2019

# ANNUAL REPORT


北京汽车股份有限公司
BAIC MOTOR CORPORATION LIMITED*

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

Stock code: 1958

*For identification purpose only


BEIJING
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北京汽车

# Contents


2 Corporate Information
4 Chairman's Statement
8 Summary of Financial and Performance Information
11 Company Profile and Business Overview
25 Management Discussion and Analysis
32 Report of the Board of Directors
60 Report of the Board of Supervisors
63 Corporate Governance Report
80 Directors, Supervisors and Senior Management
91 Independent Auditor's Report
97 Consolidated Balance Sheet
99 Consolidated Statement of Comprehensive Income
101 Consolidated Statement of Changes in Equity
103 Consolidated Statement of Cash Flows
104 Notes to the Consolidated Financial Statements
176 Definitions

# Corporate Information

- **LEGAL NAME OF THE COMPANY**
  北京汽車股份有限公司

- **ENGLISH NAME OF THE COMPANY**
  BAIC Motor Corporation Limited[1]

- **REGISTERED OFFICE**
  A5-061, Unit 101, 5th Floor, Building No 1, Courtyard No. 99, Shuanghe Street, Shunyi District, Beijing 101300, China

- **HEADQUARTERS**
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  **Mr. Wang Jianhui**
  5/F, 99 Shuanghe Street, Shunyi District, Beijing, China

- **COMPANY SECRETARY**

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  **Mr. Lee Kwok Fai**
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  20/F, China Resources Building, 8 Jianguomenbei Avenue, Dongcheng District, Beijing, China

1 For identification purpose only

# Corporate Information

行有道·達天下
Your Wish · Our Ways

- **AUDITOR (EXTERNAL AUDIT FIRM)**

  **PricewaterhouseCoopers**
  Certified Public Accountants and Registered PIE Auditor
  22/F, Prince's Building, Central, Hong Kong

  **PricewaterhouseCoopers Zhong Tian LLP**
  11/F, PricewaterhouseCoopers Center, 202 Hubin Road, Shanghai, China

- **PRINCIPAL BANKS**

  **Bank of Beijing, Jinyun Branch**
  Block A, Jinyun Building, A43 Xizhimen North Street, Haidian District, Beijing, China

  **China CITIC Bank, Olympic Village Branch**
  1/F, Tower D, Tian Chuang Shi Yuan Building, No. 309 Huizhong Beili, Chaoyang District, Beijing, China

- **H SHARE REGISTRAR**

  **Computershare Hong Kong Investor Services Limited**
  Shops 1712-1716, 17/F, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong

- **H SHARE STOCK CODE**
  1958

- **INVESTOR ENQUIRIES**
  Investor hotline: (86) 10 5676 1958; (852) 3188 8333
  Website: www.baicmotor.com
  E-mail: ir@baicmotor.com

# Chairman's Statement

**Xu Heyi**
*Chairman*

RMB
**174.63**
Billion
In 2019, the Group recorded the consolidated revenue of RMB174.63 billion and the net profit of RMB14.32 billion for the year

**1.425**
Million Units
In 2019, the Beijing Brand, Beijing Benz, Beijing Hyundai and Fujian Benz sold 1.425 million units of vehicles in total

## DEAR SHAREHOLDERS,

On behalf of the Board of Directors (the "Board of Directors" or the "Board") of the Company, I am delighted to present the 2019 Annual Report of BAIC Motor Corporation Limited (the "Company", together with its subsidiaries, the "Group").

In 2019, despite higher risks and challenges domestically and abroad, China saw GDP growth of 6.1%[2], with a stable national economy and continuously improved development quality, showing the significant effect of transformation and upgrade. With regard to the passenger vehicle industry, affected by macroeconomic situation, a change in environmental protection standards, a decrease in new energy subsidies and other factors, passenger vehicle production and sales were continuously under pressure. According to the statistics of China Association of Automobile Manufacturers ("CAAM"), the sales volume of passenger vehicles in China in 2019 was 21.444 million units, representing a year-on-year decrease of 9.6%, which was within a reasonable range. China remains the biggest vehicle market in the world, with continuous recovery, adjustment and stable development of its vehicle industry.

In 2019, facing internal and external challenges including increased industry competition, product structure adjustment and insufficient consumer motivation, under the "dual-driver" development strategy of the new energy + intelligentization, the Group oriented its products towards transition to new energy vehicles and intelligent networking, and actively responded to industry and competition pressure, thus recording consolidated revenue of RMB174.63 billion and net profit of RMB14.32 billion for the year.

2 The GDP growth rate for 2019 was 6.1% as by the National Bureau of Statistics

# Chairman's Statement



In 2019, the Group saw a stable trend of all business segments: Beijing Benz Automotive Co., Ltd. ("Beijing Benz") reported the sales of 567 thousand units of vehicles for the year, representing a year-on-year increase of 17.0%, and ranked among top joint-venture luxury brands in terms of growth rate, supporting the Mercedes-Benz brand in achieving record sales volume in China; Beijing Hyundai Motor Co., Ltd. ("Beijing Hyundai") continued its stable operation, with the sales volume of 663 thousand units for the year, and made focused efforts in terms of new products, new technologies, new brands and new experience, and continuously launched main products; Beijing Brand completed its product arrangement for 2.0 era, with positive growth in sales, and pure electric new energy products remaining industry-leading. Meanwhile, it launched new "BEIJING" brand to upgrade the brand. In 2019, Beijing Brand, Beijing Benz, Beijing Hyundai and Fujian Benz recorded a total sales volume of 1,425 thousand units of vehicles, representing a year-on-year decrease of 2.4%, which was far lower than the decline in the industry, thus outperforming the market.

Based on 2019 results of operations, the Board of Directors recommended the payment of an annual dividend of RMB0.17 (inclusive of tax) per share to shareholders, so as to practically provide a return to shareholders.

2020 is the final year for comprehensively building a moderately prosperous society, as well as for the "13th Five-Year" Plan. It is expected that domestic macro economy will remain stable and moving in a positive direction, with resilience. With regard to the passenger vehicle industry, 2020 will also be a year of increased competition in existing markets and shift from quantity growth to high-quality development: a decrease in new energy subsidies and the dual-credit scheme continue to have a significant impact on the industry; networking, intelligentization, electrification and sharing continue to be the high-quality development trend of the automobile industry; industry cooperation and integration between automobile enterprises for a breakthrough will continue.

In the coming year, the Group will make a change in line with the current situation, and actively carry out transformation to embrace new changes in the industry, further and actively gain an insight into the new normal of the development of the passenger vehicle industry, strengthen counter-cyclical management, and make scientific and stable responses. Otherwise, the Group will make efforts to help break new ground for businesses of the brands.

In terms of focus on all business operation policies of the brands, in 2020, under the "dual-driver" strategy, Beijing Brand will be committed to the transition to new energy vehicles and intelligent networking; Beijing Benz will comprehensively build a "digitalized, flexible and green" intelligent factory to further reinforce competitive advantages in the industry and keep pace with the development of the premium passenger vehicle industry; Beijing Hyundai will comprehensively promote internal system reform, and make efforts to promote the achievement of the annual business target through strengthening the sales system, optimizing the cost structure, improving the brand image and organization vitality.

Lastly, I would like to express my gratitude to all our staff and partners for their hard work, and to our Shareholders for their long-lasting support.

**Xu Heyi**
*Chairman*
March 26, 2020


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# Summary of Financial and Performance Information

## I. FIVE-YEAR FINANCIAL SUMMARY

Summary of consolidated financial information of the Group for 2015 to 2019 is as follows:

(Unit: RMB million)

| Item | For the year ended December 31, 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Revenue | **174,633** | 151,920 | 134,159 | 116,199 | 84,112 |
| Cost of sales | **(137,146)** | (114,913) | (98,659) | (89,967) | (68,835) |
| Gross profit | **37,487** | 37,007 | 35,500 | 26,232 | 15,277 |
| Selling and distribution expenses | **(10,294)** | (10,432) | (11,920) | (10,603) | (8,002) |
| General and administrative expenses | **(6,962)** | (6,437) | (5,007) | (4,298) | (4,039) |
| Net impairment losses on financial assets | **(313)** | (133) | – | – | – |
| Other gains/(losses)-net | **1,766** | 623 | (1,055) | 189 | 1,244 |
| Financial costs-net | **(65)** | (357) | (448) | (468) | (416) |
| Share of (loss)/profit of investments accounted for using equity method | **(305)** | 904 | (34) | 4,217 | 4,257 |
| Profit before income tax | **21,314** | 21,175 | 17,036 | 15,269 | 8,321 |
| Income tax expense | **(6,991)** | (6,904) | (6,038) | (3,733) | (1,999) |
| Profit for the year | **14,323** | 14,271 | 10,998 | 11,536 | 6,322 |
| Attributable to | | | | | |
| Equity holders of the Company | **4,083** | 4,429 | 2,253 | 6,367 | 3,319 |
| Non-controlling interests | **10,240** | 9,842 | 8,745 | 5,169 | 3,003 |

| Total assets, total liabilities and interests attributable to equity holders of the Company | As of December 31, 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Total assets | **193,212** | 172,034 | 167,403 | 168,900 | 127,393 |
| Total liabilities | **120,585** | 102,796 | 107,762 | 110,867 | 80,324 |
| Interests attributable to equity holders of the Company | **50,403** | 48,415 | 40,836 | 40,160 | 35,010 |

## II. FIVE-YEAR PERFORMANCE SUMMARY

The sales volume of vehicles of each passenger vehicle business segment of the Group for 2015 to 2019 is as follows:

(Unit: unit)

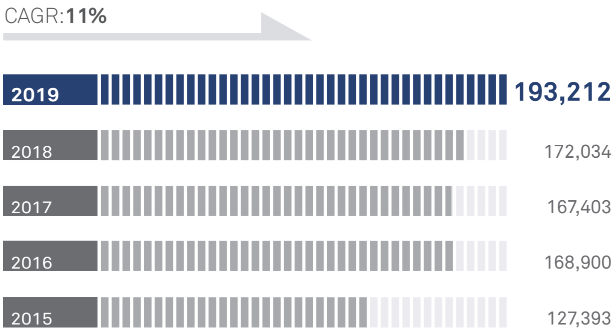
| Brand | For the year ended December 31, 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Beijing Brand [Note 1] | **166,992** | 156,159 | 235,841 | 457,082 | 337,102 |
| Beijing Benz | **567,306** | 485,006 | 422,558 | 317,069 | 250,188 |
| Beijing Hyundai | **662,590** | 790,177 | 785,006 | 1,142,016 | 1,062,826 |
| Fujian Benz [Note 2] | **28,182** | 28,616 | 22,476 | 12,568 | – |

Note 1: Base on strategic considerations including optimization of the product mix, in 2019, the Company ceased to produce and sell passenger vehicles of the Wevan brand; since June 2019, the Company ceased to sell the "BJ" series off-road vehicles.

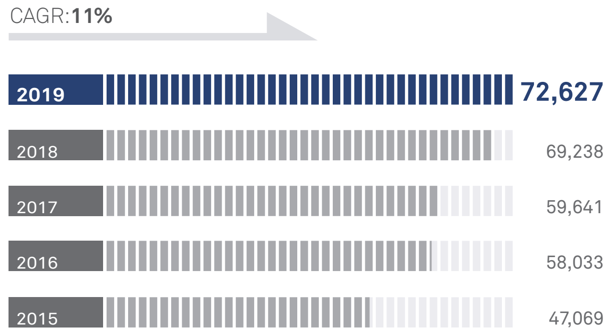
Note 2: Fujian Benz has officially become a joint venture of the Company since September 2016. The sales performance of Fujian Benz from 2016 to 2019 is set out here.

# Summary of Financial and Performance Information

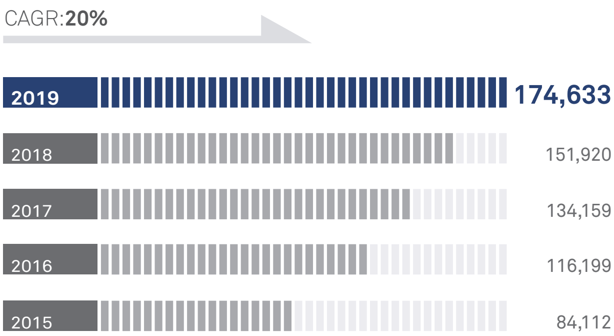
## Total Assets (Unit: RMB million)



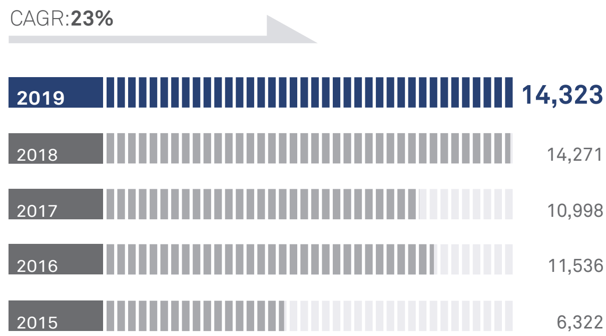

## Total Equity (Unit: RMB million)




## Revenue (Unit: RMB million)




## Profit for the Year (Unit: RMB million)



## I. OVERVIEW

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

The Company completed its H shares initial public offering and was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange" or "Hong Kong Stock Exchange") on December 19, 2014 (H shares stock abbreviation: BAIC Motor; H shares stock code: 1958).

## II. MAJOR BUSINESS OPERATIONS

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

### Passenger vehicles

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

1. **Beijing Brand**

   Beijing Brand, our proprietary brand, has nearly ten models on the market, covering a full range of oil powered models and new energy models of sedan and SUV.

   The products of Beijing Brand are targeted at consumers who value both vehicle performance and high-quality life, with the "metropolitan beauty" design and continual quality improvement. In 2019, the new "BEIJING AUTO" brand was launched, with the features of Beijing culture, namely confidence, grandness, refinement and leading, and the brand philosophy of "being a green smart travel expert". At present, "BEIJING AUTO" brand has BEIJING-X3 compact SUV, BEIJING-U5 compact sedan, BEIJING-U7 middle class sedan and other best-selling vehicle models. In the future, it will enrich its product lineup.

   While manufacturing traditional oil-powered passenger vehicles, Beijing Brand accelerates the electrification process, developing many pure electric new energy vehicle models based on traditional oil-powered car models. It has BEIJING-EU5, BEIJING-EU7 and other best-selling electric vehicle products. Its major vehicle models have a mileage range in the integrated operating condition reaching 500 km. Meanwhile, Beijing Brand is arranging for and advancing electrification work for the diversity of products including 48V, HEV and PHEV.

   In recent years, the Company has actively promoted the optimization and integration of the resources and business system of Beijing Brand in order to focus on superior products and enhance its competitive strength: the Company advanced the disposal of the business and related assets of Wevan brand to Beijing Automotive Group Co., Ltd. ("BAIC Group"), the Controlling Shareholder of the Company, and its subsidiaries in 2018 and ceased to produce and sell passenger vehicles of Wevan brand in 2019; the Company ceased to accept the engagement by BAIC Group to manufacture "BJ" series off-road vehicles and ceased to sell "BJ" series off-road vehicle products, since June 2019. For details of the above asset and business adjustments, see relevant announcement of the Company published on October 30, 2018.

2. **Beijing Benz**

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

Beijing Benz currently manufactures and sells many types of Mercedes-Benz vehicles, including E-Class long-wheelbase sedan, C-Class long-wheelbase and standard-wheelbase sedan, A-Class long-wheelbase sedan, long-wheelbase GLC SUV, GLA SUV, GLB SUV, EQC pure electric SUV and AMG A 35 L.

Beijing Benz has become a joint venture company of Daimler AG, owning the platforms of three main vehicle models, namely front-wheel drive vehicle, rear-wheel drive vehicle and electric vehicle, as well as an engine factory and a power battery factory in the world. It has exported core engine parts and engines and become an important part of the global production network of Mercedes-Benz.

3. **Beijing Hyundai**

Beijing Hyundai is a joint venture of the Company. The Company holds 50.0% equity interest of Beijing Hyundai through its subsidiary BAIC Investment Co., Ltd. ("BAIC Investment"), while Hyundai Motor Company ("Hyundai Motor") holds another 50.0% equity interest of Beijing Hyundai. Beijing Hyundai commenced the manufacturing and sales of passenger vehicles of Hyundai brand in 2002.

Currently, Beijing Hyundai manufactures and sells over ten types of vehicles, covering a full range of major sedan models including middle class, compact and A0-Class models, as well as SUV models, and successively launched HEV, PHEV, pure electric and other differentiated new energy vehicle models. Vehicle models for sale mainly include fourth-generation Santa Fe, fourth-generation TUCSON, brand new Sonata, LA FESTA, ENCINO EV, etc.

Beijing Hyundai has capacities in Beijing, Hebei and Chongqing, which form a nationwide production and marketing system. In 2018, Beijing Hyundai surpassed the "10 Million Unit Club", with the total production and sales volume exceeding 10 million units in China.

4. **Fujian Benz**

Fujian Benz Automotive Co., Ltd. ("Fujian Benz") is a joint venture of the Company. The Company holds 35.0% equity interest in Fujian Benz, and establishes an act-in-concert agreement with Fujian Motor Industry Group Co. ("FJMOTOR"), which holds 15.0% equity interest in Fujian Benz. The consensus will be reached while making decisions regarding the operation, management and other matters of Fujian Benz, as well as the exercising of power by the directors appointed by FJMOTOR. Daimler Vans Limited (Hong Kong) holds the remaining 50.0% equity interest of Fujian Benz. Fujian Benz commenced the manufacturing and sales of multi-purpose passenger vehicles of Mercedes-Benz brand in 2010.

### Core parts and components for passenger vehicles

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

In respect of Beijing Brand, we manufacture engines, transmissions, new energy reducer and other core automobile parts and components through entities including BAIC Motor Powertrain Co., Ltd. mainly for use in our whole vehicles as well as for sale to other automobile manufacturers. By digesting and assimilating Saab technology and through the combination of cooperative and independent development, we have broken through many technological difficulties, successively completed development of many types of engine and transmission products, and realized mass production of such products. Such products have been widely used for Beijing Brand passenger vehicles.

Beijing Benz commenced to manufacture engines in 2013 and owns the first engine manufacturing base under the Mercedes-Benz brand outside Germany. The construction of the second engine factory has been officially completed in 2019. Its specific product offerings include M270, M274, M264 and M282 engines. Beijing Benz has the first power battery factory outside Germany in the global production network of Daimler AG, and produced its first new energy power battery product in 2019.

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

### Car financing

We conduct car financing and automobile aftermarket-related businesses of Beijing Brand, Mercedes-Benz brand and Hyundai brand through associates including BAIC Group Finance Co., Ltd. ("BAIC Finance"), Mercedes-Benz Leasing Co., Ltd. ("MBLC"), Beijing Hyundai Auto Finance Company Limited ("BHAF") and BH Leasing Co., Ltd. and continuously promote rapid development of car financing businesses by methods including capital investment and business cooperation.

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

MBLC is an associate of the Company. The Company and Daimler Greater China each holds 35.0% and 65.0% equity interest of MBLC. MBLC's sale-leaseback volume in 2019 increased by nearly 30%, which continuously stimulated the sales of Beijing Benz's new models.

BHAF is an associate of the Company. The Company holds 33.0% and 14.0% equity interest of BHAF through its subsidiary, BAIC Investment, and its joint venture, Beijing Hyundai, respectively, while Hyundai Capital Services and Hyundai Motor hold the remaining equity interest. In 2019, BHAF was ranked amongst top ten in the industry in terms of the new retail loan contract volume, which further stimulated the sales of Beijing Hyundai's new models, and the size of businesses including the inventory financing expanded continuously, showing the stable progress in business diversification.

# Company Profile and Business Overview

## III. OTHER RELATED BUSINESSES

In 2019, we conducted research and development of light materials, new energy technology changes, information big data and used car businesses through relevant joint ventures.

## IV. CORE COMPETITIVENESS

Amid intense market competition in 2019, the Group maintained stable growth, which attributed to the following core competitiveness:

### 1. Highly complementary business planning, transformation and innovation to response to changes in the industry

The Company's passenger vehicle brand portfolio is profoundly competitive and highly complementary and can satisfy the purchase demands of different groups for vehicles at different stages. Beijing Benz comprehensively built a "digitalized, flexible and green" intelligent factory and steadily advanced the introduction of new product projects, thus further consolidating its leading position in the high-end premium vehicle market. Beijing Hyundai focused on research and development, innovation, continuously launched new products, comprehensively upgraded product lines, accelerated the introduction and application of new technologies including transition to new energy vehicles, intelligentization and networking. Beijing Brand firmly carried out management innovation, fully implemented the strategy of comprehensive transition to new energy vehicles, and actively responded to the industry development trend. The initial effect of the synergy of the three strengths, and brand upgrades, product innovation and channel integration helped break new ground for proprietary brand improvement.

### 2. Diversified equity structure and good strategic partnership

BAIC Group, the Controlling Shareholder of the Company as well as one of the five biggest automobile groups in China, has established a relatively complete automobile industry chain covering businesses including research, development and manufacturing of vehicles, components and parts, automobile service trade, comprehensive commuting service, finance and investment. Other Shareholders of the Company include state-owned investment platforms, key state-owned enterprises, Daimler AG, related strategic and financial investors, which is a diversified and internationalized equity structure. Such diversified equity structure is conducive to sufficient utilization of resources of shareholders, improvement in the management ability by the Company and exploitation of the development potential of the Company.

The Company has established close joint venture and cooperation relationships with Daimler AG, Hyundai Motor and other famous enterprises in the industry, and has further expanded the breadth and depth of the cooperation. In addition to establishment of Beijing Benz, Fujian Benz, Beijing Mercedes-Benz Sales Service Co., Ltd. ("Benz Sales") and MBLC by the Company and Daimler AG, both parties have cooperated and exchanged with each other in technology, platform, human resource and other aspects to a greater extent. Close cooperation with strategic partners enhances the research and development ability of the Company, expands the talent team and enriches the experience of the Company in management, production and operation.

### 3. Experienced management team and core research and development team

The management team has extensive industry and management experience as well as multidisciplinary and compound knowledge system and professional skills. The team members have worked for domestic and foreign leading automobile enterprises, thus accumulated extensive experience in enterprise management. They broaden the international vision rooted in local culture and ensure that the Company is able to formulate efficient and farsighted research and development strategies by grasping the future development trend and technologies of passenger vehicles and the law of industry development.

The Company is committed to developing the first-class research and development strength and has a research and development team with excellent quality and reasonable structure, which has comprehensive development capabilities including product research, engineering development, trial production and testing. The core research and development team is composed of senior professionals in relevant fields both at home and abroad. It has strong research and development strength and rich research and development experience. It makes efforts to advance independent innovation and thoroughly develop core technologies. It continuously improves quality, cost and progress control capabilities. Project development, standard system, product verification and patent management have matured, and breakthroughs have been made in intelligentization, low carbonization and refinement.

### 4. Geographic advantage of headquarters in Beijing

The headquarters of the Company is located in Beijing, the capital of China, where there are many scientific research institutions, colleges and universities, a great number of industry experts and talents, and the Company is able to obtain more high-quality human resource support, attract high-end industry talents and keep abreast of new technologies and breakthroughs in the industry in a timely manner, in order to support the improvement in the research and development strength of the Company. Meanwhile, Beijing boasts more convenient transportation, a more developed logistics system, more complete supporting facilities and infrastructures, which satisfies the demands of the Company for support necessary for production and operation.

### 5. Advanced manufacturing, techniques, quality and process management

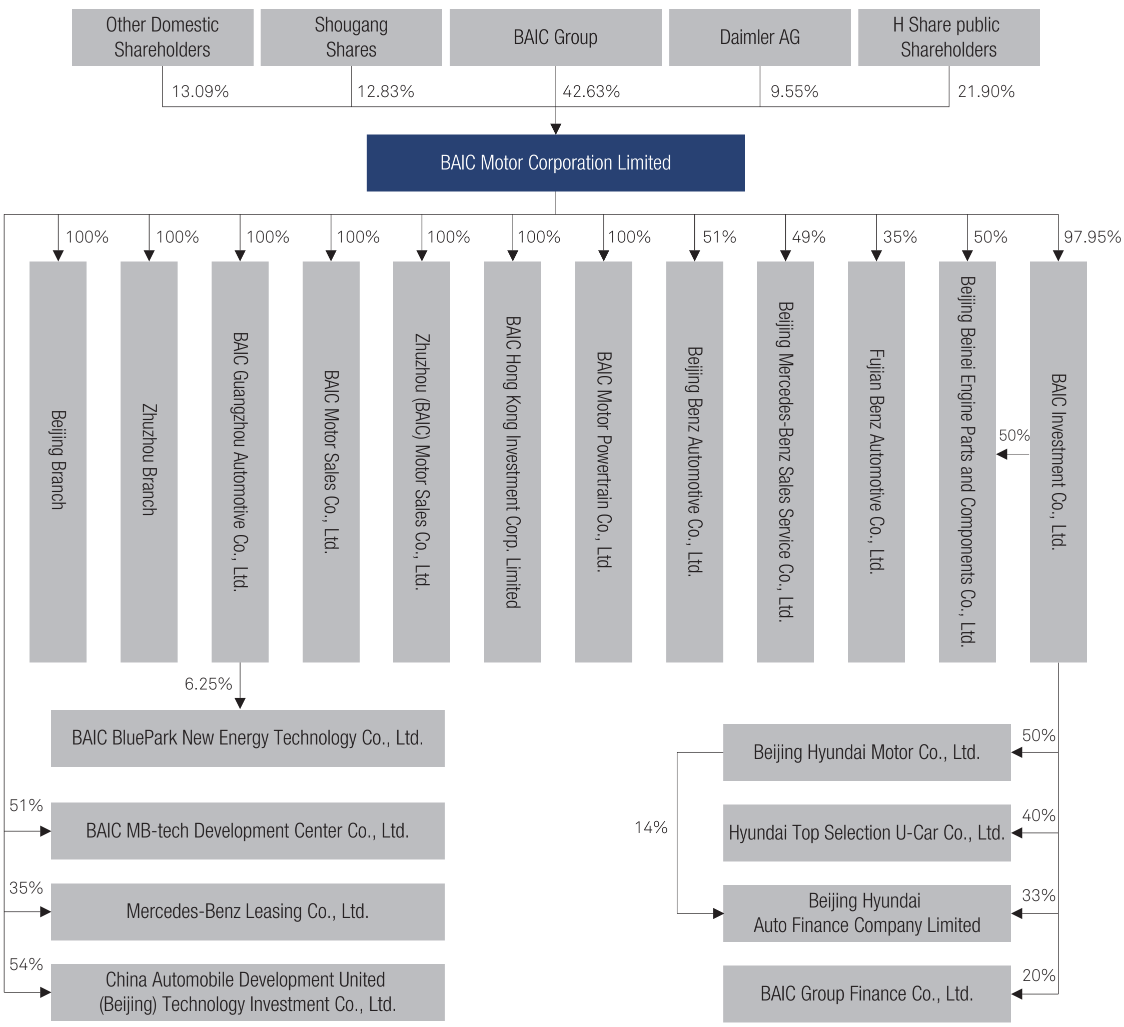
We have specialized production facilities to manufacture and assemble passenger vehicles to improve efficiency and maintain product quality standards, as well as saved unit product cost through production expansion. All of our brand production facilities are equipped with flexible production lines, as such we can apply differentiated production processes for different types of passenger vehicles. In order to ensure high quality operation of production, we carry out regular maintenance of the production facilities. Meanwhile, we have set up and implemented stringent quality control systems that comply with national and international standards, as we attach great importance to the consistency of product quality.

## V. CONTROLLING SHAREHOLDER

BAIC Group is the sole Controlling Shareholder of the Company and held 42.63% equity interest in the Company as of the Date of Issue of the Report. BAIC Group is one of the top five automobile manufacturing groups in China and ranked 129th in 2019 Global Fortune 500. BAIC Group has an operating history of over 60 years. It has now developed into a comprehensive and modern automobile conglomerate with diversified business portfolio and integrating vehicle research and development and manufacturing, parts and components manufacturing, automobile service trade, education and investment and financing business, as well as incubation of new industries. The Group is a key platform built by BAIC Group for passenger vehicle resource integration and business development.

## VI. SIMPLIFIED SHAREHOLDING STRUCTURE

The following chart sets out the major shareholding and investment structure of the Company as at December 31, 2019 (the "end of 2019"):



## VII. THE INDUSTRY DEVELOPMENT OF PASSENGER VEHICLES DURING 2019

According to the data of CAAM, in 2019, the wholesale volume of passenger vehicles reached 21.444 million units, representing a year-on-year decrease of 9.6%. During the year, affected by a series of policies and measures to encourage consumer spending in the vehicle market, the greater downward pressure on the economy, early implementation of "China VI" standard[3], a significant decrease in new energy vehicles subsidies and other factors, the passenger vehicle industry showed the following characteristics:

Due to consumer demand adjustment, industrial policy reform and other factors, the passenger vehicle market as a whole is under structural pressure, with a decline in market demand; there was a decline in four major passenger vehicle market segments, with a significant drop in market shares of Chinese brands; the rapid growth momentum of new energy vehicles stalled; passenger vehicle enterprises further accelerated the survival of the fittest.

According to the data of CAAM, in terms of market segment by type, the sales volume of sedans reached 10.308 million units for the year, representing a year-on-year decline of 10.7%; the sales volume of SUV for the year was 9.353 million units, representing a year-on-year decrease of 6.3%, continuing the negative growth trend; MPV and CUV saw the most significant decrease in the overall sales volume, with the decline of 20.2% and 11.7% respectively.

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

According to the data of CAAM, in terms of market segment by series, the sales volume of Chinese-branded passenger vehicles reached 8.407 million units, representing a year-on-year decrease of 15.8%, and the market share of those vehicles was 39.2%, representing a decrease of 2.9 percentage points as compared with last year. Chinese brands continued to have the largest share of the Chinese passenger vehicle market. Against the backdrop of a decline in the overall demand, there was an increased competition among enterprises and ongoing profound changes in the industry.

According to the data of CAAM, the sales volume of new energy passenger vehicles reached 1.060 million units, representing a year-on-year increase of 0.7%; the sales volume of pure electric passenger vehicles reached 0.834 million units, representing a year-on-year increase of 5.9%, maintaining the growth trend. In contrast, the sales volume of plug-in hybrid electric passenger vehicles reached 0.226 million units, representing a year-on-year decrease of 14.7%. The mileage range of new energy passenger vehicle products was further increased, and there was a further expansion in the product market.

3 "China VI" standard means the National Stage VI Motor Vehicle Emission Standard, which is defined by the Limits and Measurement Methods for Emission From Light-duty Vehicles (China VI) published by the Ministry of Environmental Protection and the General Administration of Quality Supervision, Inspection and Quarantine of China in December 2016

## VIII. BUSINESS OPERATIONS OF THE GROUP IN 2019

### Production and sales of brands

In 2019, facing the complicated situation, the Group's four business segments achieved the sales of a total of 1.425 million units of vehicles, representing a year-on-year decrease of 2.4%, and achieving relatively stable results of operations. Specifically, Beijing Brand actively responded to the severe market environment, with its sales performance stable and moving in a positive direction, and continuous optimization of its production and marketing structure; Beijing Benz continued to maintain strong momentum, with an increase in its market share; Beijing Hyundai actively responded to industry changes, with the launch of a number of new products, and focused efforts in terms of new products, new technologies, new brands and new experience; Fujian Benz outperformed the market under the pressure of slowdown in the market segment.

1. **Beijing Brand**

In 2019, facing the macroeconomic downturn and increased industry competition, Beijing Brand continued to advance the development strategy of new energy + intelligentization "dual-driver" and made a breakthrough in terms of brand upgrade and product structuring:

In terms of sales performance, in 2019, Beijing Brand recorded the wholesales of 167 thousand units of passenger vehicles, representing a year-on-year increase of 6.9%, and including the sales of 104 thousand units of pure electric new energy vehicles, representing a year-on-year increase of 133.2% and accounting for 62.5% of the total sales volume. The sales volume of EU5 pure electric sedans of the Company was 80 thousand units for the year, accounting for approximately 10% of the single vehicle model market, and was the highest in the industry, showing the strong product strength.

