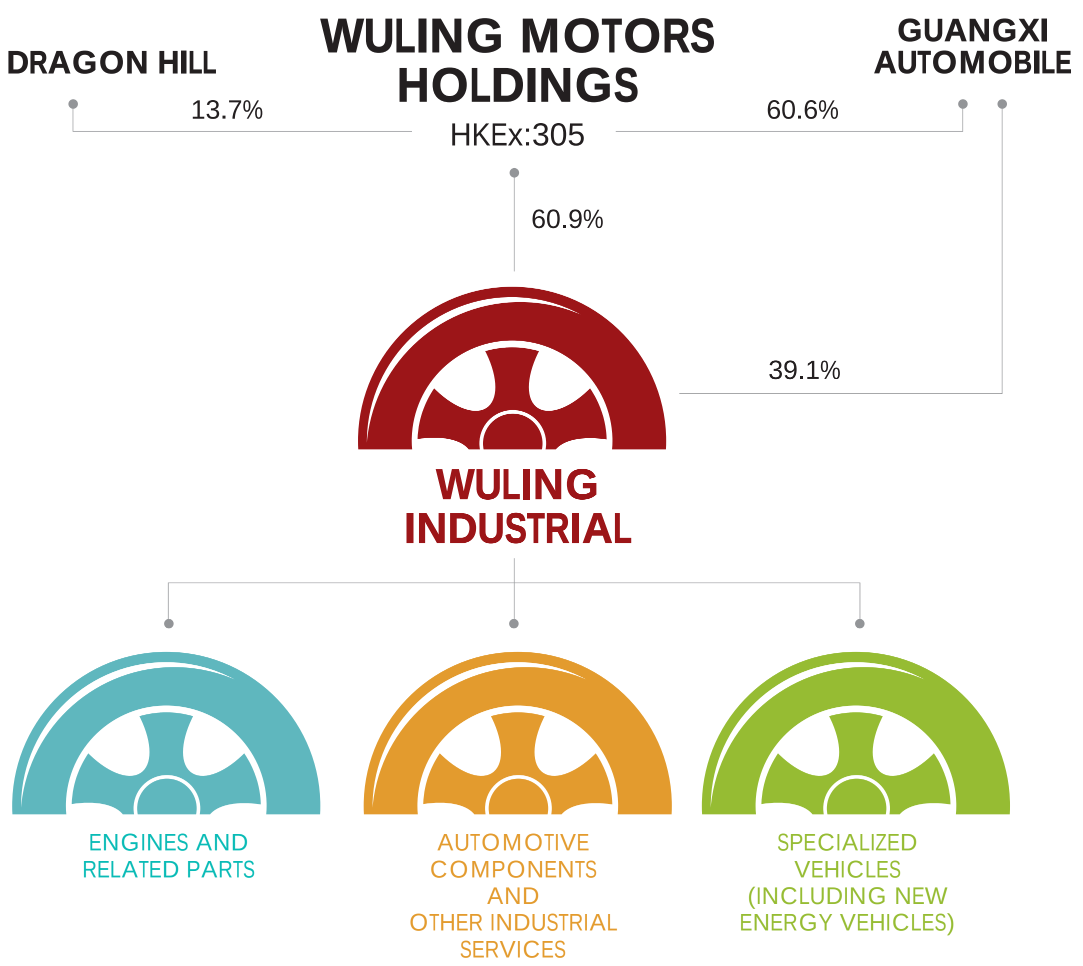
ANNUAL REPORT 2018

HKEx Stock Code : 305

CORPORATE PROFILE

Wuling Motors Holdings Limited ("Wuling Motors Holdings" or the "Company") and its subsidiaries (collectively referred to as the "Wuling Group" or the "Group") are principally engaged in the businesses of trading and manufacturing of automotive components, engines and specialized vehicles. Our Group's corporate goal is to grasp the tremendous business opportunities arising from the rapidly growing automobile industry in China and Asia. We supply engines and automotive components to commercial-type mini-vehicles and passenger vehicles. We are also a qualified enterprise for manufacturing electric logistic vehicles in China. The Group's main production facilities are located in Liuzhou, Qingdao, Chongqing and Indonesia. Since 2011, we have been ranked as one of the Fortune China 500 Enterprises.

GROUP STRUCTURE



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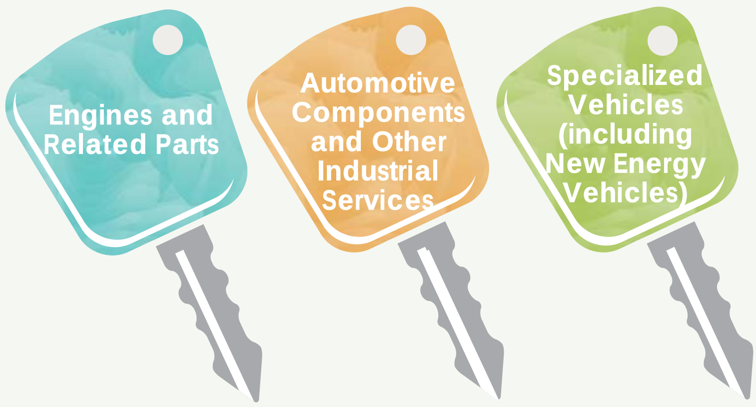

Engines and Related Parts
Automotive Components and Other Industrial Services
Specialized Vehicles (including New Energy Vehicles)

CHAIRMAN'S STATEMENT

Mr. Yuan Zhijun
Chairman

CHAIRMAN'S STATEMENT

PREFACE

2018 is the inauguration year of the implementation of the spirit of 19th CPC National Congress. It also marks the 40th anniversary of the reform and opening-up of China and the 60th anniversary of the establishment of Guangxi Zhuang Autonomous Region. Facing with the tough environment caused by the increasing complexity of the world economy, a declining growth rate of the domestic market and a significant slow down of the growth in our industry, Wuling Motors Holdings Limited ("**Wuling Motors Holdings**" or the "**Group**") adheres to the management principle of "Pursuing Growth Amid Stability Progressing with Determined Goals". We have been dedicated to taking our management measures to the next level aiming at making breakthroughs in development, and continuously promoting our automotive components business to a new horizon. Under an extremely competitive business environment of the automobile industry, the industry entered into a stage of consolidation after a speedy growth over the past few years. The Group recorded an annual revenue of RMB15,120,119,000 in 2018, representing a year-on-year decrease of 6.2%. Net profit of the Group in 2018 was RMB125,195,000, representing a year-on-year decrease of 55.6%. Profit attributable to the owners of the Company in 2018 was RMB70,673,000, representing a year-on-year decrease of 59.2%.

REVIEW OF MAJOR ACHIEVEMENTS IN 2018

In 2018, raw material prices and competition remained high. In the second half of 2018, the business volume of automobile industry experienced a drastic decline. Meanwhile, the percentage share of our supply of engines to our clients tumbled down and the vehicle production of the Group's major customer declined. These multiple unfavorable factors had provided serious challenges to the business operation of the Group. Under these circumstances, the Group persisted in transforming and improving our main business and increasing the added value of our products. With resource planning in mind, we paved the track of our development. New momentum had also been built up to foster enterprise development. The cooperation with external parties was speeding up. We aimed to achieve a win-win situation through the cooperation with premium enterprises. To ehance management, the attention to detail was what we always treasure, from which measures for improving quality and efficiency were carried out to stimulate development and ensuring our Group's business principle of "Pursuing Growth Amid Stability Progressing with Determined Goals". The details of the Group's business in 2018 are as follows:

1. Understanding Market Trend, Adjusting Product Mix and Working Hard for a Steady Growth of Our Major Business

a. Seizing the opportunity to explore market and pursuing high-quality development of components and parts business

Our passion for the development of passenger vehicles can be manifested by our technological innovation and production standard enhancement. We are expanding our components and parts business to passenger vehicle market. The Group took the opportunity of the surging of the planned manufacturing output of the key products of our major customer in 2018 seriously. At the back of our current facilities, well-adjusted manufacturing strategies were implemented and well-prepared manufacturing resources were delegated to provide components and parts to our customers. We coordinated our manufacturing bases to guarantee both supply and quality. We also took in the orders of the development of new components and parts for new passenger vehicles. We were able to supply components and parts for over 20 types of finished assembled components. The mass production of the Group's first passenger vehicle rear suspension component, namely CN120S rear suspension was ready for scale production, which would not only take our products to a higher level, but also established a solid foundation for our future development. We were keen on

CHAIRMAN'S STATEMENT

cooperating with mainstream domestic passenger vehicle brands and succeeded in getting the access to the business of another renowned car manufacturer in China. For the time being, we are also actively working with some other potential customers for diversifying and promoting our business potential. The revenue from the sale of the Group's components and parts business reached RMB9,348,788,000 (without counting the revenue generated from the associated companies amounted to RMB1,061,016,000). The percentage share of the Group's passenger vehicle components and parts was over 70% in 2018, and the Group played a much more important role in the market of passenger vehicle components and parts than ever.

b. Adjusting management and development strategies and pursuing for breakthroughs in engine business

The increasing application of the own produced engines by our major customer provided a shock to our engine business, which caused a serious decline in the number of sales of engines. The Group conducted the R&D of its high-end passenger vehicle engines in line with market demands and industrial development. The commercialisation of our new 2.0T engine had been sped up. We also actively developed our 1.5L to 1.8L engines. The contribution of the external market to our business increased in 2018 with an annual engine sale revenue of approximately RMB690,000,000. Meanwhile, the Group also worked hard on engines without ancillaries, key engine components and parts and other businesses and expanding the market share of its 3C products (i.e. cylinder block, cylinder head and crankshaft components), in which the sales volume of castings products in 2018 achieved 1,043,000 units, surpassing annual sales target. For extending the lifespan of our product platforms, we continuously promoted the application of our prime engine products NP18 to other models of SGMW (e.g. Baojun 530/N350). In terms of product and market innovation, our engine division planned to establish a programme for hybrid/pure electric new energy car in response to China's policies for new energy vehicles, aiming to ensure the Group with a steady development.

c. Exploring the market, subdividing products and developing electric vehicles and redecorated vehicles intensively

The Group's car assembly business in 2018 presented a quick response to market demands. We adjusted our marketing strategies according to our experience. We expanded our product line by launching a comprehensive range of products including redecorated vehicles, electric shuttles, electric logistics vehicle and other models. We promoted our brand by exhibiting EN300P electric container logistic wagon, EV100 electric cruiser, M100 car-sharing shuttle and other models at China International Energy-saving and New Energy Vehicles Exhibition, Guangxi Logistics Event, ASEAN Exposition and other expositions. Through programmes of North-South linkage tour and Spring Breeze Action, we had vigorously promoted our refrigerated vehicle, mobile store, desirable microvan. Our car assembly business sold 110,200 vehicles during the year, in which 1,800 vehicles were new energy vehicles, including electric shuttles, electric logistics vehicles, etc. The year-on-year increase rate of the sales of our redecorated vehicles was 53%. The market share of our redecorated vehicles was 65%. Thus, we ranked as the leading redecorated vehicle manufacturer in the industry.

2. Intelligent Construction, Win-win Cooperation and Exploration of New Energy for the Future of Our Enterprise

a. Expanding the application of automation and taking intelligent construction to a higher level

The Group's implementation of automated production lines and its application of big data, cloud computing, Internet of Things induced the intelligent manufacturing transformation. The cabin production line in Liudong District was the best manifestation of the Group's intelligent manufacturing. We worked hard on improving the quality of our components and parts through implementation of upgrade programmes for the production of our stamping and welding, rear axles, brakes, gears, the back part of chassis, etc. We made use of digitalised checking, intelligent monitoring, intelligent management, intelligent logistics to improve product quality and manufacturing efficiency. Currently, 108 automated production lines and 807 robots were applied into operation. The stamping and welding factories in the Hexi District and the Liudong District had achieved an automation percentage of over 60%. Our digitalised workshops for manufacturing cabins in the Hexi District and the Liudong District were among the first batch of workshops conferred the title of "Liuzhou Exemplary Digitalised Workshops". Our intelligent factory for passenger vehicle chassis project and our intelligent factory for key components and parts of lightweight chassis PLM project in the Liudong District had improved both the quality of our key components and parts and the manufacturing efficiency. These projects not only made the automotive components and parts in Guangxi more competitive than ever, but also promoted the transformation and upgrading intensively. The manufacturing of our components and parts were driven in a sustained fashion.

b. Joint venture cooperation for an all-win situation in the market and speeding up the transformation and upgrading of our products

We worked on the expansion of components and parts business through the cooperation with several renowned domestic and foreign enterprises and the introduction of state-of-the-art technologies aiming at improving our manufacturing capabilities. The cooperation with Fortune Global 500 companies in components and parts business ensured the consolidation of the achievements from the transformation and upgrading of competitive components and parts business and facilitated the acquisition of core technologies and the transformation and upgrading of our products. Joint venture enterprises engaging in the car seat and interior parts business formed by the Group's major subsidiary Wuling Industrial and the world third largest car seat manufacturer Faurecia started their self operation in 2018. In April 2018, the Group entered into an agreement for strategic partnership of cooperation with ABB Engineering Shanghai Co., Ltd. in Shanghai. In August 2018, the Group's another major subsidiary Wuling Liuji and Lead Drive Technology established Liuzhou Lead Drive Electric Control Technology Co., Ltd.* (柳州臻驅電控科技有限公司). 24 October 2018 marked the third cooperation between Wuling Industrial and Faurecia, and the two companies planned to establish Faurecia (Liuzhou) Emissions Control. Technologies Co., Ltd., where the registration with industrial and commercial bureau was completed in March 2019. Meanwhile, having registered with industrial and commercial bureau, Liuzhou AAM Automotive Transmission System Co., Ltd., the joint venture established by Wuling Industrial and American Axle & Manufacturing, had commenced initial operation in November 2018.

CHAIRMAN'S STATEMENT

c. Seizing the opportunity to increase market share according to relevant policies

In regard to the steady development of new energy vehicles in China and China's new energy policies, the Group decided to increase its investment in new energy vehicle industry target at transforming and upgrading of our technologies and products to a higher level. Active innovation of our specialised vehicle division had achieved upgrading of our electric shuttles, electric low-speed passenger vehicles and electric logistics vehicles and formulated platforms which could manufacture models for sightseeing, commuting, logistics transport. Meanwhile, Liuzhou Lead Drive Electric Control Technology Co., Ltd., established by Wuling Liuji and Lead Drive, also worked hard on the development of electric motor controllers, core components and parts products. Our new energy powertrain played an important role in expanding market share in the our new energy segment.

3. Meticulous Management for Economic Benefits

a. Meticulous management, tapping new resources and ecnomising on expenditures

Our meticulous management focused on quality, cost and efficiency through the implementation of the "Three Containments" measures on reduction of non-performing receivable, acquisition costs and idle fixed assets. We targeted to increase the efficiency of our fund management and lower financing costs by the effective circulation of the Group's funds. In 2018, we focused on increasing income, reducing expenditure, controlling costs, improving efficiency by establishing and carrying out of the relevant measures. We also established eight special groups for increasing sales, lowering acquisition costs and structural cost control to undertake the implementation of our measures. Our effort on efficiency improvement, budget control, staff reduction had broadened sources of income and reduced expenditure.

Our Plan for 2019:

It is expected the automobile industry is still going to have a hard time in 2019, and it takes time to get out of the woods. Even though confronted with uncertainties in the market, we will continue to work on the new normal of economic development in pursuit of a steady growth through active adjustment of enterprises structure, technological innovation, enhancement of resource allocation, promoting transformation and upgrading of our products, adhering to new development concept new momentum of development. Taking our sales, growth, innovation, transformation, efficiency to a higher level will be the very essence of our plan. Practical and effective measures will be implemented to head towards high quality in a steady and healthy fashion. Our plan and measures for 2019 are as follows:

CHAIRMAN'S STATEMENT

1. **Steady business, innovative transformation and better management**

   In terms of our components and parts business, the Group will work hard on the intelligent upgrading of our axles, stamped and welded parts and other products, aiming at making our products more competitive and reaching to a higher level. We will strengthen the cooperation with SGMW, at the same time, we are actively working to establish cooperation with other renowned car manufacturers for diversifying and promoting our business potential. We target to stabilise our market share of the redecorated vehicles, at the same time, focus on building our brands and our industry influence in the niche market covering passenger transport, logistics, special services and other aspects for our business development. Our major clients' demand of our engines is dropping significantly, thus, we will strive to promote the application of NP18 engines to SGMW's other models as broadly as possible, aiming at extending the lifecycle of our platforms. We will also launch our CHINA 6 engines as soon as possible to win market share in stabilising the scale of our business.

2. **Taking the transformation and upgrading of our business and making our products more competitive**

   We will work hard on the cooperation with world renowned enterprises aiming at acquiring core technologies, speeding up the transformation and upgrading of our product and providing components and parts to high-end passenger vehicles. In the field of chassis and the components and parts of vehicle bodies, we will advance our digital R&D and automatic and intelligent manufacturing. The commercialisation of our 2.0T engines will be sped up, which will be used in our major clients' vehicles as soon as possible for expansion of business. The innovation of the marketing of our redecorated vehicles and passenger vehicles will never stop. Listening to the market, expanding our product line, having a clear understanding of the market and taking our manufacturing and sales to a higher level are what we are going to stick to.

3. **Meticulous management, cost reduction and the improvement of efficiency and quality**

   In terms of business administration, the Group will continue to advocate cost consciousness in the enterprise through the intensive measures of "Three Containments" and the strengthening of the budgetary control measures. Meanwhile, appropriate business resources allocation and the management of our staff costs (which will be in alignment with our earnings) will be advanced. In order to control manufacturing costs, the Group will continue to improve our supplier system, target at lowering the cost of purchasing raw materials, establishing effective measures, setting a goal of cost reduction, raising efficiency, improving the integration of procedure, human resource and manufacturing and setting up a check-up system will be the next step.

   We will stick to Wuling's spirit, i.e. "pioneering an enterprise with painstaking efforts, and exerting ourselves constantly". We will continue the transformation, upgrading and re-pioneering of Wuling Motors Holdings. We believe that with the support and attention from Guangxi Automobile Holdings Limited (our major shareholder), clients and business partners, Wuling Motors Holdings will continue to focus on our main business for achieving premium development and excellent reward for our shareholders and staff.

YUAN Zhijun
Chairman
29 March 2019

REPORT OF THE CEO

To Transform Challenges into Opportunities through Effective Business Strategies

Mr. LEE Shing
Vice-chairman and Chief Executive Officer

REPORT OF THE CEO

RESULTS AND PERFORMANCES

I am pleased to present the audited results of Wuling Motors Holdings Limited (the "**Company**" and together with its subsidiaries the "**Group**" or "**Wuling Motors**") for the year ended 31 December 2018.

The year of 2018, which marked the beginning of the second decade of the Group's operation in the automobile industry following our investments into the business of manufacturing and trading of automotive components, engines and specialized vehicles of Liuzhou Wuling Motors Industrial Company Limited ("**Wuling Industrial**"), was tough and full of challenges. The slowdown in the pace of growth in both global and regional economy gave rise to a general pessimistic sentiment in the market. Coupled with the unstable global economic prospect attributable to the intricate conflicts among the world leading nations in the matters relating to international trade and political balance of power, business enterprises could indeed find themselves fall under the toughest moment in a decade in formulating and implementing an appropriate strategy for their long term development.

Nevertheless, the pliable and valuable experiences amassed by the Group from both favourable and adverse conditions in the automobile industry continued to guide us forward and bestow upon our people the conscientious and hardheaded attitude in pursuing the long term business goals of the Group under this unconventional tough and challenging environment. Adhering to our operating policies of "Pursuing Growth Amid Stability, Optimizing Business Structure, Promoting Sustainable Development", Wuling Motors managed to enhance quality and efficiency, continued to adjust our enterprise structure and promoted business transformation, unremittingly identifying new business goals for strategic development without compromising the long-standing scale of operation and healthy growth. For the year ended 31 December 2018, due to a substantial reduction in the business volume of the engines and related parts division and a moderate decrease in the revenue of the automotive components and other industrial services division (partly attributable to the shift of the car seat and the automotive interior parts and accessories products to the joint venture companies formed with Faurecia Group, which commenced operations during the year), total revenue of the Group was RMB15,120,119,000, representing an overall decrease of 6.2% as compared to previous year. As a positive note, benefited from the continuous launches of new models and the proactive marketing programmes, the specialized vehicles division of the Group continued to grow steadily during the year.

Gross profit for the year under review was RMB1,282,825,000, representing a decrease of 20.0%. Apart from the decrease in revenue of the engines and related parts division and the automotive components and other industrial services division, profitability was also adversely affected by the relatively lower gross profit margins of certain component products and the operating losses incurred in the newly setup plant in Indonesia. The adverse impact from the decline in gross profit was however slightly alleviated by a slight decrease in the general and administrative expenses (other than the depreciation charges) and the research and development expenses of the Group due to certain tightening cost control and strategic measures and the benefit from an income tax credit amounting to RMB4,461,000 resulting from the reversal of overprovision in prior years. Hence, net profit of the Group for the year ended 31 December 2018 was RMB125,195,000, representing a decrease of 55.6% as compared to previous year.

Profit attributable to the owners of the Company was RMB70,673,000, representing a decrease of approximately 59.2%, while the profit attributable to the owners of the Company netting off of the related effective interest expenses incurred, the related foreign exchange loss and the effect of changes in fair value from the convertible loan notes for the purpose of computation of the earnings per share on a fully diluted basis, was RMB65,687,000, representing a decrease of approximately 51.5% as compared to previous year.

REPORT OF THE CEO

OPPORTUNITIES AND CHALLENGES

Aside from the unfavourable factors happened on the global level that were out of the control of the Group, the economic environment in China confronted with series of tough challenges arising from both internal and external during the year 2018. Indeed, after a relatively prolonged period of swift and extensive growth in different segments in the economy, when the economy entered the stage of stable development, it was inevitable that enterprises would face intensifying competition and new challenges in their respective industries.

Affected by the pessimistic sentiment arising from the market uncertainty and the general slowdown in the economy, the automobile industry in China experienced the first decline in the total annual sale volume in a decade. Total number of motor vehicles sold in China decreased moderately by 2.8% and amounted to approximately 28.1 million vehicles, in which the second half of 2018 was perhaps being the toughest period faced by the enterprises of the automobile industry in China.

Notwithstanding the unfavourable market environment, during the year under review, in co-operation with customers and business partners, new products were continuously developed and launched in response to the dynamic market environment. We confidently expect some of which would become the next growth drivers of revenue of the Group in the years ahead. In addition, enhancement and upgrading projects were continued in the established facilities such as the Liuzhou Hexi Industrial Facilities and the Qingdao Facilities and the newly setup facilities such as the Liudong Facilities and the Chongqing Facilities to provide the required fundamental platforms for furthering our business potential and development strategies. Completion of these enhanced facilities empowered by the essential elements of automation and intelligent manufacturing systems would necessarily ensure our competitive strength in the market for future business development and other transformation projects.

Over years of vigorous efforts of strategic planning and implementation, the Group has strategically devised a successful business blueprint where Liuzhou works as the headquarters linking southwards and northwards to Guilin, Qingdao and Chongqing as the production bases. We are confident our current industrial landscape will enable each member of the Group to be a more efficient actor to utilize market information exchange and resources. Production bases adjacent to major and target customers also strengthened the connection and mutual beneficial relationship between each subsidiary and customers. Cooperation and coordination among members of the Group will achieve such operational objectives that each member can contribute to our overall performance.

By capitalizing on the strategic opportunities as initiated from the "Belt and Road", the Group successfully completed its first overseas production base in Indonesia which commenced operation in the second half of 2017. Despite its loss making results due to the initial stage of operations, the Group firmly believe that increasing scale of operation in promoting production efficiency and the experiences gained from this first overseas plant will provide a solid foundation for the Group to tap into a broader overseas market.

In line with the specific business environment and the strategy of our key customer, the Group continued to undertake certain strategic changes in our business operations recently. In particular for our engines and parts and automotive components and other industrial services divisions, our business focus had been gradually shifted from the mini-vehicles segment to the passenger vehicles segments. This strategic change had continued to work as the driving forces of the engines and parts and the automotive components and other industrial services divisions which would be beneficial to the profitability of the Group in future.

REPORT OF THE CEO

In view of the overall slowdown in the growth of the passenger vehicle segment following consecutive years of impressive expansion, to maintain the growth of business volume, the Group had proactively adjusted our marketing strategy in expanding our car assembly business, i.e. the specialized vehicles division. In response to the solid market demand of our products which themselves having long and established standing in their respective niche market, the Group actively promoted different types of existing and new models through various campaigns, such as North-South linkage tour and the Spring Breeze Action since the second half of 2017. The total sales volume of specialized vehicles in 2018 amounted to approximately 110,200 vehicles, representing a year-on-year increase of approximately 47.5%, while sales of redecorated vehicles (for goods and for passengers) reached 105,000 units, representing a year-on-year increase of 53.5%. Mini-redecorated vehicles accounted for approximately 65% of the total market share, continued to rank 1st in the industry.

Despite a decline in sales due to the market recession, non-road vehicles, such as sightseeing vehicles, were able to maintain a stable market share for the year under review, whereas, the sale volume of passenger buses and school buses were both experienced certain degree of decline.

In line with national policies regarding environmental protection and new energy, new energy vehicles enjoy a good momentum in terms of market acceptance and sales. The Group has been allocating resources in response to national policies on environmental transportation. Over more than a decade of exploration and experience, the Group has attained key technologies in the development of new energy vehicles, including technologies involved in electric motors, vehicle control and vehicle integration, along with a number of patents for new energy vehicles registered in the PRC and the United States. Electric logistic vehicles, electric sightseeing vehicles and other electric vehicles developed directly or indirectly by the Group in 2016 and 2017 were successively approved by the government for production and launched into the market. The Group is actively engaged in the development and sales of new energy vehicles. A total of 1,800 electric vehicles, comprising electric logistics vehicles and electric sightseeing vehicles were sold in the year of 2018. The Group also completed the modeling design for the shared electric vehicles (M100) and the indigenously-developed four-wheel low speed electric vehicles. Meanwhile, the Group initiated various projects for mainstream applications of new energy, including research on L100 electric sightseeing vehicles, smart driving products and the development of EN300P electric logistics vehicles.

The Group actively explored potential collaboration with various manufacturing powerhouses at home and abroad for its automotive component business with a view to improving its manufacturing capacity with advanced technologies imported from the international market. Following the establishment of two joint venture enterprises with the renowned Faurecia Group in 2017, namely Faurecia (Liuzhou) Automotive Seating Co., Ltd and Faurecia (Liuzhou) Automotive Interior System Co., Limited for pursuing the car seat and the automotive interior parts and accessories products businesses respectively, in October 2018, Wuling Industrial and Faurecia further strengthened their collaboration by entering into the third joint venture agreement for the establishment of a new joint venture company to pursue the business of automotive emissions control system products and related parts and components in China. This collaboration aiming at extensively integrated market resources and technical capabilities of both parties to facilitate the transformation and upgrade of the Group's related products to the existing and potential customers have swiftly provided encouraging results to the Group. With the full support from the co-operating partners, the two joint venture companies, namely Faurecia (Liuzhou) Automotive Seating Co., Ltd and Faurecia (Liuzhou) Automotive Interior System Co., Limited have smoothly commenced scale operations following their setup and delivered set of solid results for the first year of operation in 2018.

REPORT OF THE CEO

Meanwhile, to enable faster improvement in the processing technique of vehicle axles products to meet the requirements of medium-end and high-end passenger vehicles, In April 2018, Wuling Industrial entered into a joint venture agreement with American Axle & Manufacturing, Inc. (美國車橋製造國際有限公司) with respect to the joint establishment of Liuzhou AAM Automotive Transmission System Co., Ltd.* (柳州美橋汽車傳動系統有限公司) as a platform to cooperate on and operate vertical rear axles, transmission axles and other business, furthering the technology development of vehicle axle products, which joint venture enterprise has been formally established in July 2018. Initial operation was then commenced following the completion of the highly-automated "Smart Factory" under the third phase development of the Liudong Facilities in November 2018 which was designated for Liuzhou AAM Automotive Transmission System Co., Ltd.

The Group is confident that cooperation with leading international enterprises will enable faster improvement in processing techniques of the Group's various components. By virtue of our practical and local experience in operations and product upgrade plans of our existing customers, the Group will achieve complementary results with respect to exploring medium-end and high-end products of new customers. The management anticipates that the above joint venture will, in terms of automotive components, operate as an enterprise with leading technologies and competitive edges in southwestern China.

While the Group has been actively monitoring the changing business environment when implementing business strategies, we have never underestimated the risks associated with excessive capacities and dynamic market situations. Therefore, apart from implementing appropriate capacity expansion strategies, the Group has also undertaken quality services oriented and technical re-engineering programs to further strengthen our product quality standard and technical capability so as to stay competitive in the industry. The Group believes this combined strategy is essential for the corporate development of an enterprise in this challenging environment.

The Group is full of confidence in the long term growth potential of the China automobile industry and realizes in business, challenges and opportunities are indistinguishable to each other. An effective business model can convert challenges into opportunities, which to a great extent, relies on the determined goals and effective strategies of the enterprises. To cope with the challenges as well as to grasp the opportunities in the automobile industry, the Group has been conscientiously undertaken the following strategies and programs:

a. Re-engineering of our product structure in response to the market needs in quest for continued growth of the automobile manufacturing business by pursuing steady growth in the proportion of sales of automotive parts and components for the passenger vehicles segment under the automotive components and other industrial services division and the launching of new products of our engines and parts and specialized vehicles divisions serving the needs of the market trend with specific focus on the new energy vehicles;

b. Constructing of a new frame of enterprise structure endowed with "Multiple Growth Drivers With Diverse Profit Streams" through an optimal positioning and scale operation of the production facilities in different geographical locations and in exploring opportunities arisen from abroad for our principal products such as engines and chassis components, redecorated logistic vehicles and other specialized vehicles and the streamlining and restructuring exercises of our ancillary products such as car seat products, automotive interior parts and accessories products and emission control systems products under our key business segments;

REPORT OF THE CEO

c. Establishing of an intelligent production system to pave the way for the upcoming development of intelligent manufacturing through the adoption of innovative industrialization programmes such as "Internet +" and "Industry 4.0" and the undertaking of the automation exercises for the established facilities and the newly setup facilities aiming at the construction of a network of advance and highly-automated production facilities located in different regions across China;

d. Enhancing of the efficiency and effectiveness in operation and management decision making processes through implementation of the lean management system and the benchmarking exercises with the proven global manufacturing systems of the renowned key customers and business partners; and

e. Building of an effective management team and workforce through active investment in the human resources with the appropriate human resources policies.

OUTLOOK

The Group envisages business environment in China to be highly competitive and challenging in this year and the years ahead. Pessimistic sentiment arising from the slowdown of the global and regional economy coupled with the unstable global economic prospect attributable to the erratic upheavals of international conflicts would continue to exert negative effect on the automobile industry and the overall business environment. Meanwhile, keen competitive business environment will force the automobile enterprises in formulating appropriate business and market strategies responding to the dynamic market situation and unconventional risky business exposures. However, being the world largest automobile market, the Group is full of confidence and considers the existing challenges can be overcome by effective strategies and will be beneficial to the industry in the long run. Despite the challenges and difficulties faced under the current market environment, the Group expects the China economy will continue to grow steadily. Rising household income and the increasing awareness of the general public towards environmental and community issues attributable to the sustainability of the economy and the society will necessarily encourage demands for motor vehicles, as a salient means of transport and an important part of lifestyle and provide promising business opportunities to the Group.

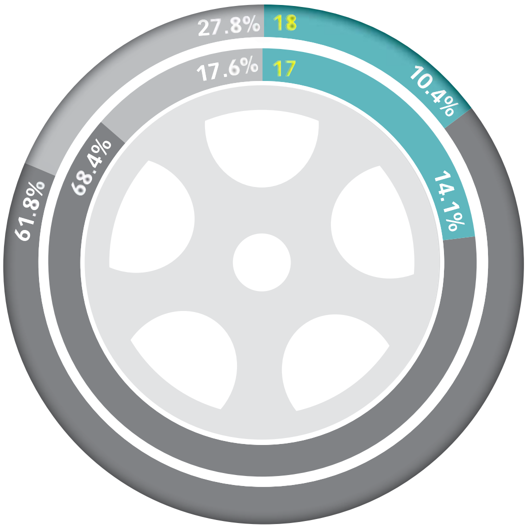
Through conscientious plans and efforts of the Group, the management is confident that our long term business potential in the China automobile industry will continue to be strengthened. With the continuous supports from Guangxi Automobile, our ultimate controlling shareholder and joint venture partner, and our customers, we firmly believe the business prospect of the Group is promising and will bring rewards to our shareholders.

LEE Shing
Vice Chairman & Chief Executive Officer
29 March 2019

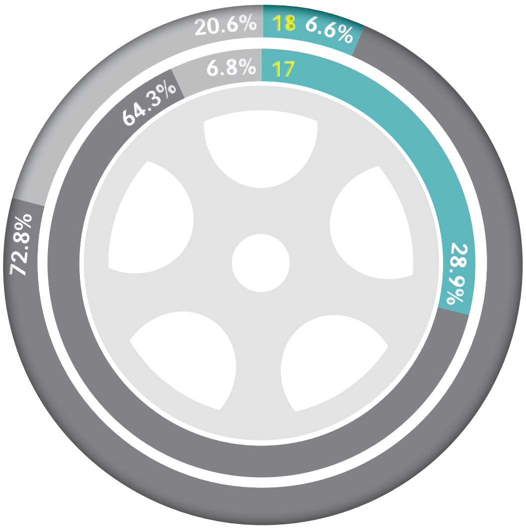
OPERATION REVIEW

MAIN BUSINESS SEGMENT

ENGINES AND RELATED PARTS



REVENUE



OPERATING PROFIT

- Engines And Related Parts
- Automotive Components And Other Industrial Services
- Specialized Vehicles (including New Energy Vehicles)

OPERATION REVIEW

Total revenue (based on external sales) of the engines and related parts division for the year ended 31 December 2018 was RMB1,573,555,000, representing a substantial decrease of 30.6% as compared to previous year. Operating profit for the year was RMB12,926,000, representing a substantial decrease of 91.3% as compared to previous year.

Total number of engines sold by the subsidiary, Liuzhou Wuling Liuji Motors Company Limited ("**Wuling Liuji**"), for the year was approximately 130,000 units, representing a substantial decrease of approximately 53.6% as compared to previous year.

During the year, sales to SAIC-GM-Wuling Automobile Co., Limited ("**SGMW**"), our core customer, amounted to approximately RMB884,089,000, representing a significant drop of 48.3% as compared to previous year. As reported by the Company earlier, the significant drop in revenue was resulted from a substantial reduction in the sale volume of the NP18 model, which was supplied to SGMW for their Capacity 1.8L vehicle models. During the year, due to the shift of the marketing focus of SGMW in intensively promoting the vehicle models installed with their in-house produced 1.5T engine (Capacity 1.5L), sale volume of the NP18 model experienced a drastic decrease in this year which amounted to approximately 42,000 units as compared to the sale volume of 120,000 units as achieved in 2017.

Meanwhile, as a long standing industry leader in the manufacturing of engines for the various types of mini-vehicles, Wuling Liuji continued to supply products to other automobile manufacturers in this market segment. Despite the sluggish business environment, sales to other customers, primarily engine sets with capacity range from 1.0L to 1.6L, experienced certain extent of growth and increased to approximately RMB689,466,000 for the year, which accounted for approximately 44% of the total revenue of this division.

OPERATION REVIEW

Operating margin declined to 0.8% during the year due to the significant reduction in sale volume. However, a decrease in warranty expenses incurred and the continuous improvement of the operations of the foundry facilities helped to slightly alleviate the negative impact from the drastic reduction in sale volume and total revenue of this division.

The production capacity of Wuling Liuji for the assembly lines at present could reach 800,000 units a year which covers quite an extensive list of products ranging from the lowest capacity 0.6L model to the highest capacity of 3.7L model, in which the models within the 1.0L to 2.0L range are the products where Wuling Liuji is having the competitive edge in the industry. Considering the dynamic business environment and the strengthening of the competitiveness in the market, over the past few years, in implementing the production capacity expansion programmes, special emphasis has been placed by the Group on the scalability of the production facilities such that the production and economic efficiency could be maintained in serving the market demands from different types of customers notwithstanding their different range of models and size of orders.

To further expand the product range and to achieve higher technical capability, Wuling Liuji has also actively undertaken development projects for the production of the upgraded engine products in serving the different needs of the customers, especially targeting at the passenger vehicles segment, such as the NP18 model which was successfully launched in recent year. At the back of this successful model, Wuling Liuji has undertaken projects for further enhancement of the NP18 model and for development of new products with greater capacity in serving the specific needs of the customers of the passenger vehicles segment. In September 2017, Wuling Liuji entered into an equipment purchase agreement at a gross consideration of RMB94,000,000 in relation to the construction of a production-line designated and installed for the production of a new model of automotive engine, namely the NPT20 (Capacity 2.0L). Concurrently, to ensure adequate supply of foundry components for the existing and the above new model engines and for further upgrading of the quality standard, in November 2017 Wuling Liuji entered into another equipment purchase agreement at a gross consideration of RMB170,000,000 in relation to the establishment of two production-lines which are designated for the processing production of cylinder blocks and

OPERATION REVIEW

cylinder heads. The Group considers that completion of the above two projects and the launch of the NPT20 model would further strengthen the market position of Wuling Liuji by having a comprehensive range of products ranging from 1.0L to 2.0L with the essential vertical integration elements, i.e., the in-house manufacturing of the foundry components.