In terms of new vehicle models, in 2019, Beijing Brand continuously optimized its product structure, with the launch of BEIJING-X3 compact SUV, BEIJING-U7 middle class sedan, BEIJING-EU7 pure electric sedan and other vehicle models. Meanwhile, it completed the brand upgrade from "Senova" to "BEIJING" brand, thus reshaping and upgrading the brand positioning.

2. **Beijing Benz**

In 2019, Beijing Benz continued to saw a rapid and high-quality growth, with the sales volume of 567 thousand units of vehicles for the year, representing a year-on-year increase of 17.0%, and was ranked among top joint-venture premium brands in terms of growth rate, which supported the Mercedes-Benz brand in making a breakthrough again of the annual record sales volume in a single market. In 2019, Beijing Benz contributed to over 75% of the sales of Mercedes-Benz products in China, and continued to steadily increase its market share.

In 2019, Beijing Benz successfully put a series of new products into production, including new-generation GLB SUV, AMG A 35 L (the first AMG product) and EQC pure electric SUV (the first pure electric passenger vehicle of the brand new Mercedes-Benz brand).

In terms of product strength improvement, Beijing Benz made efforts to improve its product strength and advance quality improvement. In the vehicle user satisfaction evaluation held by China Association for Quality in 2019, it won two first-place prizes; in addition, in China Initial Quality Study by J.D.Power[4] in 2019, Mercedes-Benz E-Class sedan ranked first again among midsize premium vehicles in terms of quality of new models.

In terms of capacity optimization, Beijing Benz actively planned for new energy. It passed the access review for pure electric new energy vehicle enterprises in April 2019, obtaining the qualification for mass production of pure electric vehicle models. The power battery factory was fully completed in June, successfully delivering its first power battery. The second engine factory and the factory in Shunyi District were put into operation successively, thus further expanding the vehicle and engine production capacities.

3. **Beijing Hyundai**

In 2019, in the face of market decline and increased competition, Beijing Hyundai conformed to market changes, focused on its product quality, adjusted its pace of marketing in a timely manner, and advanced its business policy for destocking. For the year, it recorded the wholesales of 663 thousand units of vehicles, representing a year-on-year decrease of 16.2%, and the retail sales of 704 thousand units of vehicles, and achieved a relatively stable retail sales results.

In 2019, Beijing Hyundai focused efforts in terms of new products, new technologies, new brands and new experience, under the "year of brand technology" strategy. Through the launch of six types of new products, including fourth-generation Santa Fe, two new-generation ix25 SUVs, new Elantra, two new-generation Verna sedans, Elantra PHEV and two ENCINO EV new energy vehicle models, it completely upgraded the product lines. Among which: new ix35 and new Elantra saw a steady performance, with a monthly sales volume exceeding 10 thousand units. In terms of new technology, it accelerated the introduction and application of new technologies including new energy, intelligentization and networking. It established the "SMART" image through the launch of the new technology brand "Zhi +(智+)" strategy. In terms of new experience, it enhanced user experience through scenario-based interactive marketing, promoting product image improvement.

With the launch of pure electric and PHEV products in 2019, Beijing Hyundai has become the first powertrain joint venture brand covering PHEV, HEV and pure electric vehicle products in China, continuously improving its product strength and market competitiveness.

4. **Fujian Benz**

In 2019, Fujian Benz recorded the sales volume of 28 thousand units, representing a year-on-year decrease of 1.5%, thus outperforming the market. Among which, Mercedes-Benz V-Class, New Vito and other vehicle models continued to be well recognized in their respective market segments.

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

# Company Profile and Business Overview

### Production facilities

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

The intelligent factory in Zhuzhou City of Beijing Brand has adopted an advanced digital and intelligent production quality management system with a focus on the design and manufacturing process for the quality of whole vehicle products. It has realized the transformation from documentation of development to digitization of implementation of technical standards, thus improving the accuracy of implementation of standards.

Beijing Benz continuously constructs the most comprehensive global production base of Mercedes-Benz, to meet the requirements of Made in China 2025 and green manufacturing system construction. In 2019, it successively completed the establishment and construction of the power battery factory, the second engine factory and the factory in Shunyi District and put into operation, thus laying a foundation for subsequent efforts for new energy products.

Adhering to the production philosophy of "green, quality, intelligent and efficient" and with advanced intelligent equipment and international production management systems, Beijing Hyundai has cutting-edge production equipment with the automation rate of their equipment exceeding 90%, thus can effectively arrange production plans and produce different vehicle models in a single production line.

### Sales network

The Group always attaches great importance to the interests of customers, strives to optimize its product-service system, and is devoted to enabling product distributors and customers to receive timely, efficient, accurate and high-quality service guarantee. All brands have independent marketing channels.

In 2019, Beijing Brand continued to optimize its network planning and stabilize its network structure, with a network of over 350 channel dealers for its oil-powered vehicles, covering all tier-1, -2 and -3 cities, and over 80% of tier-4, -5 and -6 cities where competitive products were mainly sold; Beijing Benz optimized and upgraded its dealer network to build a "smart" dealer network; Beijing Hyundai had a dealer network of more than 1,000 dealers, covering more than 300 cities across China, with stable channel operation. Meanwhile, Beijing Hyundai actively maintained the healthy development of its network system.

## Research and development

The Group believes that our research and development capability is critical to the future development. During 2019, all of our brands have vigorously promoted the construction of research and development system and capacity.

In 2019, Beijing Brand made several achievements in terms of innovation of research and development management, and new vehicle model research and development. Blockbusters – BEIJING-X3 and BEIJING-EU7, were successfully launched and highly rated in the market, showing the latest progress and product strength improvement of the company in terms of intelligent networking, electrification, styling upgrade, perceived quality, etc. Meanwhile, It has carried out the platform-based development of many pure electric vehicles based on mid-sized SUVs and sedans, and continued to deepen its strategic cooperation relations with Huawei, Microsoft, Bosch, Didi and IFLYTEK and other scientific and technological enterprises, so as to comprehensively promote the implementation of the "two-wheel drive" strategy in sub-sectors including automatic self-driving, intelligent cabin and networking.

In 2019, Beijing Benz introduced Mercedes-Benz Development System based on its research and development center, and continuously shortened the development cycle and strengthened the digital verification capability. The research and development center has seven advanced laboratories which have been established and operated strictly according to the standards of Daimler AG, including climate corrosion, vehicle emission, engine and vibration noise, as well as prototype vehicle factories and test runways, new energy power battery testing centers which have been introduced specially for pure electric new energy vehicle models, thus providing important technical support for research and development, and production of traditional vehicle models and new energy vehicle models of Mercedes-Benz made in China.

In 2019, Beijing Hyundai completed the development and mass production of over ten types of new and facelift vehicles and promoted the launch of the third-generation platform (i-GMP), intelligentization technology reserve, the establishment of new energy research and development system, etc. Meanwhile, Beijing Hyundai Technology Center, Namyang R&D Center in South Korea and Hyundai Motor Yantai R&D Center were linked to supply products and services that met the needs of the Chinese market.

## Joint venture cooperation and industrial chain extension

In 2019, the Group continuously promoted the integration of industry and finance, industrial cooperation and otherwise, with further broadening of the scope of cooperation, extension of the industrial chain, expansion of the business market and enhancement of its competitiveness.

1. **Expansion of production facilities and product mix of Beijing Benz**

   On March 26, 2019, the Company, Daimler AG and its wholly-owned subsidiary Daimler Greater China entered into amendment agreements of joint venture contract. In order to promote the M254 engine technology transformation project, the Mercedes-Benz C-Class vehicle update and upgrade project, as well as the manufacturing upgrade and transformation project of Beijing Branch of the Company, the Company, Daimler AG and Daimler Greater China agreed to make additional capital contributions of approximately USD892.8 million in total in proportion to their respectively shareholdings in Beijing Benz, of which approximately USD455.3 million shall be contributed by the Company.

   Through the capital increase, Beijing Benz will further expand the size and scope of its business, improve its business operation and product competitiveness, thus getting ahead in the new round of development and competition.

2. **Additional capital contribution to MBLC**

   On March 28 and December 5, 2019, the Company and Daimler Greater China successively entered into two capital increase agreements, pursuant to which the Company and Daimler Greater China shall respectively make additional capital contributions of RMB700 million and RMB500 million in total to MBLC in proportion to their respective shareholdings in MBLC. The Company shall successively make capital contributions of RMB245 million and RMB175 million. Upon completion of the capital increase, the Company will continue to hold 35.0% equity interest in MBLC.

   Driven by, amongst others, successful development of automobiles under the brand of Mercedes-Benz in China, MBLC's business has been continuously and rapidly growing in the recent years. The capital contribution in 2019 will further drive the business development of the Company and increase its market share.

3. **Additional capital contribution to BAIC SA**

   On April 12, 2019, BAIC Hong Kong Investment Corp. Limited ("BAIC HK"), a wholly owned subsidiary of the Company, Investment Universe Co., Limited ("Investment Universe"), The Industrial Development Corporation of South Africa Limited ("IDC") and BAIC Automobile SA Proprietary Limited ("BAIC SA") entered into a subscription agreement, pursuant to which, BAIC HK, Investment Universe and IDC agreed to make additional capital contributions of approximately USD75.4 million in aggregate to BAIC SA in proportion to their respective original shareholdings, of which approximately USD15.1 million shall be contributed by BAIC HK.

   BAIC SA is the Sino-South Africa project model under the "Belt and Road" Initiative of China. Through the capital increase, the business strength of BAIC SA will be further enhanced, thus facilitating the industrial arrangements and development of the Group under the "Belt and Road" Initiative.

4. **Capital Contribution to National Innovation Center**

   On December 24, 2019, the Company, as one of the new shareholders, Beijing New Energy Vehicle Technology Innovation Center Co., Ltd. ("National Innovation Center"), existing shareholders of National Innovation Center and relevant parties signed a capital increase agreement, pursuant to which the Company will subscribe for the additional registered capital of National Innovation Center in an amount of approximately RMB50 million. Upon completion of the capital increase, the Company will hold 12.02% equity interest in National Innovation Center.

   National Innovation Center is a national new energy technology innovation center. Through the capital increase, the Company will further enhance its strength in terms of new energy technology and innovation capability, thus laying a foundation for subsequent efforts for new energy products.

## IX. PROSPECT FOR THE DEVELOPMENT OF PASSENGER VEHICLE INDUSTRY IN 2020

In 2020, it is expected that the economic growth trend will be slowing in the internal and external economic environment, Sino-US trade frictions and novel coronavirus pneumonia will cause uncertainties in macro economy. Affected by the economic downturn, stringent measures for environmental protection, supply upgrade, demand differentiation and other factors, it is expected that the passenger vehicle market of China is in a period of cyclical adjustment, and it will take two to three years to return to positive growth trend.

The State Information Center and relevant authorities believe that the main trend of the macro economy and the development of the automobile industry in 2020 will be as follows:

### 1. Continued downtrend with a smaller decline

The adverse factors leading to the economic downturn still exist, and there are some uncertainties in industrial policies. However, the market pull is expected to be small, and the support from markets will remain weak. As a whole, the demand is still weak and the vehicle market is at the bottom.

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

Internal and external factors, especially the outbreak of novel coronavirus pneumonia, will put certain downward pressure on the overall economy in the first quarter of 2020 and even in the first half of the year, the GDP growth rate may drop to between 5% and 6% from more than 6%.

### 3. Industrial policies focusing on structural adjustment

Due to the long-term impact of environmental protection policies, it is expected that industrial policies will be more stringent in 2020. The policy to ban oil-powered vehicles in specified regions has been gradually developed and perfected. The dual-credit scheme has promoted the efforts of vehicle enterprises for the transition to new energy vehicles and small-displacement vehicles. As a result, the electrification of commercial vehicles is accelerated, further reducing room for oil-powered taxies and online ride-hailing vehicles. There is a supply-side upgrade and reform.

Proprietary brands will accelerate their development towards high-end and middle-large size products. Under the guidance of industrial policies, the number of new energy products launched will further increase. The application of new technologies including intelligent interaction, 5G Internet of Things and self driving will be further accelerated.

## X. OPERATIONAL STRATEGY OF THE GROUP FOR 2020

### Overall operational strategy

In the face of the pressure and challenges in 2020, the Group will focus on change and development, firmly adhere to the strategic policy of new energy + intelligentization "dual-driver", continuously deepen joint venture cooperation, and has formulated differentiated business strategies for business segments.

### Operational strategy of Beijing Brand

In 2020, Beijing Brand will take "brand upgrade, three strengths, and breakthrough through reform" as its management principle. In terms of brand upgrade, it will establish a complete identification system for the new brand, determine competitive strategies for differentiation of the new brand, incorporate brand appeal and lead the business chain forward. In terms of three strengths, it will sublimate the connotation of new "BEIJING" brand, with a focus on the brand. It will focus its efforts on products and the implementation of the dual-driver strategy. In terms of breakthrough through reform, it will further deepen the mechanism reform and continuously improve its core capabilities.

### Operational strategy of Beijing Benz

In 2020, Beijing Benz will take active actions to comprehensively build a "digitalized, flexible and green" intelligent factory and properly manage new product introduction projects, so as to further consolidate the leading position in the high-end premium vehicle market.

### Operational strategy of Beijing Hyundai

In 2020, Beijing Hyundai will take "change, breakthrough, regeneration" as its management principle, advancing its operations in four aspects, namely the successful launch of major new vehicles, system improvement to strengthen its internal strength, the recovery of profitability, and the strengthening of its future competitiveness. It will also launch a number of new models incorporating intelligent networking technologies while vigorously developing and launching new energy vehicles to improve its product competitiveness.

### Operational strategy of Fujian Benz

In 2020, Fujian Benz will continue its steady development and strive to achieve the goal of "becoming a respected front-runner in travel solutions in the new era".

## REVENUE AND NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The Group's main business operations are the research and development, manufacturing, sales and after-sale services of passenger vehicles. The above business has brought sustained and stable revenue to the Group. The revenue of the Group increased from RMB151,920.4 million in 2018 to RMB174,632.7 million in 2019, representing a year-on-year increase of 15.0%, mainly attributable to the increase in revenue from Beijing Benz and Beijing Brand.

Revenue associated with Beijing Benz increased from RMB135,415.2 million in 2018 to RMB155,153.7 million in 2019, representing a year-on-year increase of 14.6%, mainly attributable to (i) a year-on-year increase of 17.0% in sales volume of Beijing Benz; and (ii) the increase in the proportion of the sales volume of vehicle models with relatively lower selling prices offsetting part of the sales increase.

Revenue associated with Beijing Brand increased from RMB16,505.2 million in 2018 to RMB19,479.0 million in 2019, representing a year-on-year increase of 18.0%, mainly attributable to (i) a year-on-year increase of 6.9% in sales volume of Beijing Brand; (ii) an increase in the proportion of the sales volume of vehicle models with relatively higher selling price, leading to a greater increase in the revenue than in the sales volume; and (iii) a decrease in new energy subsidies offsetting part of revenue growth.

The Group's net profit attributable to equity holders of the Company decreased from RMB4,429.5 million in 2018 to RMB4,082.7 million in 2019, representing a year-on-year decrease of 7.8%; the basic earnings per share decreased from RMB0.55 in 2018 to RMB0.50 in 2019, representing a year-on-year decrease of 9.1%, mainly due to a decrease in the profits of Beijing Brand and certain investment enterprises as a result of increased competition in the domestic passenger vehicle industry, the market downturn, etc.

## GROSS PROFIT

The Group's gross profit increased from RMB37,006.6 million in 2018 to RMB37,487.0 million in 2019, representing a year-on-year increase of 1.3%, mainly attributable to the increase in the gross profit of Beijing Benz.

The gross profit of Beijing Benz increased from RMB40,522.9 million in 2018 to RMB42,215.4 million in 2019, representing a year-on-year increase of 4.2%; the gross profit margin decreased from 29.9% in 2018 to 27.2% in 2019, mainly due to an increase in the proportion of the sales volume of vehicle models with relatively lower gross profit.

The gross profit of Beijing Brand decreased from RMB-3,516.2 million in 2018 to RMB-4,728.4 million in 2019, mainly attributable to (i) the increased vehicle promotions; and (ii) the impacts of the decrease in new energy subsidies.

## WORKING CAPITAL AND FINANCIAL RESOURCES

The Group usually satisfied its daily working capital requirements through self-owned cash and borrowings. The Group's net cash generated from operating activities increased from RMB21,733.4 million in 2018 to RMB35,952.8 million in 2019, representing a year-on-year increase of 65.4%, mainly attributable to an increase in the net cash inflow generated from operating activities of Beijing Benz.

As at December 31, 2019 (the "end of 2019"), the Group had cash and cash equivalents of RMB49,322.5 million, notes receivable of RMB2,208.5 million, notes payable of RMB7,489.0 million, outstanding borrowings of RMB23,562.2 million, unused bank credit lines of RMB15,451.9 million, and commitments for capital expenditure of RMB13,714.9 million. The above outstanding borrowings included RMB1,856.8 million equivalents of Euro borrowings and RMB311.1 million equivalents of USD borrowings as at December 31, 2019.

## CAPITAL STRUCTURE

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

The Group's asset-liability ratio (total liabilities/total assets) increased from 59.8% on December 31, 2018 (the "end of 2018") to 62.4% at the end of 2019, representing a year-on-year increase of 2.6 percentage points, mainly attributable to a greater increase in liabilities than in assets.

The Group's net gearing ratio ((total borrowings less cash and cash equivalents)/(total equity plus total borrowings less cash and cash equivalents)) decreased from -20.0% at the end of 2018 to -55.0% at the end of 2019, representing a year-on-year decrease of 35 percentage points, mainly attributable to (i) an increase in cash and cash equivalents; and (ii) a smaller increase in the total equity than in cash and cash equivalents.

As at the end of 2019, the total outstanding borrowings was RMB23,562.2 million, including short-term borrowings of RMB14,019.5 million in aggregate and long-term borrowings of RMB9,542.7 million in aggregate. The Group will promptly repay the aforesaid borrowings at maturity.

As at the end of 2019, none of the Group's loan agreements in effect includes any agreement on the obligations to be performed by the Controlling Shareholder of the Company. In the meantime, the Group has also strictly followed all the terms and conditions in its loan agreements, and no default has taken place.

## SIGNIFICANT INVESTMENTS

Total capital expenditures of the Group increased from RMB6,414.1 million in 2018 to RMB8,329.4 million in 2019, representing a year-on-year increase of 29.9%. Among which, capital expenditures of Beijing Benz decreased from RMB10,644.0 million[3] in 2018 to RMB7,583.8 million in 2019. Capital expenditures of Beijing Brand decreased from RMB968.3 million in 2018 to RMB745.6 million in 2019, mainly due to the fact that the investment in capacity is drawing to an end.

Total research and development expenses of the Group increased from RMB2,402.9 million in 2018 to RMB3,080.6 million in 2019, representing a year-on-year increase of 28.2%, the majority of which were incurred by the Group for its product research and development activities expenses. Based on accounting standards and the Group's accounting policy, expenses of the aforesaid research and development complied with capitalization conditions had been capitalized accordingly.

## MATERIAL ACQUISITIONS AND DISPOSALS

On March 26, 2019, the Company, Daimler AG and its wholly-own subsidiary Daimler Greater China, entered into amendment agreements of joint venture contract, pursuant to which the parties agreed to make additional capital contributions of approximately USD892.8 million in aggregate to Beijing Benz, a non wholly-owned subsidiary of the Company, in proportion to their respective shareholdings in Beijing Benz. Upon completion of the capital increase, the Company will continue to hold 51.0% equity interest in Beijing Benz, while Beijing Benz will remain a non wholly-owned subsidiary of the Company.

5 Including the expenditures for the acquisition of the transferred assets of Beijing Branch of the Company by Beijing Benz in 2018

On March 28, 2019, the Company and Daimler Greater China entered into a capital increase agreement, pursuant to which the parties agreed to make additional capital contributions of RMB700.0 million in aggregate to MBLC, in proportion to their respective shareholdings in MBLC. Upon completion of the capital increase, the Company will continue to hold 35.0% equity interest in MBLC.

On April 12, 2019, BAIC HK, a wholly-owned subsidiary of the Company, Investment Universe, IDC and BAIC SA entered into a subscription agreement, pursuant to which, BAIC HK, Investment Universe and IDC agreed to make additional capital contributions of approximately USD75.4 million in aggregate to BAIC SA in proportion to their respective original shareholdings, by way of subscription of new shares of BAIC SA. Upon completion of the capital increase, BAIC HK will continue to hold 20.0% equity interest in BAIC SA.

On December 5, 2019, the Company and Daimler Greater China entered into a capital increase agreement, pursuant to which the parties agreed to make additional capital contributions of RMB500.0 million in total to MBLC in proportion to their respective shareholdings in MBLC. Upon completion of the capital increase, the Company will continue to hold 35.0% equity interest in MBLC.

On December 24, 2019, the Company, as one of the new shareholders, entered into the capital increase agreement with existing shareholders, other new shareholders of National Innovation Center and National Innovation Center, in relation to additional capital contributions to National Innovation Center. Pursuant to the agreement, the Company proposed to subscribe for the additional registered capital amounting to approximately RMB49.0 million, at a consideration of approximately RMB50.0 million. Upon completion of the capital increase, the Company will hold 12.02% equity interest in National Innovation Center.

For details of the aforesaid cooperation matters, please refer to relevant announcements of the Company dated March 26, 2019, March 28, 2019, April 12, 2019, December 5, 2019, December 24, 2019 and January 22, 2020 respectively.

## FOREIGN EXCHANGE LOSSES[6]

The Group's foreign exchange loss (mainly from the business of Beijing Benz) increased from RMB685.5 million in 2018 to RMB702.3 million in 2019. Such increase in foreign exchange loss was mainly due to (i) the increase in exchange losses from Euro-denominated payments as a result of the decline in the exchange rate of RMB against Euro; and (ii) effective control on the foreign exchange rate risks due to the judgment on foreign exchange forward contracts partially offsetting part of loss.

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

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

## EMPLOYEE AND REMUNERATION POLICIES

The Group's staff increased from 20,431 at the end of 2018 to 21,712 at the end of 2019. The staff costs incurred by the Group increased from RMB5,087.6 million in 2018 to RMB5,143.9 million in 2019, representing a year-on-year increase of 1.1%, mainly due to (i) an increase in the number of employees as a result of production volume growth; and (ii) the increase in the average staff cost resulting from, among others, the longer labor hours and the increase in the annual average wage in society.

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

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

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

## PLEDGE OF ASSETS

As at the end of 2019, the Group had pledged notes receivable of RMB1,655.0 million.

## CONTINGENT LIABILITIES

As at the end of 2019, the Group had no material contingent liabilities.

## PRINCIPAL RISKS AND UNCERTAINTIES

### 1. Risks relating to macro-economic volatility

Macro-economic performance will have an impact on consumer demands for automobiles, and therefore will affect the Group's operating performance. In 2019, China saw a GDP growth of 6.1%, with downward pressure on the economy. In addition, as the outbreak of the novel coronavirus pneumonia, macroeconomic uncertainty has further increased. If China's economic growth continues to slow down, the purchasing power of residents will be affected, leading to a decrease in the customer demand for the Group's products, thus adversely affecting the Group's financial situation, operating results and prospects. The Group will continuously pay attention to China's macroeconomic situation, and take measures in due course to respond to fluctuations in the economic environment.

### 2. Risk of increased market competition

The Group operates in a highly competitive industry with fierce market competition. According to the statistics of CAAM, the sales volume of passenger vehicles in China in 2019 was 21.444 million units, representing a year-on-year decrease of 9.6%. As there was greater pressure on the automobile industry, there was negative growth in production and sales volumes as well as major economic benefit indicators of the industry. Meanwhile, enterprises in the industry continuously improve their core competitiveness through the increase in research and development investment, industry integration and otherwise, and comprehensively compete on product, price, marketing, quality, cost and otherwise, thus the market competition continues to intensify. If the Group fails to take appropriate measures to maintain and improve its market position, its future operating results will be adversely affected. The Group will continuously pay attention to the market conditions and take measures in due course to maintain and improve its market position.

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

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

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

Exhaust emissions of traditional vehicles are viewed as one of the primary sources of air pollution. The Chinese government is constantly raising the emission standards of traditional vehicles. "China VI" emission standards came into force in advance in key regions on July 1, 2019. The Group has taken initiative to fulfill its social responsibilities and support the implementation of the regulations in relation to emission and air quality in vehicles. However, the increased promotion costs, raw material costs and development expenditures will also affect the Group's operating results.

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

The Vehicle Acquisition Tax Law of the People's Republic of China came into force on July 1, 2019, when the purchase tax on small-displacement vehicles returned to 10%. The policy impacts the sales of passenger vehicles with low displacement. Although the Group properly adjusts its sales policy in response to this policy change, the Group's sales may still be affected. Therefore, our operating results may be adversely affected within a certain period of time after the policy adjustment.

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

In February 2019, four ministries, including the Ministry of Finance and Ministry of Industry and Information Technology, jointly promulgated a new subsidy policy for new energy vehicles. In 2019, subsidies continued to decline in respect of new energy vehicles. Such changes of subsidy policy for new energy vehicles may affect the Group's sales of new energy vehicles, and thus adversely affect the operating results of the Group within a certain period after the policy adjustment. The Group will focus on minimizing the negative impact of change in the subsidy policies for new energy, by constantly strengthening the research and development capability of new energy vehicles and continuing to implement measures on strict procurement and cost saving.


BEIJING
Accelerating the brand upward development
and overtaking at corners


From BEIJING
It is inheritance, but even creation.

# Report of the Board of Directors

The Board of Directors hereby presents the report of the Board of Directors to the Shareholders and 2019 audited consolidated financial statements of the Group as prepared in accordance with the International Financial Reporting Standards (the "IFRSs").

## COMPANY PROFILE AND INITIAL PUBLIC OFFERING

The Company was incorporated as a joint stock limited company in the PRC on September 20, 2010. On December 19, 2014, the Company's H Shares have been listed on the Main Board of the Stock Exchange in Hong Kong Special Administrative Region ("Hong Kong").

## PRINCIPAL BUSINESS

Please refer to the section headed "MAJOR BUSINESS OPERATIONS" on pages 11 to 13 of "Company Profile and Business Overview" in this report for details.

## BUSINESS REVIEW

Please refer to the chapters headed "Company Profile and Business Overview" on pages 11 to 24 and "Management Discussion and Analysis" on pages 25 to 29 in this report for details regarding the business conditions, main risks and uncertainties faced by the Group in 2019, and the prospect of 2020. In addition, please refer to relevant information on page 32 and pages 34 to 35 in this report for events after balance sheet date, information regarding the Group's environmental performance and policies, the compliance with the relevant laws and regulations that have a significant impact on the Group and the Group's relations with employees, suppliers and customers in 2019.

## OUTLOOK

Please refer to the section headed "OPERATIONAL STRATEGY OF THE GROUP FOR 2020" on page 24 of "Company Profile and Business Overview" in this report for details.

## PERFORMANCE

The 2019 annual results and the financial position at the end of 2019 of the Company and the Group are set out on pages 97 to 175 of the audited consolidated financial statements in this report.

## PROPERTY

Changes of property, plant and equipment of the Group in 2019 are set out in Note 7 to the audited consolidated financial statements.

## SHARE CAPITAL

As of the Date of Issue of the Report, the total share capital of the Company is RMB8,015,338,182 and is divided into 8,015,338,182 Shares, at par value of RMB1.0 per Share (comprising 5,494,647,500 Domestic Shares and 2,520,690,682 H Shares).

## TAXATION

The tax position of the Group for 2019 is set out in Note 34 to the audited consolidated financial statements.

## EVENTS AFTER BALANCE SHEET DATE

The details for events after balance sheet date of the Group are set forth in Note 43 to the audited consolidated financial statements.

## DISTRIBUTABLE RESERVES

The details of the change in the reserves of the Company and the Group for 2019 are set forth in Note 41 to the audited consolidated financial statements, and in the consolidated statement of changes in equity on pages 101 to 102, respectively, among which the information of the reserve distributable to Shareholders is set forth in Note 41 to the audited consolidated financial statements.

## PROFIT DISTRIBUTION

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

The Board recommends the Company to distribute an annual final dividend for the year 2019 of RMB0.17 per share (tax inclusive) in cash to the shareholders whose names appear on the register of members at the close of business on the record date determined in accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). Based on the total ordinary share capital of 8,015,338,182 shares as at December 31, 2019, the total cash dividend distributed by the Company will be amounted to RMB1,362,607,490.94. The proposal will be submitted to the Company's 2019 annual general meeting (the "2019 Annual General Meeting") for consideration and approval. The expected date of distribution will be no later than September 4, 2020.

For the details of the distribution of annual dividends by the Company, please refer to the circular for the 2019 Annual General Meeting to be despatched by the Company in due course.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

The Company and the Group did not purchase, redeem or sell any of the Company's listed securities in 2019.

## USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

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

The Company's usage of the proceeds from the initial public offering is consistent with those as set forth in the chapter headed "Future Plans and Use of Proceeds" in the Prospectus. As at December 31, 2019, the proceeds from the initial public offering of the Company have been fully utilized.

## MAJOR CLIENTS AND SUPPLIERS

### Major clients

The transaction amount of the top five clients of the Group in 2019 accounted for 7.5% of the Group's total revenue in 2019. The transaction amount of the single largest client of the Group accounted for 5.7% of the Group's total revenue in 2019.

### Major suppliers

The transaction amount of the top five suppliers of the Group in 2019 accounted for approximately 56.6% of the Group's cost of raw materials used in the cost of sales in the year. The transaction amount of the single largest supplier of the Group accounted for approximately 32.1% of the Group's cost of raw materials used in the cost of sales in the year.

## RELATIONS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group provides competitive remuneration portfolio to attract and incentivize employees. The Group reviews the employees' remuneration portfolio on a regular basis and makes necessary adjustment in order to be in line with the market standard. The Group also understands that it is of great importance to maintain good relations with suppliers and customers for the realization of the short-term and long-term goals. For the purpose of maintaining the competitiveness of brands and the leading position, the Group is committed to providing consistently premium products and services to customers. In 2019, the Group had no material and significant dispute with suppliers and customers.

## ENVIRONMENTAL PERFORMANCE AND POLICIES

The Group has actively responded to the environmental policies and strictly complied with the Environmental Protection Law of the People's Republic of China, the Energy Conservation Law of the People's Republic of China, and other laws, regulations and relevant policies. In adhering to the environmental concept of "green operation for sustainable development", we continued to promote clean production, develop green products through eco-design, reduce the impact of the full life cycle of products on the environment, and apply the overall prevention environmental strategies to the whole production process, so as to continuously reduce resources and energy consumption and pollutant emissions.

The Group, through the business philosophy of "improving efficiency through cost reduction", promoted both management-related energy conservation and project-related energy conservation, explored energy-saving potential, improved energy utilisation efficiency and reduced energy consumption. The Company has established its operating guidelines as planning energy consumption, promoting energy conservation and improving its productivity and efficiency through energy conservation. The Company promoted energy conservation through technologies and management methods, and continuously reduced its own energy consumption and carbon dioxide emissions, thus achieving the coordinated development of its economic development and resource conservation.

In 2019, the Group strictly complied with relevant laws, regulations and China's environmental policies, and established corresponding compliance operation mechanisms. It prepared and begun to formulate the environmental, social and governance report of the Company according to the Environmental, Social and Governance Reporting Guide issued by the Stock Exchange. Such report is proposed to be published in or before July 2020.

## COMPLIANCE WITH LAWS AND REGULATIONS

The Company is an exempted company incorporated in China with limited liability, and registered as a non-Hong Kong company under the Hong Kong Companies Ordinance. The Shares of the Company are traded on the Main Board of the Stock Exchange. The Company continues to review its current systems and procedures, emphasizes and strives to comply with the Company Law of the People's Republic of China (the "Company Law"), the Listing Rules, the Securities and Futures Ordinance (the "SFO"), applicable Hong Kong Companies Ordinance, and other relevant laws and regulations which have a significant impact on the Company. The Company endeavors to safeguard its Shareholders' interests, enhance corporate governance and strengthen the functions of the Board of Directors.

Laws and regulations that have a significant impact on the operation of the Group include but are not limited to the Company Law, the Regulation of the People's Republic of China on the Administration of Company Registration, the Securities Law of the People's Republic of China, the Foreign Investment Law of the People's Republic of China, the Contract Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, the Regulation on the Administration on Recall of Defective Auto Products, the Provisions on the Liability for the Repair, Replacement and Return of Household Automotive Products, the Trademark Law of the People's Republic of China, the Patent Law of the People's Republic of China and the Product Quality Law of the People's Republic of China. In case of violation of the aforesaid laws and regulations, the Group may be subject to corresponding civil legal liabilities and administrative penalties imposed by competent authorities, or corresponding criminal liabilities if such violation constitutes a crime.

The operation of the Group has always complied with national and local laws and regulations. The Group upholds honesty and integrity, and performs its social responsibility. In 2019, there was no material litigation or dispute against the Group.

The Group has always been adhering to putting power under institutional checks (以制度管權), continuously improving and strengthening the Company's employee management system construction. In 2019, the Group further deepened and perfected the management system matching with the governance requirements of listed companies, and further facilitated the system which is easy to comply with, operate and implement. Meanwhile, the Group continues to enforce the policies such as the Implementation of the Decision-making System by State-owned Enterprises for the Major Issues, Major Personnel Appointments and Dismissals, Investments in Major Projects and Use of Large Sums of Money and the Requirements of Practice Integrity for State-owned Enterprises Leaderships.

The Company and its employees have been exercising their best endeavours to strictly follow the applicable rules, laws and industry standards. The directors of the Company (the "Directors") are not aware of any breach of laws or regulations which have a significant impact on the Group in 2019, nor are they aware of any litigation or cases of corruption, bribery, extortion, fraud and money laundering involving the Group in 2019.

## BANK LOANS AND OTHER BORROWINGS

The details for bank loans and other borrowings of the Group at the end of 2019 are set forth in Note 24 to the audited consolidated financial statements.

## DONATIONS

In 2019, the total amount of donations made by the Group was RMB1.8 million.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The basic information of the Directors, the supervisors (the "Supervisors") and senior management of the Company is set out in the chapter headed "Directors, Supervisors and Senior Management" on pages 80 to 90 of this report.

The Company has received, from each of the independent non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules, and each of the independent non-executive Director has confirmed his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent individuals pursuant to Rule 3.13 of the Listing Rules.

## CHANGES IN INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following sets out changes in information of the Directors, Supervisors and senior management from January 1, 2019 to the Latest Practicable Date:

### Directors and supervisors

On May 22, 2019, Mr. Bodo Uebber resigned as a non-executive Director due to other job assignment. For details, please refer to the announcement of the Company dated May 22, 2019.

On June 18, 2019, the Company convened the 2018 annual general meeting. Mr. Jin Wei and Mr. Harald Emil Wilhelm were appointed as non-executive Directors at the meeting, with their term of office from June 18, 2019 to the expiry date of the term of office for the third session of the Board. Upon the appointment of Mr. Jin Wei becoming effective, Ms. Jiao Ruifang ceased to act as a non-executive Director due to other work arrangements. Meanwhile, Mr. Jin Wei was appointed as a member of the remuneration committee of the Board (the "Remuneration Committee"), with the term of office from June 18, 2019. With the appointment of Mr. Jin Wei, Ms. Jiao Ruifang ceased to act as a member of the Remuneration Committee. For details, see the announcement of the Company dated June 18, 2019.

On March 19, 2019, the Company convened the fourth meeting of the first session of the employee representative congress, at which Ms. Li Chengjun was appointed as an employee representative Supervisor, for a term of office commencing on March 19, 2019 and ending on the expiry of the term of office for the third session of the Board of Supervisors of the Company (the "Board of Supervisors"). Mr. Zhang Guofu ceased to act as an employee representative Supervisor on the same date. For details, see the announcement of the Company dated March 19, 2019.

On August 26, 2019, the Board of Supervisors resolved to propose the appointment of Mr. Qi Chunyu as a shareholder representative Supervisor, with the term of office commencing on the date of approval at the Shareholders' general meeting and ending on the expiry of the term of office for the third session of the Board of Supervisors. Due to other work arrangements, Mr. Yao Shun will cease to act as a shareholder representative Supervisor on the effective date of the appointment of Mr. Qi Chunyu as a shareholder representative Supervisor. For details, see the announcement of the Company dated August 26, 2019. As at the date of the report, the appointment of Mr. Qi Chunyu as a shareholder representative Supervisor has not taken effect.

### Senior management and company secretary

On January 17, 2019, Mr. Gu Xin ceased to serve as the secretary to the Board of the Company. On the same date, Mr. Wang Jianhui was appointed as the secretary to the Board of the Company. On January 29, 2019, Mr. Gu Xin ceased to serve as the company secretary of the Company and an authorized representative of the Company for the purpose of Rule 3.05 of the Listing Rules. On the same date, Mr. Wang Jianhui was appointed as the company secretary of the Company and an authorized representative of the Company for the purpose of Rule 3.05 of the Listing Rules. For details, see the announcement of the Company dated January 29, 2019.

On June 10, 2019, Mr. Wang Zhang ceased to act as the vice president of the Company.

Save as disclosed above, from January 1, 2019 up to the Latest Practicable Date, the Company did not newly appoint or remove any Directors, Supervisors and members of senior management.

## SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each Director of the third session of the Board of Directors and each Supervisor of the third session of the Board of Supervisors have entered into a service contract with the Company for a term of three years, or from the date of the latest appointment and up to the term of the fourth session of the Board of Directors or the fourth session of the Board of Supervisors becoming effective (as the case may be and whichever is later). The service contract sets out the main terms, key conditions and relevant rights, obligations and responsibilities of the appointed Directors and Supervisors, with particular emphasis on the duties of the independent non-executive Directors and the executive Directors, and it can be terminated in accordance with the relevant terms in the service contract.

In 2019, none of the Directors or the Supervisors has entered into a service contract with the Company that cannot be terminated by the Company within a year without compensation (other than statutory compensation).

## REMUNERATION OF DIRECTORS AND SUPERVISORS

Details of remuneration of Directors and Supervisors in 2019 are set out in Note 42 to the audited consolidated financial statements.

## REMUNERATION FOR FIVE INDIVIDUALS WITH THE HIGHEST REMUNERATION

Details for remuneration for five individuals (excluding Directors and Supervisors) with the highest remuneration in the Company in 2019 are set forth in Note 32 to the audited consolidated financial statements.

## MANAGEMENT CONTRACTS

In 2019, no contract regarding the management and administration of overall business and any substantial part of the business has been entered into by the Company.

## CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "CONNECTED TRANSACTIONS" on pages 42 to 57 in this report, none of the Company or any of its subsidiaries entered into any contracts of significance with the Controlling Shareholder or any of its subsidiaries other than the Group, nor was there any contracts of significance between the Group and the Controlling Shareholder or any of its subsidiaries other than the Group in relation to provision of services in 2019.

## MATERIAL INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS, TRANSACTIONS OR ARRANGEMENTS

In 2019, save as disclosed in this report, none of the Directors or Supervisors or their connected entities directly or indirectly has material interest in any contracts, transactions or arrangements, which are significant to the businesses of the Group and entered into by the Company or any of its subsidiaries.

## RIGHTS AND INTERESTS OF DIRECTORS ON COMPETING BUSINESSES

In 2019, save as disclosed in this report, none of the Directors or their associates has any competing interests in the businesses which compete or are likely to compete with businesses of the Company, either directly or indirectly.

## DIRECTORS AND SUPERVISORS SERVING IN COMPETING BUSINESSES

The chart below summarizes the information of the Directors and Supervisors of the Company serving in BAIC Group and its connected companies as at the Date of Issue of the Report:

| Name | Main Positions in the Group | Main Positions in Beijing Automotive Group Co., Ltd. and Its Connected Companies |
|---|---|---|
| Mr. Xu Heyi | • Chairman of the Board and non-executive Director of the Company<br>• Chairman of the board of directors of Beijing Benz Automotive Co., Ltd. | • Chairman of the board of directors of Beijing Automotive Group Co., Ltd.<br>• Chairman of the board of directors of Beijing Electric Vehicle Co., Ltd.<br>• Chairman of the board of directors of BAIC BluePark New Energy Technology Co., Ltd. |
| Ms. Shang Yuanxian | • Non-executive Director of the Company | • Director of Bohai Automotive Systems Co., Ltd.<br>• Secretary to the board of directors and director of the office under the board of directors of Beijing Automotive Group Co., Ltd. |
| Mr. Yan Xiaolei | • Non-executive Director of the Company | • Director of BAIC BluePark New Energy Technology Co., Ltd.<br>• Director of BAIC ROCAR Automobile Service & Trade Co., Ltd.<br>• Director of Bohai Automotive System Co., Ltd. |
| Mr. Xie Wei | • Non-executive Director of the Company | • Secretary to the party committee and head of Beijing Automotive Technology Center Co., Ltd. (北京汽車研究總院有限公司) |
| Mr. Wang Min | • Supervisor of the Company | • Supervisor of Beijing Automotive Asset Operation Management Co., Ltd. (北京汽車資產經營管理有限公司)<br>• Supervisor of BAIC International Development Co., Ltd. (北京汽車國際發展有限公司)<br>• Supervisor of BAIC Mobility Co., Ltd. (華夏出行有限公司)<br>• Supervisor of Beijing Xingdongfang Technology Co., Ltd. (北京興東方科技有限公司) |

The businesses of the Group are partially competing with those of BAIC Group and its subsidiaries. The Company's executive Director (Mr. Chen Hongliang) devotes most of his time to managing the Company's daily operations.

Save as disclosed above, as at the Date of Issue of the Report, none of the Directors, Supervisors or their associates had any rights and interests in competing businesses or businesses that might be competing with the Group's business, nor did they have any other conflicts of interest with the Group.

## INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN SHARES, UNDERLYING SHARES AND DEBENTURES

At the end of 2019, the interests and short positions of the Directors, Supervisors and senior management of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

| Name of Shareholder | Class of Shares | Number of Shares/ Underlying Shares Held [Note 1] | Percentages to Relevant Class of Share Capital (%)[Note 2] | Percentages to the Total Share Capital (%) |
|---|---|---|---|---|
| Yan Xiaolei [Note 3] | H Shares | 5,000(L) | 0.0002 | 0.00006 |

Note 1: (L) – Long position;

Note 2: The percentage is calculated based on the number of Shares held by relevant persons/the number of relevant classes of Shares of the Company in issue as at the end of 2019;

Note 3: Yan Xiaolei is directly interested in 5,000 H Shares of the Company.

Save as disclosed above, as at the end of the Reporting Period, none of the Directors, Supervisors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations which were required (a) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register as referred to therein; or (c) pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

## DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As at the end of 2019, none of the Directors or Supervisors or any of their respective associates was granted by the Company or its subsidiaries any rights to, or had exercised any rights to acquire shares or debentures of the Company or any other body corporate.

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

As at the end of 2019, to the best knowledge of the Directors, the following entities/persons (except for the Directors, Supervisors and senior management) had interests or short positions in the Shares or underlying shares of the Company which were required to be disclosed to the Company pursuant to Divisions 2 and 3 in Part XV of the SFO, or recorded in the register required to be kept under section 336 of the SFO, or who were directly and/or indirectly deemed to have 5% or more interest of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings:

| Name of Shareholder | Class of Shares | Number of Shares/ Underlying Shares Held Note 1 | Percentages to Relevant Class of Share (%)Note 2 | Percentages to the Total Share Capital (%) |
|---|---|---|---|---|
| Beijing Automotive Group Co., Ltd. | Domestic Shares | 3,416,659,704(L) | 62.18 | 42.63 |
| Beijing Shougang Company Limited | Domestic Shares | 1,028,748,707(L) | 18.72 | 12.83 |
| Shenzhen Benyuan Jinghong Equity Investment Fund (Limited Partner) | Domestic Shares | 342,138,918(L) | 6.23 | 4.27 |
| Daimler AG | H Shares | 765,818,182(L) | 30.38 | 9.55 |
| Citigroup Inc. | H Shares | 257,768,672(L) | 10.22 | 3.22 |
| | | 231,500(S) | 0.00 | 0.00 |
| | | 256,754,228(P) | 10.18 | 3.20 |
| GIC Private Limited | H Shares | 176,273,500(L) | 6.99 | 2.20 |
| BlackRock, Inc. | H Shares | 131,085,253(L) | 5.20 | 1.64 |

Note 1: (L) – Long position, (S) – Short position, (P) – Lending pool;

Note 2: The percentage is calculated based on the number of Shares held by relevant persons/the number of relevant classes of Shares of the Company in issue as at the end of 2019.

## ARRANGEMENTS FOR SHARE PRE-EMPTIVE RIGHT AND SHARE OPTION

In 2019, no arrangement for share pre-emptive right and share option was made by the Company, and there is no specific provision under the PRC laws or the Articles of Association regarding share pre-emptive right.

## DEBENTURES ISSUED

The debentures issued by the Group in 2019 are set out below:

On January 29, 2019, the Company issued 2019 first tranche of ultra short-term commercial paper in an amount of RMB1,500 million with the term of 270 days and the annual coupon rate of 3.25%, and all proceeds were used for repaying bank borrowings.

On April 26, 2019, the Company issued 2019 second tranche of ultra short-term commercial paper in an amount of RMB2,000 million with the term of 180 days and the annual coupon rate of 3.20%, and all proceeds were used for replenishing the working capital.

On May 10, 2019, the Company issued 2019 third tranche of ultra short-term commercial paper in an amount of RMB2,000 million with the term of 270 days and the annual coupon rate of 3.30%, and all proceeds were used for repaying 18 BAIC Motor SCP002 (18京汽股SCP002).

On October 11, 2019, the Company issued 2019 fourth-tranche ultra short-term debentures in an amount of RMB1,000 million with the term of 270 days and the annual coupon rate of 2.40%, and the proceeds raised were used for repaying 19 BAIC Motor SCP002 (19京汽股SCP002), the bank borrowings of the Company and replenishing its daily working capital.

On October 21, 2019, the Company issued 2019 fifth-tranche ultra short-term debentures in an amount of RMB500 million with the term of 270 days and the annual coupon rate of 2.79%, and all proceeds raised were used for repaying 19 BAIC Motor SCP002 (19京汽股SCP002).

## EQUITY-LINKED AGREEMENTS

In 2019, no equity-linked agreement was entered into by or subsisted in the Company, and there was no provision to enter into any agreement which will or may result in the Company issuing new shares.

## PERMITTED INDEMNITY PROVISION

In 2019, no permitted indemnity provision (whether made by the Company or otherwise) was made which was or is in force for the benefit of the Directors of the Company or any directors of the associated companies of the Company (if made by the Company).

The Company has liability insurance to protect Directors, Supervisors and senior management against certain relevant lawsuits.

## RETIREMENT AND EMPLOYEE BENEFIT SCHEMES

For details of the retirement and employee benefit schemes of the Group, see relevant information set out in the section headed "EMPLOYEES" on pages 58 to 59 of this Report.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For details, see the chapter headed "Corporate Governance Report" on pages 63 to 79 of this Report.

# Report of the Board of Directors

## AUDIT COMMITTEE

The audit committee under the Board (the "Audit Committee") has reviewed the Company's and the Group's 2019 annual results, and the audited consolidated financial statements for 2019 prepared in accordance with the IFRSs.

## AUDITORS

PricewaterhouseCoopers ("PwC") and PricewaterhouseCoopers Zhong Tian LLP ("PwC Zhong Tian") were appointed as the Company's auditors in relation to the financial statements prepared under the IFRSs and China Accounting Standards, respectively, for the year ended 2019.

## SUMMARY OF THE FIVE-YEAR FINANCIAL INFORMATION

Summary of the Group's operation performance, assets and liabilities for the last five financial years is set out in the chapter headed "Summary of Financial and Performance Information" on pages 8 to 10 in this report. This summary does not form part of the audited consolidated financial statements.

## COMPLIANCE OF BAIC GROUP WITH THE NON-COMPETITION UNDERTAKING

The Company has received a confirmation letter from BAIC Group, which confirms that in 2019, BAIC Group has complied with every undertaking in the "Non-competition Undertaking" granted to the Company.

## PUBLIC FLOAT

According to the information publicly available to the Company, or to the knowledge of the Directors, on the Date of Issue of the Report, the public held no less than 21.90% of Shares issued by the Company, which complies with a waiver regarding public float obtained by the Company when Listing. For details, please refer to the Prospectus, the announcement of the Company on partial exercise of over-allotment option dated January 12, 2015, and the announcement of the Company on completion of the placing of H Shares dated May 3, 2018.

## MATERIAL LITIGATION

As at the end of 2019, the Company was not involved in any material litigation or arbitration. To the best knowledge of the Directors, there is also no ongoing or possible material litigation or claim against the Company.

## CONNECTED TRANSACTIONS

### Fully-exempted continuing connected transactions

**Trademark and Technology Licensing Framework Agreement between the Company and BAIC Group**

The Company entered into a trademark and technology licensing framework agreement (the "Trademark and Technology Licensing Framework Agreement") with BAIC Group on December 2, 2014 for an initial term commenced on the Listing Date of the Company and expiring on the end of 2016, subject to renewal upon mutual consents by both parties. In order to continue using the licensed trademark of BAIC Group, both parties have renewed the agreement on October 20, 2016, the term of which commenced on January 1, 2017 and ending at the end of 2019, subject to renewal upon mutual consents by both parties. Both parties renewed the agreement on March 27, 2019, with the term commencing on January 1, 2020 to December 31, 2022, subject to further renewal with the agreement of both parties.

Pursuant to the agreement, BAIC Group agreed to grant the Group (excluding Beijing Benz) a non-exclusive license for the use of certain registered trademarks (the "Licensed Trademarks") and relevant production technologies owned by BAIC Group on a royalty-free basis. Our Group will use the Licensed Trademarks and the production technologies within the scope specified in the Trademark and Technology Licensing Framework Agreement.

BAIC Group is the sole Controlling Shareholder and a Connected Person of the Company. The transactions entered into between the Company and BAIC Group constitute connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

The Trademark and Technology Licensing Framework Agreement was entered into on normal commercial terms and the Group paid the trademark licensing fee of RMB0 and the technology licensing fee of RMB0 to BAIC Group in 2019. The applicable percentage ratio calculated pursuant to Chapter 14A of the Listing Rules was less than 0.1%. Pursuant to Rule 14A.76 of the Listing Rules, the aforesaid continuing connected transactions are exempted from reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## Non-exempt continuing connected transactions

1. **Trademark Licensing Agreement between Beijing Benz and BAIC Group**

   Beijing Benz, a non-wholly owned subsidiary of the Company entered into a trademark licensing agreement (the "Trademark Licensing Agreement") with BAIC Group on February 28, 2013, with regard to its company name of "Beijing Benz", the production and assembly of its existing vehicle models, and the agreement will remain effective within the term of the joint venture agreement of Beijing Benz. The trademark licensing arrangement is a part of the joint venture agreement between the Company and Daimler AG in respect of Beijing Benz.

   Pursuant to the agreement, Beijing Benz has the non-exclusive license granted by BAIC Group to use the "Beijing" trademark in the Company's name, and the manufacturing and assembly of passenger vehicles, and Beijing Benz shall regularly pay the trademark licensing fee to BAIC Group. The trademark licensing fee payable to BAIC Group is determined with reference to an agreed percentage of the net revenue generated by each vehicle. The annual caps for the trademark licensing fee paid by Beijing Benz to BAIC Group under the Trademark Licensing Agreement for the three financial years ended December 31, 2019 were RMB555.4 million, RMB744.5 million and RMB900.8 million respectively. In 2019, the trademark licensing fee paid by Beijing Benz to BAIC Group under the above agreement was RMB660.9 million.

   The annual caps under the agreement determined by the Company for 2020, 2021 and 2022 are RMB939.8 million, RMB986.8 million and RMB1,036.2 million respectively. The aforementioned continuing connected transactions and the annual caps were considered and approved by the Board of Directors on March 27, 2019. For other details on the Trademark Licensing Agreement, please refer to the announcement of the Company dated March 27, 2019.

2. **Property and Facility Leasing Framework Agreement between the Company and BAIC Group**

The Company entered into a property and facility leasing framework agreement (the "Property and Facility Leasing Framework Agreement") with BAIC Group on December 2, 2014, with the term from the Listing Date of the Company to the end of 2016, subject to renewal through mutual consents by both parties. Both parties renewed the Property and Facility Leasing Framework Agreement on October 20, 2016, with a term from January 1, 2017 to the end of 2019, subject to renewal through mutual consents by both parties. Pursuant to the agreement, the Company and/or its subsidiaries will lease properties and facilities from BAIC Group and/or its associates for manufacturing specific passenger vehicles. The rent payable under the agreement shall be agreed based on arm's length negotiation between the parties to the agreement with reference to the local market price, in compliance with relevant rules and regulations of the PRC; individual agreements shall be entered into, which shall specify the specific terms and conditions (including property rents, payment methods and other usage fees), in respect of relevant leased properties and facilities. On March 27, 2019, the Company entered into a supplemental agreement to the Property and Facility Leasing Framework Agreement ("Property and Facility Leasing Supplemental Agreement") with BAIC Group to supplement certain provisions in respect of transaction type under the Property and Facility Leasing Framework Agreement and set up the annual cap for the rentals to be received by the Group from BAIC Group and/or its associates for properties and facility leasing in 2019. Pursuant to the Property and Facility Leasing Supplemental Agreement, the Company and/or its subsidiaries will lease properties and facilities to BAIC Group and/or its associates for manufacturing specific passenger vehicles.

The annual caps for the rentals paid to BAIC Group and/or its associates for properties and facility leasing under the Property and Facility Leasing Framework Agreement, as amended by the Property and Facility Leasing Supplemental Agreement, for the three financial years ended December 31, 2019 were RMB377.8 million, RMB396.7 million and RMB416.5 million; The annual cap for the rentals received from BAIC Group and/or its associates for properties and facility leasing for the financial year ended December 31, 2019 is RMB199.3 million. In 2019, the rentals for properties and facility leasing paid by the Group to BAIC Group and/or its associates was RMB134.6 million, and the rentals received from BAIC Group and/or its associates for properties and facility leasing was nil.

The Company and BAIC Group renewed the Property and Facility Leasing Framework Agreement on March 27, 2019, for a term from January 1, 2020 to December 31, 2022, subject to renewal through mutual consents by both parties. The annual caps for 2020, 2021 and 2022 determined by the Company for the rentals for properties and facility leasing to be paid to BAIC Group and/or its associates are RMB351.9 million, RMB387.1 million and RMB425.8 million respectively; the annual caps for 2020, 2021 and 2022 determined by the Company for the rentals for properties and facility leasing to be received from BAIC Group and/or its associates are RMB255.9 million, RMB255.9 million and RMB255.9 million respectively. The aforesaid continuing connected transactions and the annual caps were considered and approved by the Board of Directors on March 27, 2019. For other details on the Property and Facility Leasing Framework Agreement, please refer to the announcement of the Company dated March 27, 2019.

3. **Financial Services Framework Agreement between the Company and BAIC Finance**

The Company entered into a financial services framework agreement (the "Financial Services Framework Agreement") with BAIC Finance on December 2, 2014, for an initial term commenced on the Listing Date of the Company and expired at the end of 2016, subject to renewal through mutual consents by both parties. The Company renewed the Financial Services Framework Agreement with BAIC Finance on October 20, 2016, with the term from January 1, 2017 to the end of 2019, subject to renewal through mutual consents by both parties.

Pursuant to the agreement, BAIC Finance will provide financial services to the Company, mainly including (i) deposits; (ii) loans and entrusted loans; (iii) other financial services inclusive of notes discount and acceptance, finance leasing, settlement and entrusted loan agency; and (iv) any other services subject to relevant approvals from China Banking Regulatory Commission ("CBRC").

The Financial Services Framework Agreement provides for the following pricing principles:

(a) Deposit services. Interest rates for the deposits placed by the Group with BAIC Finance will not be lower than: (i) the interest rate published by the People's Bank Of China ("PBOC") for deposits of a similar type for the same period; (ii) the interest rate for deposits of a similar type for the same period placed by the subsidiaries of BAIC Group (other than the Group); or (iii) the interest rate for deposits of a similar type for the same period offered by independent commercial banks to us and our subsidiaries.

(b) Loan services. Interest rates for the loans to be advanced by BAIC Finance to the Group will not be higher than: (i) the caps (if any) of the loan interest rate published by the PBOC for loans of a similar type for the same period; (ii) the interest rate for loans of a similar type for the same period offered by BAIC Finance to other subsidiaries of BAIC Group (other than the Group); or (iii) the interest rate for loans of a similar type for the same period offered by independent commercial banks to the Group.

(c) Other financial services. The interest rates or services fees will be (i) subject to the benchmark fee (if applicable) for similar types of financial services published by the PBOC or CBRC from time to time; (ii) comparable to or not exceeding the interest rates or fees charged by independent commercial banks or financial institutions to the Group for similar types of financial services; and (iii) comparable to or not exceeding the fees charged by BAIC Finance to the subsidiaries of BAIC Group (other than the Group) for similar financial services.

BAIC Group, the Controlling Shareholder and a Connected Person of the Company, holds 56.00% equity interest in BAIC Finance, an associate of BAIC Group, therefore, BAIC Finance is also a Connected Person of the Company. The transactions under the Financial Services Framework Agreement between the Company and BAIC Finance constitute connected transactions of the Company, pursuant to Chapter 14A of the Listing Rules.

As the loan services provided by BAIC Finance to the Group are on normal commercial terms and on terms that are no less favourable than those offered by independent third parties to the Group for comparable services in China, and that no security over the assets of the Group would be granted in respect of the loans, therefore, the loan service transactions are exempted from the reporting, announcement and independent Shareholders' approval requirements under the Rule 14A.90 of the Listing Rules.

The maximum daily balance of deposits and the annual caps for interest income from deposits under the Financial Services Framework Agreement for the three financial years ended December 31, 2019 are as follows:

| | Annual cap for the year ended December 31, (RMB million) | | |
|---|---|---|---|
| **Item** | **2017** | **2018** | **2019** |
| Maximum daily balance of deposits placed by the Group with BAIC Finance | 12,500.0 | 16,000.0 | **16,000.0** |
| Interest income from deposits placed by the Group with BAIC Finance | 193.2 | 292.8 | **292.8** |

In 2019, the actual maximum daily balance of deposits placed by the Group with BAIC Finance was RMB15,962.0 million, and the actual interest income from deposits placed by the Group with BAIC Finance was RMB276.3 million.

The Company renewed the Financial Services Framework Agreement with BAIC Finance on March 27, 2019, with the term from January 1, 2020 to December 31, 2022, subject to renewal through mutual consents by both parties. The annual caps determined by the Company for 2020, 2021 and 2022 are as follows:

| | Annual cap for the year ended December 31, (RMB million) | | |
|---|---|---|---|
| **Item** | **2020** | **2021** | **2022** |
| Maximum daily balance of deposits placed by the Group with BAIC Finance | 16,000.0 | 16,000.0 | 16,000.0 |
| Interest income from deposits placed by the Group with BAIC Finance | 292.8 | 292.8 | 292.8 |

The aforesaid continuing connected transactions and the annual caps were considered and approved by the Board of Directors on March 27, 2019, and approved at the 2018 annual general meeting of the Company on June 18, 2019. For other details on the Financial Services Framework Agreement, please refer to the announcement of the Company dated March 27, 2019 and the circular dated May 24, 2019.

4. **Products and Services Purchasing Framework Agreement between the Company and BAIC Group**

The Company entered into a products and services purchasing framework agreement (the "Products and Services Purchasing Framework Agreement") with BAIC Group on December 2, 2014, for an initial term of the Agreement commenced on the Listing Date of the Company and expired on the end of 2016, subject to renewal through mutual consents by both parties. In order to effectively meet the Company's requirements in terms of stable supply and high quality of products and comprehensive services and high quality, the Company renewed the Products and Services Purchasing Framework Agreement with BAIC Group on October 20, 2016, with the term from January 1, 2017 to the end of 2019, subject to renewal through mutual consents by both parties.

Pursuant to such agreement, BAIC Group and/or its associates will provide products and services comprising automobile equipment, raw materials, components and parts, complete vehicles, labor services, logistics services, transportation services and consultancy services to the Company and/or our subsidiaries. In order to ensure that the terms of individual transaction in respect of the purchase of products and services by the Group from BAIC Group are fair and reasonable and in line with market practices, the Group has adopted the following pricing policies and measures: to have regular contact with the suppliers of the Group (including BAIC Group) to keep abreast of market developments and the price trend of comprehensive services; before placing an individual purchase order, to invite certain number of suppliers (including BAIC Group) from the approved list of suppliers of our Group to submit quotations or proposals; to have the suppliers and pricing of products and comprehensive services determined jointly by the Company's tender assessment team according to the Company's administrative measures for market quotations.

The annual caps for purchase of products and purchase of services under the Products and Services Purchasing Framework Agreement for the three financial years ended December 31, 2019 are as follows:

| Item | Annual cap for the year ended December 31, (RMB million) | | |
|---|---|---|---|
| | 2017 | 2018 | 2019 |
| Purchase of products | 41,532.7 | 61,954.4 | **72,821.3** |
| Purchase of services | 7,755.0 | 8,265.5 | **8,632.2** |

In 2019, the actual amount of purchasing products and services under the Products and Services Purchasing Framework Agreement were RMB25,244.2 million and RMB3,100.7 million respectively.

The Company renewed the Products and Services Purchasing Framework Agreement with BAIC Group on March 27, 2019, for the term from January 1, 2020 to December 31, 2022, subject to renewal through mutual consents by both parties. The annual caps determined by the Company for 2020, 2021 and 2022 are as follows:

| Item | Annual cap for the year ended December 31, (RMB million) | | |
|---|---|---|---|
| | 2020 | 2021 | 2022 |
| Purchase of products | 50,346.0 | 52,920.8 | 55,603.1 |
| Purchase of services | 5,036.4 | 4,990.2 | 5,194.6 |

The aforesaid continuing connected transactions and the annual caps were considered and approved by the Board of Directors on March 27, 2019, and approved at the 2018 annual general meeting of the Company on June 18, 2019. For other details on the Financial Services Framework Agreement, please refer to the announcement of the Company dated March 27, 2019 and the circular dated May 24, 2019.

5、 **Provision of Products and Services Framework Agreement between the Company and BAIC Group**

The Company entered into a provision of products and services framework agreement (the "Provision of Products and Services Framework Agreement") with BAIC Group on December 2, 2014, for an initial term of the Agreement commenced on the Listing Date of the Company and expired at the end of 2016, subject to renewal through mutual consents by both parties. The Company renewed the Provision of Products and Services Framework Agreement with BAIC Group on October 20, 2016, with the term from January 1, 2017 to the end of 2019, subject to renewal through mutual consents by both parties.

Pursuant to such agreement, BAIC Group and/or its associates will purchase various products comprising facilities, raw materials, components and parts, complete vehicles etc. and services comprising sales agency, processing agency, labor, logistics, transportation and consultancy services offered by the Company and/or subsidiaries. In order to ensure that the terms under such agreement are fair, the said agreement specifically provides that the terms of transactions contemplated thereunder are to be no less favorable than those entered into between the Company and independent third parties. The service fees charged to BAIC Group by the Group are determined on the basis of arm's length negotiations between the relevant parties. To ensure that the terms of supplying products and services to BAIC Group are fair and reasonable, we will make reference to the relevant historical prices of products and services and will base such on the principle of cost coupled with a fair and reasonable margin.

The annual caps for sale of products and provision of services under the Provision of Products and Services Framework Agreement for the three financial years ended December 31, 2019 are as follows:

| | Annual cap for the year ended December 31, (RMB million) | | |
|---|---|---|---|
| **Item** | **2017** | **2018** | **2019** |
| Sale of products | 32,473.3 | 43,017.6 | **46,445.6** |
| Provision of services | 973.1 | 1,027.2 | **1,101.1** |

In 2019, the amounts actually incurred for the sale of products and provision of services under the Provision of Products and Services Framework Agreement were RMB23,811.8 million and RMB77.2 million respectively.