Construction of the above highly-automated production lines have been completed in late 2018 and test run of the NPT20 model has also been commenced. Subject to the market launches of the related passenger vehicles of the customer, it is expected that the production of the NPT20 model will be commenced by the end of 2019.

To kick start the business development in the segment of new energy vehicles, in August 2018, Wuling Liuji entered into a joint venture agreement with an independent third party to pursue the business activities in the development and production of electric motor control system and related components for new energy vehicles. At the back of the competitive strength and knowhow of the co-operative partner in their respective automobile and electric motor control system industry, the division enjoyed a speedy development in this great potential business segment, where the first model of the Group's electric motor control system products has been developed and is currently undergoing the preliminary testing processes. In this respect, the division has already outlined a capacity construction plan to cater for the mass production of the Group's electric motor control system products and related components for new energy vehicles.

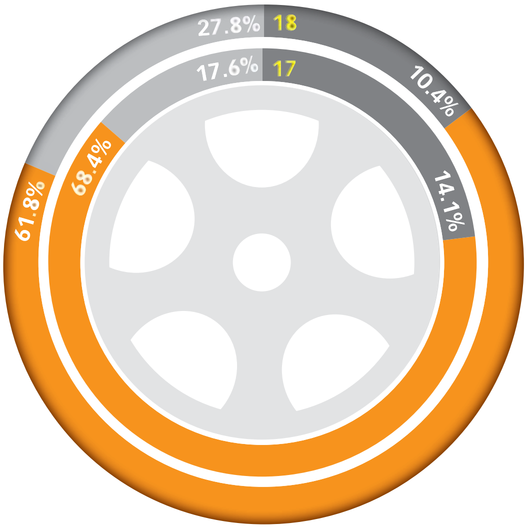
Meanwhile, the division has also undertaken a comprehensive test run of its first in-house developed hybrid engine aiming at the sedan, MPV and SUV segments. The successful development of this specific type of products would further strengthen the market position of the Group in the automobile industry by having a comprehensive and diversified range of products which could serve the specific needs of various types of vehicles.

Going forward, Wuling Liuji will continue to focus on the research and development, as well as the marketing programmes of its existing and new products, including the products applicable for the new energy vehicles, so as to maintain its competitiveness in this market segment. The Group believes the increasing applications of the successfully launched higher end models to the passenger vehicles of SGMW and other new customers and the introduction of other new higher end products will enhance the business potential and the technical capability of Wuling Liuji which will contribute to its profitability in the coming years.

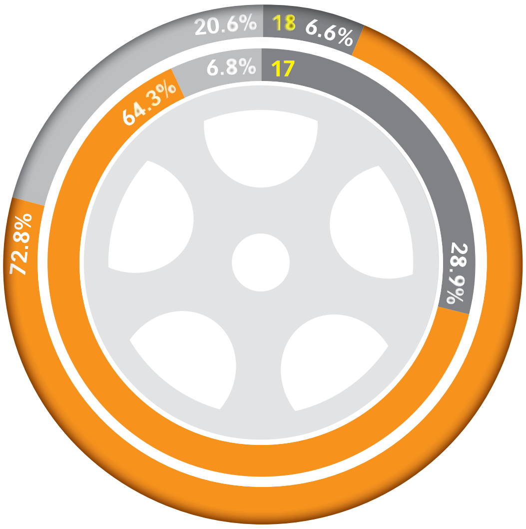
OPERATION REVIEW

MAIN BUSINESS SEGMENT

AUTOMOTIVE COMPONENTS AND OTHER INDUSTRIAL SERVICES



REVENUE



OPERATING PROFIT

- Engines And Related Parts
- Automotive Components And Other Industrial Services
- Specialized Vehicles (including New Energy Vehicles)

OPERATION REVIEW

Total revenue (based on external sales) of the automotive components and other industrial services division for the year ended 31 December 2018 was RMB9,348,788,000, representing a decrease of 15.2% as compared to previous year. Operating profits for the year was RMB142,902,000, representing a decrease of 56.9% as compared to previous year.

Apart from the negative effect from a general slowdown of the automobile industry in China during the year, decrease in revenue of this division was to certain extent due to the shift of the car seat products businesses and the automotive interior parts and accessories to the joint venture companies formed between Wuling Industrial and the renowned Faurecia Group, namely Faurecia Liuzhou Automotive Seating Co., Limited ("**FL Seating**") and Faurecia (Liuzhou) Automotive Interior System Co., Limited ("**FL Interior**"), which performance in terms of business volume and profitability would be further explained under the section "Performance of Joint Ventures" below.

OPERATION REVIEW

The automotive components and other industrial services division, undertaken by Wuling Industrial together with its subsidiaries and associated companies, continued to be the key supplier for supplying a majority portion of the key automotive components to SGMW. During the year, despite a general slowdown of the automobile industry in China, sales to SGMW through the Group or our associated companies, comprised an extensive range of products including the brake and the chassis assembly components, seat sets, various plastic and welding parts and other automotive accessories, continued to maintain a healthy business volume as driven by the market demands of the existing and new models vehicles of SGMW such as Wuling Hongguang (五菱宏光) and the Baojun series (寶駿).

Operating margin declined to 1.5% as compared to previous year. Apart from the decrease in revenue (partly due to the shift of certain businesses to the joint venture companies as abovementioned), profitability was also adversely affected by the relatively low gross profit margins of certain component products (of which their respective selling prices were fixed, whereas, the prevailing prices of raw material (especially steel) was relatively high) and the operating losses incurred in the production plant in Indonesia. The adverse impact from the decline in gross profit margin was however slightly alleviated by a slight decrease in the general and administrative expenses and the research and development expenses (other than the depreciation charges) of the Group due to certain tightening cost control and strategic measures.

With its long and established industry experiences, the automotive components and other industrial services division of the Group is particularly strong in product design and development. Its capability in supplying a wide range of products provides a one-stop shop services to the customers, whereas, the scalability of its production facilities ensures the particular needs of our key customer can be properly taken care of. Apart from its traditional well and established commercial mini-vehicles production capability, strategically, the automotive components and other industrial services division has progressed gradually to other higher value added passenger vehicles, such as the sedan, MPV and SUV segments to further the profitability performance for the Group.

OPERATION REVIEW

In view of the anticipated growth of business of SGMW from the existing models and the launch of new models, the Group had actively undertaken capacity expansion and upgrading programmes. With respect to the Liuzhou region, the production facility located in Hexi Industrial Park, Liuzhou which was completed in 2014 and originally designed for the mini-vehicles' components businesses, had been subject to various upgrading and revamping exercises, which involved the installation of industrial robotic workstations and other automatic machinery, in response to the business strategy and the increasing orders of SGMW for the passenger vehicles, in particular for the SUVs and MPVs. In addition, part of the facilities were currently leased to the newly formed joint venture companies as mentioned below.

The Group operated another production facility in the eastern district of Liuzhou ("**Liudong Facilities**"), which was mainly targeted at the passenger vehicles' components businesses and was strategically located adjacent to the passenger vehicles production base of SGMW, in which the first and second phase had become fully operational gradually since the second half of 2016. To cope with the significant growth of passenger vehicles' components businesses, construction of the third phase of the Liudong Facilities was completed in the second half of 2018 to ensure adequate production capacity could be available to serve the increasing needs from customers on a timely basis. This third phase development which is designated for the construction of the first "Smart Factory" of the Group targeting for the production of the chassis components of the higher-end passenger vehicles is now gradually applied for use by the joint venture company formed between Wuling Industrial and American Axle & Manufacturing, Inc., namely Liuzhou AAM Automotive Transmission System Co., Ltd. which would be further explained under the section "Performance of Joint Ventures" below.

OPERATION REVIEW

Apart from the production facilities in the Liuzhou region, Wuling Industrial had also recently formulated development plans for the other two main production facilities in China, i.e. the production facilities located in Qingdao and Chongqing. As for the production facilities in Qingdao, due to the launches of the new passenger vehicles by SGMW manufactured in their production base in Shandong, the production facilities located in Qingdao has also undertaken certain technology advance and capacity expansion projects. Such projects, which involved the construction of a new factory premises, the establishment of several large scale plastic injection production lines, as well as other automatic welding and assembly lines and the installation of industrial robots, were progressing satisfactorily, in which part of the facilities had gradually started operational from the second half of 2017. With respect to the production facilities in Chongqing which had commenced operation for over a year in supplying automotive components to SGMW, Wuling Industrial is currently reviewing the second phase development in line with the expansion plan of SGMW and would initiate appropriate plans for further expansion of this production facility in due course.

Over the past few years, the Group has taken strategic steps in China to transform from a single production point operation in Liuzhou into an inter-provincial production group with facilities in Guangxi, Shandong and Chongqing, accomplishing a synchronized expansion and improvement in terms of corporate size and core competitiveness, meanwhile establishing a sound foundation for the Group's business growth and sustainable development in the future. These strategic steps, accompanied with the satisfactory growth in the business volume of the SGMW and other customers over the past few years, have benefited the business performance of the Group.

OPERATION REVIEW

Apart from the improvement in business performance, these strategic steps over the past few years have also strengthened the commercial collaboration between the Group and SGMW in pursuing current businesses as well as other future business opportunities. As SGMW has been actively promoting its overseas business activities by establishing its production plant in Indonesia, the Group has kept pace with such development of SGMW and decided to develop its overseas businesses concurrently by establishing our first overseas production base located in Indonesia, which had commenced operation in the second half of 2017.

The production plant in Indonesia comprised a number of welding, stamping and assembly production lines for manufacturing of the automotive components for the rear suspension, front axle parts of vehicles, with an initial planned production volume of 100,000 sets/units per annum. During the year ended 31 December 2018, due to additional cost incurred in its initial operation and the low utilization rate of the operating facilities, the production plant in Indonesia incurred a net operating loss of approximately RMB23,178,000, which had adversely affected the profitability of the division.

However, being the fourth largest population country in the world and in consideration of its recent economic development, the Group is of the view that there is great business potential for the automobile industry in Indonesia and considers that the business performance of the Group's automotive components businesses in Indonesia will be gradually improved in 2019.

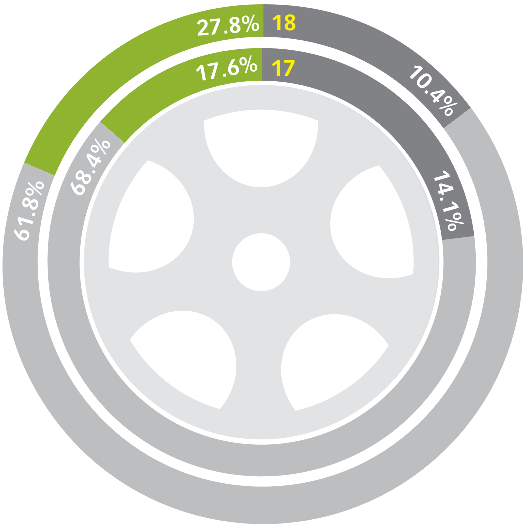
Meanwhile, the Group had further expanded its overseas operations by establishing a small scale manufacturing plant in India targeted for the automotive component business of a renowned Chinese car manufacturer in India. The construction of this plant is progressing satisfactorily of which scale operation is expected to commence in second half of 2019.

Notwithstanding the highly competitive market condition, the Group considers the competitive strength of its key customer, SGMW, in the market on the back of its successful models and the launch of new models, and the implementation of the appropriate strategic programmes, will continue to provide strong supports to the operation of the automotive components and other industrial services division in the years onwards.

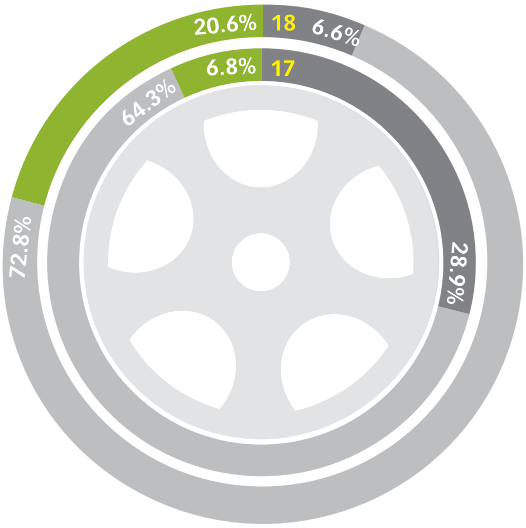
OPERATION REVIEW

MAIN BUSINESS SEGMENT

SPECIALIZED VEHICLES (INCLUDING NEW ENERGY VEHICLES)



REVENUE



OPERATING PROFIT

- Engines And Related Parts
- Automotive Components And Other Industrial Services
- Specialized Vehicles (including New Energy Vehicles)

OPERATION REVIEW

Total revenue (based on external sales) of the specialized vehicles division undertaken by Wuling Industrial for the year ended 31 December 2018 was RMB4,197,622,000, representing an increase of 48.2% as compared to previous year. Operating profit for the year was RMB40,391,000, representing an increase of 14.7%.

During this year, Wuling Industrial sold approximately 110,200 specialized vehicles, representing an increase of 47.5% as compared to previous year. In which, the sale volume of redecorated vans (for goods), redecorated vans (for passengers), non-road vehicles (primarily sight-seeing vehicles) and other types of vehicles (primarily passenger buses and school buses) were approximately 70,100, 34,900, 3,400 and 1,800 respectively, amongst which approximately 1,800 vehicles were new energy vehicles (primarily electric vehicles), comprising a volume mix of approximately 340 electric logistic vehicles, 1,390 electric sight-seeing vehicles and a small volume of electric community passenger buses. Despite the highly competitive business environment, proactive marketing strategies and continuous launches of new models benefited the business performance of the division from which the sale volume of redecorated vans (for goods and for passengers) increased impressively and continued to rank as the leading supplier in this market segment. Due to keen market competition, the sale volume of passenger buses and school buses experienced the second consecutive year of decline. Meanwhile, the Group continued to experience a moderate increase in the sale volume of electric vehicles contributed primarily from the electric sight-seeing vehicles and electric logistic vehicles. Wuling's electric sight-seeing buses being selected as the designated transport vehicle in some national and international events also helped to upgrade its product image and provided positive feedback from the market.

OPERATION REVIEW

Operating margin improved to 1.0% for the year. However, high portion of redecorated vans (for goods and for passengers) having low profit margin, competitive pricing strategy and increasing production costs resulting from product upgrades and improvement continued to limit the profitability performance of the division. Meanwhile, business performance of the division for the year was also adversely affected by the increasing costs of transportation and warranty expenses associated with the implementation of stringent requirements in the industry. Nevertheless, as a leading manufacturer in this niche market, the Group is confident that the profitability of this division will eventually be improved due to the increasing sale volume of higher end products in the market in consequence of the increasing customers' preferences towards higher quality products where the Group is working towards strategically.

The specialized vehicles division operates comprehensive car assembly lines which cover the production processes of welding, painting and assembly. The division has capability to produce more than a hundred different types of specially designed vehicles which serves the particular needs of customers, such as sightseeing bus, golf cart, police car, mini fire engine, postal van, ambulance, container wagon, refrigerator vehicle, heat preservation vehicle, garbage truck and electric vehicles, etc. The customers range from government departments, public institutes, private enterprises with different size of operation to private individuals. Products are mainly sold in

OPERATION REVIEW

the domestic market covering the major provinces and cities across the country and the overseas markets.

The capability of the specialized vehicles division in the car assembly industry is originated from the long standing industry experiences of Wuling. In fact, the models designed and developed by the Group are mainly branded as “Wuling”, which is itself a benchmark of quality products and services in the market. Wuling Industrial is a qualified enterprise which possesses the capability for manufacturing new energy electric logistic vehicles in China. In line with the national policies relating to environment protection and the promotion of clean energy, the division aims at playing an important part in the new energy vehicle segment and is actively pursuing various development plans for market expansions and enhancement of research capability. Being the

OPERATION REVIEW

primary focus of development of the division, certain electric vehicle products of the Group, including electric logistic vehicle, electric sight-seeing buses and other electric vehicles, have obtained notifications of government approval in 2016 and 2017 and had started to gradually launch to the market.

On the technological and product development aspect, Wuling Industrial has actively undertaken projects by adopting the technical knowhow as developed from the above electric vehicles products as the platform to explore and develop a series of electric specialized vehicles suitable for peculiar business segments, which would cover the car sharing and auto pilot aspects. In co-operation with other reputable business partners, respective trial runs for car sharing and auto pilot projects have been carried out in late 2018 and early 2019 in which initial responses are satisfactory and encouraging.

Over the years, the Group had unremittingly developed new models of specialized vehicles with improved quality and added features in response to market demands and enhanced regulatory standards. The Group is confident the launches of these new models will benefit the profitability performance of the division. Currently, production facilities of the specialized vehicles division of the Group are situated in Liuzhou and Qingdao with respective annual capacities of approximately 60,000 vehicles and 60,000 vehicles. Taking the advantage of having an existing operation in Chongqing, the Group has commenced the construction of a production plant for the assembly of specialized vehicles in the production facilities in Chongqing with planned annual capacity of approximately 50,000 vehicles, completion of which will not only expand the capacity of the specialized vehicles division, but also facilitate geographical diversification which enables the benefits of quality services and cost effectiveness.

Besides our proactive marketing strategies and continuous launches of new models, our focus on delivery of a high standard of customer services with prompt responsiveness to customers' feedbacks are also important in further promoting our business potential in the specialized vehicles segment. The extensive operations of our current 415 service stations situated in over 19 geographic service areas keep us abreast of market trend and development in the industry for deriving the suitable business strategy for the specialized vehicles division. The consecutive impressive growth in the business volume in 2017 and 2018 essentially demonstrated the positive impact from these multi-dimensional strategy, which enable the Group to head towards the essential breakthrough platform in this segment.

The Group would strive to maintain a prominent market share, and at the same time, explore the opportunity for future growth potential to further improving the profitability of the specialized vehicles segment, through implementation of active business strategies in promoting our products to the regions where Group's products are still having a lower penetration rate.

Going forward, the specialized vehicles division will continue to undertake research and development projects for new product, technical and capability improvement with specific focus on the new energy vehicles. Whilst the Group envisages the challenges facing this division, it remains confident in the long term business potential of this business segment.

OPERATION REVIEW

PERFORMANCE OF JOINT VENTURES

Liuzhou Lingte Motor Technology Company Limited ("**Liuzhou Lingte**"), which is owned as to 51% by Wuling Liuji and formed with IAT Automobile Technology Co., Ltd., in November 2013 for purpose of developing the businesses of our owned proprietary V6 cylinder engine products, continued to making progress as planned during the period. Following the successful completion of the research and development of the 3.0L Advanced Model, Liuzhou Lingte had commenced the construction of the infrastructure and the main assembly line for initial production purpose in 2016. During the year ended 31 December 2018, Wuling Liuji and Liuzhou Lingte continued to work together to formulate appropriate marketing plan for launching the product to targeted customers. The successful development of the V6 products by Liuzhou Lingte will significantly enhance our products range and capability in the industry. Due to its initial operation, Liuzhou Lingte registered an annual revenue of RMB5,035,000 and a net operating loss of RMB9,872,000 for the year ended 31 December 2018, in which a loss of RMB5,035,000 was attributable to the Group.

Guangxi Weixiang Machinery Company Limited ("**Guangxi Weixiang**"), which is owned as to 50% by Wuling Industrial and formed with Guangxi Liugong Machinery Company Limited in August 2013 for developing the businesses of engineering machinery and other industrial vehicles products, had been facing tough business environment since its establishment and continued to register losses for the past few years. The business environment was hence improved since the second half of 2017. At the back of the continuous recovery of businesses, the business performance of Guangxi Weixiang continued to improve during year ended 31 December 2018, from which an annual revenue of RMB557,058,000 and a net operating profit of RMB11,869,000 were achieved for the year, in which a profit of RMB5,935,000 was attributable to the Group. In view of the continuous improvement in profitability, a reversal of impairment amounting to RMB8,000,000 was recorded for the year ended 31 December 2018.

FL Seating which is be owned as to 50% each by Wuling Industrial and Faurecia Group and established on 26 September 2017 for pursuing the business of car seat products in the PRC has commenced operation in January 2018. Wuling Industrial considers the recent development of SGMW in expanding the production of passenger vehicles would provide business opportunities in the car seat products, and therefore looks for suitable business partner for enhancing and upgrading its production knowhow in this area. The cooperation with Faurecia Group, being a global leading manufacturer in the business of automotive parts and components will provide essential technical support to the Wuling Industrial in further promoting its business opportunities in the car seat businesses for the existing customers as well as other new customers. In accordance with the joint venture agreement, Wuling Industrial and Faurecia Group will each contribute cash in the amount of RMB75,000,000 to FL Seating. The initial operation of FL Seating is primarily facilitated by the transfer of machinery and equipment of Wuling Industrial which were used for the production of car seat products located in Liuzhou and Qingdao, the re-designation of certain employees of Wuling Industrial and the leasing of certain production premises and facilities of Wuling Industrial located in Liuzhou and Qingdao. During the year ended 31 December 2018, FL Seating achieved an annual revenue of RMB702,615,000 and a net operating profit of RMB14,090,000, in which a profit of RMB7,045,000 was attributable to the Group.

OPERATION REVIEW

FL Interior which is be owned as to 50% each by Wuling Industrial and Faurecia Group and established on 5 February 2018 for pursuing the business of automotive interior system, its related parts and accessories, including cockpit, instrument panel, auxiliary instrument panel, door trim panel, acoustics and soft trim in the PRC has commenced operation in April 2018. Wuling Industrial considers the co-operation with Faurecia Group will provide essential technical support to the Wuling Industrial in further promoting its business opportunities in these types of products from SGMW as well as other new customers. In accordance with the joint venture agreement, Wuling Industrial and Faurecia Group will each contribute cash in the amount of RMB150,000,000 to FL Interior within five years where Wuling Industrial had contributed RMB100,000,000 up to 31 December 2018. The initial operation of FL Interior is also primarily facilitated by the transfer of machinery and equipment of Wuling Industrial which were used for the production of automotive interior products located in Liuzhou and Qingdao, the re-designation of certain employees of Wuling Industrial and the leasing of certain production premises and facilities of Wuling Industrial located in Liuzhou and Qingdao. During the year ended 31 December 2018, FL Interior achieved an annual revenue of RMB358,401,000 and a net operating profit of RMB17,714,000, in which a profit of RMB8,857,000 was attributable to the Group.

On 24 October 2018, Wuling Industrial entered into another agreement with the Faurecia Group for the establishment of another joint venture company for pursuing the business of automotive emissions control system products and related parts and components in China which will be owned as to 50% each by Wuling Industrial and Faurecia Group ("**FL Emission Control**"). Wuling Industrial considers the co-operation with Faurecia Group will provide essential technical support to the Group in further promoting its business opportunities in these types of products from SGMW as well as other new customers. In accordance with the joint venture agreement, Wuling Industrial and Faurecia Group will each contribute cash in the amount of RMB60,000,000 to the newly formed FL Emission Control. Meanwhile, pursuant to the joint venture agreement, after the establishment of FL Emission Control, Wuling Industrial and FL Emission Control shall enter into ancillary agreements in relation to, among other things, the acquisition of the machinery and equipment of Wuling Industrial which are currently used for the production of automotive emissions control system products located in Liuzhou, the PRC for the purpose of facilitating the business and operation of FL Emission Control. FL Emission Control was formally established in March 2019 and Wuling Industrial and Faurecia Group are now proceeding the necessary procedures in initiating the business operation of FL Emission Control.

OPERATION REVIEW

In April 2018, Wuling Industrial entered into a joint venture agreement with American Axle & Manufacturing, Inc. ("**AAM International**") with respect to the joint establishment of Liuzhou AAM Automotive Transmission System Co., Ltd. ("**AAMJV**"), which shall be owned as to 50% by Wuling Industrial and 50% by AAM International pursuant to the joint venture agreement, for the purpose of engaging in the development, manufacture and sales of driveline products business, which includes the independent drive axles, propshafts and other driveline products, driveheads for high-end Salisbury axles or banjo axles, e-drive units for new energy vehicles, and other driveline components for motor vehicles. Wuling Industrial considers the co-operation with AAM International will enable faster improvement in the processing technique of vehicle axles to meet the requirements of medium-end and high-end passenger vehicles, from which the joint venture company could serve as a platform to co-operate on and operate vertical rear axles, transmission axles and other business, furthering the technology development of vehicle axle products. In accordance with the joint venture agreement, Wuling Industrial and AAM International will each contribute cash in the amount of RMB69,000,000 to AAMJV. AAMJV has been formally established in July 2018, which will occupy the highly-automated "Smart Factory" under the third phase development of the Liudong Facilities for its operation. During the year ended 31 December 2018, AAMJV recorded a pre-operating loss of RMB5,068,000, in which a loss of RMB2,534,000 was attributable to the Group.

FINANCIAL REVIEW

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Group's total revenue for the year ended 31 December 2018 was RMB15,120,119,000, representing a decrease of 6.2% as compared to previous year. The decrease was mainly attributable to a substantial reduction in the volume of businesses of the engines and related parts division. As mentioned earlier, owing to the shift of the marketing focus of the major customer in intensively promoting the vehicle models installed with their in-house produced 1.5T engine (Capacity 1.5L), purchase volume of our Group supplied NP18 model experienced a drastic decrease during the year, which resulted in a substantial decrease in the revenue of the engines and related parts division for the year. Meanwhile, revenue from the automotive components and other industrial services division also registered a moderate decrease due to a general slowdown of the automobile industry in China during the year and the shift of certain automotive components businesses (i.e. the car seat and the automotive interior parts and accessories products) to the joint venture companies formed with Faurecia Group, which commenced operations during the year. At the same time, benefited from the continuous launches of new models and the proactive marketing programmes, revenue from the specialized vehicles division continued to grow steadily.

Gross profit for the year under review was RMB1,282,825,000, representing a decrease of 20.0%. Apart from the decrease in revenue of the engines and related parts division and the automotive components and other industrial services division, profitability was also adversely affected by the relatively low gross profit margins of certain component products (of which their respective selling prices were fixed, whereas, the prevailing prices of raw material (especially steel) was relatively high) and the operating losses incurred in the production plant in Indonesia. For the year ended 31 December 2018, Group's gross profit margin eased to 8.5% as compared to the 9.9% as recorded in previous year.

The adverse impact from the decline in gross profit margin was however slightly alleviated by a slight decrease in the general and administrative expenses (other than the depreciation charges) and the research and development expenses of the Group due to certain tightening cost control and strategic measures. Taking into account of an income tax credit of RMB4,461,000 resulting from the reversal of overprovision in prior years, net profit of the Group for the year ended 31 December 2018 was RMB125,195,000, representing a decrease of 55.6% as compared to previous year.

Profit attributable to the owners of the Company was RMB70,673,000, representing a decrease of approximately 59.2%, while profit attributable to the owners of the Company netting off of the related effective interest expenses incurred, the related foreign exchange loss and the effect of changes in fair value from the convertible loan notes for the purpose of computation of the earnings per share on a fully diluted basis, was RMB65,687,000, representing a decrease of approximately 51.5% as compared to previous year.

Other income comprised primarily bank interest income, sales of scrap materials and parts, government subsidies, rental income and other services income was in aggregate RMB162,115,000 for the year ended 31 December 2018, representing an increase of 14.7% as compared to previous year due to increases of sales of scrap materials, interest income, rental income and government grants.

FINANCIAL REVIEW

Other gains and losses amounted to a net gain of RMB48,490,000 for the year ended 31 December 2018, which comprised primarily net gain on disposals of certain property, plant and machinery amounting to RMB12,820,000, the reversal of impairment amounting to RMB8,000,000 on investments in joint venture company, Guangxi Weixiang, the effect of changes in fair value on the convertible loan notes amounting to RMB50,193,000 and the exchange losses on the foreign currency position of the Group amounting to RMB18,108,000 which were arisen primarily from the Hong Kong dollars convertible loan notes and certain foreign currency bank borrowings.

Share of results of joint ventures registered an aggregate net losses of RMB1,650,000 for the year ended 31 December 2018 primarily attributable to the initial net operating losses of Liuzhou Lingte and AAMJV. Meanwhile, Guangxi Weixiang which operations had been gradually recovered since the second half of 2017 was able to contribute net operating profits to the Group for the year.

Share of result of associates contributed mainly from the net operating profits attributable to the two joint venture companies formed with the Faurecia Group, namely FL Seating and FL Interior. These two joint venture companies were able to register a good start by delivering sets of solid operating results in their first year of operation due to the smooth transfer of facilities and manpower for kick starting their operations.

Selling and distribution costs of the Group comprised primarily transportation costs, warranty expenses and other marketing expenses were reduced to RMB244,103,000 for the year ended 31 December 2018, representing a decrease of 10.9% as compared to previous year which was in line with the decrease in revenue.

General and administrative expenses of the Group comprised primarily salary and allowances, various insurance expenses, rental expenses and other administrative expenses were in aggregate RMB872,377,000 for the year ended 31 December 2018, representing a slight increase of 1.9% as compared to previous year due to an increase of depreciation charges. Facing the tough and highly competitive business environment, the Group had implemented various cost control measures in containing the general and administrative expenses of the Group aiming at alleviating the adverse impact from a tightening gross profit margin and promoting competitiveness and efficiency.

Research and development expenses for the year ended 31 December 2018 amounted to RMB140,599,000, representing a decrease of 13.3% as compared to previous year. The strategic move of expanding and pursuing future business activities through the formation of joint venture companies with prominent enterprises helped to reduce the significant research and development expenses of the Group. The Group will continue to prudently carry out research and development projects in accordance with the strategic plan in furthering its future business opportunities.

Finance costs for the year ended 31 December 2018 amounted to RMB133,105,000, representing a decrease of 8.3% as compared to previous year, which amount had included the finance cost of RMB35,407,000 incurred for the convertible loan notes issued by the Company, calculated on the effective interest rates method.

Basic earnings per share for the year ended 31 December 2018 was RMB3.45 cents, representing a decrease of approximately 63.4% as compared to previous year. Apart from the decrease in the profit attributable to the owners of the Company, the decrease was also partly due to the increase in the number of issued shares subsequent to the conversion of the convertible loan notes of the Company in December 2017.

FINANCIAL REVIEW

Earnings per share on fully diluted basis, in which the adjustments in relation to the potential issue of additional shares of the Company on conversion of the outstanding convertible loan notes had been accounted for, was RMB2.73 cents, representing a decrease of approximately 55.9%.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018, total assets and total liabilities of the Group stood at RMB13,127,161,000 and RMB10,648,312,000 respectively.

Non-current assets amounted to RMB4,548,127,000 comprised mainly property, plant and equipment, prepaid lease payments, deposits paid for acquisition of property, plant and equipment, interests in joint ventures and associates, etc., which were increased as compared to previous year due to the capital expenditures incurred in this year in relation to the acquisition cost of plant and machinery, construction in progress, prepaid lease payments, and the cost of investment in an associate and joint ventures.

Current assets amounted to RMB8,579,034,000 comprised mainly inventories of RMB943,230,000, trade and other receivables of RMB3,567,957,000, bills receivables at fair value through other comprehensive income of RMB2,070,542,000 (inclusive of bills receivables discounted with recourse but not yet matured amounting to RMB1,129,660,000), pledged bank deposits of RMB1,014,768,000 and bank balances and cash of RMB974,697,000. Amount due from SGMW, a related company and a key customer in the engines and automotive components businesses of the Group amounted to RMB2,008,836,000 was recorded as trade and other receivables in the consolidated statement of financial position. These receivables balances were subject to normal commercial settlement terms.

Current liabilities amounted to RMB10,122,551,000, comprised mainly trade and other payables of RMB8,082,910,000, contract liabilities of RMB222,082,000, provision for warranty of RMB119,290,000, tax payable of RMB52,701,000, derivative financial instrument in relation to the convertible loan notes issued by the Company of RMB1,224,000, current portion of the convertible loan notes of RMB8,784,000, financial liability at fair value through profit or loss of RMB1,475,000, bank borrowings — due within one year of RMB491,779,000 and advances drawn on bills receivables discounted with recourse of RMB1,142,306,000. The corresponding bills receivables discounted with recourse to these advances amounting to RMB1,129,660,000 were recorded as trade and other receivables which would be offset against upon maturity.

The Group recorded net current liabilities of RMB1,543,517,000 as at 31 December 2018, which had been increased as compared to the net current liabilities of RMB1,356,534,000 as at 31 December 2017 as a result of the substantial capital expenditure incurred during the year.

Non-current liabilities amounted to RMB525,761,000 comprised mainly bank borrowings — due after one year of RMB268,000,000, convertible loan notes of RMB170,721,000, contract liabilities (which was previously recorded as deferred income) of RMB13,872,000, deferred tax liability of RMB23,168,000 and amount due to an associate of RMB50,000,000.

FINANCIAL REVIEW

LIQUIDITY AND CAPITAL STRUCTURE

During the year ended 31 December 2018, the operating and investing activities of the Group were mainly satisfied by the financing activities of the Group through the drawdown of bank borrowings and the advances drawn on bill receivables.

The Group considers the application of alternative means of financing, i.e. bank borrowings and bill discounting activities in terms of the respective finance cost consideration. Besides, to contain finance costs of the Group, Guangxi Automobile provided sources of finance to the Group through bill discounting activities at the most favourable terms offered in the market.

As at 31 December 2018, total bank balances and cash maintained by the Group amounted to RMB974,697,000. Besides, pledged bank deposits amounting to RMB1,014,768,000 were also maintained to secure the banking facilities offered to the Group.

The Group's bank borrowings (other than advances drawn on bill receivables discounted with recourse) amounted to RMB759,779,000 as at 31 December 2018, which were increased moderately since last year to serve as an alternative source of finance, which included a lower interest rate foreign currency one year term loan amounting to US$50,000,000. The Group had entered into appropriate forward contract to hedge against the currency risk of this foreign currency bank loan. Meanwhile, to strengthen the liquidity position of the Group, a three year installment bank loan of an amount of RMB400,000,000 was also drawn down during the year in which RMB132,000,000 will be repayable within one year.

As at 31 December 2018, the outstanding advances drawn on bill receivables discounted with resource were RMB1,142,306,000 which were increased during the year. The corresponding bill receivables discounted with recourse to these advances amounting to RMB1,129,660,000 were recorded as trade and other receivables which would be off set against upon maturity. The Company will closely monitor the financial and liquidity position of the Group, as well as the situation of the financial market from time to time in arriving at an appropriate financing strategy for the Group.

Apart from the bank borrowings and the advances drawn on bill receivables discounted with recourse on 23 May 2017, the Company raised certain longer term financing through the issue convertible loan notes of a principal amount of HKD400,000,000 to Wuling HK, our controlling shareholder, as approved by the independent shareholders of the Company at a special general meeting held on 16 December 2016. The convertible loan notes which bear interest at 4% per annum would be eligible to be converted into a total number of 571,428,571 Shares at an initial conversion price of HKD0.70 per share on any business day commencing from 22 November 2017 up to the fifth business days prior to the maturity date (being 23 May 2020). Among which, the convertible loan notes of a principal amount of HKD150,000,000 were converted by Wuling HK into a total number of 214,285,714 Shares on 29 December 2017. As a result of the conversion, the percentage of shareholding of Wuling HK in the Company was increased from 56.04% to 60.64%.

Subsequent to the above conversion, the aggregate principal amount of convertible loan notes remained outstanding was HKD250,000,000, which would be eligible to be converted into a total number of 357,142,857 Shares according to the abovementioned terms and conditions. In view of the current financial and liquidity position of the Group as at 31 December 2018, the Board

FINANCIAL REVIEW

considers the Group has adequate financial resources in meeting the redemption obligations of the outstanding convertible loan notes which have an expiry date on 23 May 2020.

Assuming full conversion of the outstanding convertible loan notes which are currently held by Wuling (Hong Kong) Holdings Limited ("**Wuling HK**"), the controlling shareholder of the Company, the number of issued shares of the Company would be increased by approximately 17.42% from 2,050,107,555 Shares to 2,407,250,412 Shares, from which the percentage shareholding of the controlling shareholder, Wuling HK, would be increased from 60.64% to 66.48%, whereas, the percentage of shareholding of the second largest shareholder of the Company, Dragon Hill Development Limited would be decreased from 13.74% to 11.70%. However, there are restrictions on the convertible loan notes such that no conversion would be made if it will cause the Company to be in breach of the public float requirement under the Listing Rules.

In addition, having considered the closing market price of the Share as at 31 December 2018 which was traded below the conversion price of the convertible loan notes and the abovementioned restriction such that no material conversion could be made as at 31 December 2018, the Board considers there would not be any significant impact on the market price of the Shares upon the entire and/or partial conversion of the outstanding convertible loan notes of the Company.

Total equity attributable to the shareholders of the Company, comprised primarily the share premium, PRC general reserve, contributed surplus, capital reserve, other reserves and retained profits, amounted to RMB1,443,639,000 as at 31 December 2018. Net asset value per share was approximately RMB70.4 cents as at 31 December 2018.

DIVIDEND

The Directors recommended the payment of a final dividend of HKD0.5 cent per ordinary share of the Company (the "**Share(s)**") for the year ended 31 December 2018 (the "**Final Dividend**") (2017: HKD1.25 cents) to the shareholders of the Company (the "**Shareholder(s)**"), whose names shall be on the register of members of the Company on 27 June 2019, amounting to approximately HKD10,251,000 (equivalent to approximately RMB9,005,000), subject to the approval by the Shareholders in the forthcoming annual general meeting of the Company to be held on Friday, 14 June 2019 (the "**2019 AGM**"), dividend warrants of the Final Dividend will be dispatched to shareholders of the Company on or before 31 July 2019.