The Company renewed the Provision of Products and Services Framework Agreement with BAIC Group on March 27, 2019, for the term from January 1, 2020 to December 31, 2022, subject to renewal through mutual consents by both parties. The annual caps determined by the Company for 2020, 2021 and 2022 are as follows:

| | Annual cap for the year ended December 31, (RMB million) | | |
|---|---|---|---|
| **Item** | **2020** | **2021** | **2022** |
| Sale of products | 29,726.4 | 31,250.5 | 32,836.9 |
| Provision of services | 392.7 | 413.3 | 434.7 |

The transaction for sale of products and the annual caps were considered and approved by the Board of Directors on March 27, 2019, and approved at the 2018 annual general meeting of the Company on June 18, 2019. The transaction for provision of services and the annual caps were considered and approved by the Board of Directors on March 27, 2019. For other details on the transactions for the sale of products and provision of services, please refer to the announcement of the Company dated March 27, 2019 and the circular dated May 24, 2019.

6. **Continuing connected transactions in relation to Daimler AG and its associates**

In 2019, the Group has entered into a number of continuing connected transactions with Daimler AG and its associates. In view of factors including protection of trade secrets and avoidance of unnecessary burden and losses to the business and operation of the Group, the Stock Exchange, at the time of Listing of the Company, has granted the Company an exemption from strict compliance with the written agreement and/or annual cap, announcements, annual reporting and/or independent Shareholders' approval requirements under the Listing Rules in respect of certain transactions with Daimler AG, as follows:

| Nature of transaction | Transaction summary and pricing policy | Exemption granted |
|---|---|---|
| **Sales of vehicles by Beijing Benz to Daimler AG and its associates** | • **Transaction summary:** Daimler AG and its associates purchased vehicles from Beijing Benz for the purposes of research and development, testing, marketing and promotion and self-use.<br>• **Pricing policy:** The market prices of relevant vehicles have been taken into consideration to ensure that the prices are fair and reasonable and on normal commercial terms. | Signing of written agreement |
| **Purchases of parts and accessories by Beijing Benz from Daimler AG and its associates** | • **Transaction summary:** Beijing Benz purchased from Daimler AG and its associates components (including chassis), spare parts and accessories for the purposes of production.<br>• **Pricing policy:** The market prices of similar products available in the market will be taken into consideration by Beijing Benz to ensure that the prices offered by Daimler AG and/or its associates are reasonable and competitive in the market.<br>• **Transaction amount:** Not applicable. | Signing of written agreement, annual cap, annual reporting, announcement and independent Shareholders' approval |

| Nature of transaction | Transaction summary and pricing policy | Exemption granted |
|---|---|---|
| **Provision of the right to use intellectual property rights (including trademarks and technologies) by Daimler AG and its associates to Beijing Benz** | • **Transaction summary:** Beijing Benz is granted by Daimler AG a non-exclusive license for the use of trademarks (including the "Benz" trademark in its company name) and technologies in the manufacture and assembly of Mercedes-Benz branded passenger vehicles upon the periodic payment of royalties to Daimler AG and its associates.<br><br>• **Pricing policy:** The prices for the use of technologies and trademarks have been agreed by Daimler AG and the Group on arm's length negotiations subject to our internal control procedures. The royalties payable for such licenses of technologies and trademarks are calculated as a percentage of the net revenue from vehicles and automobile parts and components which use the licensed technologies and trademarks. This net revenue is calculated based on the manufacturer's suggested retail price less the value-added tax, gross margin of dealers, sales rebates to dealers, consumption tax and sales discounts.<br><br>• **Transaction amount:** Not applicable. | Signing of written agreement, annual cap, annual reporting, announcement and independent Shareholders' approval |
| **Provision of services by Daimler AG and its associates to Beijing Benz** | • **Transaction summary:** Beijing Benz has entered into service procurement agreements with Daimler AG and its associates, pursuant to which Daimler AG and its associates provided technical support, training, specialist assistance, IT support, sales consulting, marketing and operational management services.<br><br>• **Pricing policy:** The service fees charged by Daimler AG and its associates to the Group are determined based on arm's length negotiations subject to our internal control procedures. In relation to technical support services and specialist assistance services, Daimler AG and the Company agreed that the service fees to be paid will be determined on a fixed fee rate on a daily basis with reference to the historical rates paid by Beijing Benz for the provision of similar services. The Group will take into account the market prices and comparable prices of similar services.<br><br>• **Transaction amount:** Not applicable. | Signing of written agreement, annual cap, annual reporting, announcement and independent Shareholders' approval |

| Nature of transaction | Transaction summary and pricing policy | Exemption granted |
|---|---|---|
| **Beijing Benz provides Daimler AG and its associates with services, parts and accessories** | • **Transaction summary:** Beijing Benz sold components and spare parts and provided aftersales referral services to Daimler AG and its associates.<br>• **Pricing policy:** In relation to the aforesaid transactions, the Group will take into account the market prices of the relevant parts, components and services offered by other suppliers to Daimler AG and its associates to ensure that the prices Beijing Benz offered to Daimler AG and its associates are fair and reasonable and on normal commercial terms. The Group determines the prices of our components, parts and accessories by reference to the average profit margin in the market or based on the principle of the cost plus a reasonable margin.<br>• **Transaction amount:** Not applicable. | Signing of written agreement, annual cap, annual reporting, announcement and independent Shareholders' approval |

Upon completion of the placing of H Shares by the Company on May 3, 2018 and as at the date of this report, Daimler AG held 9.55% equity interest in the Company and ceased to be a Connected Person at the listed company level; since Daimler AG held 49% equity interest in Beijing Benz at the same time, a significant subsidiary of the Company, Daimler AG and its associates remained Connected Persons of the Company at the subsidiary level pursuant to Chapter 14A of the Listing Rules, and the transactions entered into between the Group and Daimler AG and its associates continued to constitute connected transactions of the Company and shall be regulated as transactions with Connected Persons at the subsidiary level.

The annual caps for the continuing connected transactions arising from the sale of vehicles by Beijing Benz to Daimler AG and its associates for the three financial years ended December 31, 2019 are RMB170.0 million, RMB170.0 million and RMB170.0 million respectively. In 2019, the actual amount of such transactions was RMB101.7 million. The annual caps under the agreement determined by the Company for 2020, 2021 and 2022 are RMB210.0 million, RMB210.0 million and RMB210.0 million respectively. The aforesaid continuing connected transactions and the annual caps were considered and approved by the Board of Directors on March 27, 2019. As each of applicable percentage ratios of the annual caps is less than 1%, pursuant to Rule 14A.76 of the Listing Rules, the aforesaid continuing connected transactions shall be fully exempted from reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

**7. General Product Supply Series Agreements between the Company and Daimler AG**

In order to strengthen the construction of its own brands and to further enhance the Company's research and development capabilities of high-end vehicles through leveraging on the accumulation of research and development and manufacturing technology regarding high-end vehicles by Daimler AG, on July 12, 2017, the Company and Daimler AG entered into the general product supply series agreements ("General Product Supply Series Agreements"), with the term commenced on October 12, 2017 and ending at the end of 2019. According to the General Product Supply Series Agreements, the Company will purchase from Daimler AG the parts, components, materials and services used for manufacturing and production of vehicles. The Board resolved on July 22, 2019 to revise the 2019 annual cap for the transactions to purchase automobile parts, components and materials from Daimler AG by the Company under the General Product Supply Series Agreements from RMB574.0 million to RMB882.0 million.

With respect to the parts, components and materials produced by Daimler AG, the respective purchase prices of the parts, components and materials ordered by the Company are determined on the global standard prices of the parts, components and materials produced by Daimler AG effective at the time when Daimler AG delivers goods for the purchase order accordingly multiplied by the Company's expected amount of needs and usage of parts, components and materials.

The annual caps for the continuing connected transactions to purchase automobile parts, components and materials from Daimler AG by the Company under the General Product Supply Series Agreements for the three financial years ended December 31, 2019 are RMB434.1 million, RMB1,924.8 million and RMB882.0 million respectively. In 2019, the actual amount of transactions under such agreements was RMB721.6 million.

### Independent non-executive Directors' review and confirmation

Independent non-executive Directors of the Company have reviewed the aforesaid continuing connected transactions and have confirmed that in 2019, they have been entered into: in the ordinary and usual course of the Group's business; on normal commercial or better terms; with the terms no less favorable to the Company than those offered to or by (as the case may be) independent third parties, if those available for comparison are insufficient to determine whether the terms of such transaction is normal commercial terms; and in accordance with relevant agreements whose conditions are fair and reasonable and in the interest of the Shareholders of the Company as a whole.

### Auditor's letter

Pursuant to Rule 14A.56 of the Listing Rules, the Company has engaged our auditor, PwC, to report on the Group's continuing connected transactions in accordance with HKSAE3000 (Revised) "Hong Kong Standard on Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accounts. Based on its work, the Company's auditor provided the Board of Directors with a letter confirming that, with respect to the aforesaid continuing connected transactions:

(1) nothing has come to our auditor's attention that causes it to believe that the disclosed continuing connected transactions have not been approved by the Board of Directors.

(2) for transactions involving the provision of goods or services by the Group, nothing has come to our auditor's attention that causes it to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group.

(3) nothing has come to our auditor's attention that causes it to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

(4) with respect to the aggregate amount for each of the aforesaid continuing connected transactions, nothing has come to our auditor's attention that causes it to believe that the amount of the disclosed continuing connected transactions has exceeded the annual cap as set by the Company.

The Company has submitted a copy of the aforesaid auditor's letter to the Stock Exchange.

The Company confirmed that the entering into and implementation of specific agreements in relation to the above continuing connected transactions for 2019 has complied with the pricing principles of these continuing connected transactions.

## Non-continuing connected transactions

**1. Capital increase to MBLC by the Company**

In order to satisfy the need of enterprise development and meet the supervision requirements of the Ministry of Commerce, on March 28, 2019, the Company and Daimler Greater China entered into the Capital Increase Agreement, pursuant to which, the Company and Daimler Greater China agreed to contribute an aggregate amount of RMB700,000,000 to MBLC in proportion to their respective shareholdings in MBLC, of which RMB455,000,000 shall be contributed by Daimler Greater China, accounting for 65% of the amount under the capital increase, and RMB245,000,000 shall be contributed by the Company, accounting for 35% of the amount under the capital increase. Upon completion of the capital increase, the registered capital of MBLC will be increased from RMB3,597,538,461.54 to RMB4,297,538,461.54. On December 5, 2019, the Company and Daimler Greater China further entered into the Capital Increase Agreement, pursuant to which, the Company and Daimler Greater China agreed to contribute an aggregate amount of RMB500,000,000 to MBLC in proportion to their respective shareholding in MBLC. Of which, Daimler Greater China will contribute RMB325,000,000, representing 65% of the amount under the capital increase, while the Company will contribute RMB175,000,000, representing 35% of the amount under the capital increase. Upon completion of the capital increase, the registered capital of MBLC will be increased from RMB4,297,538,461.54 to RMB4,797,538,461.54.

On the date of each of the agreements, Daimler AG is a substantial shareholder of Beijing Benz and is a Connected Person of the Company at the subsidiary level. As Daimler AG indirectly holds 65% equity interests in MBLC through its wholly-owned subsidiary, Daimler Greater China, MBLC is an associate of Daimler AG and therefore also a Connected Person of the Company. The contributions by the Company to the newly increased registered capital of MBLC constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

For details of the aforesaid transactions, please refer to the announcements of the Company dated March 28, 2019 and December 5, 2019, respectively.

**2. Capital increase to BAIC SA by BAIC HK**

On April 12, 2019, BAIC HK, Investment Universe, IDC and BAIC SA entered into a subscription agreement, pursuant to which, BAIC HK, Investment Universe and IDC agreed to contribute an aggregate amount of USD75,420,000 to BAIC SA in proportion to their respective original shareholdings, by way of subscription of new shares of BAIC SA. BAIC HK, Investment Universe and IDC shall contribute an amount of USD15,084,000, USD33,939,000 and USD26,397,000 respectively to subscribe for 15,084,000 shares, 33,939,000 shares and 26,397,000 shares respectively in BAIC SA. Upon completion of the transaction, the shareholding percentage of BAIC HK in BAIC SA will remain unchanged at 20%, representing a total capital contribution of USD23,998,000.

On the date of the agreement, BAIC Group, the sole Controlling Shareholder and a Connected Person of the Company, held 45% equity interest in BAIC SA, an associate of BAIC Group, through Investment Universe, its indirect wholly-owned subsidiary, therefore, BAIC SA is also a Connected Person of the Company. The additional capital contribution by BAIC HK, a wholly-owned subsidiary of the Company, to BAIC SA constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules.

For details of the aforesaid transaction, please refer to the announcement of the Company dated April 12, 2019.

3. **Capital increase to National Innovation Center by the Company**

On December 24, 2019, the Company, as one of the new shareholders of National Innovation Center, entered into the capital increase agreement with National Innovation Center, existing shareholders and new shareholders of National Innovation Center (including BAIC Group, Beijing Electric Vehicle Co., Ltd. ("Beijing Electric Vehicle"), Beiqi Foton Motor Co., Ltd. ("Foton") and Beijing Hainachuan Automobile Components Corporation Limited ("Hainachuan Automobile"), and other independent third parties) with regard to additional capital contributions to National Innovation Center. In accordance with the capital increase agreement, the Company, Foton, Hainachuan Automobile and other new shareholders shall subscribe for the additional registered capital of National Innovation Center, of which the Company shall subscribe for RMB48,543,689 at a consideration of RMB49,999,999.67. Upon completion of the capital increase, 12.02% equity interest in National Innovation Center will be held by the Company.

On the date of the agreement, BAIC Group held 27.07% equity interest and 60% equity interest in Foton and Hainachuan Automobile respectively, and held 62.5% equity interest in National Innovation Center, directly and indirectly through Beijing Electric Vehicle. Foton, Hainachuan Automobile and National Innovation Center are Connected Persons of the Company pursuant to Chapter 14A of the Listing Rules. The subscription by the Company, Foton and Hainachuan Automobile for the additional registered capital of National Innovation Center constitutes a connected transaction of the Company.

For details of the above transaction, please refer to the announcements of the Company dated December 24, 2019 and January 22, 2020.

Save as disclosed above, there are no other related party transactions or continuing related party transactions set out in note 39 to the financial statements which are discloseable connected transactions or continuing connected transactions under the Listing Rules. The connected transactions and continuing connected transactions have complied with the disclosure requirements under Chapter 14A of the Listing Rules.

## MODEL CODE

Having made all reasonable enquiries to the Directors and the Supervisors, in the year 2019, they confirmed that they have strictly followed the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. The Company has not adopted a standard lower than that provided by the Model Code in relation to Directors' securities transactions.

## ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of 2019 audited consolidated financial statements are consistent with the principal accounting policies for the preparation of 2018 audited consolidated financial statements.

## EMPLOYEES

### Personnel structure

As at the end of 2019, the Group had 21,712 full-time employees and the number of employees of different functions is set out in the table below:

| Classification | Beijing Brand | Beijing Benz | Subtotal |
|---|---|---|---|
| Production workers | 4,636 | 10,640 | 15,276 |
| Technical staff | 2,438 | 1,681 | 4,119 |
| Sales and marketing personnel | 340 | 31 | 371 |
| Others | 1,207 | 739 | 1,946 |
| Total | 8,621 | 13,091 | 21,712 |

### Employee motivation

The Group has established a comprehensive performance evaluation system to link the annual business objectives with the performance evaluation of different departments and employees. It is a comprehensive performance evaluation system built across the Company and cascaded down to its departments, branches and individuals to ensure full coverage of key indicators as well as effective implementation and achievement of indicators by level-by-level management. Through multiple measures and approaches, the Group's business and individual motivation are connected, thereby stimulating the creative capability of the organization and the individuals. In line with the notion of pursuing shareholder value and corporate social responsibility, we hope to contribute to the sustainable development of the Company.

### Employee training

In 2019, according to the corporate talent strategic plan of the Group, BAIC Motor Business School (北京汽車商學院), focused on targeted extraction and customized services for various business requirements, on the basis of continuously and properly carrying out the development of talents at all levels and team construction. It empowered businesses by training, activating the vitality of personnel and enhancing organizational efficiency, thus strongly ensuring the career development of employees and implementation of corporate strategies.

### Employees' remuneration

Integrating human resources strategy, the Group has established a performance and competence-oriented remuneration system focusing on the post value, and a competitive remuneration standard with reference to the remuneration level of relevant enterprises in Beijing and in the industry, providing effective guarantee for recruiting, retaining and motivating talents, as well as the pursuit of human resources strategy of the Group.

### Pension plan

In 2019, the Group has a total of 67 retired individuals who enjoy the social pension insurance plan granted by the local social security bureau.

The Group has established a pension system to provide the qualified and voluntary employees with the supplementary pension plan offering certain guarantee on retirement income. The employees participating in the plan shall make relevant payment by a certain proportion. A third party legal person trustee is entrusted to act as the account manager, custodian and investment manager to carry out fund management and investment activities. In accordance with the provisions of the pension system, such payment shall be payable at the time of employee retirement.

All references in this part of this annual report (Report of the Board of Directors) to other parts, sections of or notes in the annual report, form part of the Report of the Board of Directors.

**BY ORDER OF THE BOARD**
**Xu Heyi**
*Chairman*

March 26, 2020

# Report of the Board of Supervisors

In the year 2019, pursuant to the Company Law, the Articles of Association and Rules of Procedure of the Board of Supervisors of BAIC Motor Corporation Limited ("Rules of Procedure of the Board of Supervisors"), and in the spirit of accountability for the interest of the Company and safeguarding the legitimate rights of the Shareholders, all Supervisors have duly performed their supervisory duties to effectively monitor and inspect the execution of the duties of the Directors and senior management and the operation and management activities of the Company. In so doing, they have promoted the operational standard and healthy development of the Company.

## THE WORK OF THE BOARD OF SUPERVISORS

### Convening meetings of the Board of Supervisors

In the year 2019, a total of four meetings of the Board of Supervisors were held, at which the Work Report of the Board of Supervisors for 2018, the 2018 Annual Report, 2019 Interim Report, financial statements for the first quarter and the third quarter of 2019 were considered and approved, and the Company's financial status and audit report were presented.

### Changes of members of the Board of Supervisors

At the fourth meeting of the first session of the employee representative congress of the Company, Ms. Li Chengjun was elected as an employee representative Supervisor, for a term of office commenced on March 19, 2019 and ending on the expiry of the term of office for the third session of the Board of Supervisors. Due to other work arrangements, Mr. Zhang Guofu ceased to act as an employee representative Supervisor of the Company on the effective date of the appointment of Ms. Li Chengjun as an employee representative Supervisor. For details, please refer to the announcement of the Company dated March 19, 2019.

On August 26, 2019, the Board of Supervisors resolved to propose the appointment of Mr. Qi Chunyu as a shareholder representative Supervisor, with a term of office commencing on the date of approval at the Shareholders' general meeting and ending on the expiry of the term of office for the third session of the Board of Supervisors. Due to other work arrangements, Mr. Yao Shun will cease to act as a shareholder representative Supervisor on the effective date of the appointment of Mr. Qi Chunyu as a shareholder representative Supervisor. For details, please refer to the announcement of the Company dated August 26, 2019. As at the date of this report, the appointment of Mr. Qi Chunyu as a shareholder representative Supervisor has not taken effect.

### Attendance at the Shareholders' general meetings and the Board meetings

Pursuant to the Articles of Association and the Rules of Procedure of the Board of Supervisors, members of the Board of Supervisors attended the annual general meeting and Shareholders class meetings, and attended the Board meetings. The Board of Supervisors also appointed certain Supervisors to act as the scrutinizers of the meetings to supervise the legitimacy and compliance of meeting procedures, voting on the resolutions, etc.

By attending the Shareholders' general meetings and the Board meetings, reviewing meeting materials and putting forward advises and suggestions on the risks and problems in production, operation, financial management and internal control of the Company, the Board of Supervisors enhanced their supervision of the performance of the duties of the Directors and senior management, decision on significant matters, standardization and effectiveness of operation and management activities. In so doing, they have played a positive role in promoting the Company's standardized governance and improving the compliance and efficient operation of the Company.

### Status of supervision

In 2019, for purpose of understanding the implementation of strategies, operations and management, team construction and financial management of the Company, members of the Board of Supervisors carried out in-depth investigation into the grassroots enterprises. They also carried out on-the-spot investigation of small and medium-sized investment enterprises including BHAF and Beijing Hyundai Information Technology Co., Ltd. ("Beijing Hyundai Information"), and visited dealers to understand the actual development of financial, used car and other businesses, and put forward suggestions for improvement in corporate management and the development of dealer business.

Meanwhile, members of the Board of Supervisors put forward opinions and suggestions on how to effectively improve investment business management, strengthen joint venture cooperation and maximize the benefits of both parties in the "post-joint venture era" in the investment business sector.

The Board of Supervisors helps further safeguard the interests of the Company and Shareholders and lays a solid foundation for the sustained, steady and healthy development of the Company by continuously strengthening the supervision and inspection of enterprises to prevent operational risks.

## INDEPENDENT OPINION OF BOARD OF SUPERVISORS ON LAWFUL OPERATION OF THE COMPANY

In the year 2019, the Board of Directors made scientific decisions in compliance with the Company Law, the Listing Rules, the Articles of Association and relevant laws, regulations and systems. The Directors duly performed their duties diligently and in accordance with the laws; the members of senior management devoted to their duties and performed their duties faithfully and conscientiously implemented the decisions made by the Board of Directors, and ensured high standards of operation and prudent management of the Company. The Company continuously improved and effectively implemented the internal control systems according to its actual conditions, requirements of laws and regulations. The internal control systems complied with relevant national laws, regulations and actual requirements of the Company and played a relatively good role in preventing and controlling risks for the operation and management of the Company. The Company has established internal joint supervision mechanisms including discipline inspection, internal audit and compliance management to effectively promote, prevent and resolve the Company's operational risks, and to realize a deep and broad compliance operation.

# Report of the Board of Supervisors

## INDEPENDENT OPINION OF BOARD OF SUPERVISORS ON INSPECTION OF THE COMPANY'S FINANCIAL STATUS

The chairman of the Board of Supervisors and certain members of the Board of Supervisors attended the meetings of the Audit Committee for the year, and monitored the financial position, risk management and internal audits of the Company. The Board of Supervisors carefully read the 2019 financial budget report of the Company, reviewed the standard unqualified auditor's reports issued by PwC and PwC Zhong Tian, listened to the report of the Company's senior management on relevant audit and communicated with the auditors. The Board of Supervisors is of the view that the Company's 2019 financial report meets the requirements of the relevant accounting standards and regulations; and it gives a true and fair view of the Company's financial position and business performance; and the information reflecting the Company's operation is truthful, legitimate and complete without false information, misleading representation or material omissions.

During the year, the work of the Board of Supervisors has received the support of the Shareholders, the Board of Directors and the management. We hereby would like to express our heartfelt gratitude to the Shareholders, the chairman of the Board, the Directors, the management.

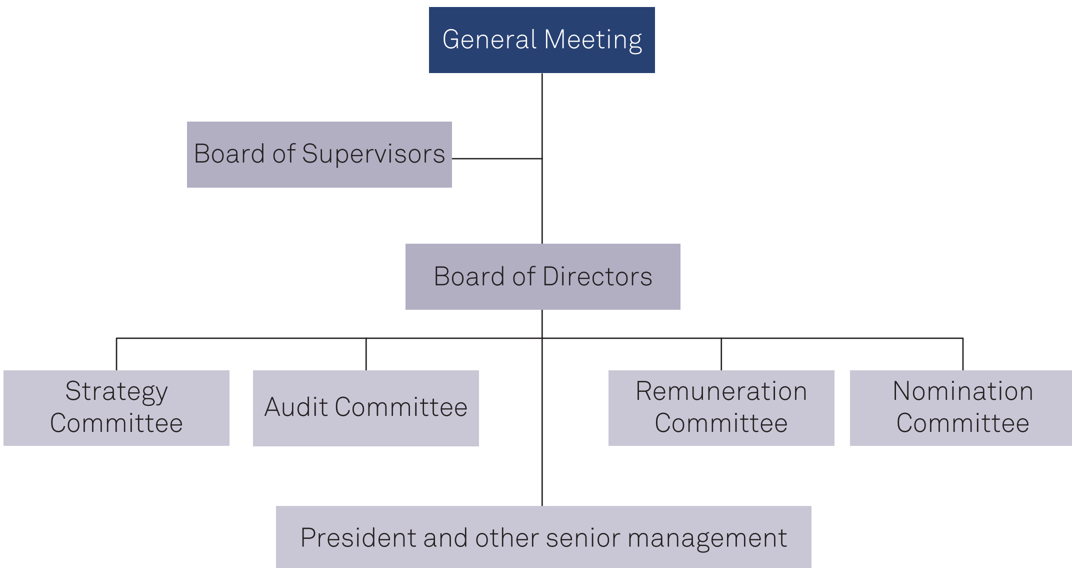
**By order of the Board of Supervisors**
*Chairman of the Board of Supervisors*
**Gu Zhangfei**

March 26, 2020

## CORPORATE GOVERNANCE PRACTICE

The Group has been building and maintaining a high level of corporate governance so as to protect the rights and interests of Shareholders and enhance corporate value and sense of responsibility. The Company has put together a sound and market-oriented corporate governance structure and established the general meeting, the Board of Directors, the Strategy Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee under the Board of Directors (the "Special Committees") and the Board of Supervisors, and implemented corporate governance practices in strict accordance with the Articles of Association. The Company has adopted the Corporate Governance Code as set forth in Appendix 14 to the Listing Rules.

The governance structure of the Company is as follows:




The Directors of the Company as a whole believe that in 2019, the Group had complied with all the code provisions under the Corporate Governance Code for all significant matters.

## GENERAL MEETING

### Responsibility

The general meeting is the supreme decision-making body of the Company and is responsible for lawfully exercising its functions and rights and making important decisions. The annual general meeting or the extraordinary general meeting provides a channel for direct communication between Directors and Shareholders. Therefore, the Company attaches great importance to the general meeting. A 45-day advance notice shall be sent to all the Shareholders to encourage their attendance, and it shall be requested that all the Directors, Supervisors and secretary to the Board attend the meetings, while the president and other senior management should participate as non-voting delegates.

In 2019, the Company held three general meetings, including the 2018 annual general meeting, the 2019 first domestic shareholders class meeting and the 2019 first H shareholders class meeting. Attendance of Directors at general meetings in 2019 is set out on page 68 of this report.

### Substantial Shareholders

BAIC Group is the Controlling Shareholder of the Company and as at the Date of Issue of the Report, BAIC Group holds 42.63% of the Shares of the Company. During 2019, BAIC Group did not circumvent the general meeting to make direct or indirect intervention in the Company's decision making and business operation.

For 2019, information on other substantial Shareholders and data on the personnel with a voting right of 5.0% or above at the general meeting (classes of Shares by Domestic Share and H Share) are set out in the chapter headed "Report of the Board of Directors" on pages 32 to 59 of this report.

## BOARD OF DIRECTORS

### Responsibility

Pursuant to the Articles of Association, the Company established the Board of Directors which is accountable to the general meeting. The Board of Directors comprises 15 Directors, including one executive Director, nine non-executive Directors and five independent non-executive Directors. The Directors are elected at the general meeting for a three-year term of office, and are eligible for re-election and re-appointment upon expiry of the term. The Board of Directors determines key resolution plans of the Company, and reviews and monitors the Company's business operation. The Board of Directors has authorized the Company's senior management to oversee the day-to-day management of the Company, with operational authority and responsibility. In order to facilitate the Board of Directors to deliberate specific matters of the Company, the Board has set up four Special Committees, namely the Strategy Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee. The Board of Directors has delegated various responsibilities to the Special Committees within their scope of duties.

All the Directors undertake that they will, in good faith, comply with the applicable laws and regulations and carry out their duties in the interests of the Company and the Shareholders during their term of office.

### Composition of the Board of Directors

As of the Date of Issue of the Report, the Board of Directors comprised fifteen members, and the biographical details of the Directors are listed in the chapter headed "Directors, Supervisors and Senior Management" on pages 80 to 90 in this report. In the year of 2019, the Board of Directors complied at all time with the Rule 3.10(1) and Rule 3.10(2) of the Listing Rules regarding the appointment of at least three independent non-executive Directors (specifically, at least one of the independent non-executive Directors shall possess appropriate professional qualification or expertise relating to accounting or financial management), and the Rule 3.10A of the Listing Rules regarding the appointment of one-third of the Board members to be independent non-executive Directors.

All the Directors (including independent non-executive Directors) have brought different valuable work experience and expertise to the Board so as to effectively carry out the duties of the Board of Directors. All the Directors agreed to comply with the provisions as set out in the Corporate Governance Code and disclose to the Company in a timely manner information regarding the number of positions held, nature of the position(s), identity, term of office and other significant undertakings in other listed companies or organizations.

As the independent non-executive Directors have declared their independence pursuant to Rule 3.13 of the Listing Rules, the Company believes that the above personnel are independent persons. The independent non-executive Directors are invited to be the committee members of the Strategy Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee. In 2019, the independent non-executive Directors did not raise any objection to the Board resolutions and other matters not deliberated by the Board of Directors.

In the year 2019, none of the Directors, Supervisors and senior management has any financial, business or family relationships or any relationships in other material aspects with each other or with the Company for which disclosure may be required.

### Performance and continuing professional development

All the newly appointed Directors have received the necessary job performance training and relevant materials of the Company to ensure that they have an appropriate understanding of the Company's operation, business and their corresponding responsibilities as required by the relevant regulations, laws, rules and ordinances. The Company also arranged research activities and seminars for the Directors regularly to help them understand the Company's latest business development, and the laws, regulations and latest news at the regulatory level on a timely basis. Meanwhile, the Company also updated the Directors on the Company's business performance, operational situation and market prospect regularly to facilitate the Directors to fulfill their duties.

Training received by all the Directors in 2019 is set out on page 68 of this report.

### Appointment, re-election and re-appointment of Directors

The appointment, re-election and re-appointment and removal procedures and requirements of Directors are set forth in the Articles of Association. The nomination committee of the Board of the Company (the "Nomination Committee") is responsible for reviewing the composition of the Board of Directors and putting forward suggestions on the appointment, re-election and succession plan of Directors. Executive Directors, non-executive Directors and independent non-executive Directors shall serve a term of three years. Each of the Directors has entered into a service contract with the Company for a term of three years, or from the date of the latest appointment (as the case may be and whichever is later) and up to the term of office of the fourth session of the Board of Directors becoming effective. The service contract sets out the main terms, key conditions and relevant rights, obligations and responsibilities of the appointed Directors, with particular emphasis on the duties of the independent non-executive Directors and the executive Directors, and it can be terminated in accordance with the relevant terms in the service contract. None of the Directors has signed with the Company a service contract that cannot be terminated by the Company within a year without compensation (other than statutory compensation).

### Board meeting

Pursuant to the Articles of Association, the Board of Directors shall hold at least four regular meetings each year, which shall be convened by the chairman. A 14-day advance written notice along with relevant materials to the issues to be considered shall be served to all Directors, in order to help the Directors with an opportunity to attend the meetings and fully understand all relevant issues to be considered so as to ensure effective decision-making of the Board.

For meetings of the Special Committees, a 3-day advance written notice shall be served to all the committee members. The meeting notice, including meeting agenda and relevant documents of the Board of Directors, has set aside adequate time for the committee members to review and prepare for the meeting. Where the Directors or committee members are not able to attend the meeting in person, the Company will communicate with them well in advance to ensure their sufficient rights to express opinions and to participate in decision-making for the issues to be considered.

The minutes of the Board meetings and the Special Committees meetings shall record in detail the matters for their consideration and resolutions passed including the questions raised by the Directors. Upon compilation, the draft minutes of the Board meetings and the Special Committees meetings shall be sent to the Directors within a reasonable time in a reasonable manner after the meetings.

During 2019, the Board held eleven meetings. The main matters considered are as follows:

| Name of Board Meeting | Date | Main Matters Considered |
|---|---|---|
| 25th meeting of the third session of the Board | January 17, 2019 | Appointment of the Secretary to the Board and Company Secretary |
| 26th meeting of the third session of the Board | March 15, 2019 | 2019 Annual Investment Plan |
| | | Additional Capital Contributions to Mercedes-Benz Leasing Co., Ltd. |
| | | Additional Capital Contribution by BAIC Hong Kong Investment Corp. Limited to BAIC Automobile SA Proprietary Limited |
| 27th meeting of the third session of the Board | March 27, 2019 | Production and Operation Plan for 2019 |
| | | 2018 Final Account Report (draft) |
| | | 2018 Profit Distribution Plan (draft) |
| | | 2018 Annual Report and 2018 Annual Results Announcement |
| | | 2018 Report of the Board of Directors |
| | | General Mandate for the Issuance of Onshore and Offshore Debt Financing Instruments |
| | | General Mandate for the Issuance of Shares |
| | | General Mandate for the Repurchase of Shares |
| | | Application for Renewal of the Framework Agreements for Continuing Connected Transactions and the Annual Caps of the Continuing Connected Transactions for 2020-2022 |
| | | Nomination of Directors and Members of the Remuneration Committee of the Board |

| Name of Board Meeting | Date | Main Matters Considered |
|---|---|---|
| 28th meeting of the third session of the Board | April 15, 2019 | Engine Technology Transformation Project of Beijing Benz Automotive Co., Ltd.<br>Vehicle Models Update and Upgrade Project of Beijing Benz Automotive Co., Ltd. |
| 29th meeting of the third session of the Board | April 30, 2019 | Financial Statements for the First Quarter of 2019<br>Re-appointment of International and Domestic Auditors for 2019 |
| 30th meeting of the third session of the Board | June 10, 2019 | Additional Capital Contributions to Beijing New Energy Vehicle Technology Innovation Center Co., Ltd. |
| 31st meeting of the third session of the Board | July 22, 2019 | 2018 Environmental, Social and Governance Report<br>Adjustment to the 2019 Annual Caps of Continuing Connected Transactions |
| 32nd meeting of the third session of the Board | August 26, 2019 | 2019 Interim Report |
| 33rd meeting of the third session of the Board | October 28, 2019 | Financial Statements for the Third Quarter of 2019 |
| 34th meeting of the third session of the Board | November 14, 2019 | Additional Capital Contributions to Mercedes-Benz Leasing Co., Ltd. |
| 35th meeting of the third session of the Board | December 5, 2019 | Additional Capital Contributions by BAIC Investment Co., Ltd. to BAIC Group Finance Co., Ltd. |

Attendance of Directors at the meetings of the Board, the Strategy Committee, the Audit Committee, the Remuneration Committee, the Nomination Committee, the general meeting and their training in 2019 are set out as follows:

| | Number of Meetings Attended | | | | | | |
|---|---|---|---|---|---|---|---|
| Name of Director | Board meeting | Strategy Committee meeting | Audit Committee meeting | Remuneration Committee meeting | Nomination Committee meeting | General meeting | Training Received Note 1 |
| **Chairman and Non-executive Director** | | | | | | | |
| Xu Heyi | 11/11 | 4/4 | – | – | 2/2 | 0/3 | A/B/C/D |
| **Executive Director and President** | | | | | | | |
| Chen Hongliang | 11/11 | 4/4 | – | 1/1 | – | 3/3 | A/B/C/D |
| **Non-executive Director** | | | | | | | |
| Shang Yuanxian | 11/11 | 4/4 | – | – | 2/2 | 0/3 | A/B/C/D |
| Yan Xiaolei | 11/11 | 4/4 | 4/4 | – | – | 0/3 | A/B/C/D |
| Xie Wei | 11/11 | 4/4 | – | – | – | 0/3 | A/B/C/D |
| Qiu Yinfu | 11/11 | 4/4 | – | – | – | 3/3 | A/B/C/D |
| Hubertus Troska | 11/11 | 4/4 | – | – | – | 0/3 | A/B/C/D |
| Harald Emil Wilhelm Note 2 | 5/5 | – | – | – | – | 0/0 | A/C/D |
| Jin Wei Note 2 | 5/5 | – | – | 1/1 | – | 0/0 | A/B/C/D |
| Bodo Uebber Note 3 | 5/5 | – | – | – | – | 0/0 | A/B/C/D |
| Jiao Ruifang Note 4 | 6/6 | – | – | 0/0 | – | 0/3 | A/B/C/D |
| Lei Hai | 11/11 | 4/4 | – | – | – | 0/3 | A/B/C/D |
| **Independent Non-executive Director** | | | | | | | |
| Ge Songlin | 11/11 | 4/4 | – | – | 2/2 | 0/3 | A/B/C/D |
| Wong Lung Tak Patrick | 11/11 | – | 4/4 | 1/1 | – | 3/3 | A/C/D |
| Bao Robert Xiaochen | 11/11 | – | – | 1/1 | 2/2 | 3/3 | A/B/C/D |
| Zhao Fuquan | 11/11 | 4/4 | – | – | 2/2 | 0/3 | A/B/C/D |
| Liu Kaixiang | 11/11 | – | 4/4 | 1/1 | – | 3/3 | A/B/C/D |

Note 1: A: attending seminars and/or meetings and/or forums and/or briefings; B: speaking at seminars and/or meetings and/or forums; C: attending training provided by lawyers or training related to the issuer business; D: reading materials on various topics, including corporate governance, responsibilities of directors, amendments to the Listing Rules and other related regulations.

Note 2: On June 18, 2019, Mr. Harald Emil Wilhelm and Mr. Jin Wei were appointed as non-executive Directors. From June 18, 2019 to the end of 2019, the Company held a total of five Board meetings and did not convene any general meeting. The Remuneration Committee held one meeting from June 18, 2019 when Mr. Jin Wei was appointed as a member of the Remuneration Committee to the end of 2019.

Note 3: On May 22, 2019, Mr. Bodo Uebber ceased to act as a non-executive Director due to other work arrangements. From January 1, 2019 to May 22, 2019, the Company held a total of five Board meetings and did not convene any general meeting.

Note 4: On June 18, 2019, Ms. Jiao Ruifang ceased to act as a non-executive Director and a member of the Remuneration Committee, due to other work arrangements. From January 1, 2019 to June 18, 2019, the Company held a total of six Board meetings, and the Remuneration Committee did not convene any meeting.

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code in Appendix 10 to the Listing Rules as the code of conduct for dealing in securities by the Directors and Supervisors. Having made enquiries to all Directors, Supervisors and senior management of the Company, they have confirmed that they complied with the Model Code in 2019.

## AUTHORIZATION OF THE BOARD OF DIRECTORS

The Board of Directors reserves the right of decision making on all major matters of the Company, including approving and supervising all matters relating to policies, overall strategy, internal control and risk management system, significant transactions (especially transactions involving conflicts of interest), financial data, nomination of director candidates and other major financial, production and operational matters. The Directors can seek independent and professional opinions when performing their duties, with the expenses borne by the Company. Meanwhile, the Directors are encouraged to make independent consultation from the Company's senior management.

The senior management is authorized to take charge of the Company's day-to-day management, administration and operation, and the Board of Directors will regularly review the performance of the senior management and execution of relevant resolutions. The management shall obtain approval of the Board of Directors before entering into any major transactions.

## FUNCTIONS OF CORPORATE GOVERNANCE

The Board of Directors confirmed that corporate governance is the joint responsibility of all Directors, and its function includes the following:

formulate and review the Company's policies and practices on corporate governance;

review and monitor the training and continuous professional development of the Directors and senior management;

review and monitor the Company's policies and practices on compliance with the regulatory requirements;

formulate, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

review the Company's compliance with Corporate Governance Code and disclosure of information in the corporate governance report.

## REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Board of Directors has established a Remuneration Committee with the responsibilities including confirming and reviewing the remuneration policies and proposals of the Directors and senior management. In 2019, except for the independent non-executive Directors and independent Supervisors who have received directors' and supervisors' remuneration from the Company, the remaining Directors or Supervisors have not received remuneration from the Company as Directors or Supervisors. The executive Directors received the senior management's remuneration of the Company. The remuneration standard of independent non-executive Directors and independent Supervisors is determined in accordance with the Company's actual situation and with reference to the average market level. The remuneration standard of each independent non-executive Director and independent Supervisor is RMB120,000 per year (before tax), which shall be calculated starting from the effective date of their term of office.

The remuneration details of the Directors and Supervisors for 2019 are set forth in Note 42 to the audited consolidated financial statements.

The remuneration paid by the Company to the senior management (including one Director) in 2019 is as follows:

| Remuneration Range (RMB) | Number of Candidates |
|---|---|
| 2,000,001-2,500,000 | 1 |
| 1,500,001-2,000,000 | 1 |
| Below 1,500,000 | 7 |

Note: Including one member of senior management resigned before December 31, 2019.

## LIABILITY INSURANCE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Company has placed Directors, Supervisors and senior management under the coverage of liability insurance for certain relevant lawsuits in 2019.

## CHAIRMAN AND PRESIDENT

According to the requirement of provision A.2.1 of the Corporate Governance Code, the roles of chairman and president should be separated. In 2019, Mr. Xu Heyi served as the chairman of the Company. Mr. Chen Hongliang acted as the president (chief executive). The Company has clearly defined the responsibilities of the chairman and the president and the detailed definitions are provided in the Articles of Association.

## SPECIAL COMMITTEES OF THE BOARD OF DIRECTORS

### Strategy Committee

The Board of Directors has established the strategy committee of the Board of the Company (the "Strategy Committee") to operate formally and perform corresponding duties effective from the Listing Date of the Company. The Strategy Committee is mainly responsible for carrying out research and making proposals in respect of the medium-and-long-term development strategies of the Company. The specific terms of reference of the Strategy Committee can be found on websites of the Stock Exchange and the Company.

As at the end of 2019, the Strategy Committee comprised ten members, namely Mr. Xu Heyi (chairman), Ms. Shang Yuanxian, Mr. Yan Xiaolei, Mr. Chen Hongliang, Mr. Xie Wei, Mr. Qiu Yinfu, Mr. Hubertus Troska, Mr. Lei Hai, Mr. Ge Songlin and Mr. Zhao Fuquan, among which two were independent non-executive Directors, seven were non-executive Directors and one was an executive Director.

During 2019, the Strategy Committee held a total of four meetings. Attendance of the committee members is set out in this report on page 68.

### Audit Committee

The Board of Directors has established the Audit Committee to operate formally and perform corresponding duties effective from the Listing Date of the Company. The Audit Committee is mainly responsible for reviewing and monitoring the Company's financial reporting processes, including, among others, proposing the engagement or change of external auditors; monitoring internal audit system of the Company and its implementation; being responsible for the communication of internal auditors and external auditors; reviewing the financial information and its disclosure; reviewing risk management and internal monitoring system of the Company. The specific terms of reference of the Audit Committee can be found on the websites of the Stock Exchange and the Company.

As at the end of 2019, the Audit Committee comprised three members, namely Mr. Wong Lung Tak Patrick (chairman), Mr. Yan Xiaolei and Mr. Liu Kaixiang, among which two were independent non-executive Directors and one was a non-executive Director.

During 2019, the Audit Committee held a total of four meetings, which reviewed and presented reasonable comments on the financial reporting system, compliance procedures, internal monitoring and control (on resources, qualifications, training programs and budget of the employees in the accounting and finance departments of the Company), and risk management system and procedures.

The decisions of the Board of Directors were in line with the recommendation and suggestion made by the Audit Committee on selection, appointment, resignation or removal of external auditors.

Meanwhile, the Audit Committee has reviewed the Group's first and third quarter's financial statements, the interim results for the financial year of 2019 and annual results for the financial year of 2018, the work plan of external auditors and the relevant auditing arrangements as well as the report prepared by PwC for accounting matters and major discoveries during the audit process.

During 2019, the Audit Committee held a total of four meetings. Attendance of the committee members is set out in this report on page 68.

### Remuneration Committee

The Board of Directors has established the Remuneration Committee to operate formally and perform corresponding duties effective from the Listing Date of the Company. The Remuneration Committee is mainly responsible for formulating assessment standards of Directors and senior management and evaluating their performance to confirm and review the remuneration policies and plans of senior management. The specific terms of reference of the Remuneration Committee can be found on the websites of the Stock Exchange and Company.

As at the end of 2019, the Remuneration Committee comprised five members, namely Mr. Bao Robert Xiaochen (chairman), Mr. Chen Hongliang, Mr. Jin Wei, Mr. Wong Lung Tak Patrick and Mr. Liu Kaixiang, among which three were independent non-executive Directors, one was a non-executive Director and one was an executive Director.

The Remuneration Committee has made recommendations and suggestions to the Board of Directors on the remuneration packages for certain executive Director and senior management.

Ms. Jiao Ruifang ceased to act as a member of the Remuneration Committee on June 18, 2019. Mr. Jin Wei was appointed as a member of the Remuneration Committee on June 18, 2019.

During 2019, the Remuneration Committee held a total of one meeting, considering and discussing relevant employee incentive schemes. Attendance of the committee members at the meeting is set out on page 68 of the report.

### Nomination Committee

The Board of Directors has established the Nomination Committee to operate formally and perform corresponding duties effective from the Listing Date of the Company. The Nomination Committee is mainly responsible for researching the structure, size and composition of the Board, reviewing the suitable candidates of Directors and senior management and making proposals to the Board. The specific terms of reference of the Nomination Committee can be found on the websites of the Stock Exchange and the Company.

As at the end of 2019, the Nomination Committee comprised five members, namely Mr. Xu Heyi (chairman), Ms. Shang Yuanxian, Mr. Ge Songlin, Mr. Bao Robert Xiaochen and Mr. Zhao Fuquan, among which three were independent non-executive Directors and two were non-executive Directors.

During 2019, the Nomination Committee held a total of two meetings, putting forward opinions and suggestions to the Board and the Board of Supervisors on the change of Directors, Supervisor and senior management. Attendance of the committee members at the meetings is set out on page 68 of the report.

## DIRECTOR NOMINATION METHOD AND PROCEDURE

A Director may be nominated by Shareholders or the Board.

Nomination by Shareholders: Any shareholders holding individually or jointly more than 3% of the total issued shares of the Company with voting rights may propose a candidate for election as a non-employee representative Director at the general meeting in writing. The proposal shall be delivered to the Company at least 14 business days prior to the date of the general meeting.

Nomination by the Board: The Board may propose a list of Director candidates, according to the number of Directors to be appointed, up to the number specified by the Articles of Association, and submit the same to the Board for review. After the selection of Director candidates, the Board may submit a written proposal to the general meeting. Where there is a need to fill the casual vacancy of Directors, a list of Director candidates shall be proposed by the Board at the general meeting for election or replacement.

Written notices indicating the intent to nominate Director candidates and their acceptance of the nomination, as well as written information on the nominees shall be delivered to the Company at least 14 business days prior to the date of the general meeting. The Board shall provide the Shareholders with biographical details and basic information on the Directors.

Prior to submission to the Board, the list of all Director candidates shall be reviewed by the Nomination Committee, which shall put forward suggestions to the Board and Shareholders. The Nomination Committee shall review the biographical details of candidates and conduct due diligence, and evaluate their educational backgrounds, professional qualifications, industry-related experience, character and integrity, etc., by reference to the "Board Diversity Policy". In the case of independent non-executive Directors, the Nomination Committee shall evaluate the independence of the candidates in accordance with the Corporate Governance Code and the Listing Rules. With regard to the Directors who are proposed to be re-elected upon the expiry of the term of office, the Nomination Committee shall review the contribution and performance of the candidates during their term of office (including the attendance rates of the candidates at Board committee meetings, Board meetings and ordinary meetings, their participation and performance in the Board).

## DIVIDEND POLICY

The profit distribution policy is summarized as follows:

When distributing its profit after tax for the year, the Company shall set aside 10% of the profit after tax for the statutory reserve fund. After allocation to the statutory reserve fund, subject to the approval by a resolution of a general meeting, the profit after tax may also be appropriated to the discretionary reserve fund. After making up losses and appropriation to reserve funds in accordance with the Articles of Association, balance of the profit after tax shall be distributed in proportion to shareholdings of Shareholders, except where non-pro rata distribution is provided pursuant to the Articles of Association.

The Company may distribute dividends in one or both of the following manners:

(I) cash;

(II) share.

The Company shall maintain consistent and stable profit distribution policies as practicable and shall consider cash dividend as the first priority. The specific ratio of dividend to be distributed shall be resolved by the Shareholders at the general meetings.

The Company shall calculate, declare and pay dividends and other amounts which are payable to holders of Domestic Shares in Renminbi within 3 months after the date of declaration. The Company shall calculate and declare dividends and other amount which are payable to holders of overseas listed foreign shares in Renminbi, and shall pay such amounts in foreign currency within 3 months after the date of declaration. The exchange rate shall be the average central parity rate for the relevant foreign currency announced by the People's Bank of China 5 working days prior to the declaration of the dividend and other amounts. The dividend distribution of the Company shall be implemented by the Board according to the authorization delegated by the general meeting through an ordinary resolution.

## BOARD DIVERSITY POLICY

The Nomination Committee has formulated a "Board Diversity Policy" on the nomination and appointment of new Directors, in which it stipulates that the selection standard of Director candidate includes various factors such as gender, age, cultural and educational background, race, professional experience, skills, knowledge and length of service. The final candidate will be selected based on the comprehensive capability and the contributions that the individual is expected to bring to the Board. The composition of the Board of Directors (including their gender, age and term of office) will be disclosed in the annual report each year.

The Nomination Committee shall consider and adopt the composition of Board of Directors in accordance with the above measurement standard. By taking into account the Directors' skills and experience and their suitability to the Company, the Nomination Committee believes that the Company's existing Board structure in 2019 is reasonable and meets the requirements of "Board Diversity Policy", without the need of adjustment.

### Reasons for implementing the diversity policy

The Company firmly believes that diversity is the basis for the effective and successful operation of the Board. In order to achieve sustainable and balanced development, the Company regards increasing diversity at the board level as one of the key elements to support the achievement of its strategic objectives and its sustainable development. All appointments by the Board are based on the principle of meritocracy, and the benefits of Board diversity are fully taken into account in the selection of candidates, under objective conditions. It helps the Nomination Committee and the Board ensure that the Board has suitable skills, experience and diversified opinions, which are balanced and meet the business requirements of the Company.

In the selection of Director candidates, as an automobile enterprise, the Company has taken into diversified consideration, including the industry, economy, management and other related education, as well as experience in the automobile industry;

### Measurable objectives

The selection of candidates will be based on diversity, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skill, knowledge and length of service. The ultimate decision will be based on merit of candidates and their proposed contribution to the Board.

### Implementation and monitoring

The Nomination Committee shall review the structure, size and composition (including the skills, knowledge and experience) of the Board once a year, and put forward suggestions on Board changes arising out of change in strategies of the Company, and shall supervise the implementation of the diversity policy by the Board, according to the policy of the committee in relation to Board diversity.

On the date of the report, the composition of the Board at the diversity level is summarized as follows:

1. Gender: There are 15 Directors, consisting of 1 female Director and 14 male Directors;

2. Educational background: There are 15 Directors, consisting of 7 Directors holding a doctoral degree, 6 Directors holding a master's degree and 2 Directors holding a bachelor's degree;

3. Age: There are 15 Directors, consisting of 4 Directors aged at or above 60 and 11 Directors aged below 60;

4. Position: There are 15 Directors, consisting of 1 executive Director, 9 non-executive Directors and 5 independent non-executive Directors;

5. Nationality: There are 15 Directors, consisting of 12 Chinese Directors, 2 German Directors and 1 American Director.

## RESPONSIBILITY OF DIRECTORS IN RELATION TO THE FINANCIAL STATEMENTS

The Board of Directors shall fulfill its duty to prepare the 2019 financial statements for the Group so as to present a true and fair view of the Group's production and operational condition, and of the business performance and cash flow of the Company.

The management of the Company has provided the Board of Directors with the necessary explanation and data to facilitate the Directors to review the Company's financial statements submitted for the approval by the Board of Directors. The Company has provided all members of the Board of Directors with updated information on the performance situation and prospects of the Company on a monthly basis.

The Directors are not aware of any significant uncertainties, that are, events or incidents that may cause significant concern on the on-going operation of the Company.

The results of the Company and the Group for the year 2019, and the financial positions of the Group at the end of 2019 are set out in the audited consolidated financial statements in this report on pages 97 to 103.

## COMPANY SECRETARY

Due to job transfer, Mr. Gu Xin ceased to serve as the secretary to the Board of the Company on January 17, 2019 and as the company secretary of the Company on January 29, 2019. Mr. Wang Jianhui served as the secretary to the Board of the Company (with effect from January 17, 2019) and the company secretary (with effect from January 29, 2019), responsible for advising the Board of Directors on corporate governance, ensuring compliance with policies and procedures of the Board of Directors, relevant laws and regulations. In order to maintain good corporate governance and ensure compliance with the Listing Rules and applicable laws in Hong Kong, the Company continued to appoint Mr. Lee Kwok Fai, the head of corporate secretarial services of TMF Hong Kong Limited, as the company secretary assistant of the Company to assist Mr. Wang Jianhui (internal contact person) in performing his duties as the company secretary of the Company.

In the year 2019, Mr. Wang Jianhui and Mr. Lee Kwok Fai attended no less than 15 hours of relevant professional training respectively, in compliance with the requirements in Rule 3.29 of the Listing Rules.

## CONTROL MECHANISM

### Board of Supervisors

The Board of Supervisors comprises nine Supervisors. The employee representatives Supervisors are elected democratically by the employee representative congress, while non-employee representatives Supervisors are elected by the general meeting. The term of office of each Supervisor is three years, renewable upon re-election. The powers and functions of the Board of Supervisors include, but not limited to, reviewing and providing written opinions on the periodic reports of the Company prepared by the Board; monitoring the financial activities of the Company; supervising the performance of duties of Directors and senior management; proposing the removal of the Directors and senior management who have acted in breach of the laws, administrative regulations, the Articles of Association or the resolutions passed at the general meeting; requesting that the Directors and senior management to conduct rectification for actions causing damage to the interest of the Company; and proposing that extraordinary general meetings be convened.

In the year 2019, the Board of Supervisors has monitored the financial activities and the legality and compliance of the duties carried out by Directors and senior management of the Company. Four meetings were held in total, with attendance rate (including authorizing other Supervisors to attend the meeting) of 100%. The Supervisors also attended the general meetings and Board meetings as non-voting delegates and duly performed the duties of the Board of Supervisors.

## INTERNAL CONTROL AND RISK MANAGEMENT

### Responsibility of the Board

The Board is responsible for supervising the design, implementation and monitoring of risk management system by the management to ensure the establishment and maintenance of an effective risk management system of the Group. The Board keeps supervising risk management and internal control systems of the Group and reviews the effectiveness of the risk management and internal control systems of the Group at least once annually. These systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Audit Committee under the Board is responsible for conducting regular or irregular reviews to the operation of the risk management and internal control systems of the Company in order to ensure the effectiveness of their operation. The management should report to the Board in respect of the operation of the risk management and internal control systems at least once annually. The Board and the Audit Committee are all clear that the effectively working risk management and internal control systems can only minimize the possibility of the occurrence of risks as possible, not to completely eradicate the same. The Board only makes reasonable rather than absolute assurance that no risk events would occur.

### Risk management and internal control systems

The Company's operation planning department and the audit department are responsible for the operation, maintenance and evaluation of risk management and internal control systems. Among them, the operation planning department is the lead department of the Company's risk management and internal control system construction and system operation, which is responsible for providing related working mechanism of risk management and internal control and the generalized risk management and internal control methods and tools and designing relevant operating modes, establishing relevant organizations of risk management, organizing related professional training of risk and internal control together with the human resources department, as well as establishing risk and internal control business processes and incentive and communication mechanisms. The audit department is responsible for organizing self-evaluation of risk management and internal control and entrusting an independent third party to implement the risk management and internal control evaluation.

The Board of Directors has reviewed the effectiveness of risk management and internal control systems of the Group for 2019 and considered that such systems were effective and adequate.

The Company has set up a comprehensive risk management system involving three lines of defense. The first line of defense is the comprehensive risk management defense line consisting of process system, internal control system and risk database. The second line of defense is the key risk management and control defense line based on risk manager system. The third line of defense is the audit work known for independence and professionalism. The three lines of defense cooperate with each other, jointly constructing a comprehensive and well-established risk management system which focuses on the key risks, emphasizes synergy and is complementary in professional areas.

During the course of risk management, the Company implements risk management responsibility and puts pressure into each business unit through risk manager system, and transmits to every grass-roots responsible person from level to level. Vice president level will assume the role of risk manager, responsible for setting up professional risk management system in businesses of which they take in charge, promoting the application of the professional risk management tools and methods used by professionals for risk identification, analysis, monitoring and necessary response. The risk management and internal control systems of the Company are a set of comprehensive and self-contained risk management system which absorbs the insights from others' strengths. For example, the compilation of the Risk Management and Internal Control Manual learned from the COSO-ERM[7], the Enterprise Risk Management Integration Framework and the Guidelines for Internal Control jointly issued by five ministries; the establishment of risk database learned from the "Risk Intelligence Map" of a professional risk management organization and the Guidelines for Comprehensive Risk Management issued by State-owned Assets Supervision and Administration Commission of the State Council. The entire risk management and internal control systems have the following features:

1. A comprehensive system. The first line of defense builds a risk prevention and control network involving all staff and full value chains that based on process system, risk database and the Risk Management and Internal Control Manual.

2. Highlight the key points. The second line of defense actively promotes professional risk management philosophy via professional methods carried out by professionals through risk manager system to implement risk responsibility, from level to level and sets up the Risk Management Committee, of which the president personally serving as the chairman, each vice president as the risk manager and responsible for the establishment of a set of professional risk management team consisting of risk specialists, risk liaison officers and risk internal trainer. The unit responsible of risk management department is responsible for establishing a set of key risk reporting mechanisms on a monthly basis.

3. Professional synergy. The implementation of the professionalism of the professional risk management carried out by professionals through professional methods is achieved through risk manager system. In respect of the relatively high-risk items, all units cooperate fully for the preparation of risk response, and activate contingency plans if necessary.

7 COSO is an abbreviation of the Committee of Sponsoring Organizations of the Treadway Commission. In September 2004, it officially published the Enterprise Risk Management-Integrated Framework (COSO-ERM). It started the first amendment to the risk management framework in 2014 and published the updated Enterprise Risk Management Framework (COSO-ERM) in September 2017.

The Group conducts a comprehensive self-evaluation work which covers the relevant year for the comprehensive risk management and internal control system once a year, using evaluations to hundreds of indicators from the two dimensions of the design integrity and the running availability to undertake the system assessment. In 2019, the self-evaluation work for risk and internal control involved a total of 621 indicators, consisting of 181 design integrity indicators and 440 running availability indicators. In respect of the flawed entries discovered during the evaluation, the Company adopts special rectification work, assigns a person of primary responsibility, clarifies the rectification plans, deliverables and schedule requirements, and completes the rectification work within a time limit.

### The procedures of processing and releasing inside information

The Group establishes a compliance system of internal monitor and control information reporting which consists of internal major information contacts, which mainly includes regular material information reporting and temporary material information reporting, for the purpose of ensuring the high efficiency and order of the transmission and usage of the Group's internal information. Meanwhile, the information disclosure management department combines the Group's actual operating environment, changes to regulatory policies and the major concern of capital markets as well as in accordance with the regulatory requirements, proactively acquiring and discriminating the sensitive information which will result in the abnormal fluctuation of the Group's stock price, ensuring the proactively acquiring and discriminating of the Group's inside information and forming a bilateral and two-dimensional compliance system of information monitor and control with the functions of "reporting proactively" and "monitoring proactively".

The Company formulated and published systems including the Management System of Information Disclosure and the Measures for the Administration of Major Internal Information Reporting as the internal monitor and control and safeguard measures for processing and releasing inside information procedures and applied them within the Group.

## AUDITORS' REMUNERATION

The Company has appointed PwC and PwC Zhong Tian as the auditors of the Company's 2019 consolidated financial statements prepared under IFRSs and PRC Accounting Standards, respectively. The Company also authorized the management to determine its service remuneration.

The remuneration for the year 2019 paid or payable to the above Company's auditors, for audit and audit-related services amounted to RMB8.0 million and there was no non-audit services fee.

## COMMUNICATION WITH THE SHAREHOLDERS AND INVESTOR RELATIONS

The Company believes that effective communication with the Shareholders is very important to enhancing investor relations and helping investors to better understand the Company's business, performance and strategies. The Company also firmly believes that timely and non-selective disclosure of Company information is very important for Shareholders and investors to make informed investment decisions.

### Information disclosure

The Company attaches great importance to fulfilling the legal obligation of information disclosure. It has strictly complied with the related provisions of the Listing Rules and the rules and procedures on the administration of information disclosure to disclose information that may have material impact on the investors' decision-making in a timely, accurate and complete manner, thus ensuring that all Shareholders are equally and fully informed.

In 2019, the Company released a total of 62 announcements in accordance with the Listing Rules. All announcements of the Company were published on the websites of the Stock Exchange and the Company. For details, please visit www.hkex.com.hk and www.baicmotor.com.

### Communication with investors

In order to promote effective communication, the Company has set out policies of Shareholder communication to establish good communication channels between the Company and the Shareholders, such as website (www.baicmotor.com), hotlines (tel: +86 10 5676 1958; +852 3188 8333) and e-mail (ir@baicmotor.com) for investors' inquiries. The Company shall publish the latest information on the business operation and development, corporate governance practices and other data on its website for public access.

The general meeting has provided an opportunity for Shareholders and Directors to communicate directly. The Company's chairman and chairmen of the Special Committees under the Board will try their best to attend the general meeting to answer queries from the Shareholders, while the Company's external auditors will also attend the above meeting to answer questions thereon.

### Shareholders' rights

In order to protect the interests and rights of the Shareholders, the Company shall present resolutions in the form of stand-alone motion to the general meeting for consideration (including the election of individual Directors). The motions presented to the general meeting for consideration shall be voted in accordance with the Listing Rules, and the voting results shall be published on the websites of the Company and the Stock Exchange in a timely manner after the meeting.

Pursuant to the Articles of Association, Shareholders individually or collectively holding 10% or more of the Company's issued and outstanding Shares with voting right can make a formal request in writing to the Board of Directors to convene an extraordinary general meeting for specific purposes. The general meeting shall be held within two months after such requests being put forward by the Shareholders.

According to the Articles of Association, Shareholders individually or collectively holding more than 3% of the Shares may submit an extraordinary proposal to the Board in writing 10 days before the date of the general meeting. The Board shall notify other Shareholders within two days upon the receipt of the proposal and include it for consideration at the general meeting. The written proposal shall be addressed to the Board. Please visit the Company's website for relevant procedures for election of Directors. Shareholders who want to make inquiries regarding the Company to the Board of Directors can do so through the above-mentioned communication channels.

## ARTICLES OF ASSOCIATION

Several amendments to the Articles of Association were considered and approved at the 2018 second extraordinary general meeting of the Company on December 28, 2018. The amended Articles of Association has been published on the websites of the Stock Exchange and the Company on May 15, 2019 for public access.

# Directors, Supervisors and Senior Management

As of the Latest Practicable Date, the profiles of Directors, Supervisors and senior management are as follows:

## DIRECTORS

**Mr. Xu Heyi (徐和誼)**, born in November 1957, holds a doctoral degree in management and is a senior engineer (professor level) enjoying special government allowances of the State Council. **At present, Mr. Xu is the chairman of the Board of Directors, as well as the secretary of the party committee and a non-executive Director of the Company.** Mr. Xu is also the chairman of the board of directors and secretary of the party committee of BAIC Group, the chairman of the board of directors of BAIC BluePark New Energy Technology Co., Ltd. ("BAIC BluePark") (stock code: 600733.SH), and also serves as the chairman of the board of directors of Beijing Benz, the chairman of the board of directors of Beijing Electric Vehicle. Mr. Xu also serves as a representative of the 18th National Congress of the Communist Party of China and the 19th National Congress of the Communist Party of China, a representative of the 12th National People's Congress, a member of the 11th Beijing Municipal Committee, a standing member of the 12th Beijing Municipal Committee of the Chinese People's Political Consultative Conference, a member of the 13th National Committee of Chinese People's Political Consultative Conference, a member of the 13th Beijing Municipal Committee of the Chinese People's Political Consultative Conference and the deputy chairman of CAAM, among others.

Mr. Xu has more than 30 years of experience in the industry and in management. He has held various positions since he worked in BAIC Group in July 2002, including the chairman of the board of directors and the secretary of the party committee of Beijing Automotive Industry Holding Co., Ltd. ("BAIC Holding") and BAIC Group.

Mr. Xu has served as the chairman and a non-executive Director of the Company since September 20, 2010.