PLEDGE OF ASSETS

At 31 December 2018, an investment property held by the Group in Hong Kong with an aggregate value of RMB5,622,000 was pledged to secure the bank loans granted to Group. Besides, bank deposits amounting to RMB1,014,768,000 and bills receivables of RMB1,561,416,000, in which, RMB1,129,660,000 were recognised as bills receivables discounted with recourse, were pledged to the banks mainly to secure certain banking facilities offered to the Group.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

At 31 December 2018, the Group maintained Hong Kong dollar convertible loan notes, Hong Kong dollar and United States dollar bank loans and trade and other payables equivalent to an aggregate amount of RMB544,016,000 and Hong Kong dollar and United States dollar bank deposits and trade and other receivables equivalent to an aggregate amount of RMB2,562,000 in which appropriate forward contract had been entered into by the Group to hedge against the currency risk of the United States dollar bank loan amounting to US$50,000,000 (equivalent to RMB332,685,000). In comparison with the relative size of the Group's assets, liabilities and main transactions which are denominated in RMB, the Group regarded its exposure to fluctuations in exchange rates and currencies to be reasonable and would monitor the foreign exchange exposures of the Group as well as the prevailing market condition in arriving at appropriate strategy.

COMMITMENTS

At 31 December 2018, the Group has outstanding commitments, contracted but not provided for in the financial statement, in respect of the acquisitions of construction in progress and property, plant and equipment amounting to RMB693,773,000.

CONTINGENT LIABILITIES

At 31 December 2018, the Group did not have any contingent liabilities.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

1 Mr. MI Jianguo
2 Mr. WANG Yuben
3 Mr. YANG Jianyong
4 Mr. ZHONG Xianhua
5 Mr. YUAN Zhijun
6 Mr. LEE Shing
7 Ms. LIU Yaling
8 Mr. YE Xiang
9 Mr. WANG Zhengtong

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

BOARD OF DIRECTORS

Mr. YUAN Zhijun
Chairman

Mr. Yuan, aged 52, Chairman of the Board and the Nomination Committee, was appointed as Executive Director on 4 November 2016. Mr. Yuan graduated from the Huazhong University of Science and Technology in China with a master degree in business administration in 2003 and is a professor level senior engineer. Mr. Yuan holds directorships of a number of subsidiaries and member companies of the Group. He is currently a director and the chief executive of our principal subsidiary, Liuzhou Wuling Motors Industrial Company Limited* (柳州五菱汽車工業有限公司) ("**Wuling Industrial**"), a joint-venture enterprise owned by the Company and Guangxi Automobile Holdings Limited* (廣西汽車集團有限公司) ("**Guangxi Automobile**") — the ultimate holding company of the Company. Mr. Yuan is also currently the vice chairman of the board of directors and chief executive of Guangxi Automobile. He is also a director of Wuling (Hong Kong) Holdings Limited and Wuling Motors (Hong Kong) Company Limited respectively the immediate holding company and the intermediate holding company of the Company. Since his joining to the group of Guangxi Automobile in 1987, Mr. Yuan has held various positions within the group of Guangxi Automobile and has over 30 years' of extensive experience in the production, product design and development, human resources and corporate management of the automobile industry. Mr. Yuan has also served in a number of senior positions of SAIC-GM-Wuling Automobile Co. Limited ("**SGMW**") since February 2003. He is currently a director of SGMW, which is a joint venture formed among Shanghai Automobile Industry (Group) Company Limited, GM (China) Investment Company Limited and Guangxi Automobile and is currently a major customer of the Group's businesses in engines and automotive components.

* *For identification purpose only*

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Mr. LEE Shing
Vice-chairman and Chief Executive Officer

Mr. Lee, aged 61, Vice-chairman of the Board and Chief Executive Officer, was appointed as Executive Director on 22 June 2006 and is currently a member of the Nomination Committee. Mr. Lee has extensive experience in the trading and manufacturing business in Hong Kong and the PRC. Mr. Lee holds directorships of a number of subsidiaries of the Group. He is currently the vice-chairman of Wuling Industrial, and a director of Liuzhou Wuling Liuji Motors Company Limited* (柳州五菱柳機動力有限公司) ("**Wuling Liuji**") a subsidiary of Wuling Industrial. Besides, he is currently a member of the Committee of the Chinese People's Political Consultative Conference of Liuzhou, Guangxi Province, the PRC. Mr. Lee is also the sole shareholder and sole director of Dragon Hill Development Limited, a substantial shareholder of the Company, which is beneficially interested in approximately 13.74% of the total issued share capital of the Company. Besides, Mr. Lee is also currently a director of Lincoln Mining Corporation, which is a company dual listed on the TSX Venture Exchange in Toronto, Canada, and the Frankfurt Stock Exchange in Germany.

Mr. ZHONG Xianhua
Executive Director

Mr. Zhong, aged 60, was appointed as Executive Director on 4 January 2010 and resigned on 28 February 2019. Prior to his resignation, Mr. Zhong held directorships of a number of subsidiaries and member companies of the Group, including acted as a director of Wuling Industrial and the secretary of the board of directors of Guangxi Automobile, the ultimate holding company of the Company, until his retirement in December 2018. Mr. Zhong graduated from Hunan University major in mesoporphyrin protection. His profession is senior engineer and he has over 30 years of extensive experience in the production, marketing and corporate management of the automotive components industry. Due to his reaching to the retirement age, Mr. Zhong resigned as Executive Director on 28 February 2019.

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* *For identification purpose only*

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Ms. LIU Yaling
Executive Director

Ms. Liu, aged 43, was appointed as Executive Director on 22 June 2006. Ms. Liu holds directorships of a number of subsidiaries of the Group. Ms. Liu has a post graduate education background. She is a qualified accountant in the PRC specializing in financial management. Ms Liu gains her working experience in the automobile manufacturing industry and has approximately 20 years' of experience in the finance and accounting profession in the PRC. Ms. Liu is a member of the International Association of Registered Financial Planners and an associate member of the Institute of Financial Accountants.

Mr. YANG Jianyong
Executive Director

Mr. Yang, aged 51, was appointed as Executive Director on 4 November 2016. Mr. Yang graduated with an accounting degree from the Faculty of Accounting in the Central South University in China and also holds a master degree in Accountancy from The Chinese University of Hong Kong. Mr. Yang holds directorships of a number of subsidiaries and member companies of the Group. Mr. Yang is currently a director of Wuling Industrial. Mr. Yang is also the vice president, chief financial officer, chief legal counsel of Guangxi Automobile in charge of the finance, legal departments and supervisory board. He is also a director of Wuling (Hong Kong) Holdings Limited and Wuling Motors (Hong Kong) Company Limited, respectively the immediate holding company and the intermediate holding company of the Company. Besides, Mr. Yang is also the chairman of the board of directors and chief financial officer of Guangxi Yuan Heng Investment Co. Limited* (廣西元恒投資有限公司). Mr. Yang joined the group of Guangxi Automobile in 1989 and has about 30 years' of extensive experience in the finance, accounting, legal and corporate financial system institutionalization aspects of the automobile industry. Mr. Yang also served in the senior position of the finance department of SGMW from December 2003 to April 2009, and has been the supervisor of SGMW since July 2016.

* *For identification purpose only*

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Mr. WANG Zhengtong
Executive Director

Mr. Wang, aged 47, was appointed as Executive Director on 28 February 2019. Mr. Wang is currently the assistant to the chief executive and the controller of the investment and development department of Guangxi Automobile, the ultimate holding company of the Company, supervising the planning and investment of the projects of the Group, and a director of Wuling Industrial, our principal subsidiary. Mr. Wang is also currently a director of Shanghai Yipu Automatic Equipment Co., Ltd* (上海詣譜自動化裝備有限公司), a non-wholly-owned subsidiary of Guangxi Automobile. Mr. Wang holds a bachelor's degree in industrial science from Hunan University, PRC. Mr. Wang joined Guangxi Automobile Group in 1996 and acted as the senior executive of the planning department and the investment development department. During the years 2012 to 2014, Mr. Wang worked for another state-controlled enterprise in Guangxi and acted as the senior executive of the Hong Kong office of the international marketing department. Mr. Wang rejoined Guangxi Automobile in June 2014 as the controller of the planning and investment department. Mr. Wang has extensive experiences in the automotive industry in the aspects of planning and investment, international marketing, asset management and technical re-engineering.

* *For identification purpose only*

Mr. YE Xiang
Independent Non-executive Director

Mr. Ye, aged 55, was appointed as Independent Non-executive Director on 10 October 2008. Mr. Ye is the founder and managing director of Vision Gain Capital Limited ("**Vision Gain**"), a company engages in the fund management and investment advisory business. Mr. Ye is a chartered financial analyst and holds a doctorate degree in finance. He has more than 20 years' of experience in the monetary and finance industry and has extensive exposures in the banking and regulatory aspects. Prior to his founding of Vision Gain, Mr. Ye was the director of China Affairs of the Securities and Futures Commission of Hong Kong. Mr. Ye is currently the chairman of the Audit Committee and a member of the Nomination Committee and the Remuneration Committee.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Mr. WANG Yuben
Independent Non-executive Director

Mr. Wang, aged 63, was appointed as an Independent Non-executive Director on 20 March 2015. Mr. Wang obtained a doctorate degree in economic law from the school of law of the Renmin University of China. He is currently an arbitrator of Beijing Arbitration Commission and the executive officer of the research centre of direct marketing of the Peking University. Mr. Wang has more than 35 years of teaching experiences in a number of universities in the PRC. He is also at present a professor in the Capital University of Economics & Business. Mr.Wang is currently a member of each of the Nomination Committee, the Remuneration Committee and the Audit Committee.

Mr. MI Jianguo
Independent Non-executive Director

Mr. Mi, aged 68, was appointed as an Independent Non-executive Director on 1 September 2017. Mr. Mi is a Ph.D. in Economics, has engaged in the fields of education and research in the PRC for more than 30 years. Mr. Mi served as a teacher at the Hebei University (河北大學) from August 1982 to December 1990. From December 1990 to February 2012, he served as a researcher, vice minister and minister of the marco research department, and the manager of the information center at the Development Research Center of the State Council in the PRC (國務院發展研究中心). He was also the chairman of the board of the State Research Information Technology Co., Ltd (國研信息科技有限公司) and the president of magazine "Economic Participation" (經濟要參雜誌社). Mr. Mi was also rewarded a qualified certificate of Senior Management of Insurance institutions from The China Insurance Regulatory Commission. Mr. Mi is currently the chairman of the Remuneration Committee and a member of the Nomination Committee and the Audit Committee.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

SENIOR MANAGEMENT

Mr. WEI Hongwen

Mr. Wei, aged 56, served as Executive Director from 10 September 2007 to 4 November 2016 and as the Chairman of the Board and a member of the Nomination Committee (redesignated as chairman from 20 March 2015) from 31 October 2014 to 4 November 2016. Mr. Wei is currently the chairman of the board of directors of Guangxi Automobile, the ultimate holding company of the Company. Mr. Wei is also the chairman of the board of director of Wuling Industrial, a principal subsidiary of the Company. Mr. Wei obtained a master degree in economics from Sun Yat-Sen University in 1995 and is a professor level senior engineer. Mr. Wei has more than 30 years' of experience in the automobile manufacturing industry. Mr. Wei is also the vice chairman of SGMW.

Mr. LAI Shi Hong, Edward

Mr. Lai, aged 54, currently Chief Financial Officer and Company Secretary of the Company, is responsible for overseeing our finance, accounting and company secretarial functions. He is also a director of Wuling Industrial, our principal subsidiary. Mr. Lai has more than 30 years' of experience in finance, accounting and business management. Mr. Lai graduated from the University of Hong Kong and the Hong Kong Baptist University and holds a Bachelor of Arts degree and a Master of Science degree in Corporate Governance and Directorship respectively. He is currently a fellow member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in England and Wales and the Association of Chartered Certified Accountants.

Mr. WEN Daizhi

Mr. Wen, aged 55, is currently the chief engineer of Wuling Industrial, our principal subsidiary. He is also the chairman of the board of directors of Wuling Liuji, a subsidiary of Wuling Industrial and the vice president and chief engineer of Guangxi Automobile, the ultimate holding company of the Company. Mr. Wen graduated from the Engineering Thermophysics Department of Tianjin University majoring in internal combustion engine and possessed a postgraduate qualification in Power Machinery and Engineering of Guangxi University. He is a professor level senior engineer. Mr. Wen has over 30 years' of extensive experience in the production, marketing and corporate management of the automotive engines industry.

Mr. WANG Xu

Mr. Wang, aged 49, is currently the deputy party secretary, chairman of the labour union and the supervisor of Wuling Industrial, our principal subsidiary, who is responsible for overseeing the human resources functions of the Group. He is also currently the staff-nominated director, deputy party secretary and chairman of the labour union of Guangxi Automobile, the ultimate holding company of the Company. Mr. Wang graduated from Hubei University of Technology in mechanical and electrical engineering. He also holds a master degree in engineering from Wuhan University of Technology. His profession is senior engineer. Mr. Wang has been engaged in the automobile industry in China since his joining to Guangxi Automobile Group in 1994. Mr. Wang has over 30 years' of extensive experience in the technical, quality control and business management of the automobile industry.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Mr. CHEN Xiaofeng

Mr. Chen, aged 44, is currently the deputy general manager and is also the general manager of the sales office of Wuling Industrial, our principal subsidiary. Mr. Chen is also the deputy general manager of Guangxi Automobile, the ultimate holding company of the Company. Mr. Chen graduated from the Department of Metallurgy and Material Engineering of Chongqing University. He obtained a master degree in Public Administration from Wuhan University of Science and Technology, his profession is engineer. Mr. Chen has been engaged in the automobile industry in China since his joining to Guangxi Automobile Group in 1997. He has over 20 years' of extensive experience in the production operation, sales, purchasing and supply chain management of the car assembly and automotive components industry.

Mr. LI Weimin

Mr. Li, aged 56, is currently the deputy general manager and also the senior controller of the operation and information department of Wuling Industrial, our principal subsidiary. Besides, Mr. Li is also currently the vice chairman of the board of directors of Guangxi Weixiang Machinery Company Limited* (廣西威翔機械有限公司), a joint venture of Wuling Industrial, he is also the chairman of the board of directors of Hong Kong Zhuoyuan Investment Limited and Hong Kong Zhuo Qiang Investment Limited, both of them subsidiaries of Wuling Industrial. Mr. Li graduated from Nanchang Hangkong University majoring in aviation forging processes. He also held a post graduate qualification in Business Administration of Asia International Open University (Macao). His profession is senior engineer. Mr. Li has over 30 years' of extensive experience in the production management and quality control of the automotive components industry.

Mr. LI Huanyu

Mr. Li, aged 56, is currently the deputy general manager of Wuling Industrial, our principal subsidiary and a director and the general manager of Wuling Liuji, a subsidiary of Wuling Industrial. Mr. Li graduated from Wuhan College of Engineering majoring in agricultural machinery and is also a post-graduate student of the Department of Mechanical Manufacturing and Automotion of Guangxi University. His profession is senior engineer. Mr. Li has over 30 years' of extensive experience in the automotive engines industry specializing in production management, purchasing and technology research.

Mr. WEI Mingfeng

Mr. Wei aged 44, is currently a deputy general manager and also the senior controller of the production and manufacturing department of Wuling Industrial, our principal subsidiary. Mr. Wei graduated from Tianjin University majoring in chemical mechanical engineering and holds a master degree in business administration of Huazhong University of Science and Technology. His profession is an engineer. Mr. Wei has over 22 years' of extensive experience in business operations, production management and quality control of the automotive components industry.

Mr. LIU Yourong

Mr. Liu, aged 47, is currently the deputy general manager and chief financial officer of Wuling Industrial, our principal subsidiary. Mr. Liu graduated from China University of Mining majoring in Accounting and holds a master degree in business administration of Huazhong University of Science and Technology. His profession is senior accountant. Mr Liu has over 24 years' of extensive experience in cost management and institutionalization of the financial system.

* *For identification purpose only*

CORPORATE GOVERNANCE REPORT

The board of directors ("**Board**") of the Company is pleased to present this corporate governance report in the Company's annual report for the year ended 31 December 2018.

The key corporate governance principles and practices of the Company are summarized as follows:

CORPORATE GOVERNANCE PRACTICES

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

The Code on Corporate Governance Practices ("**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities ("**Listing Rules**") on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") sets out the principles of good corporate governance ("**Principles**") and two levels of corporate governance practices:

(a) code provisions ("**Code Provisions**") which listed issuers are expected to comply with and to give considered reasons for any deviation; and

(b) recommended best practices ("**Recommended Best Practices**") for guidance only, which listed issuers are encouraged to comply with or give considered reasons for deviation.

The Company has currently applied the Principles and reviewed regularly its corporate governance practices to ensure compliance with the CG Code. During the financial year ended 31 December 2018, the Company confirmed that it has fully complied with all the Code Provisions and certain Recommended Best Practices as set out in the CG Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules.

THE BOARD

Responsibilities

The Company fully acknowledges the important role of its Board in providing effective leadership and direction to its business, and ensuring transparency and accountability of its operations.

The overall management of the Company's business is currently vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors of the Company (the "**Director(s)**") should take decisions objectively in the best interests of the Company and the shareholders of the Company (the "**Shareholders**") as a whole.

The Board takes responsibility for all major decisions of the Group including the approval of all policy matters, the Group's business, strategies directions and financial performance, setting the Company's value and standards; overseeing corporate governance and other significant financial and operational decisions of the Group.

The Company has arranged appropriate liability insurance coverage for all Directors, including company securities, employment practices, regulatory crisis event, investigation, litigation, tax liabilities and public relation, etc, which is reviewed by the Board on a regular basis.

CORPORATE GOVERNANCE REPORT

All Directors currently have full and timely access to all relevant information of the Company, with a view to ensure that Board procedures and all applicable rules and regulations in Bermuda and Hong Kong are followed.

Each Director is normally able to seek independent advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are normally delegated to the senior management of the Group (the "**Management**") and the delegated functions and work tasks have been formalized and regularized respectively and periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions, arrangements and/or contracts entered into by the Management.

The Board has the full support of the Management to discharge its responsibilities and duties as required by the applicable rules and regulation in Bermuda and Hong Kong.

Composition

The nomination committee of the Company (the "**Nomination Committee**" or "**NC**") ensures the composition of the Board a balance of skills, experiences, qualifications and diversity of perspective appropriate to the requirements of the business and development of the Company. The current composition of five executive Directors and three independent non-executive Directors can effectively exercise independent judgment. The Directors during the year and up to the date of this report are:

Executive Directors

Mr. Yuan Zhijun *(Chairman)*
Mr. Lee Shing
(Vice-chairman & Chief Executive Officer)
Ms. Liu Yaling
Mr. Yang Jianyong
Mr. Wang Zhengtong *(Note)*
Mr. Zhong Xianhua *(Note)*

Independent Non-Executive Directors

Mr. Ye Xiang
Mr. Wang Yuben
Mr. Mi Jianguo

Note:

Mr. Wang Zhengtong has been appointed as Director in place of the resignation of Mr. Zhong Xianhua as Director, both with effect on 28 February 2019.

Mr. Zhong Xianhua (who was appointed as executive Director on 4 January 2010 and resigned on 28 February 2019), Mr. Yuan Zhijun and Mr. Yang Jianyong (who were appointed as executive Directors on 4 November 2016) and Mr. Wang Zhengtong (who was appointed as executive Director on 28 February 2019), were respectively nominated by 廣西汽車集團有限公司 Guangxi Automobile Holdings Limited* ("**Guangxi Automobile**"), the ultimate controlling Shareholder. Save for Mr. Zhong Xianhua who resigned on 28 February 2019 and ceased to hold any position in Guangxi Automobile and/or its subsidiaries, all of the other executive Directors abovenamed are currently acting as directors and/or senior executives of Guangxi Automobile.

Save as abovementioned, the Board members has no financial, business, family or other material/relevant relationships with each other.

CORPORATE GOVERNANCE REPORT

The Board has a balanced composition and strong independent element. The biographical details of the current Directors are set out in the section headed "**DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES**" from pages 38 to 45 in this annual report and are available on the Company's website (www.wuling.com.hk), which demonstrate a diversity of skills, expertise, experience and qualifications of the composition of the Board.

The composition of the Board is stated in the section headed "**CORPORATE INFORMATION**" in this annual report. The list of current Directors identifying their roles, functions and titles is also disclosed in this annual report and all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The Company also maintains on its website (www.wuling.com.hk) and on the Stock Exchange's website (www.hkexnews.hk) an updated list of current Directors (by category) identifying their role and function.

The Company has currently complied with Rules 3.10 and 3.10A of the Listing Rules that (i) the Board includes three independent non-executive Directors; (ii) one of the independent non-executive Directors have appropriate professional qualifications, accounting and related financial management expertise; and (iii) independent non-executive Directors represent more than one-third of the Board.

The Company has received written annual confirmation from each independent non-executive Director of his independence for the year ended 31 December 2018 pursuant to the Rule 3.13 of the Listing Rules, in which certain clauses has been amended in relating to the independence of independent non-executive Director took effect on 1 January 2019. The Board and the Nomination Committee has considered and agreed all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Rule 3.13 of the Listing Rules, as amended from time to time.

Appointment, Re-election and Resignation of Directors

NC has been set up by the Board and NC has established formal, considered and transparent policies, procedures and criteria for the appointment, re-election, resignation, re-designation, retirement, rotation and/or removal of the Director(s) in accordance with the Company's bye-laws, the Listing Rules and all applicable laws.

Pursuant to the Company's bye-laws and/or the Code Provisions of the Listing Rules, at each annual general meeting of the Company not less than one-third of the Directors (including those appointed for a specific term) for the time being shall retire from the Board by rotation provided that each Director shall be subject to retirement by rotation at least once every three years at the conclusion of annual general meeting of the Company after he/she was last elected or re-elected in the general meeting of the Company (i.e. the term of appointment of all Directors, including the non-executive Directors, is effectively three years) and each Director be appointed to fill a casual vacancy or as an additional Director by the Board is subject to re-election by the Shareholders at the first general meeting of the Company following his/her appointment.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2018, Messrs. Zhong Xianhua (who resigned on 28 February 2019) and Yang Jianyong, being executive Directors, Mr. Ye Xiang, being independent non-executive Director, retired from the Board by rotation and were re-elected as the Directors by separate resolutions passed by the Shareholders in the 2018 annual general meeting of the Company held on 8 June 2018 (the "**2018 AGM**") in accordance with the Company's bye-laws and the Listing Rules.

Due to his reaching to the age of retirement, Mr. Zhong Xianhua tendered his resignation as an executive Director of the Company with effect from 28 February 2019. Succeeding the resignation of Mr. Zhong Xianhua, Mr. Wang Zhengtong was appointed as an executive Director with effect on 28 February 2019.

In accordance with the Company's bye-law 91, Mr. Wang Zhengtong, who was appointed as the Director by the Board on 28 February 2019, will retire from the Board as Director at the conclusion of annual general meeting of the Company to be held on 14 June 2019 (the "**2019 AGM**") or the special general meeting of the Company, if any, to be held earlier than the 2019 AGM and he, being eligible, offer himself for re-election as Director by the Shareholders at the same meeting.

In accordance with the Company's bye-laws and the Appendix 14 of the Listing Rules and the bye-law 99(B) of the Company, Mr. Yuan Zhijun and Ms. Liu Yaling, being executive Directors, Mr. Wang Yuben, being independent non-executive Director, will retire from the Board by rotation at the conclusion of 2019 AGM and, Mr. Yuan Zhijun and Mr. Wang Yuben, being eligible, offer themselves for re-election as Director by respective separate resolutions to be passed by the Shareholders at the 2019 AGM. Due to her other business commitments, Ms. Liu Yaling did not offer herself for re-election at the 2019 AGM. Mr. Wang Yuben has served as an independent non-executive Director for less than nine years in his further re-election as Director at the 2019 AGM. Mr. Wang Yuben has made a written annual confirmation of independence for the year ended 31 December 2018 pursuant to Rule 3.13 of the Listing Rules, as amended from time to time. The Board and the Nomination Committee has also recommended the re-election of Mr. Yuan Zhijun, Mr. Wang Yuben and Mr. Wang Zhengtong standing for re-election at the 2019 AGM.

Detailed information of Mr. Yuan Zhijun, Mr. Wang Yuben and Mr. Wang Zhengtong standing for re-election at the 2019 AGM in the Company's circular as per the Listing Rules will be dispatched to Shareholders with this annual report.

The Company has entered into service contracts with all current independent non-executive Directors, namely Messrs. Ye Xiang, Wang Yuben and Mi Jianguo, for a specific term of three years who are also required to retire from the Board by rotation and then re-election by the Shareholders at the annual general meeting of the Company in accordance with the Company's bye-laws and the Appendix 14 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

For independent non-executive Director who has served the Company for more than nine years, his/her further appointment will be subject to a separate resolution to be approved by the Shareholders at the annual general meeting of the Company and the papers to the Shareholders accompanying the reasons why the Board believes he/she is still independent and should be re-elected.

The Nomination Committee is responsible for determining the policy for the nomination of Directors, reviewing the Board composition and diversity of the Board, developing and formulating the relevant procedures, processes and criteria for selection and recommendation of candidates for directorship, monitoring the re-appointment and succession planning of the Directors and assessing the independence of each independent non-executive Director, etc.

The Board has adopted the board diversity policy and has posted it on the Company's website (www.wuling. com.hk). The Nomination Committee has been delegated by the Board to review and recommend the size, structure, composition and diversification of the Board on an annual basis.

The Board adopted the policy for nomination of Directors (including the nomination procedures and criteria for selection and recommendation of candidates for directorship) in accordance with the new amendments to the CG Code, which was effective from 1 January 2019.

Training for Directors

Each newly appointed Director should receive comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the group structure, Board procedures, business, management, operations, financial and development of the Company, as well as rules and regulations under the Company's bye-laws, the Securities and Futures Ordinance, the Listing Rules and relevant applicable regulatory requirements in Bermuda and Hong Kong.

An induction programme covering the abovementioned matters was therefore arranged for Mr. Wang Zhengtong, an executive Director, when he joined the Board in February 2019, that helped him fully aware of his responsibilities and obligations in the Company.

During the year ended 31 December 2018, a half day training course conducted by a professional training firm which covered the updated Listing Rules and other relevant applicable regulatory and compliance requirements was arranged by the Company which were attended by all Directors and other senior executives of the Group. Besides, chief financial officer of the Company, who is also the company secretary of the Company ("**Company Secretary**") and/or the Management keeps circulating articles, news and monthly reports, which are related to the Group's financial information, business, economy, market trend as well as the change in rules and regulations, if any, to Directors namely, Mr. Yuan Zhijun, Mr. Lee Shing, Mr. Zhong Xianhua (resigned on 28 February 2019), Ms. Liu Yaling, Mr. Yang Jianyong, Mr. Ye Xiang, Mr. Wang Yuben, Mr. Mi Jianguo, and Mr. Wang Zhengtong (appointed on 28 February 2019) from time to time to update, refresh and strengthen Directors' knowledge and skills. Furthermore, all Directors are also encouraged to attend other relevant training courses at the Company's expense. The Company Secretary is responsible to keep records of training taken by each Director.

BOARD MEETINGS

Number of Meetings and Directors' Attendance

Regular Board meetings are held at least four times a year at approximate quarterly interval for reviewing and approving financial statements, board resolutions, operating performance of the core business and budgets of the Group, the revised rules and regulations, announcements and circulars issued by the Company, the Shareholders' information and considering and approving the progress of the various on-going projects, the overall strategies and policies of the Company. They meets more frequently as and when required.

The Board requires Directors to devote sufficient time and attention to discharge their duties and responsibilities. During the year ended 31 December 2018, a total number of four (4) regular meetings of the Board, two (2) meetings of the Audit Committee, one (1) meeting of the Nomination Committee and one (1) meeting of the Remuneration Committee (as defined below) were held by the Company.

During the year, the Board has regularly reviewed the contributions from each Director and confirmed that they have spent sufficient time performing their duties and responsibilities. The individual attendance records of each Director at the meetings of the Board, the Audit Committee, the Remuneration Committee and Nomination Committee, as well as the 2019 AGM and special general meetings of the Company (the "**SGM**") held during the year ended 31 December 2018 are set out below:

Directors' Attendance Record

	Attendance record of Directors at the meetings in 2018					
Name of Director	AGM	SGM	Board	AC	RC	NC
No. of Meeting(s)	1	1	4	2	1	1
Executive Directors						
Mr. Yuan Zhijun *(Chairman)*	1/1	0/1	4/4	N/A	N/A	1/1
Mr. Lee Shing *(Vice-chairman)*	1/1	1/1	4/4(Note)	N/A	N/A	1/1
Mr. Zhong Xianhua	0/1	0/1	4/4	N/A	N/A	N/A
Ms. Liu Yaling	1/1	0/1	4/4(Note)	N/A	N/A	N/A
Mr. Yang Jianyong	0/1	0/1	4/4	N/A	N/A	N/A
Independent Non-Executive Directors						
Mr. Ye Xiang	1/1	1/1	4/4	2/2	1/1	1/1
Mr. Wang Yuben	1/1	0/1	4/4	2/2	1/1	1/1
Mr. Mi Jianguo	1/1	0/1	4/4	2/2	1/1	1/1

Note: One of the meetings was attended by alternate.

CORPORATE GOVERNANCE REPORT

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting of the Board and each committee of the Board ("**Committee(s)**") are normally made available to Directors and Committees' members in advance. Notices and Agenda of regular Board meetings are served to all Directors at least 14 days before the meetings. Directors may include any of his/her concerns in the agenda. For other Board and the Committees meeting, reasonable notice is generally given to the Directors and members of each Committee.

Board and Committees papers together with all appropriate, complete and reliable information are sent to all Directors and Committees' members within a reasonable period of time in advance of the intended meeting or at least 3 days before each Board meeting and Committee meeting to keep the Directors and Committees' members studied and apprised of the current developments and/or financial position and/or other major issues of the Group and enable them to make informed decisions in the best interest of the Company and the Shareholders as a whole. All Directors have unrestricted access to the advice and services of the Company Secretary, who did and would ensure that the Board and Committees receive appropriate and timely information and that Board and Committees procedures, and all applicable rules and regulations in respect of the meeting, are being followed. The Board and each Director and Committees' member also have separate and independent access to the Management for making enquiries and to obtain further information of the Group when required.

The responsible Management currently attends Board meetings and each Committee meetings to advise on and answer the queries of the business developments, operation performance of the core business, various on-going projects, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company and the Group.

The responsible Management or the Company Secretary take and keep minutes of all Board meetings and Committee meetings as well as the all written resolutions. Draft minutes record in sufficient details the matters discussed and resolved, and these minutes and written resolutions are normally circulated to all the Directors and Committees' members for comments (if any) and/or approval within a reasonable time after each meeting and the final version is open for Directors' and Committees members' inspection.

The Management currently provide all Directors with monthly updated and detailed financial position, operation performance of the core business and prospects of the Group and the progress of the various on-going projects to enable them closely monitor the performance and operation of the Company.

The Company's bye-laws and the Listing Rules contain provisions require Directors to disclose their interest (if any) and abstain (if appropriate) from voting and not to be counted in the quorum at Board and/or Committees' meetings for approving transactions, arrangements and/or contracts in which such Directors or any of their associates have a material interest in the agreements and/or transactions and independent non-executive Directors would take lead when potential conflicts of interest arise. Independent Board Committee comprising all independent non-executive Directors did and would form and advise the independent Shareholders on those connected transactions and/or continuing connected transactions that prior approval by the independent Shareholders at the special general meetings of the Company be required.

CORPORATE GOVERNANCE REPORT

CHAIRMAN, CHIEF EXECUTIVE OFFICER, DIRECTORS

The Company observes the principle that there should be a clear division of duties and responsibilities at the head of the Company between the running of the Board and the executive duties and responsibility of the running of the Company's business, so as to ensure a balance of power and authority and to avoid the concentration of power and responsibilities on one individual.

During the year ended 31 December 2018, the chairman of the Board is Mr. Yuan Zhijun, whereas, the chief executive officer of the Company is Mr. Lee Shing respectively, who have no relationship with each other. The roles of the chairman of the Board and the chief executive officer of the Company have been segregated and assumed by them separately such that Mr. Yuan Zhijun, the chairman of the Board, has executive responsibilities and provides leadership to the Board in terms of establishing policies, strategies and business directions of the Company. He ensures that the Board works effectively and performs its duties and responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. He also ensures all Directors are properly briefed on issues to be discussed at Board meetings. He takes primary responsibility for ensuring that good corporate governance practices and procedures are established and followed. He has encouraged all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interest of the Company and the Shareholders as a whole. Mr. Lee Shing, as the chief executive officer, has been delegated with the authorities for the overall operations and the executive responsibilities of the Group and full implementation of the directions and policies established by the Board.

During the financial year ended 31 December 2018, the chairman of the Board has held one meeting with the independent non-executive Directors without the other executive Directors present. The chairman of the Board has encouraged all the Directors with different views to voice their concerns, allowed sufficient time for discussion of issues raised and ensured that Board decisions fairly reflect Board consensus. The chairman of the Board supported a culture of openness and debate by facilitating the effective contribution of independent non-executive Directors in particular and ensuring constructive relations between executive and independent non-executive Directors. The chairman of the Board keeps effective communication channel with the Shareholders and ensure the Shareholders' views are communicated to the Board as a whole.

The other executive Directors of the Company are delegated with responsibility and duty to oversee and monitor the operations of specific business areas and to implement the strategies and policies set by the Board.

The independent non-executive Directors keep bringing a wide range of business and financial expertise, skills, experiences and independent judgment on the issues of strategies, policies, performance accountability, operation, management, development, resources, key appointments, connected transactions and standards of conduct to the Board of the Company. Through regular attendance and active participation in meetings of the Board and Board committees and/or general meetings of the Company, taking the lead in managing issues involving potential conflict of interests among Directors and serving on Board committees, all independent non-executive Directors did and would make various contributions to the effective performance, operation, direction and development of the Company. Independent Board Committee comprising all independent

CORPORATE GOVERNANCE REPORT

non-executive Directors did and will be formed to advise the independent Shareholders on those connected transactions to be approved by the independent Shareholders at the special general meeting of the Company. One of the independent non-executive Directors possesses the appropriate professional qualifications, or accounting or related financial management expertise. The independent non-executive Directors are also members of various Board committees and devote sufficient amount of time and attention to the affairs of the Company.

BOARD COMMITTEES

The Board has established three Committees, namely, the Remuneration Committee, the Audit Committee and the Nomination Committee for overseeing particular aspects of the Company's affairs. All Committees have been established with defined written terms of reference. The terms of reference of the Committees, amended from time to time, are currently disclosed in the websites of the Company (www.wuling.com.hk) and the Stock Exchange (www.hkexnews.hk/) and are available to Shareholders upon request.

The members of the Audit Committee and the Remuneration Committee are currently all independent non-executive Directors, whereas, the majority members of Nomination Committee comprises independent non-executive Directors. The list of the current chairman and members of each Committee is set out in the section headed "**CORPORATE INFORMATION**" in this annual report.

The Committees are currently provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at Company's expenses.

Remuneration Committee

The Remuneration Committee, which has been established in compliance with Rule 3.25 of the Listing Rules, currently comprises three independent non-executive Directors including Mr. Mi Jianguo (Chairman of the Remuneration Committee), Mr. Ye Xiang and Mr. Wang Yuben.

The Remuneration Committee normally meets at least once a year. The primary objectives of the Remuneration Committee pursuant to its term of reference include making recommendations to the Board on the remuneration policy and structure and remuneration packages of all Directors and the Management with reference to those companies in similar industries. The Remuneration Committee is also responsible for establishing a formal and transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates be participated in deciding his/her own remuneration, which remuneration be determined by reference to the duties and responsibilities of Directors, business performance and profitability of the Group and market conditions. The Human Resources Department is responsible for the collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration and assessment. The Remuneration Committee consults the chairman of the Board about these recommendations on remuneration policy and structure as well as the remuneration packages.

The Remuneration Committee held one (1) meeting and passed certain written resolutions during the year ended 31 December 2018 to, inter alia,

(1) review the summary of remuneration package paid to each Directors and senior management of the Company;

(2) study the current remuneration package, policy and structure of all Directors (including appointment(s), resignation(s) and retirement(s), if any, during the year);

(3) propose remuneration packages with reference to the duties and responsibilities of Directors and senior management, business performance and profitability of the Group and market conditions, the corporate objective and goal set by the Board and a report of salaries paid by the comparable companies to directors and senior management;

(4) consider the service contract(s) to be entered with the independent non-executive Director(s) and/or the Director(s) (if any); and

(5) review the remuneration policy, procedures and structure for fixing the remuneration packages.

The attendance records of the meeting of the Remuneration Committee during the year ended 31 December 2018 are set out under the section of "**BOARD MEETINGS**" on page 51.

Audit Committee

The Audit Committee, which has been established in compliance with Rule 3.21 of the Listing Rules, currently comprises three independent non-executive Directors, namely Mr. Ye Xiang (Chairman of the Audit Committee), Mr. Wang Yuben and Mr. Mi Jianguo, among them one independent non-executive Director possesses the appropriate professional qualifications or accounting or related financial management expertise as required by the Listing Rules. None of the members of the Audit Committee was a former partner of the Company's existing external auditors.

Certain terms of reference of Audit Committee have been amended in relation to the dependence of independent non-executive Directors pursuant to the Listing Rules, which took effect on 1 January 2019.