**Ms. Shang Yuanxian (尚元賢)**, born in February 1966, holds a bachelor's degree in economics, and is a certified public accountant as well as a senior accountant and a senior economist. **Currently, she serves as a non-executive Director of the Company**, and the secretary to the board of directors and the director of the office under the board of directors of BAIC Group.

Ms. Shang Yuanxian previously served as the director and deputy head of the auditing department of the Auditing Firm of Shizuishan City of Ningxia, the manager of the Auditing Department of SHINEWING CPA Limited (信永中和會計師事務所), the deputy manager and manager of the auditing department and the manager of the financial department of China Huan Dao (Group) Ltd. (中國寰島(集團)公司), the deputy manager and head of the state-owned assets management department in BAIC Holding, the head of the state-owned assets management department, the head of the capital operation department, the supervisor of capital operation and the head of the capital operation department, and the director of the office under the board of directors of BAIC Group. Ms. Shang Yuanxian currently serves as director of Bohai Automotive Systems Co., Ltd. ("Bohai Automotive") (stock code: 600960.SH) and the secretary to the board of directors and the director of the office under the board of directors of BAIC Group.

Ms. Shang has served as a non-executive Director of the Company since June 29, 2018.

**Mr. Yan Xiaolei (閆小雷)**, born in July 1975, holds a doctoral degree and is a senior economist, chartered financial analyst (CFA) and certified public accountant (CPA). He **currently serves as a non-executive Director of the Company**, the securities and finance director at BAIC Group, director of BAIC BluePark (a subsidiary of BAIC Group) (stock code: 600733.SH), director of each of BAIC ROCAR Automobile Service & Trade Co., Ltd. ("BAIC ROCAR") and Bohai Automotive (stock code: 600960.SH); postgraduate tutor of each of Chinese Academy of Fiscal Sciences and Central University of Finance and Economics.

Mr. Yan previously worked in the Company.

Mr. Yan has served as a non-executive Director of the Company since June 29, 2018.

**Mr. Chen Hongliang (陳宏良)**, born in January 1965, holds a master's degree in engineering and is a researcher-level senior engineer. **At present, he works as an executive Director, president and the deputy secretary of the party committee of the Company**, the chairman of the board of directors of Beijing Hyundai, a director of Beijing Benz, the chairman of the board of directors of Fujian Benz, a director of Benz Sales, a director of MBLC, the chairman of the board of directors of BAIC HK, a director of CAAM, a standing director of Beijing Association of Automobile Manufacturers (北京汽車行業協會), a standing director of Beijing Automobile Economic Research Association (北京汽車經濟研究會).

Mr. Chen has about 30 years of experience in the automobile industry. From February 1988 to March 2017, he acted as the deputy workshop director, the workshop director and the deputy factory director of Nanjing Automobile Factory (南京汽車製造廠), the deputy director of the vehicle body plant, the deputy director of the general manager office, the head of the procurement department, the head and the secretary of the party committee of the assembly plant, the deputy general manager and the deputy secretary of the party committee of NAVECO Ltd., the deputy general manager of the Passenger Vehicle Business Department of BAIC Group, the general manager and secretary of the party committee of Zhuzhou Branch, a member of the party committee and the specialized vice president of the Company, and concurrently the secretary of the party committee and the senior executive vice president of Beijing Benz.

Mr. Chen has served as an executive Director of the Company since June 23, 2017.

**Mr. Xie Wei (謝偉)**, born in June 1970, holds a doctoral degree in management. He **currently serves as a non-executive Director of the Company**, the secretary to the party committee and the president of Beijing Automotive Technology Center Co., Ltd. (北京汽車研究總院有限公司).

Mr. Xie successively served as the senior manager of production planning section and the acting general manager of logistics department of Beijing Benz, the head of human resources department of Beijing Automotive Technology Center Co., Ltd., the head of human resources department, a member of the party committee and the head of management office of Beijing Hyundai, and a member of the party committee and vice president of the Company.

Mr. Xie has served as a non-executive Director of the Company since June 29, 2018.

**Mr. Qiu Yinfu (邱銀富)**, born in November 1967, holds a master's degree in business administration and is a senior engineer of metallurgical equipment. **At present, Mr. Qiu is a non-executive Director of the Company**. He is also a director of Beijing Shougang Company Limited ("Shougang Shares"), and the secretary of the party committee and the chairman of the board of directors of Shougang Jingtang United Iron and Steel Company Limited.

Mr. Qiu has more than 20 years of experience in the industry and in management. He served in various positions from August 1989 to November 2012, including the deputy general manager of Hebei Shougang Qian'an Iron & Steel Co., Ltd.

Mr. Qiu has served as a non-executive Director of the Company since June 24, 2013.

**Mr. Hubertus Troska**, born in March 1960, German, holds a bachelor's degree in English language and literature. **At present, Mr. Troska is a non-executive Director of the Company**, the deputy chairman of the board of directors and director of Beijing Benz. Since December 13, 2012, he has worked as a member of the management committee of Daimler AG, as well as the chairman of the board of directors or a member of the board of directors at a subsidiary or joint venture company of Daimler AG in Greater China, in charge of Greater China (including Hong Kong, Macao and Taiwan) business of Daimler AG, covering passenger vehicles, trucks, new energy vehicles and financial service.

Mr. Troska has more than 30 years of experience in the automotive industry and has held many international management positions at Daimler AG. Before the appointment to work in Greater China, he led the marketing of Mercedes-Benz trucks, Mercedes-AMG GmbH and Mercedes-Benz sedans. He was in charge of management in branches of Daimler AG in Turkey, the United States and Mexico.

Mr. Troska has served as a non-executive Director of the Company since November 18, 2013.

**Mr. Harald Emil Wilhelm**, born in April 1966, German, holds an MBA degree. **At present, he is a non-executive Director of the Company**. He has been a member of the management committee of Daimler AG since April 1, 2019, and in charge of finance, control, financial service and mobility departments at Daimler AG since May 22, 2019. From April 1, 2020, Mr. Wilhelm will also act as the chief financial officer of Mercedes-Benz AG.

Mr. Wilhelm has nearly 30 years of enterprise management experience since he worked for Deutsche Aerospace AG. He has held many financial management positions at Airbus SE since 2000, and has worked as a chief financial officer of Airbus SE and Airbus Commercial Aircraft since June 2012. Before working for Airbus SE, Mr. Wilhelm acted as the vice president, mergers & acquisitions at Daimler-Benz Aerospace AG.

Mr. Wilhelm has served as a non-executive Director of the Company since June 18, 2019.

**Mr. Jin Wei (金偉)**, born in September 1972, holds a master's degree in management. He **currently serves as a non-executive Director of the Company** and the general manager of No.1 investment management department at Beijing State-owned Capital Operation and Management Center (北京國有資本經營管理中心).

Mr. Jin Wei has approximately twenty years of enterprise management experience and has successively acted as the industry research director of Beijing Guofu Investment Management Company Limited (北京國富投資管理有限公司), the capital operation director of the investment banking department and the deputy manager of the planning and finance department at Beijing International Power Development and Investment Company (北京國際電力開發投資公司), the deputy manager of the property right management department at Beijing Energy Investment (Group) Company (北京能源投資(集團)有限公司), the deputy director and deputy general manager of the preparatory office at the asset management branch of Beijing Energy Investment (Group) Company (北京能源投資(集團)有限公司), the deputy general manager of the financing management department and the equity management department at Beijing State-owned Capital Operation and Management Center. From April 2017 to January 2019, Mr. Jin Wei served as the assistant to the head of the General Affairs Department (Department of Policies, Laws and Regulations) of SAFE; Since February 2014, Mr. Jin has acted as the general manager of the No.1 investment management department at Beijing State-owned Capital Operation and Management Center.

Mr. Jin has served as a non-executive Director of the Company since June 18, 2019.

**Mr. Lei Hai (雷海)**, born in November 1968, holds an MBA degree. **Mr. Lei currently acts as a non-executive Director of the Company** and the deputy head of the industrial investment department of Beijing Energy Holding Co., Ltd. (北京能源集團有限責任公司). Mr. Lei has more than twenty years of experience in corporate management. He previously served as the project manager of the venture capital investment department of Beijing International Power Development and Investment Corporation (北京國際電力開發投資公司), the project manager of the department of technology industrial investment of Beijing Energy Investment Holding Co., Ltd. (北京能源投資(集團)有限公司), the project manager of the preparation office and the manager of the general affairs department of the asset management branch of Beijing Energy Investment Holding Co., Ltd., and the chief of the second project office and the assistant to director of the industrial management department of Beijing Energy Investment Holding Co., Ltd..

Mr. Lei has served as a non-executive Director of the Company since June 29, 2018.

**Mr. Ge Songlin (葛松林)**, born in September 1955, holds a doctoral degree in mechanical engineering. **At present, Mr. Ge is an independent non-executive Director of the Company** and the deputy secretary of Society of Automotive Engineering of China and a senior engineer at researcher level.

Mr. Ge has more than 20 years of experience in the automobile industry. From 1997 to 2016, he served as a senior engineer in the automobile industry department of the Ministry of Machine-Building Industry, an associate professor of the automotive department of Hefei University of Technology and senior engineer in the industry department of the Ministry of Machine-Building Industry. He also served successively as editor-in-chief of the academic journal Automotive Engineering, part-time professor at Hefei University of Technology, part-time professor at Jiangsu University, part-time professor at Changsha University of Science and Technology and a member of the academic committee of Shanghai Jiaotong University from 2012 to 2016.

Mr. Ge has served as an independent non-executive Director of the Company since April 21, 2017.

**Mr. Wong Lung Tak Patrick (黃龍德)**, born in March 1948, holds a doctoral degree in science of commerce, a fellow member of the Association of Chartered Certified Accountants and certified tax adviser of the Taxation Institute of Hong Kong. **At present, Mr. Wong is an independent non-executive Director of the Company** and also the chief practicing director of Patrick Wong C.P.A. Limited.

Mr. Wong has more than 40 years of experience in financing and management. Mr. Wong has received various honors including the Queen's Badge of Honor, was appointed by the government of Hong Kong Special Administrative Region as Non-official Justice of the Peace and awarded the Bronze Bauhinia Star by the government of Hong Kong Special Administrative Region.

Currently, Mr. Wong also serves as an independent non-executive director of C C Land Holdings Limited, Galaxy Entertainment Group Limited, Sino Oil and Gas Holdings Limited, Water Oasis Group Limited, Winox Holdings Limited and Li Bao Ge Group Limited. Mr. Wong served as an independent non-executive director of Real Nutriceutical Group Limited from March 28, 2008 to October 12, 2017, independent non-executive director of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (formerly known as Guangzhou Pharmaceutical Company Limited) from June 28, 2010 to May 9, 2017.

Mr. Wong has served as an independent non-executive Director of the Company since December 2, 2014.

**Mr. Bao Robert Xiaochen (包曉晨)**, born in April 1966, American, holds a bachelor's degree in engineering, MSc, MBA. **At present, Mr. Bao is an independent non-executive Director of the Company** and is the director and general manager of Meihe (China) Management Consultancy Co., Ltd.

Mr. Bao has more than 20 years of experience in the industry and management. He held various positions from June 1992 to September 2013, including North America product quality engineer, product reliability expert, finished vehicle development product assurance expert of Chrysler Corporation, warranty cost expert for suppliers in North America of Daimler Chrysler AG, associate/project manager in the China divisions of EDS/A.T. Kearney of the US, director of automobile business in Greater China of EDS PLM/UGS Solutions of the US, China operation and sales general manager of Motorola Automotive Electronics Co., Asia-Pacific sales and marketing director and Asia-Pacific business platform director of electronics and safety of Delphi Automotive System (China) Holdings Co., Limited, and director manager of Accenture (China) Co., Ltd. and Accenture (Detroit, U.S.) Co., Ltd.

Mr. Bao has served as an independent non-executive Director of the Company since December 2, 2014.

**Mr. Zhao Fuquan (趙福全)**, born in December 1963, holds a doctoral degree in engineering. **At present, Mr. Zhao is an independent non-executive Director of the Company**, a professor and doctoral supervisor of the School of Vehicle and Mobility, the head of the Automotive Industry and Strategy Research Institute in Tsinghua University.

Mr. Zhao has more than 20 years of experience in the industry. Mr. Zhao served as the senior engineering specialist and research director of US Daimler Chrysler AG from April 1997 to March 2004, vice president and general manager of research & development center of Shenyang HuaChen Jinbei Vehicle Manufacturing Co., Ltd. from April 2004 to September 2006, president of Geely Automobile Research Institute from February 2007 to April 2013, vice president of Zhejiang Geely Holding Group and executive director of Geely Automobile Holdings Limited from November 2006 to May 2013.

Mr. Zhao has served as an independent non-executive Director of the Company since December 2, 2014.

**Mr. Liu Kaixiang (劉凱湘)**, born in December 1964, holds a doctoral degree in law. **At present, Mr. Liu is an independent non-executive Director of the Company**. He is also a professor and doctoral supervisor of Peking University Law School, vice president of China Commercial Law Research Society and an arbitrator of China International Economic and Trade Arbitration Commission and Singapore International Arbitration Centre.

Mr. Liu has more than 20 years of experience in legal affairs. He served as the deputy director in the faculty of law and professor of Beijing Technology and Business University from July 1987 to May 1999 and has been a professor and doctoral supervisor of Peking University Law School since May 1999.

Currently, Mr. Liu also serves as the independent director of Chongqing Sokon Industry Group Co.,Ltd., People.Cn Co., Ltd. and Beijing Hanjian Heshan Pipe Co., Ltd.

Mr. Liu has served as an independent non-executive Director of the Company since December 2, 2014.

## SUPERVISORS

**Mr. Gu Zhangfei (顧章飛)**, born in September 1966, holds a bachelor's degree in engineering and an MBA degree and is a senior engineer. **At present, he works as the chairman of the Board of Supervisors**.

Mr. Gu Zhangfei has nearly 30 years of experience in enterprise management. He served as the section head, the deputy head of the spare parts division, the head of the raw materials division and assistant to the general manager of Shougang's Beigang Company (首鋼北鋼公司), the deputy head and the head of the spare parts division of the mechanics department in Shougang Corporation (首鋼總公司), the deputy general manager and the general manager of Shougang Corporation Sales Company (首鋼總公司銷售公司) and the deputy general manager of Beijing Shougang Xingang Co., Ltd. (北京首鋼新鋼有限責任公司), the deputy secretary of the party committee, the director and the general manager of Qinhuangdao Shouqin Metal Materials Co., Ltd. (秦皇島首秦金屬材料有限公司), assistant to the general manager of Shougang Corporation and the deputy secretary of the party committee, the secretary of the discipline inspection commission, the secretary of the party committee and the secretary of the discipline inspection commission of Shougang Jingtang United Iron and Steel Co., Ltd. (首鋼京唐鋼鐵聯合有限責任公司), assistant to the general manager of Shougang Corporation and the secretary of the party committee and the chairman of board of directors of Beijing Shougang Shareholding Investment Management Co., Ltd. (北京首鋼股權投資管理有限公司) and a full-time deputy director-level supervisor of the Beijing Municipal State-owned Enterprises Supervisory Board.

Mr. Gu has served as the chairman of the Board of Supervisors of the Company since December 5, 2017.

**Mr. Wang Min (王敏)**, born in January 1966, holds a master's degree in industrial engineering and is a senior accountant. **At present, Mr. Wang is a shareholder representative Supervisor of the Company**. Mr. Wang is also the director of the office of full-time supervisors of BAIC Group.

Mr. Wang Min has over 30 years of experience in financial management and business management. He served in various positions, including the profit tax administrator, office head assistant and deputy office head of price and tax office of audit and finance department of Shougang Group, the chief accountant of Shougang Shares, the vice president of the Company, the general manager of Beijing Rocar Automotive Trading Co., Ltd. (北京鵬龍行汽車貿易有限公司) and the general manager of BAIC ROCAR, among others.

Mr. Wang has served as a Supervisor of the Company since December 28, 2016.

**Mr. Yao Shun (姚舜)**, born in December 1981, holds a bachelor's degree and a master's degree in material processing engineering and a part-time master's degree in finance and is a middle class steel-rolling engineer. **At present, he works as a shareholder representative Supervisor of the Company** and the deputy secretary of the party committee, the director and the deputy general manager (presiding over work) of China Shougang International Trade Engineering Co., Ltd. (中國首鋼國際貿易工程有限公司).

Mr. Yao Shun has more than 10 years of working experience in relevant business and management. He served as a researcher of the plate and strip department, a specialist of the technology management division, the team head of the general management team of the automobile sheet improvement division, the assistant to director and the deputy director of the automobile sheet improvement division of Shougang Technology Research Institute (首鋼技術研究院), the deputy head of the technology and quality department of Shougang Shares and the deputy general manager of Beijing Shougang Cold-Rolled Sheet Co., Ltd. (北京首鋼冷軋薄板有限公司) ("Shougang Cold-Rolled") and the deputy head of the manufacturing department of Shougang Shares and the deputy general manager and the general manager of Shougang Cold-Rolled, the deputy secretary of the party committee and the general manager of Shougang Cold-Rolled.

Mr. Yao has served as a Supervisor of the Company since December 5, 2017.

**Mr. Meng Meng (孟猛)**, born in May 1973, holds a master's degree in business administration and **currently serves as a shareholder representative Supervisor of the Company** and the deputy general manager of Beijing Industrial Developing Investment Management Co., Ltd. (北京工業發展投資管理有限公司).

Mr. Meng Meng previously served as the division manager of Zhonghongxin Jianyuan Certified Public Accountants Co., Ltd. (中鴻信建元會計師事務所有限責任公司) and Zhonghong Assets Appraisal Co., Ltd. (中鴻資產評估有限責任公司), the deputy director of finance department and legal and internal risk control department of China Network Communications Group Co., Ltd. (中國網絡通信集團有限公司), the director of risk management and legal affairs department of China Network Communications Group Co., Ltd., the director of legal and risk management department and finance department of China United Network Communications Co., Ltd. (中國聯合網絡通信集團有限公司), and the director of financing department and internal audit department of HyalRoute Communication Group Limited (海容通信集團有限公司). He has been serving as the deputy general manager of Beijing Industrial Developing Investment Management Co., Ltd. since January 2018.

Mr. Meng has served as a Supervisor of the Company since December 28, 2018.

**Ms. Wang Bin (王彬)**, born in June 1982, holds a bachelor's degree in law and a master's degree in business management. **At present, Ms. Wang is an employee representative Supervisor of the Company**, the deputy secretary of the party committee and the chairman of the labor union of the Company, the deputy secretary of the party committee and chairman of the labor union of the automobile research institute of the Company.

Ms. Wang has over ten years of experience in management. She successively worked as the director of the public relations department and the secretary of the youth league committee of Beijing Hyundai, the head of the administrative department of Beijing Automotive Technology Center Co., Ltd., the secretary of the youth league committee of BAIC Group, the head of the work department of the party committee, the secretary of the youth league committee, the secretary of the party committee and the secretary of the discipline inspection commission of the automobile research institute and the president of the labor union in the Company.

Ms. Wang has served as an employee representative Supervisor of the Company since December 5, 2017.

**Ms. Li Chengjun (李承軍)**, born in April 1968, graduated from the Technician Training School of Beijing Second Automobile Factory (北京第二汽車製造廠技工學校)with a major in lathing and Party School of Beijing Municipal Committee of CCP (北京市委黨校) with a major in law and is a senior political officer. **At present, Ms. Li is an employee representative Supervisor of the Company**, a committee member of the party committee and secretary to the discipline inspection commission of the Company, as well as a member of the standing committee of the discipline inspection commission of BAIC Group.

Ms. Li has more than 30 years of working experience. She successively served as a worker of Beijing Second Automobile Factory (北京第二汽車製造廠), a promotion officer of Beijing Light Vehicle Co., Ltd. (北京輕型汽車有限公司), the head of the department of party-masses work and the head of the public relation division of Beijing Hyundai, the director of the female workers committee and the vice chairman of the labor union of BAIC Holding, as well as a member of the standing committee of the discipline inspection commission and the vice chairman of the labor union of BAIC Group. Ms. Li served as an employee representative Supervisor of the Company from August 29, 2013 to December 5, 2017 and she has been a committee member of the party committee and secretary to the discipline inspection commission of the Company since January 2017.

Ms. Li has served as an employee representative Supervisor of the Company since March 19, 2019.

**Mr. Li Shuangshuang (李雙雙)**, born in January 1982, holds a master's degree and is a senior political officer and an engineer, **currently works as an employee representative Supervisor of the Company**, the deputy secretary of the party committee, the secretary of the discipline inspection commission and the chairman of the labor union of Beijing Hyundai.

Mr. Li has over ten years of management experience. He worked as the secretary of the youth league committee of Beijing Hyundai, the party building director of the organization department of the party committee in BAIC Group, the deputy secretary of the party committee, the secretary of the discipline inspection commission and the chairman of the labor union of BAIC International, the member of the party committee and the secretary of the discipline inspection commission of the Company.

Mr. Li has served as an employee representative Supervisor of the Company since December 5, 2017.

**Mr. Pang Minjing (龐民京)**, born in October 1955, holds a bachelor's degree and is a senior lawyer. **At present, Mr. Pang is an independent Supervisor of the Company**.

Mr. Pang has more than 30 years of experience in the law industry. He graduated from China University of Political Science and Law and received his bachelor's degree. He also holds the title of "National Outstanding Attorney at Law" and was approved to engage in securities legal business and state-owned-enterprise reform business by the relevant government authorities. Mr. Pang is one of the first registered practicing corporate legal counsels in China. He worked as a cadre of Beijing Municipal Public Security Bureau, a lawyer at Beijing Municipal Second Law Firm, a partner of Beijing North Law Firm and a director of Beijing North Law Firm.

Mr. Pang has served as an independent Supervisor of the Company since July 24, 2015.

**Mr. Zhan Zhaohui (詹朝暉)**, born in May 1969, holds a master's degree and is a certified accountant, certified public assets valuer, certified tax agent, and international certified internal auditor. **At present, Mr. Zhan is an independent Supervisor of the Company**.

Mr. Zhan has more than 20 years of experience in accounting and corporate management. He worked as an assistant to general manager of the lubricant company of the Shaowu Branch of Fujian Province Petroleum Corporation, a project team leader of Environmental Science Institute in Beijing General Research Institute of Mining and Metallurgy, a project manager of Beijing Huaxia Tianhai Certified Public Accountants and Beijing Huarongjian Asset Appraisal Firm, a department manager and a partner of Huaxia Zhongcai (Beijing) Certified Public Accountants, the chairman of the board of directors of Huaxia Jiacheng (Beijing) Asset Appraisal Co. Ltd., a deputy general manager of Beijing Tianyuankai Asset

# Directors, Supervisors and Senior Management

Appraisal Co. Ltd. Since 2013, he has been an expert in the evaluation report review committee of the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality.

Mr. Zhan has served as an independent Supervisor of the Company since July 24, 2015.

## SENIOR MANAGEMENT AND COMPANY SECRETARY

See "DIRECTORS" of this Section for the profile of Mr. **Chen Hongliang**.

Mr. Chen has served as the president of the Company since March 6, 2017.

**Mr. Chen Wei (陳巍)**, born in June 1969, holds a bachelor's degree in engineering and a EMBA degree and is a senior engineer. **At present, he acts as the vice president of the Company**, the secretary of the party committee and senior executive vice president of Beijing Benz.

Mr. Chen has more than 20 years of experience in the automobile industry. He successively worked as an assistant engineer and an engineer of the product engineering department, an onsite engineer of the U.S. office, the leader of the interior trimming team of the vehicle body engineering section, the head of the vehicle model development section and the production planning section in Beijing Jeep Motor Co., Ltd., the department director and the manager of the assembly workshop, the general manager of the corporate and legal affairs department and the secretary of the general party branch in Beijing Benz-Daimler Chrysler Automotive Co., Ltd., the general manager of the corporate and legal affairs department, the secretary of the general party branch, the member of the party committee and the vice president of production and manufacturing in Beijing Benz.

Mr. Chen has served as the vice president of the Company since June 15, 2017.

**Mr. Liu Yu (劉宇)**, born in November 1976, holds a bachelor's degree in engineering and MBA. **At present, Mr. Liu is the vice president of the Company**, and the secretary of the party committee, a director and the standing deputy general manager of Beijing Hyundai.

Mr. Liu has more than ten years of experience in automobile industry. From 1999, he successively acted as the researcher of the North Technology and Information Research Institution (北方科技信息研究所), the regional manager of the Audi sales division in FAW-Volkswagen Sales Company Ltd. (一汽大眾銷售有限公司), the head of the southern-region business department of Beijing Hyundai, the vice general manager of the passenger vehicle business division of BAIC Group, the deputy head of the sales department of the Company, vice general manager and general manager of BAIC Motor Sales Co. Ltd., the director of the procurement center of the Company and the president of the automobile research institute of the Company.

Mr. Liu has served as the vice president of the Company since August 24, 2016.

**Mr. Huang Wenbing (黃文炳)**, born in March 1973, holds a bachelor's degree and is a senior engineer. **At present, he served as the vice president of the Company**, the secretary of the party committee, the director of the production and technology center, the director of the operation center of the automobile research institute, an executive director of Powertrain, an executive director of BAIC Guangzhou, an executive director of Beijing Beinei Engine Parts and Components Co., Ltd., an executive director of BAIC Powertrain System (Zhuzhou) Co., Ltd. (北汽動力系統(株洲)有限公司), the chairman of China Automobile Development United (Beijing) Technology Investment Co., Ltd., the chairman of the board of supervisors in META Engine and New Energy Technology Co., Ltd. (META發動機與新能源技術有限公司) and the chairman of BAIC MB-tech Development Center Co., Ltd.

Mr. Huang has more than 20 years of experience in the automotive industry. From 1995, he served in various positions including the technician of quality management department in Yuejin Motor Group (躍進汽車集團公司), the quality supervisor of the assembly plant of Nanjing FIAT, head of the quality management department in Wu Xi Branch of Yuejin Motor Group, director of quality management of Changsha Zotye Auto Industrial Company Limited (長沙眾泰汽車工業有限公司), person-in-charge of the quality management department, director of quality control department and deputy general manager of Zhuzhou Branch of the Company, deputy head of quality center of the Company, and the general manager of Zhuzhou Branch of the Company.

Mr. Huang has served as the vice president of the Company since March 6, 2017.

**Mr. Wu Zhoutao (吳周濤)**, born in November 1976, holds an MBA degree. **At present, Mr. Wu serves as the vice president of the Company**, and an executive director, the secretary of the party committee and the general manager of BAIC Motor Sales Co., Ltd.

Mr. Wu Zhoutao has about twenty years of experience in marketing and enterprise management. He successively acted as the regional manager of the coach chassis factory in FAW Group Corporation (一汽集團公司), the regional manager and network manager of FAW Car Trading Co., Ltd. (一汽轎車貿易有限公司), an employee of the sales department, the chief of the sales logistics section, the head of the north business department, the head of the sales management department and the deputy head of sales in Beijing Hyundai, and the deputy general manager of Beijing Hyundai from August 1999.

Mr. Wu has served as the vice president of the Company since March 22, 2018.

**Mr. Li Deren (李德仁)**, born in October 1966, holds a bachelor's degree in economics, a master's degree in laws and an MBA degree and is a senior accountant. **At present, he works as the vice president of the Company**, and the director of the Finance and Economics Center and the Investment and Planning Center of the Company, a director of Beijing Hyundai, a director of Beijing Benz, a director of BAIC Finance, a director of BHAF, a supervisor of Benz Sales, a supervisor of Fujian Benz and the deputy chairman of Hyundai Top Selection U-Car.

Mr. Li Deren has over 20 years of experience in finance, audit and business management. He worked as the deputy secretary of the youth league committee of Hebei Chengde School of Economics and Finance (河北承德財經學校), the deputy chief accountant of Hebei Chengde Iron & Steel Group (河北承德鋼鐵集團), the financial officer of Hebei Chengde Xinxin Vanadium and Titanium Co., Ltd. (河北承德新新釩鈦股份有限公司) (stock code: 600357.SH), the chief financial officer and the audit director of Beijing Jianlong Steel Group (北京建龍鋼鐵集團), the chief financial officer of Beijing Baiduoan Technology Co., Ltd. (北京百多安科技有限公司), the general manager of Shandong Branch of such company, the deputy leader of the project construction team and the deputy general manager of the Beijing Branch of the Company, the deputy director of the finance and economics center of the Company, the head of the research and development and finance department of the center, a member of the party committee, the chief financial officer and the head of the financial management department of Powertrain, the assistant to president of the Company.

Mr. Li has served as the vice president of the Company since June 15, 2017.

# Directors, Supervisors and Senior Management

**Mr. Yang Xueguang (楊學光)**, born in September 1972, holds a bachelor's degree in engineering and is an engineer. **At present, he serves as the vice president of the Company** and the director of the Quality Center and the Management Center.

Mr. Yang Xueguang has more than 20 years of experience in the automotive industry. From 1995, he successively served as an employee of Beijing Light Automobile Co., Ltd., a technical support engineer of Beijing Beizhao Olympus Optical Co., Ltd. (北京北照奧林巴斯光學有限公司), the director of the processing center of the Institute of Electronics, Chinese Academy of Sciences, an employee of the assembly shop in the vehicle factory of Beijing Hyundai, the head of the No.2 assembly inspection section of the quality department of Beijing Hyundai, the head of the Quality Department of Beijing Branch of the Company, the head of the quality control department of Beijing Branch of the quality center in the Company, the deputy director of the quality center, the head of the quality control department of Beijing Branch, the deputy director of the procurement center and the head of the parts purchase department.

Mr. Yang has served as the vice president of the Company since January 22, 2018.

**Mr. Wang Jianhui (王建輝)**, born in August 1977, holds a bachelor's degree in metallurgical machinery and an MBA degree. **At present, he serves as the secretary to the Board, the company secretary and the deputy director of the Investment and Planning Center of the Company**, a director of Beijing Hyundai, a director of Fujian Benz, the chairman of Beijing Bai Das Auto System Co., Ltd. (北京北汽大世汽車系統有限公司) ("Bai Das"), a director of BHAF, a director of BH Leasing, a supervisor of MBLC, a director of Beijing Lear Hyundai Transys Automotive Systems Co., Ltd. (北京李爾現代坦迪斯汽車系統有限公司) and a director of Shougang Cold-Rolled.

Mr. Wang Jianhui has extensive experience in corporate governance, investment management and capital operations. Since 2007, he has successively served as the manager of the project management department of BAIC Investment, the manager of the investment management department of the Company, the director of production, the director of integrated management and the deputy general manager of Beijing Bai Das Auto System Co., Ltd., and the professional chief officer of the planning center of the Company.

Mr. Wang has served as the secretary to the Board of the Company since January 17, 2019 and the company secretary to the Company since January 29, 2019.

The terms of office of the above senior management expire upon the expiration of the term of office for the third session of the Board of Directors.

pwc 羅兵咸永道

**TO THE SHAREHOLDERS OF BAIC MOTOR CORPORATION LIMITED**
*(incorporated in the People's Republic of China with limited liability)*

## OPINION

### What we have audited

The consolidated financial statements of BAIC Motor Corporation Limited (the "Company") and its subsidiaries (the "Group") set out on pages 97 to 175, which comprise:

- the consolidated balance sheet as at December 31, 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") 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 International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

### Independence

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

## KEY AUDIT MATTERS

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

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

- Capitalization of internal development costs;
- Impairment assessment of the property, plant and equipment, land use rights and the intangible assets related to the Beijing Brand passenger vehicle business;
- Provision for warranties.