The Audit Committee operates pursuant to its terms of reference, its' main duties include the followings:

(a) To review the financial statements and reports of the Company and consider any significant or unusual items raised by the responsible staff of accounting and financial report function, compliance officer (if any), internal auditor or external auditors of the Company before submission to the Board;

(b) To review the relationship with the external auditors of the Company and its independence by reference to the work performed and services provided by the external auditors of the Company, their fees, their firm's standards and practices and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and/or removal of external auditors of the Company;

CORPORATE GOVERNANCE REPORT

(c) To review the continuing connected transactions as disclosed in the annual report and confirm that those transactions entered into by the Group were (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or better; and (iii) according to the respective agreements governing them on terms that are fair and reasonable and in the interest of the Shareholders as a whole; and

(d) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held two (2) meetings during the year ended 31 December 2018 to, inter alia,

(a) review and approve the draft audited consolidated financial statement and the draft unaudited consolidated financial statement together with and the respective draft result announcements, including changes in accounting policies and practices; major judgmental areas; significant adjustments resulting from the audit (if any); the going concern assumption; compliance with accounting and auditing standards and compliance with the Listing Rules and legal requirements in relation to financial reporting to the Board for consideration and approval;

(b) assess the independence of the external auditor of the Company and the objective and effectiveness of audit process;

(c) review the relationship with the external auditor and then recommend the re-appointment of the external auditor of the Company and recommend its remuneration;

(d) evaluate the adequacy and effectiveness of the Group's system of internal control and risk management which covered all material controls including financial, operational and compliance together with the associated procedures;

(e) review and approve the internal audit programme, review the internal audit reports and discuss any significant issues with the Management;

(f) study the adequacy of resources, qualifications and experience of staffs of the Group's accounting and financial reporting function and their training programmes and budget; and

(g) review the current continuing connected transactions.

The attendance record of the meetings of AC during the year ended 31 December 2018 are set out under the section of "**BOARD MEETINGS**" on page 51.

Nomination Committee

The Nomination Committee, which has been established in compliance with Sections A5.1 and A5.2 of the Appendix 14 of the Listing Rules, currently comprises Mr. Yuan Zhijun, Chairman of the Board, (Chairman of the Nomination Committee), three independent non-executive Directors including Mr. Ye Xiang, Mr. Wang Yuben and Mr. Mi Jianguo, as well as Mr. Lee Shing, Vice-chairman of the Board and the Chief Executive Officer.

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The primary objectives of the Nomination Committee pursuant to its term of reference include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board, making recommendations on the any proposed changes to the Board composition, proposing the selection of individuals nominated for directorships, assessing the independence of independent non-executive Directors; reviewing the board diversity with reference to the Board Diversity Policy and commenting the Directors' rotation from the Board in each annual general meeting of the Company and office succession planning for Directors in particular the chairman of the Board and the chief executive officer.

The Company adopted below the policy for nomination of Directors (including the nomination procedures and criteria for selection and recommendation of candidates for directorship) in accordance with the new amendments to the CG Code, which took effect from 1 January 2019.

Objective of the policy

1. NC shall nominate suitable candidates to the Board for it to consider and make recommendations to the Shareholders for election as Directors at general meetings or appoint as Directors to fill casual vacancies.

2. NC may, as it considers appropriate, nominate a number of candidates more than the number of the Directors to be appointed or re-appointed at a general meeting, or the number of casual vacancies to be filled.

Selection Criteria

1. The factors listed below would be used as reference by the NC in assessing the suitability of a proposed candidate:

   - reputation for integrity;

   - accomplishment, experiences and/or knowledge in the principal business of our group, from time to time;

   - commitment in respect of available time and relevant interest; and

   - diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

   These factors are for reference only, and not meant to be exhaustive and decisive. The NC has the discretion to nominate any person, as it considers appropriate.

2. Proposed candidates will be asked to submit the necessary personal information, together with their written consent to be appointed as a Director and to the public disclosure of their personal data on any documents or the relevant websites for the purpose of or in relation to their standing for election as a Director.

3. The NC may request candidates to provide additional information and documents, if considered necessary.

CORPORATE GOVERNANCE REPORT

Nomination Procedures

1. The Secretary of the NC shall call a meeting of the NC, and invite nominations of candidates from Board members, if any, for consideration by the NC prior to its meeting. The NC may also put forward candidates who are not nominated by Board members.

2. For filling a casual vacancy, the NC shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the NC shall make nominations to the Board for its consideration and recommendation.

3. Until the issue of the circular to Shareholders, the nominated persons shall not assume that they have been proposed by the Board to stand for election at the general meeting.

4. In order to provide information of the candidates nominated by the Board to stand for election at a general meeting, a circular will be sent to the Shareholders. Pursuant to Bye-laws of the Company, if a Shareholder wish to propose a person other than a retiring Director for election as a Director at a general meeting of the Company, the Shareholder should deposit a written notice of nomination which shall be given to the head office of the Company within the 7-day period commencing the day after the dispatch of the notice of the meeting (or such other period as may be determined and announced by the Directors from time to time). The relevant procedures are posted on the Company's website (www.wuling.com.hk).The particulars of the candidates so proposed will be sent to all shareholders for information by a supplementary circular.

5. A candidate is allowed to withdraw his candidature at any time before the general meeting by serving a notice in writing to the Company Secretary.

6. The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

The Company has adopted a board diversity policy which sets out the approach to achieve diversity on the Board, the summary of which are set out below:

(a) With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development;

(b) In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service; and

(c) All Board appointments be based on meritocracy, and candidates be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Confidentiality

Unless required by law or any regulatory authority, under no circumstances shall a member of the NC or a staff member of the Company disclose any information to or entertain any enquiries from the public with regard to any nomination or candidature before the circular to Shareholders, as the case may be, is issued. Following the issue of the circular, the NC or Company Secretary or other staff member of the Company approved by the NC may answer enquiries from the regulatory authorities or the public but confidential information regarding nominations and candidates should not be disclosed.

The Nomination Committee held one (1) meeting and passed certain written resolutions during the year ended 31 December 2018 to, inter alia,

(1) review the duties of Nomination Committee set out in the terms of reference and the policy for the nomination of Directors;

(2) assess the structure, size and composition of the Board and analyse the diversity of the Board with reference to the Board Diversity Policy adopted by the Board;

(3) evaluate the performance of the Board with reference to the board performance report;

(4) study the independence of each independent non-executive Director under the Listing Rules (including the new requirements which were amended and took effect on 1 January 2019);

(5) identify those Directors to be retired from the Board by rotation in the annual general meeting and then be re-elected as Director in the same meeting in accordance with the Company's bye-laws and the Listing Rules;

(6) propose the maximum number of Director of the Board in annual general meeting; and

(7) review the service contract(s) to be entered with the independent non-executive Director.

The attendance records of the meeting of the Nomination Committee during the year ended 31 December 2018 are set out under the section of "**BOARD MEETINGS**" on page 51.

CORPORATE GOVERNANCE

The Board is responsible for performing the corporate governance duties. During the year ended 31 December 2018, the Board, inter alia,

(1) reviewed the policy and practices on corporate governance and make recommendations to the Board;

(2) assessed training and continuous professional development to Directors and the Management;

(3) reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements;

(4) monitored the compliance with the Company's own code of conduct regarding director's dealings in the Company's securities (the "**Own Code**") on term no less exacting than the Model Code (defined below) under the Listing Rules; and

(5) reviewed the compliance with the code provision of the CG Code and this corporate government report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Own Code on terms no less exacting than the Model Code for Securities Transaction by Directors of Listed Issuers, as amended from time to time, (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

CORPORATE GOVERNANCE REPORT

Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Own Code and the Model Code throughout the year.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "**Employees Written Guidelines**") and Policy on disclosure of inside information for securities transactions by relevant employees of the Company who are likely to be in possession of unpublished price sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees of the Group was noted by the Company.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for preparing the audited consolidated financial statements of the Company for the year ended 31 December 2018 by the auditors about their reporting responsibilities. In preparing the financial statements, the generally accepted accounting standards in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made.

The Board currently receives from the Management monthly management accounts, explanation and analysis of the operation performance and development of the Group together with relevant information which enable the Board to make an informed assessment of the current financial positions and the status of the Group.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities on the audited consolidated financial statements for the year ended 31 December 2018 is set out in the "**INDEPENDENT AUDITOR'S REPORT**" on pages 84 to 89 in this annual report.

Apart from the provision of audit services, Deloitte Touche Tohmatsu, the Company's external auditor, also carried out interim review of the Group's results and provided other financial services in compliance with the requirements under the Listing Rules and other statutory requirements.

For the year ended 31 December 2018, Deloitte Touche Tohmatsu, the external auditor of the Company received the following remuneration from the Group in connection with the provision of audit and non-audit services to the Group:

	2018 ***RMB'000***
Annual audit services	**1,777**
Interim review services	**557**
Other services	**677**

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for maintaining an adequate internal control and risk management system to safeguard the Shareholder investments and the Company and its subsidiaries assets, and reviewing the effectiveness of such on an annual basis with participation of the Audit Committee.

The Group has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the Management. The internal control and risk management systems of the Group are designed to identify and evaluate the significant risks and to minimize the risks to which the Group is exposed, and are designed to manage rather than eliminate the risks of failure to achieve business objective, and can only provide reasonable and not absolute assurance against material misstatements or losses.

The Group which currently engages in the businesses of the manufacturing and trading of engines, automotive components and specialized vehicles (which cover the new energy vehicles represented by primarily the electric vehicles), trading of raw materials, and provision of water and power supply, has established internal control and risk management systems which are designed and structured in accordance with its specific business and operation functions.

The main features of the internal control and risk management systems of the Group comprise primarily: (i) the setting of objectives, budgets and targets, subject to the close monitoring and periodic update and evaluation by the responsible departments, Management and the Directors; (ii) the establishment of regular reporting of financial information supplemented by other regular and ad hoc reports for review and appraisal by the Management and the Directors on a timely manner to ensure the Management and Directors are supplied with all the requested information to assess the business performances of the Group in arriving at appropriate plans and actions; (iii) the delegation of authority and establishment of clear lines of accountability to ensure an effective day-to-day management, administration and operation of the Group; and (iv) the periodic review and evaluation of the systems and control procedures to ensure their appropriateness to the changing business and operation environment as well as to identify any areas of material risks and weaknesses for the purpose of proper mitigation and improvement.

The Board monitors the Group's business risks, operating risk management and internal controls. An internal audit department is also maintained to carry out the internal audit functions to ensure proper compliance with the internal control and risk management system to identify the potential risks which may arise in the operation and financial aspects of the Group's business for implementation of appropriate measures and policies on a continuing basis. The scope of review and the audit plan of the internal audit department for the year ended 31 December 2018, which are formulated based on a risk assessment approach and focuses on areas with relatively higher perceived risks, are reviewed and approved by the Audit Committee in conjunction with the Management. The internal audit department executes their functions based on a yearly plan and prepares reports for their assignments. These reports are submitted to the Management, the Board and the Audit Committee for review on a regular basis.

The Group initiated an organized risk management function in the year 2014 through the establishment of the risk management department and the formulation of the relevant risk management procedures. The report prepared by the risk management department for the year 31 December 2018 has been provided to the Management, the Board and Audit Committee for review.

CORPORATE GOVERNANCE REPORT

During the year under review, the Board, through the Audit Committee, has conducted a review of the effectiveness of the internal control and risk management system and the internal audit functions of Group. The review covers all material controls, including financial reporting system, operational and compliance controls and risk management system as well as the adequacy of resources, qualifications and experiences of staffs of the Company's accounting and financial reporting system, and their training programmes and budget. The Board and the Audit Committee confirmed that during the year under review, there were no significant control failings or weaknesses identified which might have a material impact on the Company's financial performance or operation and the required procedures and human resources are in place to ensure adequate internal controls within the Group.

PROCEDURES AND INTERNAL CONTROLS FOR HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Board has approved and adopted an Inside Information Disclosure Policy (the "**Policy**") for the Company since 2013 for monitoring inside information to ensure compliance with the Listing Rules and the Securities and Futures Ordinance. The procedures and internal controls for handling and dissemination of inside information as set out in the Policy are summarized below:

Handling of Inside Information

(1) Inside information shall be announced as soon as reasonably practicable after it becomes known to the Board and/or is the subject of a decision by the Board in accordance with the Listing Rules. In cases where a decision by the Board is pending or in cases of incomplete negotiations, the Group shall implement the procedures set out in the Policy to maintain the confidentiality of information. Until an announcement is made, the Directors and the Management should ensure that such information is kept strictly confidential. If the confidentiality cannot be maintained, an announcement shall be made as soon as practicable.

(2) Each department shall keep inside information on transactions confidential. If there is a leakage of inside information, they shall inform the Directors, the chief financial officer, who is also the Company Secretary, immediately so that remedial actions, including making an inside information announcement, can be taken at the earliest opportunity.

(3) The Group's Finance Department shall keep track of the Group's threshold levels for disclosure pursuant to the size tests and other disclosure requirements under the Listing Rules, so that an announcement can be made as soon as practicable.

CORPORATE GOVERNANCE REPORT

Dissemination of Inside Information

Inside information is announced promptly through the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.wuling.com.hk). The electronic publication system of the Stock Exchange is the first channel of dissemination of the Group's information before any other channel.

SHAREHOLDERS' RIGHTS

Shareholders should direct their questions about their shareholdings to the Company's Hong Kong branch registrar and transfer office, namely, Tricor Tengis Limited, whose contact details are stated in the section headed "**CORPORATE INFORMATION**" of this annual report.

Shareholders holding not less than one-tenth of the paid-up capital of the Company may deposit a requisition to convene a special general meeting of the Company and state the purpose therefore at the Company's registered office in Bermuda at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The Board is welcome to Shareholders for their comments and/or enquiries about the Company. Shareholders may send their comments and/or enquiries to the Board by addressing them to the Company Secretary. Shareholders who wish to put forward proposal for the Company's consideration at the general meetings of the Company can send their proposal to the Company Secretary.

Pursuant to bye-law 89 of the Company, if a Shareholder wish to propose a person other than retiring Directors for election as a Director at a general meeting of the Company, the Shareholder should deposit a written notice of nomination which shall be given to the head office of the Company at the within the 7-day period commencing the day after the despatch of the notice of the meeting (or such other period as may be determined and announced by the Directors from time to time). The relevant procedures is posted on the Company's website (www.wuling.com.hk).

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available.

Corporate communication of the Company will be provided to Shareholders in plain language and in both English and Chinese versions to facilities Shareholder's understanding.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company acknowledges the importance of maintaining effective communication with the Shareholders and the investment community and has adopted communications policy with Shareholders and investors of the Company (the "**Communication Policy**") that provide ready, equal and timely access to understandable information about the Company, the Communication Policy is posted on the Company website (www.wuling.com.hk).

Each general meeting of the Company provides a forum for communication between the Board and the Shareholders. To facilitate enforcement of Shareholders' rights, significant issues, including the election of Directors, are dealt with under separate resolutions at general meetings.

CORPORATE GOVERNANCE REPORT

During the year, Mr. Lee Shing, the Vice-Chairman and the Chief Executive Officer, attended all of the Shareholders' meetings held by the Company. Mr. Yuan Zhijun, the chairman of the Board, and Mr. Lee Shing, the vice-chairman of the Board, will use their endeavours to attend all future shareholders' meetings of the Company.

The Chairman of the Board did and would arrange for the Chairman and/or member of each Committee together with the external auditor of the Company be available to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and audit or independence and others in each annual general meeting of the Company. Moreover, as for the connected transactions, the continuing connected transactions or any other transactions that are subject to independent Shareholders' approval, the chairman or a member of the independent board committee did and would also be available to answer questions at special general meetings of the Company.

Most resolutions would be passed by way of poll at each of the general meeting of the Company. Shareholders who are unable to attend general meetings of the Company can appoint proxies to attend and vote at general meetings of the Company. The chairman of general meetings of the Company would provide explanation of the detailed procedures for conducting a poll and then would answer questions (if any) from the Shareholders regarding voting by way of poll. The Company would send notices of the annual general meetings of the Company to the Shareholders at least 20 clear business days before each annual general meeting of the Company and at least 10 clear business days before all other general meetings of the Company.

The Company's website (www.wuling.com.hk) contains important corporate information, annual and interim reports, announcements and circulars issued by the Company, as well as the respective terms of reference of each Committee and polices to enable the Shareholders and the investors community to have timely access to updated information about the Group.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

COMPANY SECRETARY

The Company Secretary is a full-time employee of the Company and has day-to-day knowledge of the Company's affairs. He is reporting to the Chairman of the Board and the Chief Executive Officer. For the year ended 31 December 2018, the Company Secretary has complied with the Listing Rules by taking not less than 15 hours of relevant professional training. All Directors have access to the advice and services of the Company Secretary to ensure the Board procedures, and all applicable law, rules and regulations, are followed.

REPORT OF THE DIRECTORS

The directors of the Company ("**Directors**") present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively as the "**Group**") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 49 to the consolidated financial statements of this annual report. There were no significant changes in the nature of the Group's principal activities during the year. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance (Cap. 622), including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the sections of "**CHAIRMAN'S STATEMENT**", "**REPORT OF THE CEO**", "**OPERATION REVIEW**" and "**FINANCIAL REVIEW**" set out on pages 2 to 37 of this annual report. These sections form part of this Report of the Directors.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the sections of "**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**" of this annual report on page 90.

The Directors recommended the payment of a final dividend of HKD0.5 cent per ordinary share of the Company (the "**Share(s)**") for the year ended 31 December 2018 (the "**Final Dividend**") (2017: HKD1.25 cents) to the shareholders of the Company (the "**Shareholder(s)**"), whose names shall be on the register of members of the Company on Thursday, 27 June 2019, amounting to approximately HKD10,251,000 (equivalent to approximately RMB9,005,000), subject to the approval by the Shareholders in the forthcoming annual general meeting of the Company to be held on Friday, 14 June 2019 (the "**2019 AGM**").

CLOSURE OF REGISTER OF MEMBERS

For Attendance of 2019 AGM

The register of members of the Company will be closed from Tuesday, 11 June 2019 to Friday, 14 June 2019 (both dates inclusive) (the "**1st Book Close Period**"), for the purpose of determining the Shareholders' eligibility to attend and vote at the 2019 AGM and during the 1st Book Close Period no transfer of the Shares will be effected. In order to qualify for attendance of the 2019 AGM, all completed transfer forms accompanied by the relevant share certificates of the Company must be lodged with the Company's branch share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Monday, 10 June 2019.

For Entitlement to Final Dividend

The register of members of the Company will be closed from Monday, 24 June 2019 to Thursday, 27 June 2019 (both days inclusive) (the "**2nd Book Close Period**"), for the purpose of determining the Shareholders' entitlement to the Final Dividend and during the 2nd Book Close Period no transfer of the Shares will be effected. In order to qualify for the Final Dividend, all completed transfer forms accompanied by the relevant share certificates of the Company must be lodged with the Company's branch share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Friday, 21 June 2019. Subject to the approval of the Final Dividend by the Shareholders in the 2019 AGM, the dividend warrants of the Final Dividend will be dispatched to the Shareholders on or before 31 July 2019.

REPORT OF THE DIRECTORS

DIVIDEND POLICY

The Directors propose the Final Dividend in accordance with the dividend policy of the Company ("**Dividend Policy**") which essential features are summarized below:

Purpose

The Dividend Policy sets out the principles and guidelines of the Company in relation to the distribution of dividend to the Shareholders.

The objective of the Dividend Policy is to reward the Shareholders by sharing a portion of profits/earning, while also ensuring that enough funds are retained for the future growth and prospects of the Company.

Factors when considering the distribution of dividend

The distribution of any dividend by the Company is subject to the discretion of the Board, which normally did/will take into account of the following factors:

- The financial results of the Company;
- Interests of the Shareholders;
- General business conditions and strategies;
- The capital requirements of the Group;
- Contractual restrictions on the payment of dividends by the Company to the Shareholders or by the subsidiaries to the Company, if any;
- Taxation considerations;
- Possible effects on our creditworthiness;
- Statutory and regulatory restrictions; and
- Any other factors our board of the Directors (the "**Board**") may deem relevant.

There is no assurance that any particular dividend amount, or any dividend at all, will be declared and paid in the future.

Provisions with regard to distribution of dividend

Any distribution of dividend for a financial year shall be subject to the approval by the Shareholders. Shareholders at a general meeting of the Company can approve any distribution of final dividend, which may not exceed the amount recommended by the Board.

All of the Shareholders have equal rights to dividend.

Dividend may be distributed in the form of cash and/in specie of Shares. Any distribution of Shares, however, must be approved by the Shareholders.

The Board may from time to time to declare the special, quarterly and/or interim dividends as appear to the Board to be justified.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the "**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**" of this annual report on page 93.

DISTRIBUTABLE RESERVES OF THE COMPANY

Details of movements in the reserves of the Company during the year are set out in note 48 to the consolidated financial statements of this annual report.

As at 31 December 2018, the Company's reserves available for distribution to the Shareholders were RMB335,750,000, which comprises contributed surplus of RMB94,381,000 and retained profits of RMB241,369,000 of the Company.

Under the Companies Act of Bermuda (as amended from time to time), contributed surplus is available for distribution to the Shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five (5) financial years, as extracted from the respective audited consolidated financial statements of the Company is set out below. This summary does not form part of the consolidated financial statements of this annual report:

	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'0*
Revenue	15,120,199	16,123,895	16,677,695	13,451,243	12,138,662
Profit before tax	120,734	385,348	399,883	242,014	142,370
Income tax credit/(expense)	4,461	(103,564)	(119,610)	(71,962)	(33,953)
Profit for the year	125,195	281,784	280,273	170,052	108,417
Profit for the year attributable to:					
Owner of the Company	70,673	173,158	140,462	82,212	49,443
Non-controlling interests	54,522	108,626	139,811	87,840	58,974
	125,195	281,784	280,273	170,052	108,417
Total assets	13,127,161	11,707,640	12,382,921	11,637,552	9,814,578
Total liabilities	(10,648,312)	(9,219,780)	(10,247,750)	(9,747,892)	(8,201,386)
Net assets	2,478,849	2,487,860	2,135,171	1,889,660	1,613,192
Net assets attributable to:					
Owner of the Company	1,443,639	1,442,682	1,176,145	1,041,513	794,338
Non-controlling interests	1,035,210	1,045,178	959,026	848,147	818,854
	2,478,849	2,487,860	2,135,171	1,889,660	1,613,192

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

The Group revalued its investment properties at the year ended on 31 December 2018. The net increase in fair value of the investment properties of the Group, which has been credited directly to consolidated income statement of profit or loss and other comprehensive income, amounted to RMB668,000 (2017: net decrease of RMB1,193,000).

Details of these and other movements during the year in the property, plant and equipment, prepaid lease payments, premium on prepaid lease payments and investment properties of the Group are set out in notes 15, 16, 17 and 18 to the consolidated financial statements of this annual report, respectively.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 35 to the consolidated financial statements of this annual report.

CONVERTIBLE LOAN NOTES AND CAPITAL INCREASE INTO WULING INDUSTRIAL

On 23 May 2017, the Company issued a convertible loan notes of a principal amount of HKD400,000,000 to Wuling (Hong Kong) Holdings Limited ("**Wuling HK**"), our controlling Shareholder, as approved by the independent Shareholders at a special general meeting of the Company held on 16 December 2016. The convertible loan notes which bear interest at 4% per annum with maturity on 23 May 2020 would be eligible to be converted into a total number of 571,428,571 fully paid up Shares at an initial conversion price of HKD0.70 per Share (subject to anti-dilutive adjustments) commencing from 22 November 2017 up to the fifth business day prior to the maturity date.

In connection with the issue of these convertible loan notes and as approved by the independent Shareholders at the abovementioned special general meeting, the Company had also completed the first instalment of capital injection into 柳州五菱汽車工業有限公司 Liuzhou Wuling Motors Industrial Company Limited* ("**Wuling Industrial**"), our non-wholly-owned subsidiary, by contributing an additional sum of RMB340,000,000 in cash to Wuling Industrial of which RMB161,126,100 was contributed to the registered capital of Wuling Industrial and RMB178,873,900 was contributed to the capital reserves of Wuling Industrial. Upon completion of this capital injection, the registered capital of Wuling Industrial was increased from RMB1,042,580,646 to RMB1,203,706,746 and the Company's equity interest in Wuling Industrial on an enlarged basis was increased by approximately 6.04% to approximately 60.90%. On 29 December 2017, the Company announced that as the conditions precedents of the second instalment of capital injection of RMB250,000,000 into Wuling Industrial were not expected to be fulfilled on or before 31 December 2017, i.e. the long stop date in respect of the second instalment, the second instalment was lapsed on 31 December 2017.

The capital injection of RMB340,000,000 had been fully applied by Wuling Industrial for the proposed projects as detailed in the section headed "Reasons for the issue of convertible notes, the subscription and the placing and the use of proceeds" in the Company's circular dated 28 November 2016.

Details of the above issue of the convertible loan notes and the above capital injection into Wuling Industrial were fully described in the Company's announcements dated 13 October 2016, 31 December 2016, 28 February 2017, 24 April 2017, 23 May 2017 and 29 December 2017 and the Company's circular dated 28 November 2016.

On 29 December 2017, the Company received a notice from Wuling HK in relation to the conversion of an aggregate principal amount of HKD150,000,000 of the convertible loan notes into fully paid up Shares at the conversion price of HKD0.70 per Share. Accordingly, an aggregate of 214,285,714 fully paid up Shares represents (i) approximately 11.67% of the existing total number of Shares in issue of the Company on 29 December 2017; and (ii) approximately 10.45% of the total number of Shares in issue of the Company as enlarged by such conversion were allotted and issued by the Company on 29 December 2017.

Subsequent to the above conversion, the aggregate principal amount of convertible loan notes remained outstanding was HKD250,000,000, which would be eligible to be converted into a total number of 357,142,857 fully paid up Shares according to the terms and conditions of the convertible loan notes.

During the year ended 31 December 2018 and up to the date of this report, the Company did not received any notice from Wuling (Hong Kong) Holdings Limited ("**Wuling HK**"), our controlling Shareholder, in relation to the conversion of any convertible loan notes. Details information of movements of the liability and derivative components of the convertible loan notes are set out in note 32 to the consolidated financial statements of this annual report.

PURCHASE, REDEMPTION AND SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2018 (2017: Nil).

PRE-EMPTIVE RIGHTS

There are no provisions for the pre-emptive rights under the Company's bye-laws or the laws in Bermuda which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

BORROWINGS

Details of the bank and other borrowings of the Group are set out in note 31 to the consolidated financial statements of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2018, the aggregate sales attributable to the Group's largest customer and five (5) largest customers taken together accounted for respectively 60.1% and 65.5% of the Group's total revenue for the year.

The aggregate purchases attributable to the Group's largest supplier and the five (5) largest suppliers taken together accounted for respectively 34.4% and 43.7% of the Group's total purchases for the year.

上汽通用五菱汽車股份有限公司 SAIC-GM-Wuling Automobile Co., Ltd.* ("**SGMW**"), in which, 廣西汽車集團有限公司 Guangxi Automobile Holdings Limited* ("**Guangxi Automobile**"), the ultimate controlling Shareholder, holds 5.8% of its registered capital, was the Group's largest customer and largest supplier for the year ended 31 December 2018. 桂林客車發展有限公司 Guilin Bus Development Co., Limited* ("**Guilin Bus**"), in which, Guangxi Automobile holds 70% of its registered capital, was the Group's fifth largest supplier, which accounted for 1.4% of the Group's total purchases for the year ended 31 December 2018. The purchase

* *For identification purpose only*

REPORT OF THE DIRECTORS

transactions of the Group with Guilin Bus for the year ended 31 December 2018 were governed under the 2017-2019 Master Agreement as detailed under the following section headed "**CONTINUING CONNECTED TRANSACTIONS**" of this Report of the Directors on pages 76 to 81.

Other than as disclosed above, none of the Directors, their close associates or, so far as the Directors are aware, any Shareholder who owns more than 5% of the issued share capital of the Company has any interests in any of the aforesaid top five (5) customers and/or suppliers of the Group for the year.

DIRECTORS

The Directors during the year and up to the date of this report are:

Executive Directors

Mr. Yuan Zhijun *(Chairman)*
Mr. Lee Shing *(Vice-chairman & Chief Executive Officer)*
Ms. Liu Yaling
Mr. Yang Jianyong
Mr. Wang Zhengtong *(Note)*
Mr. Zhong Xianhua *(Note)*

Independent Non-Executive Directors

Mr. Ye Xiang
Mr. Wang Yuben
Mr. Mi Jianguo

Note:

Mr. Wang Zhengtong has been appointed as Director in place of the resignation of Mr. Zhong Xianhua as Director, both with effect on 28 February 2019.

The biographical details of the current Directors are set out on pages 38 to 43 of this annual report.

Mr. Zhong Xianhua reached his retirement age and tendered his resignation as an executive Director with effect from 28 February 2019. Succeeding the resignation of Mr. Zhong Xianhua, Mr. Wang Zhengtong has been appointed as an executive Director with effect from 28 February 2019.

In accordance with the Company's bye-law 91, Mr. Wang Zhengtong, duly appointed by the Board to fill the causal vacancy on 28 February 2019, shall retire from the Board as the Director at the conclusion of the 2019 AGM or the special general meeting of the Company, if any, to be held earlier than the 2019 AGM and he, being eligible, offer himself for re-election at the same meeting.

Pursuant to the Company's bye-laws and/or The Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), at each annual general meeting of the Company not less than one-third of the Directors (including those appointed for a specific term) for the time being shall retire from the Board by rotation and each Director shall be subject to retirement by rotation at least once every three years at the conclusion of annual general meeting of the Company after he/she was last elected or re-elected in the general meeting of the Company (i.e. the term of appointment of all Directors, including the non-executive Directors, is effectively three years) and each Director appointed to fill a casual vacancy or as an additional Director by the Board is subject to re-election by the Shareholders at the first general meeting of the Company following his/her appointment.

Besides, if an independent non-executive Director serves the Company for more than nine years, his/her further appointment should be subject to a separate resolution to be approved by the Shareholders in accordance with the Listing Rules.

In accordance with bye-law 99(B) of the Company, Mr. Yuan Zhijun, Ms. Liu Yaling and Mr. Wang Yuben shall retire from the Board by rotation at the conclusion of the 2019 AGM and, Mr. Yuan Zhijun, Mr. Wang Yuben and together with Mr. Wang Zhengtong, who is required to be retired in accordance with the Company's bye-law 91 as abovementioned, being eligible, offer themselves for re-election at the 2019 AGM. Due to her other business commitments, Ms. Liu Yaling did not offer herself for re-election at the 2019 AGM.

For the year ended 31 December 2018, the Company has received from each of its independent non-executive Director, the respective written annual confirmation of independence pursuant to rule 3.13 of the Listing Rules, as amended from time to time, and the Board and the Nomination Committee has considered and agreed all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENT

Details of the Directors' and senior management's emolument disclosed on a named basis and/or by band, respectively, are set out in notes 11 and 12 to the consolidated financial statements of this annual report.

DIRECTORS' SERVICE CONTRACTS

The Company has entered into service contracts with all the three (3) independent non-executive Directors for a specific term of three (3) years who are also required to retire from the Board by rotation at the annual general meeting of the Company and then re-election by the Shareholders in the same meeting at least once every three years in accordance with the Company's bye-laws and the Listing Rules.

No retiring Director (Mr. Yuan Zhijun, Mr. Wang Zhengtong and Mr. Wang Yuben) being proposed for re-election at the 2019 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2018, the interests of the Directors and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**"), contained in Appendix 10 of the Listing Rules were as follows:

Long Positions

Name of Director	Capacity	Number of Shares held	Approximate % of the total number of Shares in issue*
Mr. Lee Shing ("**Mr. Lee**")	Interest in controlled corporation *(Note)*	281,622,914	13.74%
	Beneficial owner	3,090,900	0.15%
	Interest held by spouse	1,648,480	0.08%
	Sub-total	286,362,294	13.97%
Ms. Liu Yaling	Beneficial owner	2,060,600	0.10%
Mr. Ye Xiang	Beneficial owner	1,030,300	0.05%

Note: This represents the Shares held by Dragon Hill Development Limited ("**Dragon Hill**"), a company wholly-owned by Mr. Lee.

* The percentage has been adjusted (if any) based on the total number of Shares in issue as at 31 December 2018 (i.e. 2,050,107,555 Shares).

Save as disclosed above, none of the Directors nor their associates had any other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2018 which had been entered in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the year ended 31 December 2018 was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' MATERIAL INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed under the sections headed "**CONNECTED TRANSACTIONS**" AND "**CONTINUING CONNECTED TRANSACTIONS**" in this Report of the Directors from pages 75 to 81, no transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries, its fellow subsidiaries or its holding companies was a party or were parties and in which Director(s) or any entities connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year.

SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed by the Shareholders on 28 May 2012, a share option scheme (the "**Share Option Scheme**") with an expiry date on 27 May 2022 was adopted by the Company.

During the year ended 31 December 2018 and up to date of this annual report, there was no share option granted, outstanding, exercised, lapsed, re-classified and cancelled under the Share Option Scheme.

A summary of the Share Option Scheme is set out in note 38 to the consolidated financial statements of this annual report.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial Shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at 31 December 2018, the following Shareholders had notified the Company of their relevant interests in the issued share capital of the Company:

REPORT OF THE DIRECTORS

Long positions

Name of Shareholder	Capacity	Nature of interest	Number of Shares	Approximate % of the total number of Shares in issue#
Dragon Hill *(Note 1)*	Beneficial owner	Corporate	281,622,914	13.74%
Mr. Lee	Interest in controlled corporation *(Note 1)*	Corporate	281,622,914	13.74%
	Beneficial owner *(Note 2)*	Personal	3,090,900	0.15%
	Interest held by spouse *(Note 2)*	Family	1,648,480	0.08%
		Sub-total	286,362,294	13.97%
Wuling (Hong Kong) Holdings Limited ("**Wuling HK**") *(Notes 3 & 4)*	Beneficial owner	Corporate	1,243,132,520	60.64%
		Unlisted derivatives	357,142,857	17.42%
		Sub-total	1,600,275,377	78.06%
Wuling Motors (Hong Kong) Company Limited ("**Wuling Motors**") *(Notes 3 & 4)*	Interest in controlled corporation	Corporate	1,243,132,520	60.64%
		Unlisted derivatives	357,142,857	17.42%
		Sub-total	1,600,275,377	78.06%
廣西汽車集團有限公司 Guangxi Automobile *(Notes 3 & 4)*	Interest in controlled corporation	Corporate	1,243,132,520	60.64%
		Unlisted derivatives	357,142,857	17.42%
		Sub-total	1,600,275,377	78.06%

Notes:

(1) Mr. Lee is beneficially interested in 281,622,914 Shares, which interests are held by Dragon Hill, a company wholly-owned by Mr. Lee. This parcel of Shares has also been disclosed as long position of Mr. Lee under the above section of "**DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES**".

(2) These represent the Shares held by Mr. Lee and his spouse as beneficial owners, respectively.

(3) The entire issued share capital of Wuling HK is currently held by Wuling Motors, whereas the entire issued share capital of Wuling Motors is currently held by Guangxi Automobile. Accordingly, Wuling Motors and Guangxi Automobile are deemed to be interested in the Shares in which Wuling HK is interested under the SFO.

(4) The unlisted derivatives referred to the 357,142,857 Shares (conversion shares) issuable to Wuling HK upon exercise in full of the conversion rights attaching to the outstanding convertible loan notes issued to Wuling HK amounting to HKD250,000,000, details of which may refer to the above section of "**CONVERTIBLE LOAN NOTES AND CAPITAL INCREASE INTO WULING INDUSTRIAL**" of this annual report on pages 68 and 69.

\# The percentage has been adjusted (if any) based on the total number of Shares in issue as at 31 December 2018 (i.e. 2,050,107,555 Shares).

Other than as disclosed above, as at 31 December 2018, the Company has not been notified of any other relevant interests and short position in the shares and underlying shares of the Company or any of its associated corporation, which had been recorded in the register required to be kept under section 336 of the SFO.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "**Own Code**") on terms no less exacting than the Model Code, amended from time to time, The Directors have confirmed they have complied with the Own Code and the Model Code throughout the year ended 31 December 2018.

DIRECTOR'S INTEREST IN COMPETING BUSINESS

Mr. Yuan Zhijun, the chairman of the Board and an executive Director, is also a director of SGMW. SGMW, which is the Group's largest customer and largest supplier for the year is principally engaged in the manufacturing and trading businesses of motor vehicles and engines (the "**Excluded Business**"), which may have direct or indirect competition to the businesses of the Group. Although Mr. Yuan is taken to have competing interests in SGMW by virtue of his common directorships, he currently fulfills his fiduciary duty in order to ensure that he acts in the best interest of the Shareholders and the Company as a whole at all times. Besides, as SGMW is operated and managed under a publicly listed company with independent management and administration, the Board are satisfied that the Group is capable of carrying its businesses independently of, and at arm's length basis from, the Excluded Businesses.

All Directors, including those interested in the Excluded Business, did and will, as and when required under the Bye-laws and/or the Listing Rules, disclose to the Board and then abstain from voting on any resolution of the Board in respect of any contract, arrangement or proposal in which he or any of his associates has material interest.

Save as disclosed above, as at the date of this report, none of the Directors or their respective close associates has interests in a business, apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules.

CONNECTED TRANSACTIONS

(1) On 26 November 2018, Liuzhou Wuling Motors Industrial Company Limited ("**Wuling Industrial**"), a non-wholly-owned subsidiary of the Company, as purchaser and Shanghai Yipu Automatic Equipment Co., Limited ("**Shanghai Yipu**") as vendor entered into an equipment purchase agreement (the "**First Agreement**") in relation to the sale and purchase of a welding production-line designated and installed for certain welded and stamped automotive components to be produced by the factory of Wuling Industrial located in India for supplying to the vehicles manufactured by its customer in India at a consideration of RMB11,077,586.20 (exclusive of VAT).