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| *Capitalization of internal development costs*<br><br>Refer to Note 5 (Critical accounting estimates and judgements) and Note 9 (Intangible assets) of the consolidated financial statements.<br><br>The Group launches new vehicle models which require expenditure on the internal research and development projects. Management capitalizes the costs on development projects when the criteria set out in the accounting standard for capitalization of such costs have been met. RMB2,401 million of internal development costs have been capitalized and recorded as addition to intangible assets for the year ended December 31, 2019.<br><br>We focused on this area due to the fact that there is significant judgement involved in assessing whether the criteria set out in the accounting standard for capitalization of expenditure on the internal research and development projects has been met, particularly:<br><br>• The timing to start capitalization;<br><br>• The technical feasibility of the projects; and<br><br>• The likelihood of the projects that will deliver sufficient future economic benefits. | We have understood and evaluated the design of the controls identified by the management surrounding the capitalization of internal development costs and subsequent measurement which we considered as key. We tested such controls and performed substantive test of details on the projects with significant expenditure on the internal development as follows.<br><br>• We obtained the bases of considerations from management to determine the projects which were considered under development stage, in terms of how the specific requirements of the relevant accounting standards were met and whether it is appropriate to start the capitalization of the costs attributable to the projects.<br><br>• We also conducted interviews with individual project development managers responsible for the projects selected to obtain corroborative evidence such as project progress reports to support the explanations provided by the management.<br><br>• We tested samples of cost incurred by selected individual project and through our understanding of the projects and assessing the nature and necessity of such costs to evaluate whether such cost items selected for testing were directly attributable to the projects.<br><br>Based on above, we found that the judgement applied by management in assessing the criteria for capitalization of internal development costs were supported by the evidence we gathered and consistent with our understanding. |

**Key Audit Matter**

*Impairment assessment of property, plant and equipment, land use rights and intangible assets related to Beijing Brand passenger vehicle business*

Refer to Note 5 (Critical accounting estimates and judgements), Note 7 (Property, plant and equipment), Note 8 (Land use rights) and Note 9 (Intangible assets) of the consolidated financial statements.

The Group has material balances of property, plant and equipment, land use rights and intangible assets related to Beijing Brand passenger vehicle business, a separate cash generating unit ("CGU") with operating losses for the year ended December 31, 2019.

Management has engaged an independent valuer to determine the recoverable amount of this CGU, being the value in use. Such assessment involved complex and subjective judgements and assumptions, such as future cash flow projections using revenue, gross margin and other operating costs projections, long-term growth rates of revenue, and discount rate.

Based on above management's assessment, the value in use of this CGU is larger than its net carrying value as of December 31, 2019.

We focused on this area due to the material balances of property, plant and equipment, land use rights and intangible assets related to Beijing Brand passenger vehicle business, and the fact that judgement and assumptions are involved to determine the recoverable amount of this CGU.

**How our audit addressed the Key Audit Matter**

The recoverable amount of the Beijing Brand passenger business was determined based on value in use, which is the present value of the future cash flows expected to be derived from this CGU, and we performed the following major audit procedures:

1. We assessed the competence, independence and integrity of the valuer. We read the valuer's report and assessed the valuation methodology.

2. We tested the consistency and assessed the reasonableness of the data used and evaluated the management's key assumptions adopted in the discounted cash flow projections, mainly in relation to:

   - the budgeted sales, gross margin and other operating costs, by comparing them with actual performance and historical financial data of this CGU. For the budgeted sales, we also compared to the Group's strategic plan; and

   - discount rate, by comparing it with the cost of capital of comparable companies and historical weighted average cost of capital, as well as considering territory specific factors.

Based on available evidence, we found the data used and the key assumptions adopted in management's discounted cash flow projection were supported by the evidence we gathered.

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| *Provision for warranties*<br><br>Refer to Note 5 (Critical accounting estimates and judgements) and Note 25 (Provisions) of the consolidated financial statements.<br><br>The Group recognizes estimated warranty costs for vehicles sold principally at the time of sale of the vehicles or when it is determined that such obligations are probable and can be reasonably estimated. As disclosed in Note 25, the Group's warranties provision balance is RMB4,634 million as at December 31, 2019. The key judgement adopted by management as part of this process includes determining the estimated warranty cost per unit of vehicle sold.<br><br>We focused on this area given the estimates are adjusted from time to time based on facts and circumstances that impact the status of claims and involving the judgement and assumptions. | In assessing the provision for warranties, we obtained an understanding on the management's process to identify and quantify the provisions and tested related controls.<br><br>We also tested the provision for warranties attributable to vehicles with significant sales volume as follows:<br><br>• We tested the mathematical accuracy of the management's calculation of the provision for warranties which is based on the cost-per-unit and sales volume, and traced the volume data in current period to related sales records for each type of vehicle.<br><br>• We assessed the reasonableness of the cost-per-unit provision estimates of each type of vehicle sold in the year with the Group's data sources that reported warranty costs in the past, and benchmarked the cost-per-unit provision estimates with similar types of vehicle produced and sold by the Group.<br><br>• In respect of the provision for warranties previously recorded and subsequently settled during the year, we compared the provision amount with the settlement amount and investigated if significant variance exists and the reasonableness of the reassessment of the adequacy of the provision for warranties previously made by the management. We also discussed with management the existence of any indicators of significant product defect occurred during the year and subsequent to the year-end that would significantly affect the estimates of the year end warranty provision.<br><br>We found the assumptions adopted and judgement applied by management were supported by the available evidence. |

## OTHER INFORMATION

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

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

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

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

## RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE 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 IFRSs 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.

The audit committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

- 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 the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

The engagement partner on the audit resulting in this independent auditor's report is Peter Man Kam Tsang.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, March 26, 2020

# Consolidated Balance Sheet

As at December 31, 2019

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Your Wish · Our Ways

| | Note | As at December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 7 | **46,329,140** | 43,217,822 |
| Land use rights | 8 | **7,201,549** | 7,378,380 |
| Intangible assets | 9 | **13,039,160** | 13,123,352 |
| Investments accounted for using equity method | 11,12 | **16,104,148** | 16,185,648 |
| Financial assets at fair value through other comprehensive income | 13 | **1,278,650** | 1,742,729 |
| Deferred income tax assets | 14 | **10,540,458** | 7,925,601 |
| Other non-current assets | | **659,261** | 701,180 |
| | | **95,152,366** | 90,274,712 |
| **Current assets** | | | |
| Inventories | 15 | **19,924,603** | 18,962,575 |
| Accounts receivable | 16 | **21,586,635** | 21,988,198 |
| Advances to suppliers | 17 | **310,089** | 465,988 |
| Other receivables and prepayments | 18 | **5,037,690** | 4,132,578 |
| Restricted cash | 19 | **1,878,104** | 820,174 |
| Cash and cash equivalents | 20 | **49,322,499** | 35,389,883 |
| | | **98,059,620** | 81,759,396 |
| **Total assets** | | **193,211,986** | 172,034,108 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | 21 | **8,015,338** | 8,015,338 |
| Perpetual bond | 22 | **1,998,160** | 1,998,160 |
| Other reserves | 23 | **21,008,386** | 21,041,578 |
| Retained earnings | | **19,381,328** | 17,360,387 |
| | | **50,403,212** | 48,415,463 |
| **Non-controlling interests** | | **22,223,988** | 20,822,318 |
| **Total equity** | | **72,627,200** | 69,237,781 |

# Consolidated Balance Sheet

As at December 31, 2019

| | Note | As at December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 24 | **9,542,718** | 14,907,282 |
| Lease liabilities | 7(c)(i) | **18,034** | – |
| Deferred income tax liabilities | 14 | **731,315** | 758,006 |
| Provisions | 25 | **2,507,635** | 2,620,030 |
| Deferred income | 26 | **3,487,262** | 4,084,833 |
| | | **16,286,964** | 22,370,151 |
| **Current liabilities** | | | |
| Accounts payable | 27 | **44,707,450** | 38,632,933 |
| Contract liabilities | 28 | **950,986** | 234,226 |
| Other payables and accruals | 29 | **38,024,236** | 28,789,066 |
| Current income tax liabilities | | **4,437,845** | 1,992,153 |
| Borrowings | 24 | **14,019,499** | 8,955,960 |
| Lease liabilities | 7(c)(i) | **31,557** | – |
| Provisions | 25 | **2,126,249** | 1,821,838 |
| | | **104,297,822** | 80,426,176 |
| **Total liabilities** | | **120,584,786** | 102,796,327 |
| **Total equity and liabilities** | | **193,211,986** | 172,034,108 |

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 97 to 175 were approved by the Board of Directors on March 26, 2020 and were signed on its behalf.

Xu Heyi, Director

Chen Hongliang, Director

# Consolidated Statement of Comprehensive Income

For the year ended December 31, 2019



| | Note | For the year ended December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| Revenue | 6 | **174,632,722** | 151,920,390 |
| Cost of sales | 31 | **(137,145,700)** | (114,913,751) |
| **Gross profit** | | **37,487,022** | 37,006,639 |
| Selling and distribution expenses | 31 | **(10,294,174)** | (10,432,043) |
| General and administrative expenses | 31 | **(6,962,054)** | (6,436,554) |
| Net impairment losses on financial assets | | **(313,323)** | (133,041) |
| Other gains, net | 30 | **1,766,265** | 623,048 |
| **Operating profit** | | **21,683,736** | 20,628,049 |
| Finance income | 33 | **884,190** | 760,930 |
| Finance costs | 33 | **(948,590)** | (1,117,957) |
| Finance costs, net | | **(64,400)** | (357,027) |
| Share of (loss)/profit of investments accounted for using equity method | | **(304,910)** | 903,836 |
| **Profit before income tax** | | **21,314,426** | 21,174,858 |
| Income tax expense | 34 | **(6,991,319)** | (6,903,525) |
| **Profit for the year** | | **14,323,107** | 14,271,333 |
| **Profit attributable to:** | | | |
| Equity holders of the Company | | **4,082,698** | 4,429,465 |
| Non-controlling interests | | **10,240,409** | 9,841,868 |
| | | **14,323,107** | 14,271,333 |
| **Earnings per share for profit attributable to ordinary shareholders of the Company for the year** (expressed in RMB) | | | |
| Basic and diluted | 35 | **0.50** | 0.55 |

# Consolidated Statement of Comprehensive Income

For the year ended December 31, 2019

| | For the year ended December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Profit for the year** | **14,323,107** | 14,271,333 |
| **Other comprehensive income** | | |
| *Items that may be reclassified to profit or loss* | | |
| (Loss)/gain on cash flow hedges, net of tax | **(37,780)** | 32,820 |
| Share of other comprehensive income/(loss) of investments accounted for using the equity method | **7,664** | (5,223) |
| Currency translation differences | **(8)** | (37) |
| *Items that will not be reclassified to profit or loss* | | |
| Changes in fair value of financial assets at fair value through other comprehensive income | **(463,334)** | (517,458) |
| **Other comprehensive loss for the year** | **(493,458)** | (489,898) |
| **Total comprehensive income for the year** | **13,829,649** | 13,781,435 |
| **Attributable to:** | | |
| Equity holders of the Company | **3,607,979** | 3,924,007 |
| Non-controlling interests | **10,221,670** | 9,857,428 |
| | **13,829,649** | 13,781,435 |

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

# Consolidated Statement of Changes in Equity

For the year ended December 31, 2019

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| | Attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 (Note 21) | Perpetual bond RMB'000 (Note 22) | Other reserves RMB'000 (Note 23) | Retained earnings RMB'000 | Sub-total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| **Balance at January 1, 2019** | 8,015,338 | 1,998,160 | 21,041,578 | 17,360,387 | 48,415,463 | 20,822,318 | 69,237,781 |
| Profit for the year | – | 112,000 | – | 3,970,698 | 4,082,698 | 10,240,409 | 14,323,107 |
| Other comprehensive loss | – | – | (474,719) | – | (474,719) | (18,739) | (493,458) |
| **Total comprehensive income for the year** | – | 112,000 | (474,719) | 3,970,698 | 3,607,979 | 10,221,670 | 13,829,649 |
| **Transactions with owners** | | | | | | | |
| Interest of perpetual bond | – | (112,000) | – | – | (112,000) | – | (112,000) |
| Appropriation to reserve fund | – | – | 426,588 | (426,588) | – | – | – |
| 2018 final dividends | – | – | – | (1,522,914) | (1,522,914) | – | (1,522,914) |
| Dividends to non-controlling interest holders of a subsidiary | – | – | – | – | – | (8,820,000) | (8,820,000) |
| Others | – | – | 14,939 | (255) | 14,684 | – | 14,684 |
| | – | (112,000) | 441,527 | (1,949,757) | (1,620,230) | (8,820,000) | (10,440,230) |
| **Balance at December 31, 2019** | 8,015,338 | 1,998,160 | 21,008,386 | 19,381,328 | 50,403,212 | 22,223,988 | 72,627,200 |

# Consolidated Statement of Changes in Equity

For the year ended December 31, 2019

| | Attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 (Note 21) | Perpetual bond RMB'000 (Note 22) | Other reserves RMB'000 (Note 23) | Retained earnings RMB'000 | Sub-total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| **Balance at January 1, 2018** | 7,595,338 | – | 18,982,383 | 14,176,039 | 40,753,760 | 18,804,890 | 59,558,650 |
| Profit for the year | – | 112,000 | – | 4,317,465 | 4,429,465 | 9,841,868 | 14,271,333 |
| Other comprehensive (loss)/income | – | – | (505,458) | – | (505,458) | 15,560 | (489,898) |
| **Total comprehensive income for the year** | – | 112,000 | (505,458) | 4,317,465 | 3,924,007 | 9,857,428 | 13,781,435 |
| **Transactions with owners** | | | | | | | |
| Issue of new shares | 420,000 | – | 2,233,069 | – | 2,653,069 | – | 2,653,069 |
| Issue of perpetual bond | – | 1,998,160 | – | – | 1,998,160 | – | 1,998,160 |
| Interest of perpetual bond | – | (112,000) | – | – | (112,000) | – | (112,000) |
| Appropriation to reserve fund | – | – | 331,584 | (331,584) | – | – | – |
| 2017 final dividends | – | – | – | (801,533) | (801,533) | – | (801,533) |
| Dividends to non-controlling interest holders of a subsidiary | – | – | – | – | – | (7,840,000) | (7,840,000) |
| | 420,000 | 1,886,160 | 2,564,653 | (1,133,117) | 3,737,696 | (7,840,000) | (4,102,304) |
| **Balance at December 31, 2018** | 8,015,338 | 1,998,160 | 21,041,578 | 17,360,387 | 48,415,463 | 20,822,318 | 69,237,781 |

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

# Consolidated Statement of Cash Flows

For the year ended December 31, 2019

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| | Note | For the year ended December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 37(a) | 43,477,661 | 31,729,349 |
| Interest paid | | (688,892) | (915,885) |
| Interest received | | 884,190 | 799,373 |
| Income tax paid | | (7,720,178) | (9,879,444) |
| Net cash generated from operating activities | | 35,952,781 | 21,733,393 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (8,439,920) | (6,440,957) |
| Purchase of land use rights | | (1,330) | (73,172) |
| Addition of intangible assets | | (2,361,004) | (2,221,223) |
| Addition of investments accounted for using equity method | | (623,494) | (622,718) |
| Prepayment for an investment | | (50,000) | – |
| Receipt of government grants for capital expenditures | | 153,208 | 4,806 |
| Proceeds from disposals of property, plant and equipment and intangible assets | 37(b) | 98,816 | 337 |
| Proceeds from disposals of financial assets at fair value through other comprehensive income | | 745 | – |
| Dividends received from investments accounted for using equity method | | 408,422 | 95,601 |
| Increase of restricted cash | | (800,000) | (275,100) |
| Net cash used in investing activities | | (11,614,557) | (9,532,426) |
| **Cash flows from financing activities** | | | |
| Issue of new shares | | – | 2,653,069 |
| Issue of perpetual bond | | – | 1,998,160 |
| Proceeds from borrowings | | 17,219,599 | 25,955,746 |
| Repayments of borrowings | | (17,522,734) | (33,739,260) |
| Principal elements of lease payments | | (18,460) | – |
| Interests paid to perpetual bondholders | | (112,000) | – |
| Dividends paid by the Company | | (1,522,914) | (801,533) |
| Dividends paid to non-controlling interest holders of a subsidiary | | (8,472,015) | (9,766,351) |
| Net cash used in financing activities | | (10,428,524) | (13,700,169) |
| **Net increase/(decrease)in cash and cash equivalents** | | 13,909,700 | (1,499,202) |
| Cash and cash equivalents at January 1 | | 35,389,883 | 36,824,906 |
| Exchange gains on cash and cash equivalents | | 22,916 | 64,179 |
| **Cash and cash equivalents at December 31** | | 49,322,499 | 35,389,883 |

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

## 1 GENERAL INFORMATION

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

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

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

These financial statements are presented in Renminbi thousand Yuan ("RMB'000"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on March 26, 2020.

## 2 BASIS OF PREPARATION

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

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

As at December 31, 2019, the current liabilities of the Group exceeded its current assets by approximately RMB6,238 million. Given the debt obligations and working capital requirements, management has thoroughly considered the Group's available sources of the funds as follows:

- the Group's continuous net cash generated from operating and financing activities; and
- undrawn short-term and long-term banking facilities of approximately RMB10,304 million and RMB5,148 million respectively as at December 31, 2019.

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

## 2 BASIS OF PREPARATION (CONTINUED)

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

The Group has applied the following for the first time for their annual reporting period commencing January 1, 2019:

- IFRS 16 — Leases
- Amendments to IAS 19 — Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28 — Long-term Interests in Associates and Joint Ventures
- Amendments to IFRS 9 — Prepayment Features with Negative Compensation
- Interpretation 23 — Uncertainty over Income Tax Treatments
- Annual Improvements 2015-2017 cycle

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on January 1, 2019. This is disclosed in Note 2(c). Other amendments listed above did not have any material impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

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

Certain new standards, amendments to standards and interpretations have been published that are not mandatory for December 31, 2019 reporting period and have not been early adopted by the Group.

| | | Effective for annual periods beginning on or after |
|---|---|---|
| Amendments to IAS 1 and IAS 8 | Definition of Material | January 1, 2020 |
| Amendments to IFRS 3 | Definition of a Business | January 1, 2020 |
| IFRS 17 | Insurance Contracts | January 1, 2021 |

These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

## 2 BASIS OF PREPARATION (CONTINUED)

### (c) Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 "Leases" on the Group's financial statements.

As indicated in Note 2(a) above, the Group has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019. The new accounting policies are disclosed in Note 3.26.

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 3.93%.

#### (i) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics; and

- accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying IAS 17 and IFRIC 4 "Determining whether an Arrangement contains a Lease".

#### (ii) Measurement of lease liabilities

| | RMB'000 |
|---|---|
| Operating lease commitments disclosed as at December 31, 2018 | 129,893 |
| (Less): short-term leases recognized on a straight-line basis as expense | (116,148) |
| | 13,745 |
| (Less): Interest discount calculated using the lessee's incremental borrowing rate at the date of initial application | (601) |
| Lease liabilities recognized as at January 1, 2019 | 13,144 |
| Of which are: | |
| Non-current lease liabilities | 7,209 |
| Current lease liabilities | 5,935 |
| | 13,144 |

## 2 BASIS OF PREPARATION (CONTINUED)

### (c) Changes in accounting policies (Continued)

**(iii) Measurement of right-of-use assets**

Right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at December 31, 2018.

**(iv) Adjustments recognised in the balance sheet on January 1, 2019**

The change in accounting policy affected the following items in the balance sheet on January 1, 2019:

- property, plant and equipment – increase by RMB13,144,000

- lease liabilities – increase by RMB13,144,000

There was no impact on retained earnings on January 1, 2019.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Subsidiaries

**(a) Consolidation**

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

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

For business combinations involving enterprises under common control, the consideration paid and net assets obtained by the acquirer are measured at the carrying amount. The difference between the carrying amount of the net assets obtained from the combination and the carrying amount of the consideration paid is treated as an adjustment to capital reserve.

The Group applies the acquisition method to account for business combinations except for business combinations under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.1 Subsidiaries (Continued)

**(a) Consolidation (Continued)**

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

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

**(b) Separate financial statements**

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

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

**(c) Disposal of subsidiaries**

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

### 3.2 Joint arrangements

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

Interests in joint ventures are accounted for using the equity method. Under this method, the interests are initially recognized in the consolidated balance sheet at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses, and movements in other comprehensive income, in profit or loss and other comprehensive income respectively. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of joint ventures and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.2 Joint arrangements (Continued)

Where the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which include any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of the joint ventures have been aligned where necessary, to ensure consistency with the policies adopted by the Group.

### 3.3 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

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

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

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount to "Share of profit/(loss) of investments accounted for using equity method" in the profit or loss.

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee led by Chief Executive Officer that makes strategic decisions.

### 3.5 Foreign currency translation

**(a) Functional and presentation currency**

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

**(b) Transactions and balances**

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

Foreign exchange gains and losses that relate to borrowings are presented in the profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the profit or loss on a net basis within "Other gains/(losses), net".

**(c) Group companies**

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

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

- all resulting currency translation differences are recognized in other comprehensive income.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items, as well as right-of-use assets (Note 3.26) within the same line item as that within which the corresponding underlying assets would be presented if they were owned.

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

Depreciation on items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | 20-30 years |
| Machinery | 10 years |
| Vehicles | 5-10 years |
| Furniture and office equipment | 5 years |
| Mouldings | 5-10 years |

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.9).

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognized within "Other gains/(losses), net" in the profit or loss.

### 3.7 Land use rights

Land use rights are stated at cost less accumulated amortization and accumulated impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated. Amortization of land use rights is calculated on a straight-line basis over the period of the land use rights.

Land use rights are right-of-use assets upon adoption of IFRS 16 effective for annual period commencing January 1, 2019 (Note 3.26).

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.8 Intangible assets

**(a) Intellectual rights**

Separately acquired intellectual rights are shown at historical cost. Intellectual rights have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of intellectual rights over their estimated useful lives of 5 to 10 years.

**(b) Computer software**

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of 2 to 5 years.

**(c) Research and development costs**

Research cost is recognized in profit or loss in the period in which it is incurred. Development cost is capitalized only if all of the following conditions are satisfied:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset, and use or sell it;
- management ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate economic benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development phase can be reliably measured.

The development cost of an internally generated intangible asset is the sum of the expenditure incurred from the date the asset meets the recognition criteria above to the date when it is available for use. The development costs capitalized in connection with the intangible asset include costs of materials and services used or consumed and employee costs incurred in the creation of the asset.

Capitalized development costs are amortized using the straight-line method over their estimated useful lives.

Development costs not satisfying the above criteria are recognized in the profit or loss as incurred. Development costs previously recognized as expenses are not recognized as an asset in a subsequent period.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.8 Intangible assets (Continued)

**(d) Goodwill**

Goodwill arises on the acquisition of subsidiaries, joint ventures and associates and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquire.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

### 3.9 Impairment of non-financial assets

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

### 3.10 Investments and other financial assets

**(a) Classification**

The Group classifies its financial assets in the following measurement categories:

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

- those to be measured at amortized cost

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

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

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.10 Investments and other financial assets (Continued)

**(b) Recognition and derecognition**

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

**(c) Measurement**

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

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

***(i) Debt instruments***

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

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

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

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.10 Investments and other financial assets (Continued)

**(c) Measurement (Continued)**

***(ii) Equity instruments***

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

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

**(d) Impairment**

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

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

### 3.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

### 3.12 Derivatives and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions ("cash flow hedges").

At the inception of the hedging, the Group documents the economic, relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedges items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in Note 29. Movements in the hedging reserve in equity are shown in Note 23. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.12 Derivatives and hedging activities (Continued)

***Cash flow hedges that qualify for hedge accounting***

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss within other gains/(losses).

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss. Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), the deferred hedging gains and losses are included within the initial cost of the asset. The deferred amounts are ultimately recognized in profit or loss as the hedged item affects profit or loss (for example through cost of sales).

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

### 3.13 Inventories

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

### 3.14 Accounts and other receivables

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

Except for notes receivable measured at FVOCI, accounts and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

### 3.15 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

### 3.16 Share capital

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.17 Accounts payable

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

Accounts payable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

### 3.18 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit or loss as finance cost over the period of the borrowings using the effective interest method.

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

### 3.19 Borrowing costs

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

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

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

### 3.20 Current and deferred income tax

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

#### (a) Current income tax

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.20 Current and deferred income tax (Continued)

**(b) Deferred income tax**

***(i) Inside basis differences***

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

***(ii) Outside basis differences***

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

**(c) Offsetting**

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

### 3.21 Employee benefits

**(a) Pension obligations**

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organized by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans. The contributions are recognized as employee benefit expense when they are due.

**(b) Housing funds, medical insurances and other social insurances**

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plans. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceilings. The Group's liability in respect of these funds is limited to the contributions payable in each period.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.22 Provision

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

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

### 3.23 Revenue recognition

The Group manufactures and sells vehicles, auto parts and technologies to its dealers and automotive/spare parts manufacturers. The revenue recognition policies applied by the Group for each of these activities are as follows:

**(a) Products**

Revenue from sales of products is recognized when the performance obligation for promises to transfer goods to customers is satisfied which is at a point in time when control of the products has transferred, being when the risk and reward have been transferred, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The vehicles are often sold with sales rebates. Sales are recorded based on the prices specified in the sales contracts, net of the sales rebates which are calculated periodically.

**(b) Services**

Revenue from providing services of aftersales, transportation, research and development, technical consultancy, etc is recognized upon satisfaction of the performance obligations over time in the accounting period during which the services are rendered.

**(c) Financing components**

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

### 3.24 Dividend income

Dividends are received from financial assets measured at FVPL and at FVOCI. Dividends are recognized as other gains in profit or loss when the right to receive payment is established.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.25 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets.

Interest income on financial assets at amortized cost and financial assets at FVOCI-calculated using the effective interest method is recognized in the profit or loss as part of other gains.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other gains.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

### 3.26 Leases

As explained in Note 2(c) above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy and the impact of the change are described below and in Note 2(c) respectively.

Until December 31, 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (Note 38(b)). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of properties for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the Group under residual value guarantees,
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that termination option.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.26 Leases (Continued)

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

### 3.27 Government grants

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

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

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.28 Dividend distribution

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

## 4 FINANCIAL RISK MANAGEMENT

### 4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

The Group's risk management and treasury department focuses on minimizing potential adverse effects on the Group's financial performance.

#### (a) Market risk

##### *(i) Foreign exchange risk*

The Group has international purchase transactions and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in RMB, was as follows:

| | As at December 31, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Euro RMB'000 | Other foreign currencies RMB'000 | Euro RMB'000 | Other foreign currencies RMB'000 |
| Accounts receivable | 605,093 | – | 316,564 | – |
| Other receivables and prepayments | – | 19,989 | 22,698 | 64,773 |
| Cash and cash equivalents | 352,197 | 34,202 | 119,419 | 163,378 |
| Accounts payable | 10,725,085 | 11,557 | 9,711,634 | – |
| Other payables and accruals | 2,031,865 | 255 | 2,206,079 | – |
| Borrowings | 1,856,780 | – | 1,982,819 | – |

To manage the impact of exchange rate fluctuations, the Group continually assesses its exposure to foreign exchange risks, and a portion of those risks will be mitigated by using derivative financial instruments when management considers necessary.

Management has set up a policy to manage their foreign exchange risk against their functional currency. The Group uses forward foreign exchange contracts to hedge anticipate cash flows (mainly purchase of inventories) in major foreign currencies for the subsequent periods.

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 4.1 Financial risk factors (Continued)

#### (a) Market risk (Continued)

##### *(i) Foreign exchange risk* (Continued)

As at December 31, 2019 the carrying value of the forward foreign exchange contracts was RMB48,950,000 (December 31, 2018: RMB180,391,000) (Note 29(a)). The foreign exchange forwards are denominated in the same currency as the highly probable future inventory purchases (both in Euro) and therefore the hedge ratio is 1:1.

As at each year end, if Euro weakened by 10% against RMB with all other variables held constant, the post-tax profit and other comprehensive loss for each year would have changed mainly as a result of foreign exchange differences on translation of Euro denominated assets and liabilities as well as forward foreign exchange contracts:

| | For the year ended December 31, | |
|---|---|---|
| | 2019<br>RMB'000 | 2018<br>RMB'000 |
| Profit for the year | 396,677 | 75,787 |
| Other comprehensive income/(loss) | (417,721) | (524,954) |

A weakening of the RMB against the Euro would have had equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

##### *(ii) Interest rate risk*

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

As at December 31, 2019, if the interest rates on borrowings had been 100 basis points higher/lower than the prevailing rate, with all other variables held constant, net profit for the year ended December 31, 2019 would have been approximately RMB40,932,000 (2018: RMB64,573,000) lower/higher respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

#### (b) Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt instruments, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

##### *(i) Risk management*

As at December 31, 2019, 100% (December 31, 2018: 100%) of the Group's restricted cash, short-term deposits and cash at banks are held in reputable local joint-stock commercial banks, state-owned banks, other financial institutions and world-wide reputable banks, which management believes are of high credit quality. Management does not expect any losses from non-performance by these counterparties.

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. Normally, the Group does not require collaterals from trade debtors. Management makes periodic collective assessment as well as individual assessment on the recoverability of accounts and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the relevant debtors. The Group's historical experience in collection of accounts and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the financial statements.

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 4.1 Financial risk factors (Continued)

**(b) Credit risk (Continued)**

***(ii) Impairment of financial assets***

Impairment of financial assets are determined on the basis outlined in Note 3.10(d). To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. As at December 31, 2019 the provision for impairment in respect of those collectively assessed trade receivables was approximately RMB326,060,000 (December 31, 2018: RMB125,591,000) based on expected loss rates applied on different groupings as follows.

| | Current RMB'000 | More than 30 days past due RMB'000 | More than 1 year past due RMB'000 | More than 2 years past due RMB'000 | More than 3 years past due RMB'000 | More than 4 years past due RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **As at December 31, 2019** | | | | | | | |
| Expected loss rate | **0.3%** | **0.5%** | **3.8%** | **2.6%** | **4.2%** | **93.6%** | **1.7%** |
| Trade receivables, gross | **8,012,594** | **4,482,556** | **3,743,552** | **1,370,803** | **2,076,492** | **18,238** | **19,704,235** |
| Provision for impairment | **22,812** | **23,291** | **141,558** | **35,042** | **86,285** | **17,072** | **326,060** |
| **As at December 31, 2018** | | | | | | | |
| Expected loss rate | 0.0% | 0.9% | 1.4% | 0.5% | 53.9% | 84.0% | 0.7% |
| Trade receivables, gross | 8,339,154 | 4,459,818 | 1,758,269 | 3,160,637 | 64,849 | 9,244 | 17,791,971 |
| Provision for impairment | – | 41,542 | 24,732 | 16,628 | 34,925 | 7,764 | 125,591 |

**(c) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities at all times as not to breach borrowing limits or covenants (where applicable) on any of its facilities. The Group's forecasting takes into consideration debt financing plans, covenant compliance, and if applicable, external regulatory or legal requirements.

The Group's primary cash requirements have been for additions of and upgrades on property, plant and equipment, expenditure on research and development payment on related debts and payment for purchases and operating expenses. The Group finances its working capital requirements through a combination of internal resources and long-term and short-term borrowings.

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 4.1 Financial risk factors (Continued)

**(c) Liquidity risk (Continued)**

As at December 31, 2019, the Group has net current liabilities of approximately RMB6,238 million (December 31, 2018: net current assets of RMB1,333 million). Management regularly monitors the Group's current and expected liquidity requirements to ensure that it maintains sufficient cash and cash equivalents and has available funding through adequate amount of committed banking facilities to meet its capital commitments and working capital requirements. The amount of undrawn credit facilities at the balance sheet dates are disclosed in Note 24 to these financial statements.

The tables below analyze the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

| | Less than 1 year RMB'000 | 1-2 years RMB'000 | 2-5 years RMB'000 | Over 5 years RMB'000 |
|---|---|---|---|---|
| **At December 31,2019** | | | | |
| Borrowings | **14,626,029** | **3,833,082** | **6,603,868** | **–** |
| Lease liabilities | **32,729** | **17,379** | **739** | **–** |
| Accounts payable | **44,707,450** | **–** | **–** | **–** |
| Other payables | **32,863,630** | **–** | **–** | **–** |
| **At December 31, 2018** | | | | |
| Borrowings | 9,752,038 | 6,895,659 | 7,830,877 | 2,678,862 |
| Accounts payable | 38,632,933 | – | – | – |
| Other payables | 23,723,651 | – | – | – |

### 4.2 Capital management

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

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "total equity" as shown in the consolidated balance sheet plus net debt.

As of December 31, 2019 and 2018, the balance of total cash and cash equivalents exceeded the balance of borrowings.