(2) On 26 November 2018, Liuzhou Zhuotong Automotive Components Company Limited ("**Liuzhou Zhuotong**"), an indirect non-wholly-owned subsidiary of the Company, as purchaser and Shanghai Yipu as vendor entered into five different sets of equipment purchase agreement (the "**Second to Sixth Agreement**") in relation to the services to be rendered and the equipment to be purchased from and set up by Shanghai Yipu for the modification of the existing four welding production-lines designated for production of the front-floor components and left and right side rear main-frame components of the sport utility vehicle and the multi-purpose vehicle and an existing production-line designated for the assembly of lower-rear-body torsion beam suspension components at the respective considerations

REPORT OF THE DIRECTORS

of RMB3,000,000 (exclusive of VAT), RMB3,100,000 (exclusive of VAT), RMB3,800,000 (exclusive of VAT), RMB3,410,000 (exclusive of VAT) and RMB1,213,700 (exclusive of VAT).

(3) On 26 November 2018, Liuzhou Zhuotong, as purchaser and Shanghai Yipu as vendor entered into a service agreement (the "**Seventh Agreement**") in relation to the services to be rendered by Shanghai Yipu for the modification work on the transportation support tooling for the back auxiliary frame at a consideration of RMB470,000 (exclusive of VAT).

Details of the First Agreement, the Second to Sixth Agreement and the Seventh Agreement were disclosed in the Company's announcement dated 26 November 2018.

Each of the above equipment purchase agreements and the service agreement (i.e. the First Agreement, the Second to Sixth Agreement and the Seventh Agreement) were entered into through the Group's standard tender process. Shanghai Yipu was ranked first according to the evaluation basis set out in the relevant tender document of each of the equipment or service, which included the overall evaluation of the technical capability and the terms (including the tender price in respect of each of the respective equipment and service) offered by the qualified bidders, and therefore was selected as the successful bidder and concluded as the vendor of each of the equipment or service under the respective equipment purchase agreement and service agreement.

Upon execution of the First Agreement, the Second to Sixth Agreement and the Seventh Agreement, Shanghai Yipu was held as to approximately 40% by Guangxi Automobile, the ultimate controlling Shareholder. In this regard, Shanghai Yipu is a connected person of the Company under Rule 14A.07 of the Listing Rules. The respective transactions contemplated under the First Agreement, the Second to Sixth Agreement and the Seventh Agreement constitute connected transactions for the Company under Chapter 14A of the Listing Rules, which in aggregate were subject to reporting and announcement requirements but exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Rule 14A.76 of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

In order to ensure that the business and operation of Wuling Industrial and/or its associates (the "**Wuling Industrial Group**") Wuling Industrial entered into the following agreements with Guangxi Automobile and/or its associates (the "**Guangxi Automobile Group**"), which are in effect during and/or subsequent to the year:

(1) A master agreement entered into between Wuling Industrial and Guangxi Automobile on 16 November 2016 in relation to the Sale Transactions (as defined below) and the Purchase Transactions (as defined below) for a term of three years from 1 January 2017 to 31 December 2019 (the "**2017-2019 Master Agreement**") to govern, renew and cover

REPORT OF THE DIRECTORS

various continuing connected transactions between the Wuling Industrial Group and Guangxi Automobile Group of similar nature. Details of 2017-2019 Master Agreement were disclosed in the Company's announcement dated 16 November 2016 and the Company's circular dated 15 December 2016.

Pursuant to the 2017-2019 Master Agreement, Wuling Industrial Group agreed to supply, inter alia, certain raw materials (including but not limited to steel), consumables and materials, finished products and semi-finished products (including but not limited to automotive parts and accessories) to Guangxi Automobile Group (collectively the "**Sale Transactions**"), whereas, Guangxi Automobile Group agreed to supply, inter alia, consumables and materials, finished products and semi-finished product (including but not limited to passenger mini-buses, automotive components, mould parts and accessories, and automotive air-conditioners related parts and accessories) to Wuling Industrial Group (collectively the "**Purchase Transactions**").

The proposed annual caps of the Sale Transactions for each of the three years ending 31 December 2017, 2018 and 2019 are RMB432,000,000, RMB534,000,000 and RMB644,000,000 respectively and the proposed annual caps of the Purchase Transactions for each of the three years ending 31 December 2017, 2018 and 2019 are RMB 595,700,000, RMB772,200,000 and RMB872,700,000 respectively. These proposed annual caps were amended by the Supplemental Agreements (as defined in items (3) and (4) below) as detailed below.

The independent Shareholders' approvals was obtained in the special general meeting of the Company held on 6 January 2017 for the 2017-2019 Master Agreement.

(2) Under the 2017-2019 Master Agreement, the provision of power supply services by Wuling Industrial Group to 柳州廣菱汽車技術有限公司 Liuzhou Guangling Moulds & Tools Technology Limited* ("**Guangling**") ("**GL Power Supply Services**") which was 50.1% beneficially owned by Guangxi Automobile, were also renewed for a term of three years commencing from 1 January 2017 to 31 December 2019 at the annual caps of RMB6,000,000, RMB6,500,000 and RMB6,500,000 for the each of the three years ending 31 December 2017, 2018 and 2019 respectively. Details of the GL Power Supply Services were disclosed in the Company's announcement dated 24 November 2016.

The GL Power Supply Services transaction was subject to reporting and announcement requirement but exempted from the approval of independent Shareholders under the chapter 14A of the Listing Rules.

The actual amount of GL Power Supply Services entered into by the related parties for the year ended 31 December 2018 were RMB4,371,000, which were within the annual cap.

REPORT OF THE DIRECTORS

(3) Due to an extension in the scope of products and services to be covered and the increases in the projected volume of transactions of the Sale Transactions and the Purchase Transactions under the 2017-2019 Master Agreement, Wuling Industrial and Guangxi Automobile entered into two supplemental agreements to the 2017-2019 Master Agreement respectively on 28 April 2017 and 17 May 2017 ("**Supplemental Agreements**") to amend certain terms of the 2017-2019 Master Agreement so as to extend the scope of products and services to be covered and to revise the annual caps of the Sale Transactions and Purchase Transactions under the 2017-2019 Master Agreement. Details of Supplemental Agreements were disclosed in the Company's announcements dated 28 April 2017 and 17 May 2017 and the Company's circular dated 13 June 2017.

Accordingly, the proposed annual caps of the Sale Transactions for each of the three years ending 31 December 2017, 2018 and 2019 were revised to RMB530,000,000, RMB635,000,000 and RMB745,000,000 respectively and the proposed annual caps of the Purchase Transactions for each of the three years ending 31 December 2017, 2018 and 2019 were revised to RMB655,000,000, RMB844,000,000 and RMB941,000,000 respectively. These proposed annual caps of the Sale Transactions for each of the two years ending 2018 and 2019 were further amended by the Third Supplemental Agreement (as defined in item (4) below) as detailed below.

The independent Shareholders' approvals was obtained in the special general meeting of the Company held on 30 June 2017 for the Supplemental Agreements.

(4) In response to the marketing strategy of the Group in actively promoting its specialized vehicles to different regions in the PRC and the Company expected the increases in the projected volume of transactions of the Sale Transactions under the 2017-2019 Master Agreement, Wuling Industrial and Guangxi Automobile entered into the third supplemental agreement to the 2017-2019 Master Agreement on 15 June 2018 ("**Third Supplemental Agreement**") to amend certain terms of the 2017-2019 Master Agreement so as to extend the scope of products and services to be covered and to revise the annual caps of the Sale Transactions under the 2017-2019 Master Agreement. Details of Third Supplemental Agreement were disclosed in the Company's announcement dated 15 June 2018, and the Company's circular dated 20 July 2018.

Accordingly, the proposed annual caps of the Sale Transactions for each of the two years ending 31 December 2018 and 2019 were revised to RMB695,000,000 and RMB855,000,000 respectively and the proposed annual caps of the Purchase Transactions for each of the two years ending 31 December 2018 and 2019 remain unchanged under the Supplemental Agreements, which are RMB844,000,000 and RMB941,000,000 respectively.

The independent Shareholders' approvals was obtained in the special general meeting of the Company held on 9 August 2018 for the Third Supplemental Agreement.

The actual amount of Sale Transactions and Purchase Transactions under the 2017-2019 Master Agreement for the year ended 31 December 2018 were RMB82,534,000 and RMB224,126,000 respectively, which were within the annual caps.

(5) A master tenancy agreement entered into between Wuling Industrial (as tenant) and Guangxi Automobile (as landlord) on 28 December 2015 in relation to the leasing of the Leased Properties (as defined below) for a term of three years from 1 January 2016 to 31 December 2018 (the "**2016-2018 Master Tenancy Agreement**") to govern, renew and cover various continuing connected transactions between Wuling Industrial Group and Guangxi Automobile Group of similar nature. The subject properties leased by the Wuling Industrial Group from the Guangxi Automobile Group under the 2016-2018 Master Tenancy Agreement included: (a) a parcel of land and buildings, constructed thereon, located in south of Songhuajiang Road, west of Jiangshan Road, Huangdao District, Qingdao, the PRC* (中國青島市黃島區江山路西松花江路南側) (the "**Qingdao Leased Properties**"); and (b) nine parcels of land and 49 buildings, located in Liuzhou, Guangxi Zhuang Autonomous Region, the PRC, with a total site area of land and a total floor area of buildings of approximately 626,139 square meters and 146,878 square meters respectively (the "**Liuzhou Leased Properties**") (collectively with the Qingdao Leased Properties, the "**Leased Properties**"). The Leased Properties were used by Wuling Industrial Group as offices and production plants under the 2016-2018 Master Tenancy Agreement. The the annual cap for the Leased Properties under the 2016-2018 Master Tenancy Agreement for each of the three years ending 31 December 2016, 2017 and 2018 be RMB37,000,000 respectively. Details of 2016-2018 Master Tenancy Agreement were disclosed in the Company's announcement dated 28 December 2015.

The 2016-2018 Master Tenancy Agreement and the transactions contemplated thereunder are subject to reporting and announcement requirements but exempt from the circular (including independent financial advice) and shareholders' approval requirements under Rule 14A.76 of the Listing Rules.

The respective lease relating to the Qingdao Leased Properties was terminated on 31 December 2017 upon completion of the entire issued share of Qingdao Wuling Automobile Technology Limited, the owner of the Qingdao Leased Properties, by Wuling Industrial on 1 January 2018, which details are more fully described in note 36 to the consolidated financial statements of this annual report and the Company's circular dated 30 September 2017.

The actual amount of rental expenses paid by Wuling Industrial Group under the 2016–2018 Master Tenancy Agreement were RMB29,388,000 for the year ended 31 December 2018, which were within the annual cap.

(6) Before the 2016-2018 Master Tenancy Agreement expired on 31 December 2018, Wuling Industrial (as tenant) and Guangxi Automobile (as landlord) on 7 December 2018 entered into a new master tenancy agreement to renew the tenancy of certain properties under the 2016-2018 Master Tenancy Agreement and to extend the locations and properties to be covered (i.e. the Revised Liuzhou Leased Properties and

* *For identification purpose only*

REPORT OF THE DIRECTORS

the Additional Properties as defined below) for a term of three years from 1 January 2019 to 31 December 2021 and to adopt new annual caps for the renewed tenancy (the "**2019–2021 Master Tenancy Agreement**"). Under the 2019-2021 Master Tenancy Agreement, the properties to be leased include (a) nine parcels of land and 43 buildings, all of which are located in Liuzhou, Guangxi Zhuang Autonomous Region, the PRC and with a total site area and floor area of approximately 617,742.20 square meters and 138,332.35 square meters respectively (the "**Revised Liuzhou Leased Properties**") and (b) the other properties including but not limited to those adjacent to the Revised Liuzhou Leased Properties owned by Guangxi Automobile which Wuling Industrial may further lease to cater for possible further business development of the Wuling Industrial Group (the "**Additional Properties**"). In this respect, the aggregate annual rentals for the Revised Liuzhou Leased Properties and the Additional Properties will not exceed the proposed new annual caps for each of the three years ending 31 December 2019, 2020 and 2021 which are being fixed at RMB36,520,000 per annum. Details of 2019-2021 Master Tenancy Agreement were disclosed in the Company's announcement dated 7 December 2018 and the circular dated 15 January 2019.

Wuling Industrial Group has been occupying the Revised Liuzhou Leased Properties for its business and operation pursuant to the 2016-2018 Master Tenancy Agreement. The Revised Liuzhou Leased Properties are important for the Wuling Industrial Group in carrying out its business, being the manufacturing of engines and parts, automotive components and accessories, specialized vehicles, and other related business.

The independent Shareholders' approvals was obtained in the special general meeting of the Company held on 31 January 2019 for the 2019-2021 Master Tenancy Agreement.

(7) a loan agreement entered between each of Wuling Industrial and Wuling Liuji, both of them subsidiaries of the Company, as borrowers, and Guangxi Automobile, the ultimate controlling Shareholder, as lender, on 23 November 2018 (the "**Loan Agreement**") in relation to two facilities grant from Guangxi Automobile (the "**Facilities**") that includes (a) the maximum limits of the facility granted to Wuling Industrial amounting to RMB3,000,000,000, RMB3,300,000,000 and RMB3,600,000,000 respectively for the three years ending 31 December, 2019, 2020 and 2021; and (b) the maximum limits of the facility granted to Wuling Liuji amounting to RMB1,600,000,000, RMB1,800,000,000 and RMB2,000,000,000 respectively for the three years ending 31 December, 2019, 2020 and 2021. The term of the Facilities is not more than six (6) months form the date of each drawdown, and the drawdown amount to Wuling Industrial and Wuling Liuji will be secured by the same amount of bill receivables of Wuling Industrial and/or Wuling Liuji to be assigned to Guangxi Automobile. The Facilities will be used by Wuling Industrial and/or Wuling Liuji as general working capital. Details of the Loan Agreement were fully described in the Company's announcement dated 23 November 2018 and the circular dated 2 January 2019.

The independent Shareholders' approvals was obtained in the special general meeting of the Company held on 31 January 2019 for the Loan Agreement.

Guangxi Automobile is the ultimate controlling Shareholder. Thus Guangxi Automobile is regarded as a connected person of the Company under Rule 14A.07 of the Listing Rules and therefore the transactions contemplated under all the abovementioned agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Mr. Yuan Zhijun, chairman of the Board and an executive Director, Mr. Zhong Xianhua (resigned on 28 February 2019), Mr. Yang Jianyong, both of them executive Directors, being the directors and/or senior executives of Guangxi Automobile, the ultimate controlling Shareholder, had disclosed their interest and then abstained from voting on the Board resolutions in relation to the above continuing connected transactions.

The aggregate amounts of the abovementioned continuing connected transactions for the year ended 31 December 2018 are set out in note 44 to the consolidated financial statements of this annual report.

Pursuant to rule 14A.56 of the Listing Rules, the Directors engaged the auditors of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "**Assurance Engagements Other Than Audits or Reviews of Historical Financial Information**" and with reference to Practice Note 740 "**Auditor's Letter of Continuing Connected Transactions under the Hong Kong Listing Rules**" issued by the Hong Kong Institute of Certified Public Accountants and the auditors have issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions as disclosed by the Group in this report in accordance with the requirements of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Pursuant to rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed all the above continuing connected transactions and confirmed that these transactions entered into by the Group were:

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or better; and

(iii) according to the respective agreements governing the transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Save as disclosed herein, there were no transactions which need to be disclosed as connected transactions or continuing connected transactions in accordance with the requirements of the Listing Rules.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. The Board review and monitor the Group's policies and practices on compliance with legal and regulatory requirements on a regular basis. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

During the financial year ended 31 December 2018, the Company has complied with the requirements under the bye-laws of the Company, the Listing Rules, the SFO and the Bermuda Companies Act., and all the applicable laws, as amended from time to time. Details of the Company's compliance with the code provisions set out in the Corporate Governance Code and

REPORT OF THE DIRECTORS

Corporate Governance Report contained in the Listing Rules are provided in the "**CORPORATE GOVERNANCE REPORT**" from pages 46 to 64 of this annual report.

To protect the privacy of its employees and the Shareholders and to safeguard the interests of its employees and the Shareholders, the Group has complied with the requirements of the Personal Data (Privacy) Ordinance, the Employment Ordinance, the Employees' Compensation Ordinance, the Minimum Wage Ordinance, the Mandatory Provident Fund Schemes Ordinance and the Ordinances relating to disability, sex, family status, race discrimination and occupational safety through established internal policies and/or procedures.

REMUNERATION COMMITTEE

The Remuneration Committee, which has been established in compliance with Rule 3.25 of the Listing Rules, for the purpose of, inter alia, reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive Directors and the senior management of the Company and other related matters, currently comprises three independent non-executive Directors including Mr. Mi Jianguo (chairman of Remuneration Committee), Mr. Ye Xiang and Mr. Wang Yuben.

AUDIT COMMITTEE

The Audit Committee, which has been established in compliance with the Rule 3.21 of the Listing Rules, for the purposes of, inter alia, reviewing and providing supervision over the Group's financial reporting system, risk management system and internal control system, currently comprises three independent non-executive Directors, namely Mr. Ye Xiang (chairman of the Audit Committee), Mr. Wang Yuben and Mr. Mi Jianguo, in which one of them possesses the appropriate professional qualifications or accounting or related financial management expertise.

The audited consolidated financial statements for the year ended 31 December 2018 have been reviewed by the Audit Committee.

NOMINATION COMMITTEE

The Nomination Committee, which has been established in compliance with Sections A5.1 and A5.2 of the Appendix 14 of the Listing Rules, for the purpose of, inter alia, reviewing the composition and effectiveness of the Board functioning, as well as to assessing or making recommending on relevant matters relating to the appointment and/or re-election of the Directors, currently comprises Mr. Yuan Zhijun, Chairman of the Board (Chairman of the Nomination Committee), three independent non-executive Directors including Mr. Ye Xiang, Mr. Wang Yuben and Mr. Mi Jianguo, as well as Mr. Lee Shing, Vice-chairman of the Board and the Chief Executive Officer.

The respective terms of reference of these committees as amended from time to time, are set out in the websites of the Company (www.wuling.com.hk) and the Stock Exchange (www.hkexnews.hk). A summary of their respective duties and works during the year ended 31 December 2018 is set out in the "**CORPORATE GOVERNANCE REPORT**" from pages 46 to 64 of this annual report.

CHANGE IN THE INFORMATION OF DIRECTOR

Pursuant to rule 13.51B(1) of the Listing Rules, the change in the information of Director since the date of the Company's 2018 interim report is as follow:

Mr. Lee Shing, being the vice-chairman, chief executive officer and executive Director, has been appointed as a director of Lincoin Mining Corporation, a company dual listed on the TSX Venture Exchange in Toronto, Canada and on the Frankfurt Stock Exchange in Germany, with effect from 27 March 2019.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's bye-laws, the Directors shall be indemnified against all losses and liabilities which they may incur in connection with their duties. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

STAFFS

As at 31 December 2018, the Group had approximately 11,000 employees. Total staff costs for the year ended 31 December 2018 were approximately RMB800,041,000 which details were set out in note 10 to the consolidated financial statements of this annual report.

Salaries of employees and directors are determined with reference to their duties and responsibilities in the Group and are maintained at competitive levels and bonus are granted on a discretionary basis. Other employee benefits include provident fund, insurance medical cover, subsidised educational and training programmes as well as the Share Option Scheme.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on information that is publicly available to the Company and within the knowledge of the Directors, the Company maintained sufficient public float, being not less then 25% of the Company's total issued share capital as required under the Listing Rules.

AUDITOR

Deloitte Touche Tohmatsu ("**Deloitte**"), being the auditor of the Company, will retire and, being eligible, offer themselves for re-appointment in the 2019 AGM. A resolution for the re-appointment of Deloitte as auditor of the Company will be proposed at the 2019 AGM.

On behalf of the Board

Yuan Zhijun
Chairman
29 March 2019

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE MEMBERS OF WULING MOTORS HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Wuling Motors Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 90 to 204, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of property, plant and equipment that has indication of impairment loss	
Determining whether property, plant and equipment that has indication of impairment loss is impaired required the management's estimation of the value in use of the cash-generating units ("CGUs") to which the property, plant and equipment that has indication of impairment loss has been allocated. In estimating the value in use of the CGUs, key assumptions used by the management included discount rates, growth rates, budgeted sales and gross margins and their related cash inflow and outflow patterns of the respective CGUs. The management also engaged an independent valuer to carry out valuation of the value in use of the CGUs. The management of the Group determined that there was no impairment in the CGUs containing property, plant and equipment during the year ended 31 December 2018.	Our procedures in relation to the impairment assessment of the property, plant and equipment that has indication of impairment loss included: • Evaluating the competence, capabilities and objectivity of the independent valuer; • Evaluating the assumptions underpinning the discounted cash flow models, including growth rates, budgeted sales and gross margins through assessing the reasonableness of forecasted future cash flows by reference to the future business plan of the Group as well as industry trend; • Assessing the reasonableness of the discount rates applied in determining the value in use by benchmarking against market data; and • Evaluating the reasonableness of and reperforming the sensitivity analysis provided by the management of the Group to assess the extent of impact on the value in use

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment loss on trade receivables	
We identified the impairment loss on trade receivables as a key audit matter due to its significance to the consolidated financial statements and the significant degree of management judgment involved in recognizing impairment loss on trade receivables. The Group recognizes a loss allowance for expected credit losses ("ECL") on trade receivables which are subject to impairment upon the adoption of HKFRS 9 in the current year. The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default which involves key estimates from management of the Group. The assessment of the probability of default and loss given default is based on historical data adjusted by forward–looking information. The carrying amount of trade receivables amounted to approximately RMB3,054 million, net of loss allowance for ECL amounting to approximately RMB58 million recognized as at 31 December 2018. Referring to note 5 to the consolidated financial statements, the Group estimates the ECL by using provision matrix which is based on the Group's historical default rates taking into consideration of forward–looking information that is reasonable and supportable available without undue costs or effort. In addition, trade receivables from related parties and credit-impaired are assessed for ECL individually.	Our procedures in relation to assessing the impairment loss on trade receivables included: • Understanding key controls on how the management estimates the loss allowance for trade receivables; • Testing the accuracy of the ECL adjustment made by the Group as at 1 January 2018 on initial adoption of HKFRS 9; • Testing the integrity of information used by management to develop the provision matrix, including trade receivables ageing analysis as at 1 January 2018 and 31 December 2018, on a sample basis, by comparing individual items in the analysis with the relevant sales invoices and other supporting documents; • Challenging management's basis and judgment in determining credit loss allowance on trade receivables as at 1 January 2018 and 31 December 2018, including their identification of credit impaired trade receivables, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information); and • Evaluating the disclosures regarding the impairment assessment of trade receivables in notes 5 and 46 to the consolidated financial statements.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Tse Fung Chun.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTES	2018 RMB'000	2017 RMB'000
Revenue	6		
Goods and services		15,119,965	16,123,739
Rental		154	156
Total revenue		15,120,119	16,123,895
Cost of sales and services		(13,837,294)	(14,520,226)
Gross profit		1,282,825	1,603,669
Other income	7(a)	162,115	141,309
Other gains and losses	7(b)	48,490	51,209
Reversal of impairment losses on trade receivables, net of impairment losses	24, 46(ii)	3,236	37,123
Selling and distribution costs		(244,103)	(274,075)
General and administrative expenses		(872,377)	(855,768)
Research and development expenses		(140,599)	(162,230)
Share of results of associates	19	15,902	(3,463)
Share of results of joint ventures	20	(1,650)	(7,336)
Finance costs	8	(133,105)	(145,090)
Profit before taxation		120,734	385,348
Income tax credit (expense)	9	4,461	(103,564)
Profit for the year	10	125,195	281,784
Other comprehensive (expense) income			
Item that will not be reclassified to profit or loss:			
Fair value loss on investment in equity instrument at fair value through other comprehensive income		(6,952)	–
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising from translation of foreign operations		2,920	(5,641)
Fair value loss on bills receivables at fair value through other comprehensive income		(13,513)	–
Other comprehensive expense for the year		(17,545)	(5,641)
Total comprehensive income for the year		107,650	276,143
Profit for the year attributable to:			
Owners of the Company		70,673	173,158
Non-controlling interests		54,522	108,626
		125,195	281,784
Total comprehensive income for the year attributable to:			
Owners of the Company		58,411	167,517
Non-controlling interests		49,239	108,626
		107,650	276,143
Earnings per share	14		
Basic		3.45 cents	9.42 cents
Diluted		2.73 cents	6.19 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As 31 DECEMBER 2018

	NOTES	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	3,590,089	3,143,847
Prepaid lease payments	16	332,652	297,550
Premium on prepaid lease payments	17	798	823
Investment properties	18	10,277	9,086
Interests in associates	19	237,439	71,537
Interests in joint ventures	20	126,026	100,660
Deposits paid for acquisition of property, plant and equipment		248,798	375,145
Available-for-sale investment	21	–	10,000
Equity instrument at fair value through other comprehensive income	22	2,048	–
		4,548,127	4,008,648
CURRENT ASSETS			
Inventories	23	943,230	1,222,876
Trade and other receivables	24	3,567,957	4,196,160
Bills receivables at fair value through other comprehensive income	25	2,070,542	–
Prepaid lease payments	16	7,840	7,336
Pledged bank deposits	27	1,014,768	565,840
Bank balances and cash	27	974,697	1,706,780
		8,579,034	7,698,992
CURRENT LIABILITIES			
Trade and other payables	28	8,082,910	7,955,730
Contract liabilities	29	222,082	–
Provision for warranty	30	119,290	142,704
Tax payable		52,701	108,318
Bank borrowings	31	491,779	491,576
Advances drawn on bills receivables discounted with recourse	31	1,142,306	277,515
Derivative financial instrument	32	1,224	50,560
Convertible loan notes	32	8,784	23,820
Financial liability at fair value through profit or loss	33	1,475	5,303
		10,122,551	9,055,526
NET CURRENT LIABILITIES		(1,543,517)	(1,356,534)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,004,610	2,652,114

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As 31 DECEMBER 2018

	NOTES	2018 RMB'000	2017 RMB'000
NON-CURRENT LIABILITIES			
Contract liabilities	29	13,872	–
Deferred income	21	–	15,339
Amount due to an associate	19	50,000	–
Bank borrowings	31	268,000	–
Convertible loan notes	32	170,721	122,857
Deferred tax liabilities	34	23,168	26,058
		525,761	164,254
		2,478,849	2,487,860
CAPITAL AND RESERVES			
Share capital	35	7,366	7,366
Reserves		1,436,273	1,435,316
Equity attributable to owners of the Company		1,443,639	1,442,682
Non-controlling interests		1,035,210	1,045,178
		2,478,849	2,487,860

The consolidated financial statements on pages 90 to 204 were approved and authorized for issue by the board of directors on 29 March 2019 and are signed on its behalf by:

Mr. Yuan Zhijun,
CHAIRMAN

Mr. Lee Shing,
VICE-CHAIRMAN AND CHIEF EXECUTIVE DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to owners of the Company											
	Share capital *RMB'000*	Share premium *RMB'000*	Exchange reserve *RMB'000*	Contributed surplus *RMB'000* *(note i)*	The PRC general reserve *RMB'000* *(note ii)*	Capital reserve *RMB'000*	Debt instruments at fair value through other comprehensive income ("FVTOCI") reserve *RMB'000* *(note iii)*	Equity Investment at FVTOCI reserve *RMB'000*	Retained profits *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 1 January 2017	6,648	339,544	11,558	35,763	282,971	18,505	–	–	481,156	1,176,145	959,026	2,135,171
Profit for the year	–	–	–	–	–	–	–	–	173,158	173,158	108,626	281,784
Exchange difference arising from translation of foreign operations	–	–	(5,641)	–	–	–	–	–	–	(5,641)	–	(5,641)
Total comprehensive (expense) income for the year	–	–	(5,641)	–	–	–	–	–	173,158	167,517	108,626	276,143
Conversion of convertible loan notes	718	117,950	–	–	–	–	–	–	–	118,668	–	118,668
Dividend paid *(note 13)*	–	–	–	–	–	–	–	–	(19,648)	(19,648)	–	(19,648)
Dividend recognized as distribution to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(22,474)	(22,474)
Transfers	–	–	–	–	52,423	–	–	–	(52,423)	–	–	–
Subtotal	718	117,950	–	–	52,423	–	–	–	(72,071)	99,020	(22,474)	76,546
At 31 December 2017	7,366	457,494	5,917	35,763	335,394	18,505	–	–	582,243	1,442,682	1,045,178	2,487,860
Adjustments *(note 3)*	–	–	–	–	–	–	(17,914)	(13,000)	(4,918)	(35,832)	(13,469)	(49,301)
At 1 January 2018 (restated)	7,366	457,494	5,917	35,763	335,394	18,505	(17,914)	(13,000)	577,325	1,406,850	1,031,709	2,438,559
Profit for the year	–	–	–	–	–	–	–	–	70,673	70,673	54,522	125,195
Fair value loss on investment in equity instrument at fair value through other comprehensive income	–	–	–	–	–	–	–	(6,952)	–	(6,952)	–	(6,952)
Exchange difference arising from translation of foreign operations	–	–	2,920	–	–	–	–	–	–	2,920	–	2,920
Fair value loss on bills receivables at fair value through other comprehensive income	–	–	–	–	–	–	(8,230)	–	–	(8,230)	(5,283)	(13,513)
Total comprehensive income (expense) for the year	–	–	2,920	–	–	–	(8,230)	(6,952)	70,673	58,411	49,239	107,650
Dividend paid *(note 13)*	–	–	–	–	–	–	–	–	(21,622)	(21,622)	–	(21,622)
Dividend recognized as distribution to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(46,238)	(46,238)
Capital injection from a non-controlling interest	–	–	–	–	–	–	–	–	–	–	500	500
Transfers	–	–	–	–	13,495	–	–	–	(13,495)	–	–	–
Subtotal	–	–	–	–	13,495	–	–	–	(35,117)	(21,622)	(45,738)	(67,360)
At 31 December 2018	7,366	457,494	8,837	35,763	348,889	18,505	(26,144)	(19,952)	612,881	1,443,639	1,035,210	2,478,849

notes:

(i) The Group's (as defined in note 1) contributed surplus represents (a) the difference between the nominal value of the shares of the subsidiaries acquired pursuant to a group reorganization on 30 October 1992, over the nominal value of the Company's (as defined in note 1) shares issued in exchange therefore; (b) the transfer of the credit arising from a capital reduction on 19 June 2006; and (c) the transfer of the share premium and the absorption of accumulated losses on 27 May 2011.

(ii) According to the relevant requirement in the memorandum of association of the subsidiaries established in the People's Republic of China (the "PRC"), a portion of their profits after taxation, as determined by the board of directors of those subsidiaries, is transferred to the PRC general reserve, with certain PRC subsidiaries may stop such transfer when the reserve balance reaches 50% of their registered capital. The transfer to the reserve must be made before the distribution of a dividend to equity owners. The general reserve fund can be used to offset the losses of the previous years, if any.

(iii) The capital reserve represents the deemed capital contribution arising on acquisition of a subsidiary, Liuzhou Wuling Motors Industrial Company Limited ("Wuling Industrial"), from Guangxi Automobile Holdings Limited ("Guangxi Automobile"), which is the ultimate holding company of the Company by virtue of its 100% equity interest in Wuling (Hong Kong) Holdings Limited ("Wuling HK").

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 *RMB'000*	2017 *RMB'000*
OPERATING ACTIVITIES		
Profit before taxation	120,734	385,348
Adjustments for:		
Allowance for inventories	60,765	11,137
Amortization of deferred income	–	(1,466)
Bank interest income	(50,506)	(40,426)
Depreciation of property, plant and equipment	176,536	73,851
Foreign exchange loss (gain), net	18,108	(17,056)
Finance costs	133,105	145,090
Fair value change of financial liability at fair value through profit or loss	(3,860)	5,303
Fair value change of derivative financial instrument	(50,193)	(46,994)
Increase in fair value of investment properties	(668)	(1,193)
(Gain) loss on disposal of property, plant and equipment	(12,820)	8,731
Government grants	(28,509)	(6,742)
Reversal of impairment losses on trade receivables, net of impairment losses	(3,236)	(37,123)
Reversal of impairment loss on interest in a joint venture	(8,000)	–
Impairment on goodwill	8,943	–
Release of premium on prepaid lease payments	25	25
Release of prepaid lease payments	7,870	7,218
Share of results of joint ventures	1,650	7,336
Share of results of associates	(15,902)	3,463
Operating cash flows before movements in working capital	354,042	496,502
Decrease in inventories	401,138	385,491
(Increase) decrease in trade and other receivables	(494,701)	834,944
Increase in bills receivables discounted with recourse (note)	–	(2,539,811)
Increase in bills receivables at fair value through other comprehensive income (note)	(3,697,983)	–
Increase (decrease) in trade and other payables	213,220	(753,630)
Increase in contract liabilities	26,776	–
Decrease in provision for warranty	(23,414)	(20,248)
Cash used in operations	(3,220,922)	(1,596,752)
Income tax paid	(53,455)	(146,060)
NET CASH USED IN OPERATING ACTIVITIES	(3,274,377)	(1,742,812)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTES	2018 RMB'000	2017 RMB'000
INVESTING ACTIVITIES			
Placement of pledged bank deposits		(2,033,281)	(1,117,660)
Purchase of property, plant and equipment		(574,311)	(524,891)
Deposits paid for acquisition of property, plant and equipment		(325,105)	(474,220)
Investments in associates		(100,000)	(75,000)
Net cash outflow on acquisition of assets through acquisition of a subsidiary	36	(113,106)	–
Acquisition of a subsidiary	37	(13,756)	–
Addition of prepaid lease payments		(11,786)	(61,129)
Investments in joint ventures		(24,800)	(4,080)
Withdrawal of pledged bank deposits		1,584,353	854,450
Proceeds from disposal of property, plant and equipment		297,977	60,086
Bank interest income received		50,506	40,426
Proceeds from government grants		46,139	24,204
NET CASH USED IN INVESTING ACTIVITIES		(1,217,170)	(1,277,814)
FINANCING ACTIVITIES			
Advances drawn on bills receivables (note)		3,553,616	2,446,480
Bank borrowings raised		759,779	1,228,243
Advances from Guangxi Automobile (included in other payables)		53,534	–
Capital injection from a non–controlling interest		500	–
Repayment of bank borrowings		(496,790)	(791,714)
Interest paid		(42,628)	(18,906)
Dividend paid		(21,622)	(19,648)
Dividend paid to non–controlling interests		(46,238)	(22,474)
Proceeds from issue of convertible loan notes		–	353,760
NET CASH FROM FINANCING ACTIVITIES		3,760,151	3,175,741
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(731,396)	155,115
CASH AND CASH EQUIVALENTS AT 1 JANUARY		1,706,780	1,559,741
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET		(687)	(8,076)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash		974,697	1,706,780

note: An increase in bills receivables at fair value through other comprehensive income of RMB3,697,983,000 (2017: bills receivables discounted with recourse of RMB2,539,811,000) and advance drawn on bills receivables of RMB3,553,616,000 (2017: RMB2,446,480,000) were included in operating activities and financing activities, respectively upon discounting these bills receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL INFORMATION

Wuling Motors Holdings Limited (the "Company") is a public limited company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate parent is Wuling HK and its ultimate parent is Guangxi Automobile. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The Company acts as an investment holding company and its subsidiaries (collectively referred to as the "Group") are engaged in the manufacturing and trading of engines and parts, automotive components and accessories and specialized vehicles, trading of steels, and provision of water and power supply. The details of its principal subsidiaries are disclosed in note 49.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity and going concern of the Group in light of the Group's current liabilities exceeded its current assets by approximately RMB1,544 million (2017: approximately RMB1,357 million) as at 31 December 2018. The directors of the Company are of the opinion that, after due and careful enquiry taking into account the financial resources available to the Group, including internally generated funds, the available banking facilities for issuance of bills payables and bank borrowings, and assets available to pledge for obtaining further banking facilities, the Group has, in the absence of unforeseeable circumstances, sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future.

Accordingly, the directors of the Company believe that it is appropriate to prepare the consolidated financial statements on a going concern basis without including any adjustments that would be required should the Group fail to continue as a going concern.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) — Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3.1 HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognizes revenue from the following major sources:

- Manufacture and sale of engines and related parts;
- Manufacture and sale of automotive components and accessories, trading of steels;
- Manufacture and sale of specialized vehicles; and
- Provision of water and power supply services.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (Continued)

3.1 HKFRS 15 "Revenue from Contracts with Customers" (Continued)

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 6 and 4, respectively.

Summary of effects arising from initial application of HKFRS 15

The Group has assessed the impact of application of HKFRS 15 and based on its assessment, the adoption has no significant impact on the retained profits as at 1 January 2018.

The following adjustments were made to the amounts recognized in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2017 RMB'000	Reclassification RMB'000	Carrying amounts under HKFRS 15 at 1 January 2018* RMB'000
CURRENT LIABILITIES				
Contract liabilities	(a)	–	193,839	193,839
Trade and other payables	(a)	7,955,730	(193,839)	7,761,891
NON-CURRENT LIABILITIES				
Contract liabilities	(b)	–	15,339	15,339
Deferred income	(b)	15,339	(15,339)	–

* The amounts in this column are before the adjustments from the application of HKFRS 9.

(a) As at 1 January 2018, advances from customers of RMB186,701,000 and RMB7,138,000 in respect of sales of engines and specialized vehicles, respectively previously included in trade and other payables were reclassified to contract liabilities.

(b) At the date of initial application, included in the total deferred income, RMB15,339,000 related to the consideration received from granting right to access certain technology knowhow of the Group were reclassified to contract liabilities upon application of HKFRS 15.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (Continued)

3.1 HKFRS 15 "Revenue from Contracts with Customers" (Continued)

Summary of effects arising from initial application of HKFRS 15 (Continued)

The following tables summarize the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and consolidated statement of cash flows for the year ended 31 December 2018 for each line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported *RMB'000*	Adjustment *RMB'000*	Amount without application of HKFRS 15 *RMB'000*
NON-CURRENT LIABILITIES			
Contract liabilities	13,872	(13,872)	–
CURRENT LIABILITIES			
Contract liabilities	228,082	(228,082)	–
Trade and other payables	8,082,910	222,082	8,304,992
Deferred income	–	13,872	13,872

Impact on the consolidated statement of cash flows

	As reported *RMB'000*	Adjustment *RMB'000*	Amount without application of HKFRS 15 *RMB'000*
OPERATING ACTIVITIES			
Adjustment for amortization of deferred income	–	(1,467)	(1,467)
Increase in contract liabilities	26,776	(26,776)	–
Decrease in trade and other payables	266,754	28,243	294,997

The explanations of the above changes affected in current year by the application of HKFRS 15 as compared to HKAS 11, HKAS 18 and the related interpretations are set out in note (a) to (b) above for describing the adjustments made to the consolidated statement of financial position as at 1 January 2018 upon the adoption of HKFRS 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (Continued)

3.2 HKFRS 9 "Financial Instruments"

In the current year, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRS 9. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities; and (2) expected credit loss ("ECL") for financial assets.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognized as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognized in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from the application of HKFRS 9 are disclosed in note 4.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (Continued)

3.2 HKFRS 9 "Financial Instruments" (Continued)

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Notes	Available-for-sale investment RMB'000	Equity investment at FVTOCI RMB'000	Trade and other receivables RMB'000	Bills receivables at FVTOCI RMB'000	Debt instruments at FVTOCI reserve RMB'000	Equity instruments at FVTOCI reserve RMB'000	Retained profits RMB'000	Non-controlling interests RMB'000
Closing balance at 31 December 2017 — HKAS 39		10,000	–	4,196,160	–	–	–	(582,243)	(1,045,178)
Effect arising from initial application of HKFRS 9:									
Reclassification from available-for-sale investment and transfer of impairment loss previously recognized	(a)	(10,000)	10,000	–	–	–	12,000	(6,583)	(5,417)
Remeasurement from cost less impairment to fair value	(a),(b)	–	(1,000)	–	(29,416)	17,914	1,000	–	11,502
Reclassification from trade and other receivables	(b)	–	–	(1,170,905)	1,170,905	–	–	–	–
Remeasurement under ECL model	(c)	–	–	(18,885)	–	–	–	11,501	7,384
Opening balance at 1 January 2018 — HKFRS 9		–	9,000	3,006,370	1,141,489	17,914	13,000	(577,325)	(1,031,709)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (Continued)

3.2 HKFRS 9 "Financial Instruments" (Continued)

Summary of effects arising from initial application of HKFRS 9 (Continued)

Notes:

(a) Available-for-sale investment

The Group elected to present in other comprehensive income for the fair value changes of its equity investment previously classified as available-for-sale investment. The investment is not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, RMB10,000,000 were reclassified from available-for-sale investment to equity instrument at FVTOCI, which is related to unquoted equity investment previously measured at cost less impairment under HKAS 39. The fair value loss of RMB1,000,000 relating to the investment previously carried at cost less impairment was adjusted to equity instrument at FVTOCI reserve as at 1 January 2018. In addition, impairment losses previously recognized of RMB12,000,000 were transferred from retained profits and non-controlling interests to equity instruments at FVTOCI reserve as at 1 January 2018.

(b) Bills receivables at FVTOCI

As part of the Group's cash flow management, the Group has the practice of discounting certain bills receivables to banks, suppliers and Guangxi Automobile before the bills receivables are due for repayment. Bills receivables discounted without recourse are derecognized on the basis that the Group has transferred substantially all the risks and rewards to the relevant counterparties. Accordingly, the Group's bills receivables of RMB1,170,905,000 were held within a business model whose objectives is achieved by both collecting contractual cash flows and selling of these assets and the contracted cash flows of these assets are solely payments of principal and interests on principal amount outstanding, and reclassification to bills receivables at FVTOCI at 1 January 2018.

In addition, the fair value losses of RMB29,416,000 relating to these bills receivables previously carried at amortized cost were adjusted to debt instruments at FVTOCI reserve and non-controlling interests of RMB17,914,000 and RMB11,502,000, respectively as at 1 January 2018.

(c) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics.

As at 1 January 2018, the additional credit loss allowance of RMB18,885,000 has been recognized against retained profits and non-controlling interests. The additional loss allowance is charged against trade and other receivables through the loss allowance account.

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

	Trade and other receivables *RMB'000*	Other receivables *RMB'000*	Total *RMB'000*
At 31 December 2017 — HKAS 39	42,928	–	42,928
Amounts remeasured through opening retained profits and non-controlling interests	17,584	1,301	18,885
At 1 January 2018	60,512	1,301	61,813

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (Continued)

3.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the entity's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognized for each of the line items affected. Line items that were not affected by the changes have not been included.

	Available-for-sale investment RMB'000	Equity instrument at FVTOCI RMB'000	Trade and other receivables RMB'000	Bills receivables at FVTOCI RMB'000	Trade and other payables RMB'000	Contract-liabilities current RMB'000	Contract-liabilities non-current RMB'000	Deferred income RMB'000	Equity instrument at FVTOCI reserve RMB'000	Debt instrument at FVTOCI reserve RMB'000	Retained profits RMB'000	controlling interests RMB'000
Closing balance at 31 December 2017 (Audited)	10,000	–	4,196,160	–	(7,955,730)	–	–	(15,339)	–	–	(582,243)	(1,045,178)
Effect arising from initial application of HKFRS 9:												
Reclassification from available–for–sale investment and transfer of impairment loss previously recognized	(10,000)	10,000	–	–	–	–	–	–	12,000	–	(6,583)	(5,417)
Remeasurement from cost less impairment to fair value	–	(1,000)	–	(29,416)	–	–	–	–	1,000	17,914	–	11,502
Reclassification from trade and other receivables	–	–	(1,170,905)	1,170,905	–	–	–	–	–	–	–	–
Remeasurement under ECL model	–	–	(18,885)	–	–	–	–	–	–	–	11,501	7,384
Effect arising from initial application of HKFRS 15:												
Reclassification from trade and other payables	–	–	–	–	193,839	(193,839)	–	–	–	–	–	–
Reclassification from deferred income	–	–	–	–	–	–	(15,339)	15,339	–	–	–	–
Opening balance at 1 January 2018 (Restated)	–	9,000	3,006,370	1,141,489	(7,761,891)	(193,839)	(15,339)	–	13,000	17,914	(577,325)	(1,031,709)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (Continued)

3.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards (Continued)

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

New or revised standards and interpretations that have been issued but not yet effective

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) — Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

Except for the new HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low value assets.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (Continued)

3.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards (Continued)

HKFRS 16 "Leases" (Continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group and upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Under HKAS 17, the Group has already recognized a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (Continued)

3.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards (Continued)

HKFRS 16 "Leases" (Continued)

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB5,561,000 as disclosed in note 43. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB295,000 as at 31 December 2018 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortized cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

Upon application of HKFRS 16, the Group will apply the requirements of HKFRS 15 to assess whether sales and leaseback transaction constitutes a sale. For a transfer that does not satisfy the requirements as a sale, the Group will account for the transfer proceeds as financial liabilities within the scope of HKFRS 9. In accordance with the transition provisions of HKFRS 16, sale and leaseback transactions entered into before the date of initial application will not be reassessed but the new requirements may impact the Group's future sale and leaseback transactions

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group would elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments that are measured at fair values at the end of the reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange of goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transferred at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

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

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

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred taxation assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with HKAS 12 “Income Taxes” and HKAS 19 “Employee Benefits” respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 “Share-based Payment” at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary’s net assets in the event of liquidation are initially measured at the non-controlling interests’ proportionate share of the recognized amounts of the acquiree’s identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognized in profit and loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income and measured under HKFRS 9/HKAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognizes the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not longer than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units). Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates and joint ventures (Continued)

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognized in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) until disposal of the relevant associate or joint venture.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 3)

Under HKFRS 15, the Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 3) (Continued)

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Revenue from sales of goods and trading of steels

Revenue from the sales of engines and related parts, automotive components and accessories and specialized vehicles, and trading of steels are recognized based upon goods/steels delivered, which is the point in time when the customer has the ability to direct the use of the goods/steels and obtain the control of the goods/steels.

Revenue from provision of services

Revenue from provision of water and power supply services is recognized over the period in which the services are rendered. The Group bills an amount for each month of services provided and recognizes as revenue in the amount to which the Group has a right to invoice and corresponds directly with the value of performance completed.

Over time recognition: measurement of progress towards complete satisfaction of a performance obligation — output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognize revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 3) (Continued)

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue is recognized when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognized when the goods are delivered and the titles have passed.

Service income is recognized when services are provided.

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

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

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

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

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

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

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair value. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

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

The Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carry amount of leased assets.

The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is released over the lease term on a straight-line basis.

Foreign currencies

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates of the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of the exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Borrowing costs

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

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

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefits costs and termination benefits

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are recognized as an expense when employees have rendered service entitling them to the contributions.

A liability for a termination benefit is recognized at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognizes any related restructuring costs.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profit against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

Intangible assets

Internally-generated intangible assets-research and development expenditures

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Internally-generated intangible assets-research and development expenditures (Continued)

- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted-average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3)

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortized cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortized cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3) (Continued)

(ii) Bills receivables classified as at FVTOCI

Subsequent changes in the carrying amounts for bills receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognized in profit or loss. All other changes in the carrying amount of these receivables are recognized in other comprehensive income and accumulated under the heading of debt instruments at FVTOCI reserve. Impairment allowances are recognized in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these receivables. The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these receivables had been measured at amortized cost. When these receivables are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

(iii) Equity instrument designated as at FVTOCI

Investment in equity instrument at FVTOCI is subsequently measured at fair value with gain and loss arising from changes in fair value recognized in other comprehensive income and accumulated in the equity instruments at FVTOCI reserve; and is not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investment, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3)

The Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, bills receivables at FVTOCI, pledged bank deposits and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3) (Continued)

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade receivables. The ECL on trade receivables are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3) (Continued)

(i) Significant increase in credit risk (Continued)

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; or

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of the reporting period. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" in accordance with globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3) (Continued)

(ii) Definition of default (Continued)

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3) (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and bills receivables are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings, where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortized cost of the financial asset.

Except for bills receivables that are measured at FVTOCI, the Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amounts, with the exception of trade receivables and other receivables where the corresponding adjustment is recognized through a loss allowance account. For bills receivables that are measured at FVTOCI, the loss allowance is recognized in other comprehensive income and accumulated in the debt instruments at FVTOCI reserve without reducing the carrying amount of these receivables.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

The Group's financial assets are classified as loans and receivables and available-for-sale ("AFS") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment of financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivables discounted with recourse, pledged bank deposits and bank balances and cash) are carried at amortized cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 90 days to 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity investments, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of equity instrument at FVTOCI reserve.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the debt instrument at FVTOCI reserve is reclassified to profit or loss.

On derecognition of an investment in an equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the equity instruments at FVTOCI reserve is reclassified to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9/HKAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at amortized cost

Financial liabilities of the Group (including trade and other payables, advances drawn on bills receivables discounted with recourse, bank borrowings and debt component of convertible loan notes) are subsequently measured at amortized cost, using the effective interest method.

Convertible loan notes contain debt and derivative components

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative.

At the date of issue, both the debt component and derivative component are recognized at fair value. In subsequent periods, the debt component of the convertible loan notes is carried at amortized cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognized in profit or loss.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative component are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortized over the period of the convertible loan notes using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Derivative financial instruments

Derivatives are initially recognized at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Equity-settled share-based payment transactions

Share options granted to directors and employees

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity-settled share-based payment transactions (Continued)

Share options granted to directors and employees (Continued)

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

When the share options are exercised, the amount previously recognized in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share option reserve will be transferred to retained profits.

Impairment loss on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of tangibles and intangibles assets are estimated individually. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgments in applying the Group's accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Revenue recognition from sales of products with no alternative use at a point in time

Under HKFRS 15, control of the asset is transferred over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Significant judgment is required in determining whether the terms of the Group's contracts with customers in relation to products with no alternative use create an enforceable right to payment for the Group. The Group has considered the relevant local laws that apply to those relevant contracts. Based on the assessment of the Group's management, the terms of the relevant sales contracts do not create an enforceable right to payment for the Group after taking into consideration of indicators such as whether the right to payment for the Group for the performance completed to date include a reasonable profit margin. Accordingly, the sales of products with no alternative use is considered to be performance obligation satisfied at a point in time.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Provision of ECL for trade receivables (upon application of HKFRS 9 on 1 January 2018)

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration of forward-looking information that is reasonable and supportable available without undue cost or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables from related parties and credit-impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 24 and 46(ii).

Estimated impairment of trade receivables from third party customers (before application of HKFRS 9 on 1 January 2018)

The assessment of the impairment loss on trade receivables arise from third party customers of the Group is based on the evaluation of collectability based on the management's judgment. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the aging of the trade receivables balances, the repayment history and the current creditworthiness of each third party customer. Impairment is made based on the estimation of the future cash flows expected to be received.

Estimated impairment of property, plant and equipment that has indication of impairment loss

Determining whether property, plant and equipment that has indication of impairment loss is impaired requires an estimation of the value in use of the cash-generating units ("CGUs") to which the property, plant and equipment that has indication of impairment loss has been allocated. The value in use calculation requires the Group to estimate the present value of the future cash flows expected to arise from the CGUs containing the property, plant and equipment using suitable discount rates. Where the expected future cash flows arising from the relevant CGUs differ from the original estimation, an impairment loss may arise. Details of the recoverable amount calculation are disclosed in note 15.

Depreciation of property, plant and equipment

Property, plant and equipment (other than construction in progress) are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value. The Group assesses the residual value and the useful lives of the property, plant and equipment annually. If the expectation differs from the original estimate, such difference will impact the depreciation charged in the year in which such estimate is changed.

As at 31 December 2018, the carrying amount of property, plant and equipment was RMB3,590,089,000 (2017: RMB3,143,847,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Provision for warranty

The Group makes warranty provision based on information available indicating that it is probable that the Group will be required to settle the present obligations. As disclosed in note 30, the Group estimates the provision based on past experience. The actual settlement of these warranty costs may differ from the estimation made by the management. If the costs are settled for an amount greater than the management's estimation, a future charge to profit or loss will result. Likewise, if the costs are settled for an amount that is less that the estimation, a future credit to profit or loss will result.

As at 31 December 2018, the carrying amount of provision for warranty was RMB119,290,000 (2017: RMB142,704,000).

6. REVENUE AND SEGMENT INFORMATION

Revenue

For the year ended 31 December 2018

(i) Disaggregation of revenue

	Notes	2018 *RMB'000*
Types of goods and services		
Sales of engines	*(a)*	1,176,464
Sales of engines related parts	*(a)*	397,091
Sales of automotive components and accessories	*(b)*	8,714,748
Sales of specialized vehicles	*(c)*	4,197,622
Trading of steels	*(b)*	490,112
Provision of water and power supply	*(b)*	143,928
Revenue from contracts with customers		15,119,965
Revenue from gross rental income		154
		15,120,119
Timing of revenue recognition		
At point in time		14,976,191
Over time		143,928
Total		15,120,119
Geographical markets		
The PRC (excluding Hong Kong)		15,076,126
Others		43,839
Hong Kong		154
Total		15,120,119

6. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue (Continued)

(i) Disaggregation of revenue (Continued)

Notes:

(a) These revenue has been classified as revenue under engines and related parts segment in the segment information.

(b) These revenue has been classified as revenue under automotive components and other industrial services segment in the segment information.

(c) These revenue has been classified as revenue under specialized vehicles segment in the segment information.

(ii) Performance obligations for contracts with customers

The Group sells engines, engines related parts, automotive components and accessories, steels and specialized vehicles and is engaged in the provision of water and power supply directly to customers.

Sales of engines, engines related parts and specialized vehicles

The revenue is recognized when control of the goods has transferred, being when the goods have been shipped to the designated location (delivery). Following the delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 90 to 180 days upon delivery. A contract liability is recognized for sales in which revenue has yet been recognized.

Sales-related warranties associated with the goods cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Group accounts for warranties in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" consistent with its previous accounting treatment.

Sales of automotive components and accessories and trading of steels

The revenue is recognized when control of the goods has transferred, being when the goods have been shipped to the designated location (delivery). Following the delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 90 to 180 days upon delivery.

Provision of water and power supply

The Group derives its revenue from provision of water and power supply to ancillary facilities are recognized over time , which is to recognize on the basis of direct measurement of the value of services transferred to the customers to date. The management of the Group considered that this best depicts the Group's performance in transferring control of services. The services are rendered directly with the customers. Contracts with the Group's customers are agreed in fixed-price with terms from 1 month to 12 months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

6. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue (Continued)

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

All sales of goods and service are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

For the year ended 31 December 2017

An analysis of the Group's revenue is as follows:

	2017 *RMB'000*
Types of goods and services	
Sales of engines	2,008,120
Sales of engines related parts	260,080
Sales of automotive components and accessories	9,896,905
Sales of specialized vehicles	2,833,277
Trading of steels	939,671
Provision of water and power supply	185,686
	16,123,739
Gross property rental income from investment properties	156
Total	16,123,895

Segment information

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. This is also the basis upon which the Group is organized. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The Group's reportable and operating segments under HKFRS 8 are as follows:

- Engines and related parts — Manufacture and sale of engines and related parts
- Automotive components and other industrial services — Manufacture and sale of automotive components and accessories, trading of steels, and provision of water and power supply services
- Specialized vehicles — Manufacture and sale of specialized vehicles
- Others — Property investment and others

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results

The following is an analysis of the Group's revenue and results from reportable and operating segments:

For the year ended 31 December 2018

	Engines and related parts RMB'000	Automotive components and other industrial services RMB'000	Specialized vehicles RMB'000	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
Revenue						
External sales	1,573,555	9,348,788	4,197,622	154	–	15,120,119
Inter-segment sales	56,864	16,135	–	–	(72,999)	–
Total	1,630,419	9,364,923	4,197,622	154	(72,999)	15,120,119
Segment profit (loss)	12,926	142,902	40,391	(367)		195,852
Bank interest income						50,506
Change in fair value of derivative financial instrument						50,193
Change in fair value of financial liability at FVTPL						3,860
Reversal of impairment loss on interest in a joint venture						8,000
Central administrative costs						(59,881)
Share of results of associates						15,902
Share of results of joint ventures						(1,650)
Impairment on goodwill						(8,943)
Finance costs						(133,105)
Profit before taxation						120,734

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the year ended 31 December 2017

	Engines and related parts RMB'000	Automotive components and other industrial services RMB'000	Specialized vehicles RMB'000	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
Revenue						
External sales	2,268,200	11,022,262	2,833,277	156	–	16,123,895
Inter–segment sales	70,530	8,717	11	–	(79,258)	–
Total	2,338,730	11,030,979	2,833,288	156	(79,258)	16,123,895
Segment profit (loss)	148,872	331,769	35,216	(342)		515,515
Bank interest income						40,426
Change in fair value of derivative financial instrument						46,994
Change in fair value of financial liability at FVTPL						(5,303)
Central administrative costs						(56,395)
Share of results of associates						(3,463)
Share of results of joint ventures						(7,336)
Finance costs						(145,090)
Profit before taxation						385,348

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit/loss represents the profit earned by/loss incurred by each segment without the allocation of central administrative costs, change in fair value of derivative financial instrument, change in fair value of financial liability at fair value through profit or loss, bank interest income, reversal of impairment loss on interest in a joint venture, impairment on goodwill, share of results of associates, share of results of joint ventures and finance costs. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market prices.

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

At 31 December 2018

	Engines and related parts RMB'000	Automotive components and other industrial services RMB'000	Specialized vehicles RMB'000	Others RMB'000	Consolidated RMB'000
Assets					
Segment assets	1,973,586	7,544,516	1,238,413	15,668	10,772,183
Interests in joint ventures					126,026
Interests in associates					237,439
Equity instrument at FVTOCI					2,048
Pledged bank deposits					1,014,768
Bank balances and cash					974,697
Consolidated assets					13,127,161
Liabilities					
Segment liabilities	1,482,565	6,952,031	1,133,424	12,440	9,580,460
Bank borrowings					759,779
Amount due to an associate					50,000
Convertible loan notes					179,505
Financial liability at FVTPL					1,475
Derivative financial instrument					1,224
Tax payable					52,701
Deferred tax liabilities					23,168
Consolidated liabilities					10,648,312

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

At 31 December 2017

	Engines and related parts *RMB'000*	Automotive components and other industrial services *RMB'000*	Specialized vehicles *RMB'000*	Others *RMB'000*	Consolidated *RMB'000*
Assets					
Segment assets	1,519,660	5,990,403	1,727,201	15,559	9,252,823
Interests in joint ventures					100,660
Interests in associates					71,537
Available-for-sale investment					10,000
Pledged bank deposits					565,840
Bank balances and cash					1,706,780
Consolidated assets					11,707,640
Liabilities					
Segment liabilities	1,212,620	5,636,337	1,538,601	3,730	8,391,288
Bank borrowings					491,576
Convertible loan notes					146,677
Financial liability at FVTPL					5,303
Derivative financial instrument					50,560
Tax payable					108,318
Deferred tax liabilities					26,058
Consolidated liabilities					9,219,780

The assets of the Group are allocated based on the operations of the segments. However, interests in joint ventures, interests in associates, equity instrument at FVTOCI, available-for-sale investment, pledged bank deposits and bank balances and cash are not allocated to the segments.

The liabilities of the Group are allocated based on the operations of the segments. However, convertible loan notes, financial liability at FVTPL, derivative financial instrument, bank borrowings, tax payable and deferred tax liabilities are not allocated to the segments.

6. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information

2018

	Engines and related parts *RMB'000*	Automotive components and other industrial services *RMB'000*	Specialized vehicles *RMB'000*	Others *RMB'000*	Consolidated *RMB'000*
Amounts included in the measure of segment profit or loss or segment assets:					
Additions to non-current assets	77,180	916,004	86,061	578	1,079,823
Depreciation of property, plant and equipment	61,549	106,406	8,490	91	176,536
Release of prepaid lease payments	869	7,001	–	–	7,870
Release of premium on prepaid lease payments	–	25	–	–	25
Gain on disposal of property, plant and equipment	(296)	(9,984)	(2,540)	–	(12,820)
Allowance for inventories	39,528	21,237	–	–	60,765
Impairment losses on trade receivables recognized in profit or loss	500	–	–	–	500
Reversal of impairment loss on trade receivables	(3,641)	(95)	–	–	(3,736)
Research and development expenses	7,750	86,182	46,667	–	140,599
Increase in fair value of investment properties	–	–	–	(668)	(668)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

6. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information (Continued)

2017

	Engines and related parts RMB'000	Automotive components and other industrial services RMB'000	Specialized vehicles RMB'000	Others RMB'000	Consolidated RMB'000
Amounts included in the measure of segment profit or loss or segment assets:					
Additions to non-current assets	78,381	797,650	87,114	–	963,145
Depreciation of property, plant and equipment	26,259	45,138	2,379	75	73,851
Release of prepaid lease payments	866	6,352	–	–	7,218
Release of premium on prepaid lease payments	–	25	–	–	25
Loss on disposal of property, plant and equipment	3,719	5,007	5	–	8,731
Allowance for inventories	4,815	6,286	36	–	11,137
Reversal of Impairment loss on trade receivables	(43,752)	(1,093)	–	–	(44,845)
Impairment losses recognized on trade receivables recognized in profit or loss	3,679	4,043	–	–	7,722
Research and development expenses	36,216	93,251	32,763	–	162,230
Increase in fair value of investment properties	–	–	–	(1,193)	(1,193)

Geographical information

(a) Revenue from external customers

	2018 RMB'000	2017 RMB'000
The PRC (excluding Hong Kong)	15,076,126	16,064,079
Others	43,839	59,660
Hong Kong	154	156
	15,120,119	16,123,895

6. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information (Continued)

(b) Non-current assets

Information about the Group's non-current assets is presented based on the geographical location of the assets.

	2018 RMB'000	2017 RMB'000
Hong Kong	10,890	9,187
The PRC (excluding Hong Kong)	4,456,194	3,914,465
Indonesia	78,995	74,996
	4,546,079	3,998,648

Note: Non-current assets excluded financial instruments.

Information about a major customer

Revenue derived from sales to a single customer, which contributed over 10% of the Group's total revenue, in respect of the following operating segments, is as follows:

	2018 RMB'000	2017 RMB'000
Engines and related parts	884,089	1,709,455
Automotive components and other industrial services	8,195,767	9,373,779
Specialized vehicles	1,017	891
	9,080,873	11,084,125

7. OTHER INCOME/OTHER GAINS AND LOSSES

(a) Details of other income are as follows:

	2018 RMB'000	2017 RMB'000
Sales of scrap materials and parts	45,355	28,780
Bank interest income	50,506	40,426
Service income on repairs and maintenance	5,607	4,044
Machinery and other property rental income	23,808	6,545
Amortization of deferred income	–	1,466
Income on use of technology knowhow *(note 29)*	1,467	–
Government grants	28,509	6,742
Compensation income with respect of plant and reconstruction *(note)*	–	48,835
Others	6,863	4,471
	162,115	141,309

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

7. OTHER INCOME/OTHER GAINS AND LOSSES (Continued)

(a) Details of other income are as follows: (Continued)

note: On 13 September 2017, Wuling Industrial and Guangxi Automobile entered into compensation agreements. Pursuant to the agreements, Wuling Industrial agreed to demolish and vacate the properties and equipment of the welding parts plant and plastic parts plant situated on the lands parcel located at Liuzhou of the PRC to facilitate the surrender of such lands to the municipal government of Liuzhou, Guangxi Zhuang Autonomous Region by Guangxi Automobile, whereas, Guangxi Automobile agreed to compensate Wuling Industrial for (i) the related costs and losses incurred in the relocation in the total amount of approximately RMB41,015,000; and (ii) the reconstruction costs for the punching workshop in the amount of RMB7,820,000. Details of the compensation income were described in the Company's announcement dated 13 September 2017.

(b) Details of other gains and losses are as follows:

	2018 ***RMB'000***	2017 *RMB'000*
Increase in fair value of investments properties	**668**	1,193
Fair value change of financial liability at fair value through profit or loss	**3,860**	(5,303)
Fair value change of derivative financial instrument	**50,193**	46,994
Foreign exchange (loss) gain, net	**(18,108)**	17,056
Gain (loss) on disposal of property, plant and equipment	**12,820**	(8,731)
Reversal of impairment loss on interest in a joint venture	**8,000**	–
Impairment on goodwill *(note 37)*	**(8,943)**	–
	48,490	51,209

8. FINANCE COSTS

	2018 ***RMB'000***	2017 *RMB'000*
Interests on:		
— bank borrowings	**31,106**	18,906
— advances drawn on bills receivables *(note)*	**66,592**	97,751
— effective interest expenses on convertible loan notes *(note 32)*	**35,407**	28,433
	133,105	145,090

note: During the year ended 31 December 2018, interest of RMB39,908,000 (2017: RMB47,407,000) was paid to a shareholder in respect of bills discounted to that shareholder. Details of provision of facility are set out in note 44(v).

9. INCOME TAX (CREDIT) EXPENSE

	2018 RMB'000	2017 RMB'000
Tax (credit) charge represents:		
PRC Enterprise Income Tax ("EIT")		
Current	23,689	92,811
Withholding tax on dividend distribution	3,828	1,177
(Over)underprovision in prior years	(29,088)	6,837
	(1,571)	100,825
Deferred tax *(note 34)*		
Current year	(2,890)	2,739
	(4,461)	103,564

The PRC

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Group's PRC subsidiaries is 25% from 1 January 2008 onwards except that Wuling Industrial and Liuzhou Wuling Liuji Motors Company Limited ("Liuji Motors") are approved as enterprises that satisfied as High–New Technology Enterprises and entitled the preferential tax rate of 15% in 2017 and 2018.

The EIT Law also requires withholding tax of 5% upon distribution of profits by the PRC subsidiaries since 1 January 2008 to its overseas (including Hong Kong) shareholders.

During the year, deferred tax of RMB1,226,000 (2017: RMB4,204,000) has been provided in respect of the undistributed earnings of the Group's PRC subsidiaries and charged to profit or loss accordingly.

Hong Kong

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

No provision for taxation has been made as the Group's income neither arises in, nor is derived from, Hong Kong for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

9. INCOME TAX (CREDIT) EXPENSE (Continued)

Hong Kong (Continued)

The income tax (credit) expense for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018 *RMB'000*	2017 *RMB'000*
Profit before taxation	120,734	385,348
Tax at the domestic income tax rate of 25% (2017: 25%)*(Note)*	30,184	96,337
Tax effect of share of results of associates	(3,976)	866
Tax effect of share of results of joint ventures	413	1,834
Tax effect of expenses not deductible for tax purposes	22,994	40,907
Tax effect of deductible temporary differences not recognized	4,694	–
Tax effect of utilization of deductible temporary differences previously not recognized	–	(6,496)
Tax effect of income not taxable for tax purposes	(14,548)	(13,186)
Tax effect of utilization of tax losses previously not recognized	(1,280)	(1,398)
Tax effect of tax losses not recognized	7,772	5,834
Tax effect of undistributed profits of the PRC subsidiaries	1,226	4,204
Effect of concession tax rates of subsidiaries	(18,410)	(29,820)
Effect of different tax rates of subsidiaries	(4,442)	(2,355)
(Over) underprovision in prior years	(29,088)	6,837
Income tax (credit) expense for the year	(4,461)	103,564

Note: This represents the applicable domestic income tax for the major operating subsidiaries of the Group.

Details of movements in deferred tax liabilities are set out in note 34.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

10. PROFIT FOR THE YEAR

	2018 *RMB'000*	2017 *RMB'000*
Profit for the year has been arrived at after charging (crediting) the following items:		
Directors' emoluments *(note 11)*	**2,353**	2,444
Other staff costs:		
Salaries, bonus and other benefits	**744,797**	754,045
Contributions to retirement benefit schemes, excluding directors	**52,891**	57,866
Total staff costs	**800,041**	814,355
Less: staff costs (capitalized in inventories)	**(436,591)**	(392,940)
Total staff costs (included in selling and distribution costs, general and administrative expenses and research and development expenses)	**363,450**	421,415
Gross property rental income from investment properties, net of negligible outgoings	**(154)**	(156)
Auditor's remuneration	**1,815**	1,815
Total depreciation of property, plant and equipment	**316,757**	225,204
Less: Amounts capitalized in inventories	**(140,221)**	(151,353)
Total depreciation of property, plant and equipment (included in selling and distribution costs, general and administrative expenses and research and development expenses)	**176,536**	73,851
Release of prepaid lease payments (included in general and administrative expenses)	**7,870**	7,218
Release of premium on prepaid lease payments (included in general and administrative expenses)	**25**	25
Transportation costs (included in selling and distribution costs)	**116,620**	156,190

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FOR THE YEAR ENDED 31 DECEMBER 2018

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the directors and the chief executive are as follows:

A) EXECUTIVE DIRECTORS

2018

	Yuan Zhijun *RMB'000* *(note 4)*	Lee Shing *RMB'000* *(note 1)*	Zhong Xianhua *RMB'000* *(note 4)*	Liu Yaling *RMB'000*	Yang Jianyong *RMB'000* *(note 4)*	Total *RMB'000*
Fees	–	1,300	–	182	–	1,482
Salaries and other benefits	–	381	–	8	–	389
Contributions to retirement benefit schemes	–	65	–	–	–	65
Sub-total	–	1,746	–	190	–	1,936

2017

	Yuan Zhijun *RMB'000* *(note 4)*	Lee Shing *RMB'000* *(note 1)*	Zhong Xianhua *RMB'000* *(note 4)*	Liu Yaling *RMB'000*	Yang Jianyong *RMB'000* *(note 4)*	Total *RMB'000*
Fees	–	1,328	–	187	–	1,515
Salaries and other benefit	–	422	–	16	–	438
Contributions to retirement benefit schemes	–	66	–	–	–	66
Sub-total	–	1,816	–	203	–	2,019

The executive director's emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

B) INDEPENDENT NON-EXECUTIVE DIRECTORS

2018

	Ye Xiang RMB'000	Wang Yuben RMB'000	Mi Jianguo RMB'000 (note 2)	Total RMB'000
Fees	173	122	122	417
Salaries and other benefits	–	–	–	–
Contributions to retirement benefit schemes	–	–	–	–
Sub-total	173	122	122	417

2017

	Ye Xiang RMB'000	Wang Yuben RMB'000	Mi Jianguo RMB'000 (note 2)	Zuo Duofu RMB'000 (note 3)	Total RMB'000
Fees	176	124	42	83	425
Salaries and other benefits	–	–	–	–	–
Contributions to retirement benefit schemes	–	–	–	–	–
Sub-total	176	124	42	83	425

The non-executive directors' emoluments shown above were for the services as directors of the Company or its subsidiaries.

note 1: Mr. Lee Shing ("Mr. Lee") is also the chief executive officer of the Company and his emoluments disclosed above include those for services rendered by him as chief executive officer.

note 2: Mr. Mi Jianguo was appointed as an independent non-executive director of the Company with effect from 1 September 2017.

note 3: Mr. Zuo Duofu resigned as an independent non-executive director of the Company with effect from 1 September 2017.

note 4: The emoluments of the directors or former directors who were directors and/or senior management of Guangxi Automobile were paid and borne by Guangxi Automobile.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

12. EMPLOYEES' EMOLUMENTS

(a) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, one (2017: one) was the director and the chief executive officer of the Company whose emolument is included in the disclosure in note 11 above. The emoluments of the remaining four (2017: four) individuals who were senior management of the Group, are as follows:

	2018 *RMB'000*	2017 *RMB'000*
Salaries and other benefits	3,230	4,218
Bonus	89	133
Contributions to retirement benefit schemes	303	221
Total emoluments	3,622	4,572

The emoluments of the above highest paid employees who are not the directors of the Company were within the following bands:

	2018 Number of employees	2017 Number of employees
Nil to Hong Kong dollar ("HKD") 1,000,000	3	–
HKD1,000,001 to HKD1,500,000	–	3
HKD1,500,001 to HKD2,000,000	1	1
	4	4

No emoluments were paid by the Group to the directors of the Company or the above individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the years ended 31 December 2018 and 2017.

(b) Emoluments of senior management

Of the nine (2017: ten) senior management of the Group for the year ended 31 December 2018, four (2017: four) of the senior management are four (2017: four) of the top five highest paid individuals and the respective remuneration has been disclosed in note 12(a) above. The emoluments of the remaining five (2017: six) individuals for the year were within the following bands:

	2018 Number of employees	2017 Number of employees
Nil to HKD1,000,000	5	4
HKD1,000,001 to HKD1,500,000	–	2
	5	6

13. DIVIDEND

	2018 RMB'000	2017 RMB'000
Dividends recognized as distribution during the year:		
2017 Final dividend of HKD1.25 cents (2017: 2016 final dividend of HKD1.25 cents) per share	21,622	19,648

Subsequent to the end of the reporting period, a final dividend of HKD0.5 cent per share amounting to approximately HKD10,251,000 (or equivalent to RMB9,005,000) in respect of the year ended 31 December 2018 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2018 RMB'000	2017 RMB'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	70,673	173,158
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	35,407	28,433
Change in fair value of derivative financial instrument	(50,193)	(46,994)
Exchange loss (gain) on convertible loan notes and derivative financial instrument	9,800	(19,294)
Earnings for the purpose of diluted earnings per share	65,687	135,303

	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,050,108	1,837,583
Effect of dilutive potential ordinary shares:		
— Convertible loan notes	357,143	347,358
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,407,251	2,184,941

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Computers	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
AT COST								
At 1 January 2017	812,204	403	1,650,838	265,068	109,433	38,388	509,343	3,385,677
Exchange adjustments	–	(28)	–	(18)	–	–	–	(46)
Additions	62,497	–	143,614	101,194	2,606	2,338	650,896	963,145
Disposals	(15,008)	–	(167,405)	(14,374)	(9,683)	(3,342)	–	(209,812)
Transfer	103,903	–	102,206	74,881	–	4,462	(285,452)	–
At 31 December 2017	963,596	375	1,729,253	426,751	102,356	41,846	874,787	4,138,964
Exchange adjustments	–	41	–	14	26	–	–	81
Additions	22,559	545	57,393	78,815	5,615	3,219	846,572	1,014,718
Acquisition of subsidiaries	7,544	–	8,709	6,500	5,462	5,200	–	33,415
Disposals	(32,144)	–	(354,462)	(66,629)	(44,958)	(12,977)	–	(511,170)
Transfer	37,502	–	459,532	76,833	–	26,915	(600,782)	–
At 31 December 2018	999,057	961	1,900,425	522,284	68,501	64,203	1,120,577	4,676,008
ACCUMULATED DEPRECIATION								
At 1 January 2017	153,275	349	605,105	96,875	30,674	24,656	–	910,934
Exchange adjustments	–	(26)	–	–	–	–	–	(26)
Provided for the year	47,162	52	139,429	26,129	8,204	4,228	–	225,204
Eliminated on disposals	(10,683)	–	(106,766)	(11,570)	(8,826)	(3,150)	–	(140,995)
At 31 December 2017	189,754	375	637,768	111,434	30,052	25,734	–	995,117
Exchange adjustments	–	22	–	14	22	–	–	58
Provided for the year	53,760	45	199,670	42,188	13,416	7,678	–	316,757
Eliminated on disposals	(18,817)	–	(143,545)	(37,682)	(19,002)	(6,967)	–	(226,013)
At 31 December 2018	224,697	442	693,893	115,954	24,488	26,445	–	1,085,919
CARRYING VALUE								
At 31 December 2018	774,360	519	1,206,532	406,330	44,013	37,758	1,120,577	3,590,089
At 31 December 2017	773,842	–	1,091,485	315,317	72,304	16,112	874,787	3,143,847

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of 20 years or the remaining lease terms
Leasehold improvements	Over the shorter of the lease terms and the useful life of 5 years
Plant and machinery	10%
Furniture, fixtures and equipment	15%-20%
Computers	10%-33%
Motor vehicles	16%-25%

During the year ended 31 December 2018, the Group received government subsidy of RMB17,630,000 (2017: RMB17,462,000) as a result of its expansion of production capacity. The subsidy was deducted from the costs of relevant items of property, plant and equipment.

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The carrying value of property, plant and equipment have been allocated to three groups of CGUs, as follows:

	2018 RMB'000	2017 RMB'000
Engines and related parts ("Unit A")	486,710	388,199
Automotive components and other industrial services ("Unit B")	2,680,080	2,382,906
Specialized vehicles ("Unit C")	423,299	372,742
	3,590,089	3,143,847

Due to the decrease in profit for the year ended 31 December 2018 by over 50%, the management of the Group has identified certain property, plant and equipment that has an indication of impairment loss. For the purposes of impairment assessment, the management of the Group estimated the recoverable amounts for property, plant and equipment that has indication of impairment loss with carrying amounts of RMB315,677,000, RMB1,896,643,000 and RMB423,299,000 that have been allocated to Unit A, Unit B and Unit C, respectively. The management of the Group determined that there were no impairment in any of its CGUs containing these property, plant and equipment during the year ended 31 December 2018. The basis of the recoverable amounts of these property, plant and equipment and their principal underlying assumptions are summarized below.

The recoverable amounts of the above CGUs (as mentioned in the above paragraph) have been determined based on value in use calculations. That calculations use cash flow projections based on financial budgets approved by the management covering a five-year period, and discount rates ranging from 14.67% to 15.31%, determined using Capital Asset Pricing Model. The value in use calculations were determined by an independent valuer. The cash flows for the next five years are extrapolated using a steady growth rate of 3%, 3% and 3% to 5% per annum for Unit A, Unit B and Unit C respectively, while cash flows beyond the five-year period are all using a zero-growth rate. These growth rates are based on the forecasts of the relevant industries and do not exceed the average long-term growth rate for the relevant industries. Other key assumptions for the value in use calculations included budgeted sales and gross margins and their related cash inflows and outflows patterns, estimated based on the units' historical performance and management's expectation of the market development. The management believes that any reasonably possible change in any of these assumptions would not cause the recoverable amounts of Unit A, Unit B and Unit C to fall below their respective carrying amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

16. PREPAID LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
At 1 January	304,886	250,975
Acquisition of assets through acquisition of a subsidiary *(note 36)*	31,690	–
Additions	11,786	61,129
Released to profit or loss	(7,870)	(7,218)
At 31 December	340,492	304,886
Analyzed as:		
Current portion	7,840	7,336
Non-current portion	332,652	297,550
	340,492	304,886

The amounts represent upfront payments for the right to use land under medium-term lease in the PRC for periods between 40 to 50 years.

17. PREMIUM ON PREPAID LEASE PAYMENTS

The amount represents the fair value adjustment on the prepaid lease payments through acquisitions of subsidiaries in prior years and is released over the lease term of the related prepaid lease payments on a straight-line basis.

18. INVESTMENT PROPERTIES

	2018 RMB'000	2017 RMB'000
FAIR VALUE		
At 1 January	9,086	8,532
Exchange adjustments	523	(639)
Increase in fair value recognized in profit or loss	668	1,193
At 31 December	10,277	9,086

notes:

(i) All of the Group's investment property interests held to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties. The Group's investment properties are all situated in Hong Kong and held under medium-term lease.

(ii) The fair value of the Group's investment properties as at 31 December 2018 and 31 December 2017 has been arrived at on the basis of a valuation carried out on the respective dates by Vigers Appraisal & Consulting Limited, an independent qualified professional valuer not connected to the Group.

The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the similar locations and conditions. There has been no change from the valuation technique used in the prior year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

One of the key inputs used in valuing the two investment properties was the price per square feet, which ranged from RMB4,952 to RMB6,459 and RMB2,333 to RMB2,595 (2017: RMB4,563 to RMB5,265 and RMB1,996 to RMB2,472), respectively. A slight increase in the price per square feet used would result in a significant increase in fair value measurement of the respective investment property and vice versa.

The fair value hierarchy of the Group's investment properties as at 31 December 2018 are categorized as Level 3.

There were no transfers into or out of Level 3 during the year.

19. INTERESTS IN ASSOCIATES/AMOUNT DUE TO AN ASSOCIATE

Amount due to an associate

The balance was due to Faurecia (Liuzhou) Automotive Interior Systems Co., Limited ("FL Interior"), which was unsecured, interest free and repayable in five years.

Interests in associates

	2018 RMB'000	2017 RMB'000
Cost of unlisted investments in associates	225,000	75,000
Share of post-acquisition profits (loss) and other comprehensive income (expense)	12,439	(3,463)
	237,439	71,537

Details of the Group's associates at the end of the reporting period are as follow:

Name of entity	Country of establishment/ operation	Proportion of ownership interest held by the Group 2018	2017	Proportion of voting rights held by the Group 2018	2017	Principal activities
佛吉亞（柳州）汽車座椅有限公司 Faurecia (Liuzhou) Automotive Seating Co., Limited ("FL Seating")	The PRC	50% (note)	50%	42.86%	42.86%	Manufacture and sale of accessories of motor vehicles
佛吉亞（柳州）汽車內飾系統有限公司 Faurecia (Liuzhou) Automotive Interior System Co., Limited ("FL Interior")	The PRC	50% (note)	N/A	40.00%	N/A	Manufacture and sale of accessories of motor vehicles

Note: In accordance with the memorandum and articles of the entities, relevant activities of the entity requires consent with simple majority in the board of directors. The Group is able to appoint three out of seven directors and two out of five directors in the board of the FL Seating and FL Interior respectively, thus the Group is only able to exercise significant influence in the entities. As a result, FL Seating and FL Interior are accounted for as associates at the end of the reporting period.

Summarized financial information of the Group's associate

Summarized financial information in respect of the Group's associates are set out below. The summarized financial information below represents amounts shown in the associates' financial statements prepared in accordance with HKFRSs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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19. INTERESTS IN ASSOCIATES/AMOUNT DUE TO AN ASSOCIATE (Continued)

Summarized financial information of the Group's associate (Continued)

The associates are accounted for using the equity method in the consolidated financial statements.

	2018			2017
	FL Seating	**FL Interior**	**Total**	FL Seating
	RMB'000	***RMB'0000***	***RMB'000***	*RMB'000*
Financial information of consolidated statement of profit or loss and other comprehensive income				
Revenue	**702,615**	**358,401**	**1,061,016**	–
Profit (loss) for the year	**14,090**	**17,714**	**31,804**	(6,926)
Total comprehensive income (expense) for the year	**14,090**	**17,714**	**31,804**	(6,926)
Profit (loss) for the year, attributable to the Group	**7,045**	**8,857**	**15,902**	(3,463)
Total comprehensive income (expense) for the year, attributable to the Group	**7,045**	**8,857**	**15,902**	(3,463)
Dividends received from associates during the year	**–**	**–**	**–**	–
Financial information of consolidated statement of financial position				
Non-current assets	**75,352**	**297,958**	**373,310**	45,259
Current assets	**311,637**	**319,436**	**631,073**	107,024
Current liabilities	**(229,826)**	**(299,546)**	**(529,372)**	(9,210)
Non-current liabilities	**–**	**(134)**	**(134)**	–
Net assets of the associates	**157,163**	**317,714**	**474,877**	143,073
The above amounts of assets and liabilities include the following:				
Cash and cash equivalents	**135,888**	**30,562**	**166,450**	107,024
Current financial liabilities (excluding trade and other payables and provisions)	**–**	**–**	**–**	–
Reconciliation to the carrying amounts of interests in the associates:				
Net assets attributable to the equity holders of the associates	**157,163**	**317,714**	**474,877**	143,073
Proportion of the Group's ownership interests in the associates	**50%**	**50%**	**50%**	50%
Net assets of interests in the associates attributable to the Group	**78,582**	**158,857**	**237,439**	71,537
Carrying amounts of the Group's interests in the associates	**78,582**	**158,857**	**237,439**	71,537

20. INTERESTS IN JOINT VENTURES

	2018 RMB'000	2017 RMB'000
Cost of unlisted investments in joint ventures	162,000	149,184
Share of post-acquisition loss and other comprehensive expenses	(35,974)	(32,300)
Impairment loss	–	(16,224)
	126,026	100,660

Details of the Group's joint ventures at the end of the reporting period are as follow:

Name of entity	Country of establishment/ operation	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activities
		2018	2017	2018	2017	
Qingdao Dianshi Motor Accessories Company Limited ("Qingdao Dianshi")*	The PRC	N/A	51% (note)	N/A	60% (note)	Manufacture of automotive accessories
Guangxi Weixiang Machinery Company Limited ("Guangxi Weixiang")	The PRC	50%	50%	67%	67%	Manufacture of automotive accessories
Liuzhou Lingte Power Technology Limited ("Liuzhou Lingte")	The PRC	51% (note)	51% (note)	60%	60%	Manufacture of engines
柳州五達汽車部件有限公司 ("柳州五達")	The PRC	51% (note)	51% (note)	60%	60%	Manufacture of automotive accessories
柳州臻驅電控科技有限公司 ("柳州臻驅")	The PRC	55% (note)	N/A	60%	N/A	Manufacture and sale of electric motor control system products
柳州美橋汽車傳動系統有限公司 Liuzhou AAM Automotive Driveline Systems Co., Limited ("Liuzhou AAM")	The PRC	50% (note)	N/A	50%	N/A	Manufacture and sale of automotive components

Note: The joint ventures are jointly controlled by the Group and other shareholders by virtue of contractual arrangements among shareholders which requires two-third shareholders' approval for major business decisions. Therefore, they are classified as joint ventures of the Group.

* Qingdao Dianshi became a subsidiary of the Group during the year. Details of acquisition are set out in note 37.

Summarized financial information of joint ventures

Summarized financial information in respect of the Group's joint ventures is set out below. The summarized financial information below represents amounts shown in the joint ventures' financial statements prepared in accordance with HKFRSs.

All of these joint ventures are accounted for using the equity method in the consolidated financial statements.

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20. INTERESTS IN JOINT VENTURES (Continued)

Summarized financial information of joint ventures (Continued)

	2018						2017				
	Guangxi Weixiang RMB'000	Liuzhou Lingte RMB'000	柳州五達 RMB'000	柳州臻驪 RMB'000	Liuzhou AAM RMB'000	Total RMB'000	Qingdao Dianshi RMB'000	Guangxi Weixiang RMB'000	Liuzhou Lingte RMB'000	柳州五達 RMB'000	Total RMB'000
Financial information of consolidated statement of profit or loss and other comprehensive income											
Revenue	557,058	5,035	14,360	-	9	576,462	156,992	357,522	1,595	9,301	525,410
Profit (loss) for the year	11,869	(9,872)	3	(33)	(5,068)	(3,101)	301	(1,377)	(13,337)	–	(14,413)
Total comprehensive income (expense) for the year	11,869	(9,872)	3	(33)	(5,068)	(3,101)	301	(1,377)	(13,337)	–	(14,413)
Profit (loss) for the year, attributable to the Group	5,935	(5,035)	2	(18)	(2,534)	(1,650)	154	(688)	(6,802)	–	(7,336)
Total comprehensive income (expense) for the year, attributable to the Group	5,935	(5,035)	2	(18)	(2,534)	(1,650)	154	(688)	(6,802)	–	(7,336)
Dividends received from joint ventures during the year	-	-	-	-	-	-	–	–	–	–	–
The above financial information include the following:											
Depreciation and amortization	(1,235)	(3,905)	(622)	-	-	(5,762)	(4,693)	(1,806)	(319)	(455)	(7,273)
Interest income	99	38	17	19	-	173	–	159	289	36	484
Income tax expense	-	-	-	-	-	-	(399)	–	–	–	(399)
Financial information of consolidated statement of financial position											
Non-current assets	13,925	225,977	6,471	4,959	2,424	253,756	11,326	12,108	205,118	4,091	232,643
Current assets	264,487	17,314	14,476	31,008	6,176	333,461	46,417	225,058	20,020	17,559	309,054
Current liabilities	(240,164)	(35,739)	(3,819)	-	(3,668)	(283,390)	(46,403)	(210,787)	(20,034)	(4,525)	(281,749)
Non-current liabilities	-	(12,320)	-	-	-	(12,320)	–	–	–	–	–

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20. INTERESTS IN JOINT VENTURES (Continued)

Summarized financial information of joint ventures (Continued)

	2018						2017				
	Guangxi Weixiang RMB'000	Liuzhou Lingte RMB'000	柳州五達 RMB'000	柳州臻驅 RMB'000	Liuzhou AAM RMB'000	Total RMB'000	Qingdao Dianshi RMB'000	Guangxi Weixiang RMB'000	Liuzhou Lingte RMB'000	柳州五達 RMB'000	Total RMB'000
Net assets of the joint ventures	38,248	195,232	17,128	35,967	4,932	291,507	11,340	26,379	205,104	17,125	259,948
The above amounts of assets and liabilities include the following:											
Cash and cash equivalents	5,853	8,083	1,514	31,008	6,176	52,634	744	6,547	14,268	2,604	24,163
Current financial liabilities (excluding trade and other payables and provisions)	–	(12,800)	–	–	–	(12,800)	–	–	–	–	–
Non-current financial liabilities (excluding trade and other payables and provisions)	–	(12,320)	–	–	–	(12,320)	–	–	–	–	–
Reconciliation to the carrying amounts of interests in the joint ventures:											
Net assets attributable to the equity holders of the joint ventures	38,248	195,232	17,128	35,967	4,932	291,507	11,340	26,379	205,104	17,125	259,948
Less: Capital reserve not shared by the Group	–	(46,372)	–	–	–	(46,372)	–	–	(46,372)	–	(46,372)
Proportion of the Group's ownership interests in the joint ventures	50%	51%	51%	55%	50%	N/A	51%	50%	51%	51%	N/A
Net assets of interests in joint ventures attributable to the Group	19,124	75,919	8,735	19,782	2,466	126,026	5,783	13,190	80,953	8,734	108,660
Goodwill	–	–	–	–	–	–	8,224	–	–	–	8,224
Impairment losses on interests in joint ventures	–	–	–	–	–	–	(8,224)	(8,000)	–	–	(16,224)
Carrying amounts of the Group's interests in the joint ventures	19,124	75,919	8,735	19,782	2,466	126,026	5,783	5,190	80,953	8,734	100,660

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21. AVAILABLE-FOR-SALE INVESTMENT/DEFERRED INCOME

On 18 May 2013, the Group entered into an agreement with 福建新龍馬發動機有限公司 ("New Long Ma"), an independent third party, to grant New Long Ma a right to access certain technology knowhow of the Group in a specific region for 15 years at a consideration of RMB22,000,000. The Group concurrently agreed to use the fund received from New Long Ma to acquire 1.83% equity interest in New Long Ma from 龍岩市龍馬汽車工業有限公司, the holding company of New Long Ma at a consideration of RMB22,000,000. As at 31 December 2013, the deposit of RMB22,000,000 paid for the acquisition of the 1.83% equity interest in New Long Ma was recognized as a non-current asset and the consideration received in respect of the access right to the technology knowhow was recognized as other income over 15 years. An amount of RMB1,466,000 was amortized as other income during the year ended 31 December 2017.

During the year ended 31 December 2014, the Group has obtained the ownership of 1.83% equity interest in New Long Ma which is classified as available-for-sale investment. It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably.

During the year ended 31 December 2016, upon completion of a restructuring exercise of New Long Ma, the Group's equity interest in New Long Ma has decreased to 1.47%. In addition, New Long Ma suffered loss during the year ended 31 December 2016 and the directors of the Company considered a decline in the fair value of the Group's equity interest in New Long Ma is expected. Accordingly, an impairment loss of RMB12,000,000 was recognized in profit or loss during the year ended 31 December 2016.

22. EQUITY INSTRUMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 *RMB'000*
Unlisted investment:	
— Equity security	2,048

The above unlisted equity investment represents the Group's 1.47% equity interest in New Long Ma, a private entity established in the PRC, which is engaged in manufacturing and trading of engine and related parts. The directors of the Company have elected to designate this investment in equity instrument as at FVTOCI as it is not held for trading.

The investment in New Long Ma is classified as equity instrument at FVTOCI upon application of HKFRS 9 on 1 January 2018 and is measured at fair value on a recurring basis at the end of each reporting period. Prior to 1 January 2018, the investment in New Long Ma is classified as available-for-sale investment as disclosed in note 21.

23. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	562,222	472,676
Work in progress	151,173	194,029
Finished goods	229,835	556,171
	943,230	1,222,876

During the year ended 31 December 2018, the cost of inventories recognized as an expense and included in "Cost of sales and services" in the consolidated statement of profit or loss and other comprehensive income amounted to RMB13,695,429,000 (2017: RMB14,336,397,000). Included in cost of inventories recognized as expenses of RMB60,765,000 (2017: RMB11,137,000) is the allowances for inventories recognized during the year ended 31 December 2018.

24. TRADE AND OTHER RECEIVABLES

	Notes	2018 RMB'000	2017 RMB'000
Trade receivables			
— SAIC-GM-Wuling Automobile Co., Limited ("SGMW")	(a)	2,008,836	1,710,905
— Guangxi Automobile Group	(b)	77,300	24,982
— Guangxi Weixiang	(c)	11	91
— Qingdao Dianshi	(c)	–	177
— FL Seating	(d)	146	–
— FL Interior	(d)	63,984	–
— third parties		961,623	562,953
		3,111,900	2,299,108
Less: Allowance for credit losses		(57,924)	(42,928)
		3,053,976	2,256,180
Other receivables:			
Prepayments for expenses		606	3,842
Prepayments for purchase of raw materials	(e)	391,504	604,342
Value-added tax recoverable		51,623	56,630
Others		71,549	104,261
		515,282	769,075
Less: Allowance for credit losses		(1,301)	–
		513,981	769,075
Bills receivables		–	890,005
Bills receivables discounted with recourse	(f)	–	280,900
Total trade and other receivables		3,567,957	4,196,160

notes:

(a) Guangxi Automobile has significant influence over SGMW.

(b) Being Guangxi Automobile and its subsidiaries and associates other than the Group and SGMW (collectively referred to as the "Guangxi Automobile Group").

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FOR THE YEAR ENDED 31 DECEMBER 2018

24. TRADE AND OTHER RECEIVABLES (Continued)

notes: (Continued)

(c) Guangxi Weixiang is a joint venture of the Group. Qingdao Dianshi was a joint venture of the Group and becomes a subsidiary during 2018, details of which are disclosed in note 37.

(d) FL Seating and FL Interior are associates of the Group.

(e) Included in the balance was an amount of RMB40,569,000 (2017: RMB256,574,000) paid to SGMW.

(f) The amounts represented bills receivables discounted to banks with recourse with a maturity period of less than 180 days. The Group recognized the full amount of the discount proceeds as liabilities as set out in note 31. Upon application of HKFRS 9 on 1 January 2018, such bills receivables are measured at FVTOCI as set out in note 25.

The aged analysis based on the invoice date is presented as follows:

	2017 RMB'000
0–90 days	132,917
91–180 days	147,983
	280,900

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to RMB3,053,976,000 and RMB2,238,596,000, respectively.

The Group allows an average credit period of 90 days to 180 days for sales of goods to its trade customers.

Included in the trade and other receivables are trade receivables of RMB3,053,976,000 (2017: trade receivables of RMB2,256,180,000) and an aged analysis of trade receivables (net of allowance for credit losses) presented based on the invoice date is as follows:

	2018 ***RMB'000***	2017 *RMB'000*
0 –90 days	**2,981,408**	2,107,741
91-180 days	**26,813**	77,265
181–365 days	**19,920**	57,602
Over 365 days	**25,835**	13,572
	3,053,976	2,256,180

24. TRADE AND OTHER RECEIVABLES (Continued)

As at 31 December 2017, an aged analysis of bills receivables presented based on the invoice date is as follows:

	2017 RMB'000
0–90 days	767,513
91–180 days	119,325
181–365 days	1,664
Over 365 days	1,503
Total	890,005

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB89,593,000 which are past due at the end of the reporting period. Out of the past due balances, RMB62,779,000 has been past due 90 days or more and is not considered as in default since these balances could be recovered based on the repayment history and the current creditworthiness of these customers. The Group does not hold any collateral over these balances.

As at 31 December 2017, included in the Group's trade receivables balance were debtors with aggregate carrying amount of RMB139,747,000 which were past due at the end of the reporting period for which the Group had not provided for impairment loss. The Group did not hold any collateral over these balances.

Aging of trade receivables which were past due but not impaired

	2017 *RMB'000*
91-180 days	68,573
181–365 days	57,602
Over 365 days	13,572
Total	139,747

24. TRADE AND OTHER RECEIVABLES (Continued)

Movement in the allowance for doubtful debts

	2017 RMB'000
At 1 January	81,485
Impairment losses recognized on trade receivables	7,722
Amounts recovered during the year	(44,845)
Exchange adjustments	(1,434)
At 31 December	42,928

As at 31 December 2017, included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB42,928,000, based on the repayment history and the current creditworthiness of these customers that they will not be recovered based on the management's assessment. The Group did not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 46(ii).

25. BILLS RECEIVABLES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 RMB'000
Bills receivables *(note i)*:	
— SGMW	**54,500**
— Guangxi Automobile Group	**840**
— third parties	**885,542**
	940,882
Bills receivables discounted with recourse *(note ii)*	**1,129,660**
	2,070,542

notes:

(i) Bills receivables represent bills received from customers to settle the trade receivables. The aged analysis based on the invoice date is as follows:

	2018 RMB'000
0 –90 days	**940,882**

(ii) The amounts represent bills receivables discounted to banks with recourse with a maturity period of less than 180 days. The Group recognizes the full amount of the discount proceeds as liabilities as set out in note 31.

The aged analysis based on the invoice date is presented as follows:

	2018 RMB'000
0 –90 days	**561,903**
91-180 days	**567,757**
	1,129,660

Details of impairment assessment of bills receivables at FVTOCI for the year ended 31 December 2018 are set out in note 46(ii).

26. TRANSFERS OF FINANCIAL ASSETS

The following are the Group's financial assets as at 31 December 2018 and 2017 that are transferred to banks by discounting those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognize the full carrying amount of the receivables and has recognized the cash received on the transfer as a secured borrowing. These financial assets are carried at fair value (2017: at amortized cost) in the Group's consolidated statement of financial position.

Bills receivables discounted to banks with full recourse:

	2018 RMB'000	2017 RMB'000
Fair value of transferred assets *(note)*	1,129,660	–
Carrying amount of transferred assets	–	280,900
Carrying amount of associated liabilities	(1,142,306)	(277,515)
Net position	(12,646)	3,385

Note: The fair value of transferred assets as at 31 December 2018 included an accumulated fair value loss of RMB22,359,000 (2017: nil).

27. PLEDGED BANK DEPOSITS/BANK BALANCES

The pledged bank deposits are used to secure the bills payables and short-term bank borrowings which are payable within one year. Accordingly, the pledged bank deposits are classified as current assets. Bank balances and cash comprise cash held by the Group with the original maturity of three months or less.

The pledged bank deposits and bank balances carried interest rates as follows:

	Fixed/variable	2018 RMB'000	2017 RMB'000
Pledged deposits	Fixed	1.10% – 1.69%	0.30% –4.50%
Bank balances	Fixed/Variable	0.35% – 3.20%	0.01% –4.30%

Details of impairment assessment of pledged bank deposits and bank balances for the year ended 31 December 2018 are set out in note 46(ii).

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28. TRADE AND OTHER PAYABLES

	Notes	2018 RMB'000	2017 RMB'000
Trade and bills payables	(a)		
— SGMW		1,028,911	769,662
— Guangxi Automobile Group		54,952	133,259
— FL Seating		28,521	–
— FL Interior		160,536	–
— Qingdao Dianshi		–	33,207
— third parties		5,584,266	5,516,520
		6,857,186	6,452,648
Receipt in advance from customers		–	193,839
Value added tax payables		255,050	177,936
Accrued research and development expenses		221,480	332,110
Accrued staff costs		212,973	197,869
Other tax payables		51,496	163,046
Payables for acquisition of property, plant and equipment		131,638	125,053
Deposits received from suppliers		64,781	59,353
Other payables	(b)	288,306	253,876
Total trade and other payables		8,082,910	7,955,730

Notes:

(a) An aged analysis of trade and bills payables based on the invoice date is presented as follows:

Trade payables

	2018 RMB'000	2017 RMB'000
0 to 90 days	3,449,761	2,876,057
91 to 180 days	122,893	163,874
181 to 365 days	41,533	125,166
Over 365 days	109,600	233,925
	3,723,787	3,399,022

Bills payables

	2018 RMB'000	2017 RMB'000
0 to 90 days	1,709,013	1,316,405
91 to 180 days	1,424,386	1,737,221
	3,133,399	3,053,626

(b) Included in other payables are amount due to Guangxi Automobile Group of RMB53,534,000 (2017: nil). The amount is non-trade nature, unsecured, interest free and repayable on demand.

29. CONTRACT LIABILITIES

	Notes	At 31 December 2018 RMB'000	At 1 January 2018* RMB'000
Sales of engines	(a)	5,438	7,138
Sales of specialized vehicles		216,644	186,701
Use of technology knowhow	(b)	13,872	15,339
		235,954	209,178
Current		222,082	193,839
Non-current		13,872	15,339
		235,954	209,178

* The amount in this column is after the adjustments from the application of HKFRS 15.

Contract liabilities, that are not expected to be settled within the Group's normal operating cycle, are classified as current and non-current based on the Group's earliest obligation to transfer goods or services to the customers.

Revenue of RMB193,839,000 has been recognized in current year that was included in the contract liabilities balance at the beginning of the year.

notes:

(a) The Group receives prepayments from customers when signing the sale and purchase agreements. This will give rise to contract liabilities at the execution of a contract, until the revenue is recognized on relevant contracts. The balance will be recognised as revenue for the year ending 31 December 2019.

(b) The Group has granted New Long Ma right to access certain technology knowhow of the Group in a specific region for 15 years since 2013 at a consideration of RMB22,000,000. The balance is recognized as other income over 15 years when New Long Ma has been granted the right to access certain technology knowhow of the Group. An amount of RMB1,467,000 is recognised during the year ended 31 December 2018.

30. PROVISION FOR WARRANTY

	RMB'000
At 1 January 2017	162,952
Additional provision in the year	18,404
Utilization of provision	(38,652)
At 31 December 2017	142,704
Additional provision in the year	10,282
Utilization of provision	(33,696)
At 31 December 2018	119,290

The Group provides warranty of certain periods to its customers on engines and engines related parts and specialized vehicles, under which any product defects are repaired or replaced. The amount of the provision for the warranty is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31. BANK BORROWINGS/ADVANCES DRAWN ON BILLS RECEIVABLES DISCOUNTED WITH RECOURSE

	Notes	2018 RMB'000	2017 RMB'000
Analysis of bank borrowings:			
Secured		400,742	96,423
Unsecured		359,037	395,153
		759,779	491,576
The carrying amounts of the above borrowings are repayable:	*(i)*		
Within one year		132,000	–
Within a period of more than one year but not exceeding two years		132,000	–
Within a period of more than two years but not exceeding five years		136,000	–
		400,000	–
The carrying amounts of bank loans that contain a repayable on demand clause (shown under current liabilities) but repayable:	*(i)*		
Within one year		359,111	490,873
Within a period of more than one year but not exceeding two years		90	84
Within a period of two years but not exceeding five years		290	280
Within a period of more than five years		288	339
		359,779	491,576
Less: Amounts due within one year shown under current liabilities		(491,779)	(491,576)
Amounts shown under non-current liabilities		268,000	–
Advances drawn on bills receivables discounted with recourse	*(ii)*	1,142,306	277,515

notes:

(i) The amounts due are based on scheduled repayment dates set out in the loan agreements.

(ii) The amount represents the Group's other borrowings secured by the bills receivables discounted to banks with recourse (see notes 24(e) and 25(ii)).

(iii) The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2018	2017
Effective interest rate per annum:		
Fixed–rate borrowing	4.35%	4.35%
Variable–rate borrowings	2.14%-4.22%	2.13%-7.25%

(iv) The collaterals for the Group's secured bank borrowings are set out in note 40.

(v) The Group's unsecured bank borrowings at 31 December 2018 was supported by corporate guarantee to the extent of RMB2,721,000,000 (2017: RMB4,406,000,000) given by Guangxi Automobile.

32. DERIVATIVE FINANCIAL INSTRUMENT/CONVERTIBLE LOAN NOTES

On 23 May 2017, the Company issued convertible loan notes with an aggregate principal sum of HKD400,000,000 at par (equivalent to approximately RMB353,760,000) to Wuling HK ("CN 2020"). Wuling HK is the immediate holding company of the Company. CN 2020 is denominated in HKD and carries interest at 4% per annum with maturity on 23 May 2020. CN 2020 entitles the holder to convert, in whole or in part, the principal sum into ordinary shares of the Company on any business day commencing from 22 November 2017 up to the fifth business days prior to the maturity date, at a conversion price of HKD0.70 per ordinary share, subject to anti-dilutive adjustments. Unless converted, CN 2020 will be redeemed on maturity date at par.

CN 2020 contains two components, being a liability component and a conversion option derivative component. The effective interest rate of the liability component is 22.68%. The conversion option derivative is measured at fair value with changes in fair value recognized in profit or loss.

On 29 December 2017, Wuling HK converted the CN 2020 in the aggregate principal amount of HKD150,000,000 into shares of HKD0.004 each at the conversion price of HKD0.70 per share. Accordingly, an aggregate of 214,285,714 ordinary shares of HKD0.004 each were allotted and issued by conversion of the CN 2020.

The movement of the liability and derivative components of the CN 2020 during the year is set out below:

	Liability component *RMB'000*	Derivative component *RMB'000*	Total *RMB'000*
Carrying amount at 23 May 2017	219,602	134,158	353,760
Effective interest expenses	28,433	–	28,433
Change in fair value recognized in profit or loss	–	(46,994)	(46,994)
Conversion during the year	(88,003)	(30,665)	(118,668)
Exchange adjustments	(13,355)	(5,939)	(19,294)
At 31 December 2017	146,677	50,560	197,237
Effective interest expenses	35,407	–	35,407
Coupon payment	(11,522)	–	(11,522)
Change in fair value recognized in profit or loss	–	(50,193)	(50,193)
Exchange adjustments	8,943	857	9,800
At 31 December 2018	179,505	1,224	180,729

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

32. DERIVATIVE FINANCIAL INSTRUMENT/CONVERTIBLE LOAN NOTES (Continued)

	2018 RMB'000	2017 RMB'000
Analyzed of liability component of convertible loan notes as:		
Current	8,784	23,820
Non-current	170,721	122,857
	179,505	146,677

The methods and assumptions applied for the valuation of the liability and conversion option derivative components of CN 2020 are as follows:

(i) Valuation of liability component

The fair value of the liability component on initial recognition was based on a valuation provided by BMI Appraisals Limited ("BMI"), a firm of independent professional valuers not connected with the Group, calculated using the present value of contractually determined stream of future cash flows discounted at the required yield 22.68%, which was determined with reference to the credit rating of the Company and remaining time to maturity.

(ii) Valuation of conversion option derivative component

The conversion option derivative component was measured at fair value using the Binomial Option Pricing Model by BMI as of 23 May 2017, 29 December 2017, 31 December 2017 and 31 December 2018. The inputs into the model at the respective dates were as follows:

	As at 31 December 2018	As at 31 December 2017	As at 29 December 2017	As at 23 May 2017
Share price	HKD0.32	HKD0.57	HKD0.57	HKD0.65
Conversion price	HKD0.70	HKD0.70	HKD0.70	HKD0.70
Risk free rate *(note a)*	1.75%	1.40%	1.40%	0.85%
Expected life	1.39 years	2.39 years	2.40 years	3.00 years
Expected dividend yield *(note b)*	2.71%	2.19%	2.19%	1.92%
Expected volatility *(note c)*	34.14%	47.33%	47.35%	62.10%

notes:

(a) The risk-free rate was determined with reference to the yield rate of the Hong Kong Government Note with duration similar to the expected life of the option.

(b) The expected dividend yield of the underlying security of the convertible loan notes was determined based on the historical dividend payment record of the Company.

(c) The expected volatility of the underlying security of the convertible loan notes was determined based on the historical volatility of the share prices of the Company.

33. FINANCIAL LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 *RMB'000*	2017 *RMB'000*
Foreign currency forward contract	**1,475**	5,303

Major terms of foreign currency forward contract is as below:

Notional amount	Maturity	Forward exchange rate
As at 31 December 2018		
United States dollar ("USD") 50 million	**May 2019**	**Buy USD/sell RMB at 6.6934**
As at 31 December 2017		
USD56 million	November 2018	Buy USD/sell RMB at 6.7365

The above currency forward contract is measured at fair value with reference to discounted cash flow provided by BMI. Future cash flows are estimated based on forward exchange rate (from observable forward exchange rate at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.

34. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities (assets) recognized and movements thereon during the current and prior years:

	Revaluation of properties *RMB'000*	Tax losses *RMB'000*	Withholding tax on undistributed earnings of the PRC subsidiaries *RMB'000*	Total *RMB'000*
At 1 January 2017	3,894	(9)	19,434	23,319
Released upon distribution of dividends	–	–	(1,177)	(1,177)
(Credit) charge to profit or loss	(288)	–	4,204	3,916
At 31 December 2017	3,606	(9)	22,461	26,058
Released upon distribution of dividends	–	–	(3,828)	(3,828)
(Credit) charge to profit or loss	(288)	–	1,226	938
At 31 December 2018	3,318	(9)	19,859	23,168

notes:

(i) At the end of the reporting period, the Group had unused tax losses of RMB283,552,000 (2017: RMB257,584,000). A deferred tax asset has been recognized in respect of tax losses of RMB62,000 as at 31 December 2018 (2017: RMB62,000). No deferred tax assets has been recognized in respect of the remaining tax losses of RMB283,490,000 (2017: RMB257,522,000) due to the unpredictability of future profit streams. Included in unrecognized tax losses are losses of RMB32,568,000 (2017: RMB1,480,000) that will expire within five years. Other tax losses of RMB250,984,000 (2017: RMB250,922,000) may be carried forward indefinitely.

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34. DEFERRED TAX LIABILITIES (Continued)

notes: (Continued)

(ii) At the end of the reporting period, the Group also had unrecognized deferred tax assets in relation to deductible temporary differences amounting to RMB51,443,000 (2017: RMB32,665,000).

(iii) Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has been fully provided for in the consolidated financial statements in respect of withholding tax on undistributed earnings of the PRC subsidiaries.

There was no other significant unprovided deferred taxation for the year or at the end of the reporting period.

35. SHARE CAPITAL

	Number of shares	Amount *HKD'000*
Authorized:		
Ordinary shares of HKD0.004 each	25,000,000,000	100,000
Convertible preference shares of HKD0.001 each	1,521,400,000	1,521
Balance at 1 January 2017, 31 December 2017 and 31 December 2018		101,521
Issued and fully paid:		
Ordinary shares of HKD0.004 each		
At 1 January 2017	1,835,821,841	7,343
Conversion of convertible loan notes *(note 32)*	214,285,714	857
At 31 December 2017 and 31 December 2018	2,050,107,555	8,200

	2018 ***RMB'000***	2017 *RMB'000*
Shown in the consolidated financial statements at the end of the reporting period as	**7,366**	7,366

The new shares issued ranked pari passu in all respects with the then existing shares in issue.

36. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

On 1 January 2018, the Group acquired 100% of the issued share capital of Qingdao Wuling Automobile Technology Limited ("Qingdao Wuling") for a cash consideration of RMB141,730,700 from Guangxi Automobile Group. The principal assets of Qingdao Wuling comprised properties located in south of Songhuajiang Road, west of Jiangshan Road, Huangdao District, Qingdao, the PRC (中國青島市黃島區江山路西松花江路南側) which was leased by the Shangdong branch of Wuling Industrial as offices and production plants, cash and bank balances and certain receivable balances from Guangxi Automobile. This transaction had been accounted for as an acquisition of assets as the acquisition did not meet the definition of a business combination.

The net assets acquired in the transaction were as follows:

	RMB'000
Prepaid lease payments	31,690
Property, plant and equipment	22,089
Tax recoverable	865
Amount due from Guangxi Automobile Group	60,013
Bank balances and cash	28,625
Other payables	(1,551)
	141,731
Satisfied by:	
Cash consideration paid	141,731
Net cash outflow arising on acquisition:	
Cash consideration paid	(141,731)
Bank balances and cash acquired	28,625
	(113,106)

37. ACQUISITION OF A SUBSIDIARY

On 26 December 2017, Wuling Industrial entered into a sale and purchase agreement with independent third parties, pursuant to which Wuling Industrial conditionally agreed to purchase the remaining 49% of the issued share capital of Qingdao Dianshi, a joint venture which Wuling Industrial previously held 51% equity interest at a consideration of RMB14,500,000. Accordingly, Qingdao Dianshi became a wholly-owned subsidiary of Wuling Industrial. The transaction was completed on 1 January 2018.

The fair values of the identifiable assets and liabilities of Qingdao Dianshi at the acquisition date were as follows:

	Fair value recognized on acquisition *RMB'000*
Property, plant and equipment	11,326
Inventories	42,036
Trade and other receivables	3,637
Bank balances and cash	744
Trade and other payables	(46,129)
Tax payable	(274)
Total identifiable net assets at fair value	11,340

The fair value of trade and other receivables at the date of acquisition amounted to RMB3,637,000, which is also the gross contractual amount at the date of acquisition. None of the contractual cash flows are expected not to be collected based on the best estimate at acquisition date.

	Fair value recognized on acquisition *RMB'000*
Consideration transferred, satisfied by:	
Cash	14,500
Fair value of 51% equity interest in Qingdao Dianshi	5,783
Less: Fair value of net assets acquired by the Group	(11,340)
Goodwill arising on acquisition *(note)*	8,943
Net cash outflow arising on acquisition:	
Cash consideration paid	(14,500)
Bank balances and cash acquired	744
	(13,756)

37. ACQUISITION OF A SUBSIDIARY (Continued)

Since the acquisition, Qingdao Dianshi contributed RMB59,517,000 to the Group's revenue and generated a profit of RMB1,073,000 which was included in the Group's results for the year ended 31 December 2018.

note: Goodwill arising on acquisition of RMB8,943,000 has been directly impaired during the year ended 31 December 2018.

38. SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed by the shareholders of the Company on 28 May 2012, a new share option scheme (the "Share Option Scheme") with an expiry date on 27 May 2022 was adopted by the Company.

(i) A summary of the Share Option Scheme of the Company is as follows:

Purpose

Provide incentives and rewards to eligible participants.

Participants

Eligible participants include:

(a) any employee(s) (whether full-time or part-time employee(s), including any executive director but not any non-executive director) of the Company and its subsidiaries;

(b) any non-executive director (including independent non-executive directors) of the Company and its subsidiaries;

(c) any supplier of goods or services to any member of the Group;

(d) any customer of the Group;

(e) any person or entity that provides research, development or other technological support to the Group; and

(f) any shareholder of any member of the Group or any holder of any securities issued by any member of the Group.

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38. SHARE OPTION SCHEME (Continued)

(i) A summary of the Share Option Scheme of the Company is as follows: (Continued)

Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents at the end of the reporting period

151,799,297 ordinary shares, being 10% of the issued share capital as at the date of refreshment of the limit of the granting of share option as approved by the shareholders of the Company on 5 June 2015, and representing approximately 7.4% of the total issued share capital as at 31 December 2018.

Maximum entitlement of each participant

The maximum number of ordinary shares shall not exceed 1% of the issued ordinary share capital of the Company in issue in any 12-month period.

Period within which the securities must be taken up under an option

Subject to the discretion on issuance of board of directors.

Minimum period for which an option must be held before it can be exercised

Not applicable.

Amount payable on acceptance

HKD1.00

Period within which payments/calls/loans must be made/repaid

Not applicable.

Basis of determining the exercise price

Determined by the directors of the Company at their discretion and shall not be lower than the highest of:

(a) the closing price of the ordinary shares on the Stock Exchange at the offer date, which must be a trading day;

(b) the average closing price of the ordinary shares on the Stock Exchange for the five business days immediately preceding the offer date; and

(c) the nominal value of an ordinary share.

38. SHARE OPTION SCHEME (Continued)

(i) A summary of the Share Option Scheme of the Company is as follows: (Continued)

The remaining life of the scheme

The Share Option Scheme will be valid and effective until 27 May 2022, after which no further options will be granted but the provisions of the scheme shall remain in full force and effect in all other respects. Options complying with the provisions of the Rules Governing the Listing of Securities on the Stock Exchange which are granted during the duration of the scheme and remain unexercised immediately prior to 27 May 2022 shall continue to be exercisable in accordance with their terms of grant within the option period for which such options are granted, notwithstanding the expiry of the scheme.

(ii) During the year ended 31 December 2018 and 2017, no option is granted or outstanding under the Share Option Scheme.

39. CAPITAL COMMITMENTS

	2018 RMB'000	2017 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of:		
— construction in progress	228,199	642,039
— property, plant and equipment	465,574	301,420
	693,773	943,459

40. PLEDGE OF ASSETS

At the end of the reporting period, the Group's bank borrowings and bills payables were secured by the following:

	2018 RMB'000	2017 RMB'000
Bank deposits	1,014,768	565,840
Bills receivables	431,756	–
Investment properties	5,622	4,988
	1,452,146	570,828

As at 31 December 2018, bills receivables discounted with full recourse amounting to RMB1,129,660,000 (2017: RMB280,900,000).

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41. RETIREMENT BENEFITS PLANS

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute fixed percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The Group also operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong (the "MPF Scheme"). The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The total cost charged to profit or loss of RMB52,956,000 (2017: RMB57,932,000) represents contributions payable to these schemes by the Group in respect of the year ended 31 December 2018.

42. NON-CASH TRANSACTIONS

During the year ended 31 December 2018:

(i) Deposits paid for acquisition of property, plant and equipment of RMB451,452,000 (2017: RMB404,019,000) were transferred to property, plant and equipment;

(ii) Bills receivables discounted with recourse of RMB2,755,417,000 (2017: RMB3,444,271,000) has been netted off against advances drawn on bills receivables discounted with recourse when the bills receivables discounted with recourse have been settled; and

(iii) Finance costs of RMB66,592,000 (2017: RMB97,751,000) has been netted off against advances drawn on bills receivables discounted when the bills receivables were discounted.

43. OPERATING LEASES

The Group as lessor

Property rental income from investment properties earned during the year was RMB154,000 (2017: RMB156,000). One of the Group's investment properties is held for rental purpose. It is expected to generate rental yield of 5% (2017: 5%) on an ongoing basis. The property held has committed tenants for the next year (2017: next year).

Machinery and other property rental income earned during both years are disclosed in note 7(a). At 31 December 2018 and 2017, all machineries held had no significant committed lessee.

At the end of the reporting period, the Group had contracted with lessees for the following future minimum lease receipts:

	2018 ***RMB'000***	2017 *RMB'000*
Within one year	**122**	152
In the second to fifth year inclusive	**–**	103
	122	255

The Group as lessee

Minimum lease payments made under operating leases during the year was RMB63,712,000 (2017: RMB54,283,000).

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 ***RMB'000***	2017 *RMB'000*
Within one year	**1,680**	47,770
In the second to fifth year inclusive	**3,881**	54
	5,561	47,824

Operating lease payments represent rental payable by the Group for certain of its office, production facilities and warehouse properties with fixed monthly rentals for an average term of three years.

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44. RELATED PARTY DISCLOSURES

(i) Related party transactions

Company	Transactions	2018 RMB'000	2017 RMB'000
SGMW	Sales by the Group *(note 6)*	9,080,873	11,084,125
	Purchases of materials by the Group	4,762,125	5,118,643
	Warranty costs incurred by the Group	–	759
	Service income for warehouse management and related services	–	14
Guangxi Automobile Group	Sales of:		
	Steels and automotive components by the Group *(note a)*	82,534	352,454
	Specialized vehicles by the Group *(note a)*	20,092	–
	Provision of water and power supply services by the Group *(note a)*	4,371	4,192
	Provision of production outsourcing services by the Group *(note a)*	–	12,480
		106,997	369,126
	Purchase of:		
	Automotive components and other accessories by the Group *(note a)*	27,931	38,846
	Mini passenger buses by the Group *(note a)*	193,599	296,739
	Air-conditioning parts and accessories by the Group *(note a)*	2,596	8,364
		224,126	343,949

44. RELATED PARTY DISCLOSURES (Continued)

(i) Related party transactions (Continued)

Company	Transactions	2018 RMB'000	2017 RMB'000
	Purchase of machinery and equipment by the Group *(note b)*	26,071	76,282
	Compensation income with respect of plant and reconstruction *(note 7(a))*	–	48,835
	License fee paid by the Group	1,226	1,226
	Rental income received by the Group	23,808	–
	Rental expenses paid by the Group (see vi below) *(note a)*	29,388	33,557
	Interest expenses paid by the Group on advances drawn on bills receivables (see v below)	15,244	47,407
	Acquisition of Qingdao Wuling *(note 36)*	141,731	–
Qingdao Dianshi	Purchase of automotive components and other accessories by the Group	–	142,784
	Sales of steels and automotive components by the Group	–	20,271
Guangxi Weixiang	Sales of steels and automotive components by the Group	20,688	6,692
	Purchase of automotive components and other accessories by the Group	183	2,996
FL Interior	Sales of automotive components by the Group	28,201	–
	Sales of property, plant and equipment by the Group	146,249	–
	Purchase of automotive components by the Group	358,401	–
FL Seating	Sales of automotive components by the Group	66,238	–
	Sales of property, plant and equipment	35,615	–
	Purchase of automotive components by the Group	685,243	–

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44. RELATED PARTY DISCLOSURES (Continued)

(i) Related party transactions (Continued)

Notes:

(a) These transactions were considered as continuing connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange. Details of these continuing connected transactions were described in the Report of the Directors under the heading "Continuing Connected Transactions" on pages 76 to 81 of this annual report.

(b) These purchase transactions referred to the connected transactions entered into between Wuling Industrial and 上海詣譜自動化裝備有限公司 (Shanghai Yipu Automatic Equipment Co., Ltd), a company established in the PRC and was then held as to approximately 40% by Guangxi Automobile, which details were described in "Connected Transactions" on pages 75 and 76 to this annual report.

(ii) Related party balances

Details of the Group's outstanding balances with related parties are set out in notes 19, 20, 24, 25 and 28.

(iii) Guarantees provided

The guarantees provided to the Group by Guangxi Automobile are set out in note 31(v).

(iv) Compensation of key management personnel

The remuneration of the Group's key management during the year was as follows:

	2018 RMB'000	2017 RMB'000
Short-term benefits	5,353	7,598
Post-employment benefits	389	529
	5,742	8,127

(v) Provision of facility

During the year, Guangxi Automobile agreed to provide a facility to the Group, whereby the Group could discount, without recourse, its bills receivables to Guangxi Automobile to the unlimited extent (2017: RMB4,000,000,000). The discounting rate per annum was the most favorable discounting rates offered in the market from time to time. During the year, the Group discounted bills receivables of RMB2,691,924,000 (2017: RMB3,531,604,000) to Guangxi Automobile with a maturity period less than 180 days and at an average discounting rate of 3.49% (2017: 3.98%) per annum.

44. RELATED PARTY DISCLOSURES (Continued)

(vi) Commitments

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases with Guangxi Automobile Group which fall due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	36,520	30,857
In the second to fifth year inclusive	73,040	–
	109,560	30,857

(vii) Convertible loan notes

Details of convertible loan notes issued to Wuling HK are set out in note 32.

45. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure the entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from that of prior year.

The capital structure of the Group consists of debts, which includes the advances drawn on bills receivables discounted with recourse, and bank borrowings and convertible loan notes as disclosed in notes 31 and 32 respectively, and equity attributable to owners of the Company, comprising issued capital and various reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as issue of new debts.

46. FINANCIAL INSTRUMENTS

(i) Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	5,113,689	5,803,966
Bills receivables at FVTOCI	2,070,542	–
Available-for-sale investment	–	10,000
Equity instrument at FVTOCI	2,048	–
Financial liabilities		
Amortized cost	9,408,720	7,747,345
Derivative financial instrument	1,224	50,560
Financial liability at fair value through profit or loss	1,475	5,303

(ii) Financial risk management objectives and policies

The Group's major financial instruments are listed above. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments included market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Currency risk

Several subsidiaries of the Company have foreign currency sales, purchases, trade and other receivables, bank balances and cash, trade and other payables, convertible loan notes and bank borrowings which exposes the Group to foreign currency risk. Approximately 0.1% of the Group's sales are denominated in currencies other than the functional currency of the relevant group entities making the sale, whilst almost 99.9% of costs are denominated in the relevant group entity's functional currency.

In order to mitigate the currency risk, the Group has entered into a foreign currency contract to partially hedge USD against RMB. Details of the contract are set out in note 33. The Group regularly reviews the effectiveness of this instrument and the underlying strategies in monitoring currency risk.

The carrying amount of the Group's monetary assets and liabilities denominated in foreign currencies at the end of the reporting period is as follows:

	Assets		Liabilities	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
HKD	2,539	3,142	211,331	177,594
USD	23	26	332,685	365,173

46. FINANCIAL INSTRUMENTS (Continued)

(ii) Financial risk management objectives and policies (Continued)

(a) Currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to HKD and USD.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against HKD and USD. 5% is the sensitivity rate used by the management for the assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit where RMB strengthen 5% against the relevant currencies. For a 5% weakening of RMB against the relevant currencies, there would be an equal and opposite impact on the profit and the balances below would be negative.

	2018 *RMB'000*	2017 *RMB'000*
Impact on post-tax profit		
— HKD	**7,830**	6,542
— USD	**12,475**	13,693

(b) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings due to the fluctuation of the prevailing market interest rate, and exposed to fair value interest rate risk in relation to fixed-rate bank borrowings, pledged bank deposits, bank balances, and convertible loan notes. The directors of the Company consider the Group's exposure of the bank balances to cash flow interest rate risk is not significant as interest bearing bank balances are within short maturity periods. It's the Group's policy to keep its borrowings at a mixture of floating rate and fixed rate of interest so as to minimize the fair value interest rate risk.

The Group currently does not have any interest rate hedging policy in relation to fair value and cash flow interest rate risks. The directors of the Company monitor the Group's exposure on an ongoing basis and will consider hedging interest rate risk should the need arise.

46. FINANCIAL INSTRUMENTS (Continued)

(ii) Financial risk management objectives and policies (Continued)

(b) Interest rate risk (Continued)

The Group's exposures to fair value interest rate on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the lending rate quoted by the People's Bank of China arising from the Group's RMB denominated borrowings and London Interbank Offered Rate arising from the Group's USD denominated borrowing.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates on its variable-rate borrowings at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout both years in the case of instruments that have floating rates. A 50 basis point increase or decrease is used by the management for the assessment of the possible change in interest rates.

If interest rates had been 50 basis point higher and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 would decrease by RMB1,349,000 (2017: RMB1,485,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

(c) Other price risk

The Group's equity investments at FVTOCI and foreign currency forward contract at the end of the reporting period exposed the Group to other price risk. The Group's other price risk is mainly concentrated on equity instruments which operate in automotive component industry. Details of which are set out in notes 22 and 33 respectively.

Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to equity price risk at the reporting date.

For the outstanding foreign currency forward contract, if the market forward exchange rate of RMB had strengthened/weakened against USD by 5% (2017: USD by 5%), profit before taxation for the year ended 31 December 2018 would decrease/increase by RMB55,000 (2017: decrease/increase by RMB199,000) as a result of the changes in the market foreign currency forward exchange rate of RMB against USD (2017: USD).

46. FINANCIAL INSTRUMENTS (Continued)

(ii) Financial risk management objectives and policies (Continued)

(d) Credit risk and impairment assessment

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of respective recognized financial assets as stated in the consolidated statement of financial position.

Trade receivables arising from contracts with customers

In order to minimize credit risk, the management of the Group has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Independent companies are engaged to investigate the credibility of customers, and guarantees or pledges of assets provided by them on a needed basis. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade receivables individually for debtors with significant balances and based on provision matrix with appropriate groups. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk other than in relation to the amount due from SGMW (note 24) which represents 66% (2017: 54%) of the total trade receivables as at 31 December 2018. For both years, SGMW, which is a well-known car manufacturer in the PRC, and a joint venture formed among Shanghai Automobile Industry (Group) Company Limited, GM (China) Investment Co., Limited and Guangxi Automobile, has good financial position by reference to its respective financial statements, which are regularly reviewed by Guangxi Automobile. SGMW has good repayment history and credit quality with reference to the track records under internal assessment by the Group. In view of the significant balance due from SGMW, the Group has kept regular contact with SGMW for updated information. In addition, as Guangxi Automobile has representative in the board of directors of SGMW, the Group can access the up-to-date information of SGMW. In this regard, the Group believes that it can take prompt action to recover the trade debt due from SGMW should the need arise.

Pledged bank deposits and bank balances and cash

The credit risk on liquid funds is limited because the Group's pledged bank deposits, time deposits and bank balances are deposited with banks of high credit ratings in Hong Kong and the PRC.

46. FINANCIAL INSTRUMENTS (Continued)

(ii) Financial risk management objectives and policies (Continued)

(d) Credit risk and impairment assessment (Continued)

Other receivables

The management of the Group regularly reviews and assesses the credit quality of the counterparties. The Group uses 12m ECL to assess the loss allowance of other receivables since they are not past due and there has not been a significant increase in credit risk since initial recognition.

Bills receivables at FVTOCI

The credit risk on bills receivables at FVTOCI is limited because the bills receivables are issued by banks with high credit ratings in the PRC.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit — impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL — not credit — impaired	12m ECL
Doubtful	There have been significant increase in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL — not credit — impaired	Lifetime ECL — not credit — impaired
Loss	There is evidence indicating the asset is credit — impaired	Lifetime ECL — credit — impaired	Lifetime ECL — credit — impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

46. FINANCIAL INSTRUMENTS (Continued)

(ii) Financial risk management objectives and policies (Continued)

(d) Credit risk and impairment assessment (Continued)

Bills receivables at FVTOCI (Continued)

The table below details the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

2018	*Notes*	Internal credit rating	12m or lifetime ECL	Gross carrying amount	
				RMB'000	*RMB'000*
Bills receivables at FVTOCI	25	*(note 3)*	12m ECL	2,070,542	2,070,542
Financial assets at amortized cost					
Pledged bank deposits	27	*(note 3)*	12m ECL	1,014,768	1,014,768
Bank balances	27	*(note 3)*	12m ECL	974,608	974,608
Other receivables	24	*(note 1)*	12m ECL	71,549	71,549
Trade receivables — goods and services	24	*(note 2)*	Lifetime ECL (provision matrix)	1,312,623	
		Low risk	Lifetime ECL	1,758,937	
		Loss	Credit-impaired	40,340	3,111,900

notes:

(1) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past due	Not past due/no fixed repayment terms	Total
	RMB'000	*RMB'000*	*RMB'000*
Other receivables	–	71,549	71,549

(2) For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors from related parties or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating/past due status.

(3) The credit risk is limited because the counterparties are banks with high reputation.

Provision matrix-debtors' aging

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit-impaired). Debtors from related parties or credit-impaired with gross carrying amounts of RMB2,150,277,000 and RMB40,340,000 respectively as at 31 December 2018 were assessed individually.

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46. FINANCIAL INSTRUMENTS (Continued)

(ii) Financial risk management objectives and policies (Continued)

(d) Credit risk and impairment assessment (Continued)

Bills receivables at FVTOCI (Continued)

notes: (Continued)

Gross carrying amount

	Average loss rate *%*	Trade receivables *RMB'000*
Not past due	0.1	1,223,030
1–90 days past due	5.0	26,814
Over 90 days past due	23.9	62,779
		1,312,623

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

The following table shows the movement in lifetime ECL that has been recognized for trade receivables under the simplified approach:

	Lifetime ECL (not credit-impaired) *RMB'000*	Lifetime ECL (credit-impaired) *RMB'000*	Total *RMB'000*
As at 31 December 2017 under HKAS 39	–	42,928	42,928
Adjustment upon application of HKFRS 9	17,584	–	17,584
As at 1 January 2018 — As restated	17,584	42,928	60,512
Changes due to financial instruments recognized as at 1 January:			
— Impairment losses recognized	–	500	500
— Impairment losses reversed	–	(3,736)	(3,736)
Exchange adjustments	–	648	648
As at 31 December 2018	17,584	40,340	57,924

The following table shows reconciliation of loss allowances that has been recognized for other receivables:

	12m ECL *RMB'000*
As at 31 December 2017 under HKAS 39	–
Adjustment upon application of HKFRS 9	1,301
As at 1 January 2018 — As restated and 31 December 2018	1,301

46. FINANCIAL INSTRUMENTS (Continued)

(ii) Financial risk management objectives and policies (Continued)

(e) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on advances drawn on bills receivables discounted with recourse and also bank borrowings as significant sources of liquidity.

The Group is exposed to liquidity risk of being unable to finance its future working capital and financial requirements when they fall due. The net current liabilities of the Group as at 31 December 2018 was RMB1,543,517,000 (2017: RMB1,356,534,000). In view of this, the directors of the Company have given careful consideration to the future liquidity of the Group and details of which are set out in note 2.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

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46. FINANCIAL INSTRUMENTS (Continued)

(ii) Financial risk management objectives and policies (Continued)

(e) Liquidity risk (Continued)

In addition, the following table details the Group's liquidity analysis for its derivative financial instrument. The table was drawn up based on the undiscounted gross (inflows) and outflows on the derivative that required gross settlement. The liquidity analysis for the Group's derivative financial instrument were prepared based on the contractual maturities as the management considered that the contractual maturities were essential for an understanding of the timing of the cash flows of derivative.

	Weighted average effective interest rate %	On demand or less than 1 month RMB'000	1-3 months RMB'000	3 months to 1 year RMB'000	1-5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2018							
Non-derivative financial liabilities							
Trade and other payables	–	3,832,947	1,665,771	1,778,412	–	7,277,130	7,277,130
Amount due to an associate	–	–	–	–	50,000	50,000	50,000
Convertible loan notes							
— fixed rate	4.00	–	–	8,328	216,528	224,856	179,505
Bank borrowings							
— variable rate	3.20	359,779	–	–	–	359,779	359,779
— fixed rate	4.35	–	–	134,706	293,674	428,380	400,000
Other borrowings							
— advances drawn on bills receivables discounted with recourse	3.32	174,133	1,005,090	1,007	–	1,180,230	1,142,306
		4,366,859	2,670,861	1,922,453	560,202	9,520,375	9,408,720
Derivative — net settlement							
Foreign currency forward contract		–	–	1,475	–	1,475	1,475
2017							
Non-derivative financial liabilities							
Trade and other payables	–	3,141,207	1,430,184	2,260,186	–	6,831,577	6,831,577
Convertible loan notes — fixed rate	4.00	–	–	8,328	224,856	233,184	146,677
Bank borrowings							
— variable rate	3.61	395,926	–	–	–	395,926	395,926
— fixed rate	4.35	–	–	95,990	–	95,990	95,650
Other borrowings							
— advances drawn on bills receivables discounted with recourse	4.83	–	182,314	97,010	–	279,324	277,515
		3,537,133	1,612,498	2,461,514	224,856	7,836,001	7,747,345
Derivative — net settlement							
Foreign currency forward contract							
— inflow	–	–	–	(375,031)	–	(375,031)	(375,031)
— outflow	–	–	–	380,334	–	380,334	380,334
		–	–	5,303	–	5,303	5,303

46. FINANCIAL INSTRUMENTS (Continued)

(ii) Financial risk management objectives and policies (Continued)

(e) Liquidity risk (Continued)

Bank borrowings with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. As at 31 December 2018, the aggregate undiscounted principal amounts of these bank loans amounted to RMB359,779,000 (2017: RMB491,576,000). Taking into account the Group's financial position, the directors did not believe that it was probable that the banks would exercise their discretionary rights to demand immediate repayment. The directors believed that such bank borrowings would be repaid after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

	Maturity Analysis — Bank borrowings with a repayment on demand clause based on scheduled repayments					
	Less than 1 year	1-2 years	2-5 years	Over 5 years	Total undiscounted cash outflows	Canying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2018	**360,051**	**91**	**292**	**290**	**360,724**	**359,779**
31 December 20 l 7	492,325	85	281	340	493,031	491,576

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if actual changes in variable interest rates differ to those estimated at the end of the reporting period.

(iii) Fair value measurements of financial instruments

(i) Fair value of financial instruments that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (levels 1 to 3 as set out in note 4) based on the degree to which the inputs to the fair value measurements is observable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

46. FINANCIAL INSTRUMENTS (Continued)

(iii) Fair value measurements of financial instruments (Continued)

(i) Fair value of financial instruments that are measured at fair value on a recurring basis (Continued)

Set out below is the information about how the fair values of the Group's financial instruments that are measured at fair value are determined, including the valuation techniques and inputs used:

	Fair value as at 31 December		Fair value as at 1 January	Fair value hierarchy
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	
Financial asset				
Bills receivables at FVTOCI *(note a)*	**2,070,542**	–	**1,141,489**	Level 2
Financial liabilities				
Foreign currency forward contract *(note b)*	**1,475**	5,303	**N/A**	Level 2
Derivative component in relation to the convertible loan notes *(note c)*	**1,224**	50,560	**N/A**	Level 3

notes:

(a) These financial assets are measured at fair value with reference to discounted cash flow. Future cash flows are estimated based on contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.

(b) These financial liability is measured at fair value determined by BMI with reference to discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.

(c) As at 31 December 2018, the valuation technique adopted by BMI was Binomial Option Pricing Model whereas the key inputs to the valuation models included the share price, conversion price, risk free rate, expected life, expected dividend yield and expected volatility as disclosed in Note 32. The significant unobservable inputs in the valuation model included the expected volatility and the expected dividend yield. Both inputs were positively related to the fair value of the derivative component in relation to the convertible loan notes. If any of the unobservable inputs above were 5% higher/lower while all the other variables were held constant, the changes in fair value of the derivative component in relation to the convertible loan notes would not be significant.

46. FINANCIAL INSTRUMENTS (Continued)

(iii) Fair value measurements of financial instruments (Continued)

(i) Fair value of financial instruments that are measured at fair value on a recurring basis (Continued)

Reconciliation of Level 3 Measurements

The reconciliation of Level 3 measurements of the Group's financial instrument for the year ended 31 December 2018 is set out in note 32.

Fair value change of derivative financial instrument of RMB50,193,000 included in other gains and losses as disclosed in Note 7(b) relates to the derivative component in relation to the convertible loan notes held at the end of the current reporting period.

There were no transfers between different levels of the fair value hierarchy throughout the year.

(ii) Fair value of financial instruments that are recorded at amortized cost

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values at the end of the reporting period, except for the available-for-sale investment measured at cost less impairment as at 31 December 2017, of which the directors of the Company are of the opinion that the fair value cannot be measured reliably because the range of reasonable fair value estimates is so significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

47. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank borrowings (Note 31) RMB'000	Other payables RMB'000	Interest payable RMB'000	Convertible loan notes (Note 32) RMB'000	Derivative financial instrument (Note 32) RMB'000	Advances drawn on bills receivables discounted with recourse (Note 31) RMB'000	Dividend payable RMB'000	Amount due to non-controlling interests RMB'000	Total RMB'000
At 1 January 2017	55,903	–	525	–	–	1,177,555	–	–	1,233,983
Financing cash flows	436,529	–	(18,906)	219,602	134,158	2,446,480	(19,648)	(22,474)	3,175,741
Dividend recognized as distribution	–	–	–	–	–	–	19,648	–	19,648
Dividend recognized as distribution to non-controlling interests	–	–	–	–	–	–	–	22,474	22,474
Conversion of convertible loan notes	–	–	–	(88,003)	(30,665)	–	–	–	(118,668)
Foreign exchange gain, net	2,238	–	–	(13,355)	(5,939)	–	–	–	(17,056)
Fair value adjustments	–	–	–	–	(46,994)	–	–	–	(46,994)
Net off of bills receivables discounted with recourse	–	–	–	–	–	(3,444,271)	–	–	(3,444,271)
Finance costs recognized	–	–	18,906	28,433	–	97,751	–	–	145,090
Foreign exchange adjustments	(3,094)	–	–	–	–	–	–	–	(3,094)
At 31 December 2017	491,576	–	525	146,677	50,560	277,515	–	–	966,853
Financing cash flows	262,989	53,534	(31,106)	(11,522)	–	3,553,616	(21,622)	(46,238)	3,759,651
Dividend recognized as distribution	–	–	–	–	–	–	21,622	–	21,622
Dividend recognized as distribution to non-controlling interests	–	–	–	–	–	–	–	46,238	46,238
Foreign exchange loss, net	8,308	–	–	8,943	857	–	–	–	18,108
Fair value adjustments	–	–	–	–	(50,193)	–	–	–	(50,193)
Net off of bills receivables discounted with recourse	–	–	–	–	–	(2,755,417)	–	–	(2,755,417)
Finance costs recognized	–	–	31,106	35,407	–	66,592	–	–	133,105
Foreign exchange adjustments	(3,094)	–	(16)	–	–	–	–	–	(3,110)
At 31 December 2018	759,779	53,534	509	179,505	1,224	1,142,306	–	–	2,136,857

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The financial information of the Company as at 31 December 2018 and 2017 is as follows:

	notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		519	–
Unlisted investments in subsidiaries		993,829	993,829
		994,348	993,829
CURRENT ASSETS			
Amounts due from subsidiaries	*(i)*	13,754	8,256
Prepayments and deposits	*(ii)*	318	3,719
Cash and cash equivalents		1,543	2,202
		15,615	14,177
CURRENT LIABILITIES			
Other payables and accruals		2,272	1,607
Derivative financial instrument		1,224	50,560
Convertible loan notes		8,784	23,820
Bank borrowings		26,352	29,981
		38,632	105,968
NET CURRENT LIABILITIES		(23,017)	(91,791)
TOTAL ASSETS LESS CURRENT LIABILITIES		971,331	902,038
NON-CURRENT LIABILITIES			
Convertible loan notes		170,721	122,857
NET ASSETS		800,610	779,181
CAPITAL AND RESERVES			
Share capital		7,366	7,366
Reserves	*(ii)*	793,244	771,815
TOTAL EQUITY		800,610	779,181

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

note:

(i) Reserves

	Share premium *RMB'000*	Contributed surplus *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2017	339,544	94,381	190,135	624,060
Profit and total comprehensive income for the year	–	–	49,453	49,453
Conversion of convertible loan notes	117,950	–	–	117,950
Dividend recognized as distribution	–	–	(19,648)	(19,648)
At 31 December 2017	**457,494**	**94,381**	**219,940**	**771,815**
Profit and total comprehensive income for the year	**–**	**–**	**43,051**	**43,051**
Dividend recognized as distribution	**–**	**–**	**(21,622)**	**(21,622)**
At 31 December 2018	**457,494**	**94,381**	**241,369**	**793,244**

The Company's contributed surplus represents (a) the excess of the fair values of the shares of the subsidiaries acquired pursuant to the reorganization on 30 November 1992, over the nominal value of the Company's shares issued in exchange therefore; (b) the transfer of the credit arising from the cancellation of the paid-up capital in the reduction of the par value of each issued ordinary share. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances, but is not presently qualified to do so; and (c) the transfer of the credit arising from the share premium and the absorption of accumulated losses on 27 May 2011.

(ii) ECL for amounts due from subsidiaries and deposits are assessed using 12m ECL basis as there had been no significant increase in credit risk since initial recognition. No ECL has been provided as the management considered the amount not material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

49. PRINCIPAL SUBSIDIARIES

(i) General information of subsidiaries

Particulars of the Company's principal subsidiaries at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Class of shares held	Place and date of establishment/ incorporation	Nominal value of issued capital/ registered capital/ fully paid capital	Effective shareholding				Principal activities
				2018		2017		
				Direct %	Indirect %	Direct %	Indirect %	
Wuling Industrial	N/A	The PRC 30 October 2006 (*note iii*)	RMB1,203,706,746	60.90 (*note i*)	–	60.90 (*note i*)	–	Investment holding, manufacture and sale of automotive components and spare parts, specialized vehicles and other industrial services
Liuji Motors	N/A	The PRC 16 June 1993 (*note iii*)	RMB100,125,389	–	60.90 (*note ii*)	–	60.90 (*note ii*)	Manufacture and sale of engines and related parts
無錫五菱動力機械有限責任公司	N/A	The PRC 15 July 2005 (*note iii*)	RMB6,000,000	–	41.41 (*note ii*)	–	41.41 (*note ii*)	Manufacture and sale of accessories of motor vehicles
柳州卓達汽車部件有限公司	N/A	The PRC 27 June 2011 (*note iii*)	RMB25,000,000	–	60.90 (*note ii*)	–	60.90 (*note ii*)	Manufacture and sale of accessories of motor vehicles
吉林緯豐柳機內燃機有限公司	N/A	The PRC 3 August 2003 (*note iii*)	RMB38,000,000	–	45.68 (*note ii*)	–	45.68 (*note ii*)	Inactive
柳州卓通汽車工業有限公司	N/A	The PRC 21 November 2013 (*note iii*)	RMB10,000,000	–	60.90 (*note ii*)	–	60.90 (*note ii*)	Manufacture and sale of accessories of motor vehicles
重慶卓通汽車工業有限公司	N/A	The PRC 19 May 2014	RMB150,000,000	–	60.90 (*note ii*)	–	60.90 (*note ii*)	Manufacture and sale of accessories of motor vehicles

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

49. PRINCIPAL SUBSIDIARIES (Continued)

(i) General information of subsidiaries (Continued)

Name of subsidiary	Class of shares held	Place and date of establishment/ incorporation	Nominal value of issued capital/ registered capital/ fully paid capital	Effective shareholding				Principal activities
				2018		2017		
				Direct %	Indirect %	Direct %	Indirect %	
Watary Investments Limited	Ordinary	British Virgin Islands/Hong Kong	USD36,000	100	-	100	–	Investment holding
Dragon Hill (HK) Limited	Ordinary	Hong Kong	HKD200,000	-	100	–	100	Investment properties holding
DH Corporate Services Limited	Ordinary	Hong Kong	HKD2	-	100	–	100	Provision of administrative services
Pt. LZWL Motors Limited	N/A	Indonesia 17 March 2017	USD31,280,000	-	60.90 *(note ii)*	–	60.90 *(note ii)*	Manufacture and sale of accessories of motor vehicles
青島點石汽車配件有限公司	N/A	The PRC 24 August 2007	RMB8,000,000	-	60.90 *(note ii)*	–	–	Manufacture and sale of accessories of motor vehicle

notes:

(i) In accordance with the sino-foreign equity joint venture agreements entered by the Company and Guangxi Automobile in 2007, the Company has control on Wuling Industrial, and the Company shares profit or loss of Wuling Industrial according to the amount of its paid up capital contribution in Wuling Industrial. The profit sharing ratio at 31 December 2018 of the Company and Guangxi Automobile in Wuling Industrial were 60.90% and 39.10% (2017: 60.90% and 39.10%), respectively.

(ii) This represents the effective interest held by the Company. These subsidiaries are held by the Group through Wuling Industrial.

(iii) The subsidiaries are all sino-foreign equity joint ventures.

(iv) None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

49. PRINCIPAL SUBSIDIARIES (Continued)

(i) General information of subsidiaries (Continued)

(v) The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries are operated in the PRC. The principal activities of these subsidiaries are summarized as follows:

Principal activities	Principal place of business	Number of subsidiaries 2018	2017
Manufacture and sale of engines	The PRC	1	1
Manufacture and sale of special vehicles	The PRC	1	1
Manufacture and sale of accessories of motor vehicles	The PRC	4	–
Manufacture and sale of accessories of motor vehicles	India	1	–
Inactive	The PRC	–	2
Inactive	Hong Kong	3	5

(ii) Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of a non-wholly-owned subsidiary of the Group that have material non-controlling interests:

Name of subsidiary	Place of establishment and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	2018	2017	2018	2017
		%	%	RMB'000	RMB'000	RMB'000	RMB'000
Wuling Industrial	The PRC	39.10	39.10	54,522	108,626	1,035,210	1,045,178

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

49. PRINCIPAL SUBSIDIARIES (Continued)

(ii) Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

Summarized financial information in respect of Wuling Industrial that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

Wuling Industrial

	2018 RMB'000	2017 RMB'000
Current assets	8,576,606	7,692,320
Non-current assets	4,537,237	3,997,302
Current liabilities	9,873,790	8,955,938
Non-current liabilities	517,040	18,323
Equity attributable to owners of the Company	1,687,803	1,670,183
Non-controlling interests	1,035,210	1,045,178
Revenue	15,119,965	16,123,739
Expenses	14,994,034	15,861,592
Profit for the year	125,931	262,147
Profit attributable to non-controlling interests	54,522	108,626
Dividends paid to non-controlling interests	46,238	22,474
Net cash used in operating activities	(3,167,567)	(1,619,374)
Net cash used in investing activities	(1,037,043)	(1,213,286)
Net cash inflow from financing activities	3,578,965	2,978,718
Net cash (outflow) inflow	(625,645)	146,058

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Yuan Zhijun *(Chairman)*
Mr. Lee Shing *(Vice-chairman and Chief Executive Officer)*
Ms. Liu Yaling
Mr. Yang Jianyong
Mr. Wong Zhengtong *(appointed on 28 February 2019)*
Mr. Zhong Xianhua *(Resigned on 28 February 2019)*

Independent Non-Executive Directors

Mr. Ye Xiang
Mr. Wang Yuben
Mr. Mi Jianguo

AUDIT COMMITTEE

Mr. Ye Xiang *(Chairman)*
Mr. Wang Yuben
Mr. Mi Jianguo

REMUNERATION COMMITTEE

Mr. Mi Jianguo *(Chairman)*
Mr. Ye Xiang
Mr. Wang Yuben

NOMINATION COMMITTEE

Mr. Yuan Zhijun *(Chairman)*
Mr. Ye Xiang
Mr. Lee Shing
Mr. Wang Yuben
Mr. Mi Jianguo

COMPANY SECRETARY

Mr. Lai Shi Hong Edward

AUDITOR

Deloitte Touche Tohmatsu

SOLICITOR

Sidley Austin

PRINCIPAL BANKERS

Hong Kong

Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
OCBC Wing Hang Bank Limited
Dah Sing Bank, Limited

PRC

Bank of China Limited
Industrial and Commercial Bank of China Limited
China Construction Bank Corporation
Agricultural Bank of China Limited
China Everbright Bank Co., Limited
Hua Xia Bank Co., Limited
China Citic Bank
Industrial Bank Co., Limited

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