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 4.3 Fair value estimation

The carrying amounts of the Group's current financial assets and liabilities, including cash and cash equivalents, restricted cash, accounts and other receivables, accounts and other payables and borrowings approximate their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

The table below analyzed financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets at FVOCI (Notes 13, 16) | | | | |
| At December 31, 2019 | **1,275,650** | **1,950,357** | **–** | **3,226,007** |
| At December 31, 2018 | 1,738,729 | 4,183,986 | – | 5,922,715 |
| **Liabilities** | | | | |
| Derivative financial instruments (Note 29) | | | | |
| At December 31, 2019 | **–** | **48,950** | **–** | **48,950** |
| At December 31, 2018 | – | 180,391 | – | 180,391 |

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

### (a) Capitalization of internal development costs

Only internal development costs directly attributable to projects which are considered under development stage and when it is probable that the projects will be successful considering the criteria set out in Note 3.8(c) are capitalized and recognized as intangible assets. The Group's development activities are tracked by its technical department and documented to support the basis of determining if and when the criteria were met, particularly (i) the timing to start capitalization; (ii) the technical feasibility of the projects; and (iii) the likelihood of the projects that will deliver sufficient future economic benefits.

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

### (b) Impairment of long-lived assets

The Group is required to test goodwill and intangible assets not ready for use on an annual basis. Other non-financial assets are tested whenever events or changes in circumstances indicate that the carrying amount of those assets exceeds its recoverable amount. The recoverable amount is determined based on the higher of fair value less costs to sell and value in use.

Determination of the value in use is an area involving management judgement in order to assess whether the carrying value of the long-lived assets can be supported by the net present value of future cash flows. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain areas including management's expectations of (i) future unlevered free cash flows; (ii) long-term sales growth rates; and (iii) the selection of discount rates to reflect the risks involved.

The property, plant and equipment, land use right and intangible assets related to Beijing Brand passenger vehicle business are tested for impairment based on the recoverable amount of the CGU to which these assets are related. The recoverable amount of the CGU was determined based upon value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Management determines annual sales growth rate to be a key assumption as it is the main driver for revenue and costs in each period. The annual sales growth rate is based on past performance and management's expectations of market development. The discount rate used is pre-tax and reflects specific risks relating to the relevant business.

For impairment testing, cash flows beyond the five-year period are extrapolated using the estimated annual sales growth rate of 3%. The discount rate applied to the cash flow projections used for value-in-use calculations is 15.50% (2018: 15.40%).

### (c) Provisions

The Group recognizes a provision when there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where these criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognized or disclosed in the financial statements could have a material effect on the Group's financial position.

The Group recognizes expected warranty costs for products sold principally at the time of sale of the product and when it is determined that such obligations are probable and can be reasonably estimated. Amounts recorded are based on the Group's estimates of the amount that will eventually be required to settle such obligations. These accruals are based on factors such as past experience, production changes, industry developments and various other considerations. The Group's estimates are adjusted from time to time based on facts and circumstances that impact the status of existing claims.

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

### (d) Income taxes

The Group is subject to income taxes in the PRC. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognized only if it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. This determination requires significant judgement regarding the realizability of deferred tax assets. For entities with a recent history of losses, there would need to be convincing other evidence that sufficient taxable profits would be available in the future. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

## 6 SEGMENT INFORMATION

### (a) Description of segments and principal activities

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

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

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

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

## 6 SEGMENT INFORMATION (CONTINUED)

### (b) Profit and loss disclosures, segment assets and segment liabilities

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

| | Passenger vehicles – Beijing Brand RMB'000 | Passenger vehicles – Beijing Benz RMB'000 | Elimination RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **For the year ended December 31, 2019** | | | | |
| Total revenue | 19,607,248 | 155,153,705 | (128,231) | 174,632,722 |
| Inter-segment revenue | (128,231) | – | 128,231 | – |
| Revenue from external customers | 19,479,017 | 155,153,705 | – | 174,632,722 |
| Timing of revenue recognition | | | | |
| – At a point in time | 19,320,157 | 153,660,188 | – | 172,980,345 |
| – Over time | 158,860 | 1,493,517 | – | 1,652,377 |
| | 19,479,017 | 155,153,705 | – | 174,632,722 |
| Segment gross (loss)/profit | (4,728,410) | 42,215,432 | – | 37,487,022 |
| **Other profit & loss disclosure:** | | | | |
| Selling and distribution expenses | | | | (10,294,174) |
| General and administrative expenses | | | | (6,962,054) |
| Net impairment losses on financial assets | | | | (313,323) |
| Other gains, net | | | | 1,766,265 |
| Finance costs, net | | | | (64,400) |
| Share of loss of investments accounted for using equity method | | | | (304,910) |
| **Profit before income tax** | | | | 21,314,426 |
| Income tax expense | | | | (6,991,319) |
| **Profit for the year** | | | | 14,323,107 |
| **Other information:** | | | | |
| **Significant non-cash expenses** | | | | |
| Depreciation and amortization | (3,359,292) | (4,082,323) | – | (7,441,615) |
| Provisions for impairments on assets | (348,634) | (314,285) | – | (662,919) |
| **As at December 31, 2019** | | | | |
| **Total assets** | 83,309,435 | 122,639,923 | (12,737,372) | 193,211,986 |
| Including: | | | | |
| Investments accounted for using equity method | 16,104,148 | – | – | 16,104,148 |
| **Total liabilities** | (44,060,161) | (77,050,212) | 525,587 | (120,584,786) |

## 6 SEGMENT INFORMATION (CONTINUED)

### (b) Profit and loss disclosures, segment assets and segment liabilities (Continued)

| | Passenger vehicles – Beijing Brand RMB'000 | Passenger vehicles – Beijing Benz RMB'000 | Elimination RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **For the year ended December 31, 2018** | | | | |
| Total revenue | 16,634,842 | 135,415,193 | (129,645) | 151,920,390 |
| Inter-segment revenue | (129,645) | – | 129,645 | – |
| Revenue from external customers | 16,505,197 | 135,415,193 | – | 151,920,390 |
| Timing of revenue recognition | | | | |
| – At a point in time | 16,310,720 | 134,200,864 | – | 150,511,584 |
| – Over time | 194,477 | 1,214,329 | – | 1,408,806 |
| | 16,505,197 | 135,415,193 | – | 151,920,390 |
| Segment gross (loss)/profit | (3,516,233) | 40,522,872 | – | 37,006,639 |
| **Other profit & loss disclosure:** | | | | |
| Selling and distribution expenses | | | | (10,432,043) |
| General and administrative expenses | | | | (6,436,554) |
| Net impairment losses on financial assets | | | | (133,041) |
| Other gains, net | | | | 623,048 |
| Finance costs, net | | | | (357,027) |
| Share of profit of investments accounted for using equity method | | | | 903,836 |
| **Profit before income tax** | | | | 21,174,858 |
| Income tax expense | | | | (6,903,525) |
| **Profit for the year** | | | | 14,271,333 |
| **Other information:** | | | | |
| **Significant non-cash expenses** | | | | |
| Depreciation and amortization | (3,376,628) | (3,768,322) | – | (7,144,950) |
| Provisions for impairments on assets | (228,974) | (608,269) | – | (837,243) |
| **As at December 31, 2018** | | | | |
| **Total assets** | 82,185,635 | 102,975,768 | (13,127,295) | 172,034,108 |
| Including: | | | | |
| Investments accounted for using equity method | 16,185,648 | – | – | 16,185,648 |
| **Total liabilities** | (43,406,394) | (60,298,075) | 908,142 | (102,796,327) |

There is no customer accounting for 10 percent or more of the Group's revenue for each of the years ended December 31, 2019 and 2018.

The Group is domiciled in the PRC. The percentage of its revenue from external customers residing in the PRC is approximately 99.9% for the year ended December 31, 2019 (2018: 99.8%).

As at December 31, 2019, the percentage of the Group's non-current assets, other than financial instruments and deferred income tax assets, located in the mainland of the PRC is approximately 99.9% (December 31, 2018: 98.4%).

## 7 PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB'000 | Machinery RMB'000 | Vehicles RMB'000 | Furniture and office equipment RMB'000 | Mouldings RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **Net book amount at December 31, 2018** | 15,980,525 | 13,939,931 | 325,058 | 1,645,886 | 2,756,069 | 8,570,353 | 43,217,822 |
| Impact of adoption of IFRS 16 (Note 2(c)) | 10,627 | 788 | 1,729 | – | – | – | 13,144 |
| **Net book amount at January 1, 2019** | 15,991,152 | 13,940,719 | 326,787 | 1,645,886 | 2,756,069 | 8,570,353 | 43,230,966 |
| Additions | 60,164 | 70,729 | 3,472 | 11,107 | – | 8,106,463 | 8,251,935 |
| Transfers upon completion | 411,712 | 3,421,954 | 102,835 | 1,093,787 | 1,748,887 | (6,779,175) | – |
| Disposals | (8,619) | (177,952) | (6,870) | (11,458) | (6,252) | – | (211,151) |
| Depreciation | (876,087) | (2,170,227) | (90,180) | (799,656) | (918,649) | – | (4,854,799) |
| Impairment | – | (4,509) | (91) | (23,889) | (929) | (58,393) | (87,811) |
| **Net book amount at December 31, 2019** | 15,578,322 | 15,080,714 | 335,953 | 1,915,777 | 3,579,126 | 9,839,248 | 46,329,140 |
| **At December 31, 2019** | | | | | | | |
| Cost | 19,579,127 | 25,914,906 | 795,722 | 5,542,181 | 8,033,888 | 9,839,248 | 69,705,072 |
| Accumulated depreciation and impairment | (4,000,805) | (10,834,192) | (459,769) | (3,626,404) | (4,454,762) | – | (23,375,932) |
| Net book amount | 15,578,322 | 15,080,714 | 335,953 | 1,915,777 | 3,579,126 | 9,839,248 | 46,329,140 |
| **Net book amount at January 1, 2018** | 15,581,843 | 15,119,786 | 348,694 | 1,636,990 | 3,029,876 | 6,653,756 | 42,370,945 |
| Additions | – | 8,987 | 607 | 3,474 | 850 | 6,265,731 | 6,279,649 |
| Transfers upon completion | 1,432,065 | 1,561,847 | 58,020 | 751,043 | 546,159 | (4,349,134) | – |
| Disposals | (283,502) | (8,062) | (710) | (13,314) | (27,907) | – | (333,495) |
| Depreciation | (749,881) | (2,293,479) | (81,553) | (732,307) | (792,909) | – | (4,650,129) |
| Impairment | – | (449,148) | – | – | – | – | (449,148) |
| **Net book amount at December 31, 2018** | 15,980,525 | 13,939,931 | 325,058 | 1,645,886 | 2,756,069 | 8,570,353 | 43,217,822 |
| **At December 31, 2018** | | | | | | | |
| Cost | 19,107,801 | 22,739,287 | 706,818 | 4,453,764 | 6,292,343 | 8,570,353 | 61,870,366 |
| Accumulated depreciation and impairment | (3,127,276) | (8,799,356) | (381,760) | (2,807,878) | (3,536,274) | – | (18,652,544) |
| Net book amount | 15,980,525 | 13,939,931 | 325,058 | 1,645,886 | 2,756,069 | 8,570,353 | 43,217,822 |

## 7 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes:

(a) There was no property, plant and equipment being pledged as security for borrowings at December 31, 2019 and 2018.

(b) The Group has capitalized borrowing costs amounting to RMB9,386,000 on qualifying assets of property, plant and equipment for the year ended December 31, 2019 (2018: RMB76,375,000). Borrowing costs were capitalized at the weighted average of its borrowing rate of 4.51% during the year (2018: 4.21%).

(c) This note provides information for leases where the Group is a lessee.

(i) Amounts recognized in the balance sheet

The balance sheet shows the following amounts relating to leases:

| | As at December 31, 2019 RMB'000 | As at January 1, 2019 RMB'000 |
|---|---|---|
| **Right-of-use assets** | | |
| Included in property, plant and equipment | | |
| – Buildings | 47,671 | 10,627 |
| – Machinery | 525 | 788 |
| – Vehicles | 1,002 | 1,729 |
| | 49,198 | 13,144 |
| Included in land-use rights (Note 8) | 7,201,549 | 7,378,380 |
| **Lease liabilities** | | |
| Non-current | 18,034 | 7,209 |
| Current | 31,557 | 5,935 |
| | 49,591 | 13,144 |

Additions to the right-of-use assets included in property, plant and equipment during the 2019 financial year were RMB54,907,000.

## 7 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes: (Continued)

(c) This note provides information for leases where the Group is a lessee. (Continued)

(ii) Amounts recognized in the profit or loss

The profit or loss shows the following amounts relating to leases:

| | For the year ended December 31, 2019 RMB'000 |
|---|---|
| **Depreciation/amortizaton charge of right-of-use assets** | |
| Included in property, plant and equipment | |
| – Buildings | 17,394 |
| – Machinery | 262 |
| – Vehicles | 1,197 |
| | 18,853 |
| Included in land-use rights (Note 8) | 178,161 |
| Interest expense (included in finance costs) (Note 33) | 1,405 |
| Expenses relating to short-term leases (included in cost of sales, selling and distribution expenses and general and administrative expenses) | 175,274 |

(iii) Amounts recognized in the statement of cash flows

The total cash outflow for leases in 2019 was RMB111,799,000.

(d) Depreciation on property, plant and equipment of the Group is analyzed as follows:

| | For the year ended December 31, | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| Cost of sales | 4,206,970 | 3,907,546 |
| Selling and distribution expenses | 4,861 | 8,993 |
| General and administrative expenses | 575,992 | 686,429 |
| | 4,787,823 | 4,602,968 |
| Capitalized in intangible assets – development costs | 66,976 | 47,161 |
| | 4,854,799 | 4,650,129 |

(e) As at December 31, 2019, the Group has not obtained the formal ownership certificates for certain buildings with carrying values of approximately RMB648,063,000 (December 31, 2018: RMB828,877,000). In the opinion of the directors, the absence of formal title to these buildings does not impair their values to the Group as the probability of the Group being evicted on the ground of absence of formal title is remote.

## 8 LAND USE RIGHTS

| | For the year ended December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Cost** | | |
| At January 1 | **8,174,955** | 8,091,628 |
| Additions (note (a)) | **1,330** | 83,327 |
| At December 31 | **8,176,285** | 8,174,955 |
| **Accumulated amortization** | | |
| At January 1 | **(796,575)** | (629,245) |
| Amortization | **(178,161)** | (167,330) |
| At December 31 | **(974,736)** | (796,575) |
| **Net book amount** | | |
| At December 31 | **7,201,549** | 7,378,380 |

Notes:

(a) The Group's land use rights are held under leases for periods of 31.5 to 50 years.

(b) As at December 31, 2019, the Group has not obtained the formal land use rights for certain land use rights with carrying values of approximately RMB1,836,000 (December 31, 2018: RMB1,882,000). In the opinion of the directors, the absence of formal title to these land use rights does not impair their values to the Group as the probability of the Group being evicted on the ground of absence of formal title is remote.

## 9 INTANGIBLE ASSETS

| | Development costs (note (b)) RMB'000 | Computer software RMB'000 | Goodwill (note (a)) RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Net book amount at January 1, 2019** | **11,983,663** | **237,744** | **901,945** | **13,123,352** |
| Additions | **2,401,376** | **76,109** | **–** | **2,477,485** |
| Disposals | **(32,264)** | **(29,991)** | **–** | **(62,255)** |
| Amortization | **(2,413,474)** | **(85,948)** | **–** | **(2,499,422)** |
| **Net book amount at December 31, 2019** | **11,939,301** | **197,914** | **901,945** | **13,039,160** |
| **At December 31, 2019** | | | | |
| Cost | **19,881,704** | **807,458** | **901,945** | **21,591,107** |
| Accumulated amortization | **(7,942,403)** | **(609,544)** | **–** | **(8,551,947)** |
| Net book amount | **11,939,301** | **197,914** | **901,945** | **13,039,160** |
| **Net book amount at January 1, 2018** | 12,496,592 | 340,449 | 901,945 | 13,738,986 |
| Additions | 2,018,865 | 51,089 | – | 2,069,954 |
| Disposals | (280,747) | (4,478) | – | (285,225) |
| Amortization | (2,251,047) | (149,316) | – | (2,400,363) |
| **Net book amount at December 31, 2018** | 11,983,663 | 237,744 | 901,945 | 13,123,352 |
| **At December 31, 2018** | | | | |
| Cost | 17,515,881 | 787,138 | 901,945 | 19,204,964 |
| Accumulated amortization | (5,532,218) | (549,394) | – | (6,081,612) |
| Net book amount | 11,983,663 | 237,744 | 901,945 | 13,123,352 |

## 9 INTANGIBLE ASSETS (CONTINUED)

Notes:

(a) Goodwill is monitored by management at the level of the two operating segments identified in Note 6.

A segment-level summary of the goodwill allocation is presented below.

| | As at December 31, | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| Passenger vehicles of Beijing Benz (i) | 807,505 | 807,505 |
| Passenger vehicles of Beijing Brand (ii) | 94,440 | 94,440 |
| | 901,945 | 901,945 |

Goodwill is allocated to CGUs for the purpose of impairment testing. The allocation is made to those CGUs that are expected to benefit from the business combinations in which the goodwill arose. The units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (Note 6).

The recoverable amount of each CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Management determines annual sales growth rate to be a key assumption as it is the main driver for revenue and costs in each period. The annual sales growth rate is based on past performance and management's expectations of market development. The discount rate used is pre-tax and reflects specific risks relating to the relevant business.

(i) This arises from the acquisition of Beijing Benz in 2013 and is fully allocated to the CGU of passenger vehicles of Beijing Benz. For impairment testing, the estimated annual sales growth rate covering the five-year forecast period is 3% – 9% beyond which is extrapolated at 3%. The discount rate applied to the cash flow projections used for value-in-use calculations is 16.10% (2018: 16.60%).

(ii) This arises from the acquisition of China Automobile Development United (Beijing) Technology Investment Co., Ltd. in September 2016 and is fully allocated to the CGU of passenger vehicles of Beijing Brand. For impairment testing, the estimated annual sales growth rate covering the five-year forecast period is 10% – 25% beyond which is extrapolated at 3%. The discount rate applied to the cash flow projections used for value-in-use calculations is 17.20% (2018: 16.80%).

(b) The Group has capitalized borrowing costs amounting to RMB246,335,000 on qualifying intangible assets for the year ended December 31, 2019 (2018: RMB213,225,000). Borrowing costs were capitalized at the weighted average of its borrowing rate of 4.03% during the year (2018: 4.24%).

(c) Amortization on intangible assets of the Group is analyzed as follows:

| | For the year ended December 31, | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| Cost of sales | 1,884,128 | 2,174,917 |
| General and administrative expenses | 591,503 | 199,735 |
| | 2,475,631 | 2,374,652 |
| Capitalized in intangible assets – development costs | 23,791 | 25,711 |
| | 2,499,422 | 2,400,363 |

## 10 SUBSIDIARIES

### (a) Material non-controlling interests

Set out below is the summarized financial information for a 51% owned subsidiary, Beijing Benz, which has non-controlling interests that are material to the Group. The amounts disclosed below are before inter-company eliminations, and are stated at the basis upon the Group acquired 51% interests in Beijing Benz as according to IFRS 3 "Business Combinations".

#### (i) Summarized balance sheet

| | As at December 31, | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| Non-current assets | 52,942,548 | 46,841,925 |
| Current assets | 69,697,375 | 56,133,843 |
| **Total assets** | 122,639,923 | 102,975,768 |
| Non-current liabilities | 5,887,226 | 6,553,099 |
| Current liabilities | 71,162,986 | 53,744,976 |
| **Total liabilities** | 77,050,212 | 60,298,075 |
| **Net assets** | 45,589,711 | 42,677,693 |
| Less: goodwill | (807,505) | (807,505) |
| | 44,782,206 | 41,870,188 |
| The Group's non-controlling interests in Beijing Benz | 21,943,281 | 20,516,391 |

## 10 SUBSIDIARIES (CONTINUED)

### (a) Material non-controlling interests (Continued)

#### (ii) Summarized statement of comprehensive income

| | For the year ended December 31, 2019 RMB'000 | For the year ended December 31, 2018 RMB'000 |
|---|---|---|
| Revenue | **155,153,705** | 135,415,193 |
| Net profit | **20,949,798** | 20,077,563 |
| Other comprehensive (loss)/income | **(37,780)** | 32,820 |
| Total comprehensive income | **20,912,018** | 20,110,383 |

Below sets out the amounts attributable to non-controlling interests in Beijing Benz in the Group's consolidated statements of comprehensive income:

| | For the year ended December 31, 2019 RMB'000 | For the year ended December 31, 2018 RMB'000 |
|---|---|---|
| Net profit attributable to non-controlling interests | **10,265,401** | 9,838,006 |
| Other comprehensive (loss)/income attributable to non-controlling interests | **(18,512)** | 16,082 |
| Total comprehensive income attributable to non-controlling interests | **10,246,889** | 9,854,088 |
| Dividends to non-controlling interest holders | **8,820,000** | 7,840,000 |

#### (iii) Summarized statement of cash flows

| | For the year ended December 31, 2019 RMB'000 | For the year ended December 31, 2018 RMB'000 |
|---|---|---|
| Net cash flows generated from operating activities | **36,411,188** | 26,075,793 |
| Net cash flows used in investing activities | **(6,507,217)** | (10,213,499) |
| Net cash flows used in financing activities | **(17,652,015)** | (17,372,755) |
| Exchange differences on cash and cash equivalents | **(1,463)** | (58,472) |
| Net increase/(decrease) in cash and cash equivalents | **12,250,493** | (1,568,933) |

**(b)** The list of the principal subsidiaries at December 31, 2019 is disclosed in Note 40.

## 11 INVESTMENTS IN JOINT VENTURES

| | For the year ended December 31, 2019 RMB'000 | For the year ended December 31, 2018 RMB'000 |
|---|---|---|
| At January 1 | 11,873,994 | 11,403,120 |
| New investments | 85,000 | – |
| Disposals | (10) | – |
| Share of (loss)/profit for the year | (765,001) | 492,962 |
| Share of other comprehensive loss for the year | (495) | – |
| Share of total comprehensive (loss)/income for the year | (765,496) | 492,962 |
| Dividends received or receivable | (386,050) | (22,088) |
| At December 31 | 10,807,438 | 11,873,994 |

Notes:

(a) None of the joint ventures are considered individually material as at December 31, 2019.

(b) Individually immaterial joint ventures

The information below reflects the amounts presented in the financial statements of the joint ventures after alignment with accounting policies of the Group.

| | As at December 31, 2019 RMB'000 | As at December 31, 2018 RMB'000 |
|---|---|---|
| Aggregate carrying amount of the net assets | 22,459,321 | 24,437,120 |
| **Aggregate amount of the Group's share thereon** | 10,807,438 | 11,873,994 |

| | For the year ended December 31, 2019 RMB'000 | For the year ended December 31, 2018 RMB'000 |
|---|---|---|
| Aggregate total comprehensive (loss)/income | (1,180,680) | 1,340,797 |
| **Aggregate amount of the Group's share of total comprehensive (loss)/income** | (765,496) | 492,962 |

(c) The list of the principal joint ventures at December 31, 2019 is disclosed in Note 40.

## 12 INVESTMENTS IN ASSOCIATES

| | For the year ended December 31, | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| At January 1 | **4,311,654** | 3,221,516 |
| New investments | **16,769** | 33,000 |
| Additional investments (note (a), (b), (c)) | **538,494** | 725,000 |
| Disposals | **(2,085)** | – |
| Share of profit for the year | **460,091** | 410,874 |
| Share of other comprehensive income/(loss) for the year | **8,159** | (5,223) |
| Share of total comprehensive income for the year | **468,250** | 405,651 |
| Dividends received | **(36,372)** | (73,513) |
| At December 31 | **5,296,710** | 4,311,654 |

Notes:

(a) In 2018, Mercedes-Benz Leasing Co., Ltd. ("MBLC") increased its registered capital by RMB1,500,000,000 with RMB525,000,000 contributed by the Group.

In March and December 2019, MBLC further increased its registered capital by RMB700,000,000 and RMB500,000,000, with RMB245,000,000 and RMB175,000,000 contributed by the Group, respectively. The Group continues to hold 35% of equity interests in MBLC upon completion of above capital increases.

(b) In 2019, BAIC Automobile SA Proprietary Limited ("BAIC SA") increased its capital by US$75,420,000 with US$15,084,000 contributed by the Group. The Group continues to hold 20% of equity interests in BAIC SA upon completion of above capital increase.

(c) In 2018, BAIC Group Finance Co., Ltd. ("BAIC Finance") increased its registered capital by RMB1,000,000,000 with RMB200,000,000 contributed by BAIC Investment Co., Ltd. ("BAIC Investment"), a subsidiary of the Company. BAIC Investment continued to hold 20% of equity interests in BAIC Finance upon completion of this capital increase.

(d) None of the associates are considered individually material as at December 31, 2019.

## 12 INVESTMENTS IN ASSOCIATES (CONTINUED)

Notes: (Continued)

(e) Individually immaterial associates

The information below reflects the amounts presented in the financial statements of the associates after alignment with accounting policies of the Group.

| | As at December 31, | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| Aggregate carrying amount of the net assets | 15,839,404 | 13,087,363 |
| **Aggregate amount of the Group's share thereon** | 5,296,710 | 4,311,654 |

| | For the year ended December 31, | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| Aggregate total comprehensive income | 1,366,884 | 1,279,057 |
| **Aggregate amount of the Group's share of total comprehensive income** | 468,250 | 405,651 |

(f) The list of the principal associates at December 31, 2019 is disclosed in Note 40.

## 13 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | For the year ended December 31, | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| At January 1 | 1,742,729 | 2,355,239 |
| Decrease in fair values | (463,334) | (612,510) |
| Disposals | (745) | – |
| At December 31 | 1,278,650 | 1,742,729 |

Notes:

Balance at December 31, 2019 represents 6.25% (December 31, 2018: 6.51%) equity interests in BAIC BluePark New Energy Technology Co., Ltd. ("BAIC BluePark") being held by BAIC Guangzhou Automotive Co., Ltd., a wholly-owned subsidiary of the Company. BAIC BluePark is listed on Shanghai Stock Exchange.

## 14 DEFERRED INCOME TAXES

| | As at December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Deferred income tax assets:** | | |
| – to be recovered after 12 months | 2,894,551 | 2,205,181 |
| – to be recovered within 12 months | 7,645,907 | 5,720,420 |
| | 10,540,458 | 7,925,601 |
| **Deferred income tax liabilities:** | | |
| – to be settled after 12 months | (699,805) | (720,186) |
| – to be settled within 12 months | (31,510) | (37,820) |
| | (731,315) | (758,006) |

The movements in deferred income tax assets and liabilities are as follows:

| Deferred income tax assets | Provisions for impairment losses RMB'000 | Accruals RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At January 1, 2019 | 327,006 | 6,300,307 | 1,298,288 | 7,925,601 |
| Credited/(charged) to statement of comprehensive income | 54,865 | 2,686,173 | (126,181) | 2,614,857 |
| At December 31, 2019 | 381,871 | 8,986,480 | 1,172,107 | 10,540,458 |
| At January 1, 2018 | 186,514 | 5,539,579 | 1,309,695 | 7,035,788 |
| Credited/(charged) to statement of comprehensive income | 140,492 | 760,728 | (11,407) | 889,813 |
| At December 31, 2018 | 327,006 | 6,300,307 | 1,298,288 | 7,925,601 |

## 14 DEFERRED INCOME TAXES (CONTINUED)

| Deferred income tax liabilities | Capitalized interest RMB'000 | Valuation surplus upon acquisition of a subsidiary RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At January 1, 2019 | **(37,820)** | **(720,186)** | **–** | **(758,006)** |
| Credited to statement of comprehensive income | **6,311** | **20,380** | **–** | **26,691** |
| At December 31, 2019 | **(31,509)** | **(699,806)** | **–** | **(731,315)** |
| At January 1, 2018 | (41,899) | (740,855) | (95,053) | (877,807) |
| Credited to statement of comprehensive income | 4,079 | 20,669 | 95,053 | 119,801 |
| At December 31, 2018 | (37,820) | (720,186) | – | (758,006) |

Deferred income tax assets are recognized for tax loss carry forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets in respect of losses and deductible temporary differences amounting to approximately RMB28 billion (December 31, 2018: RMB22 billion) that can be carried forward against future taxable income as at December 31, 2019.

The unrecognized tax loss amounting to approximately RMB25 billion (December 31, 2018: RMB21 billion) can be carried forward for utilization in future included in which approximately RMB3 billion, RMB2 billion, RMB7 billion and RMB13 billion being expired in less than 1 year, 1-2 years, 2-5 years and 5-10 years respectively.

## 15 INVENTORIES

| | As at December 31, 2019 RMB'000 | As at December 31, 2018 RMB'000 |
|---|---|---|
| Raw materials | 8,003,249 | 7,363,687 |
| Work in progress | 822,571 | 715,129 |
| Finished goods | 11,632,063 | 11,165,440 |
| | 20,457,883 | 19,244,256 |
| Less: provision for impairment (note (a)) | (533,280) | (281,681) |
| | 19,924,603 | 18,962,575 |

Notes:

(a) Provision for impairment is recognized for the amount by which the carrying amount of the inventories exceeds the recoverable amount, and is recorded in cost of sales in the profit or loss.

(b) The cost of inventories recognized as cost of sales for the year ended December 31, 2019 amounted to RMB104,762 million (2018: RMB99,336 million).

(c) As at December 31, 2019 and 2018, no inventories were pledged as collaterals.

## 16 ACCOUNTS RECEIVABLE

| | As at December 31, 2019 RMB'000 | As at December 31, 2018 RMB'000 |
|---|---|---|
| Trade receivables, gross (note (a)) | 19,704,235 | 17,791,971 |
| Less: provision for impairment | (326,060) | (125,591) |
| | 19,378,175 | 17,666,380 |
| Notes receivable (note (b)) measured at | | |
| – FVOCI | 1,947,357 | 4,179,986 |
| – amortized cost | 261,103 | 141,832 |
| | 21,586,635 | 21,988,198 |

## 16 ACCOUNTS RECEIVABLE (CONTINUED)

Notes:

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

| | As at December 31, | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| Current to 1 year | 12,495,150 | 12,798,972 |
| 1 to 2 years | 3,743,552 | 1,758,269 |
| 2 to 3 years | 1,370,803 | 3,160,637 |
| Over 3 years | 2,094,730 | 74,093 |
| | 19,704,235 | 17,791,971 |

Movements on the provision for impairment on trade receivables are as follows:

| | For the year ended December 31, | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| **As at January 1** | 125,591 | 49,286 |
| Provision for impairment recognized during the year | 200,469 | 76,305 |
| **As at December 31** | 326,060 | 125,591 |

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

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

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

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

| | As at December 31, | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| Pledged notes receivable | 1,655,008 | 2,786,005 |

## 17 ADVANCES TO SUPPLIERS

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

## 18 OTHER RECEIVABLES AND PREPAYMENTS

| | As at December 31, | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| Deductible value-added tax and prepaid consumption tax | 4,035,806 | 3,002,272 |
| Receivable from disposals of property, plant and equipment | 453,997 | 527,761 |
| Receivable from sales of raw materials | 617,347 | 575,774 |
| Service fees | 80,379 | 82,476 |
| Deposits | 7,300 | 16,787 |
| Dividend receivable from a joint venture | 14,000 | – |
| Others | 132,005 | 117,798 |
| | 5,340,834 | 4,322,868 |
| Less: provision for impairment | (303,144) | (190,290) |
| | 5,037,690 | 4,132,578 |

Movements on the provision for impairment on other receivables are as follows:

| | For the year ended December 31 | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| As at January 1 | 190,290 | 133,554 |
| Provision for impairment recognized during the year | 112,854 | 56,736 |
| As at December 31 | 303,144 | 190,290 |

## 19 RESTRICTED CASH

| | As at December 31, | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| Pledged deposits (note (a)) | 1,578,104 | 820,174 |
| Term deposits with initial term of over three months (note (b)) | 300,000 | – |
| | 1,878,104 | 820,174 |

Notes:

(a) Pledged deposits are maintained with banks mainly for issuance of notes payable. They earn interests at annual rates ranging from 0.30% to 1.38% in 2019 (2018: 0.30% to 1.35%).

(b) These term deposits earn interests at annual rate of 4.12%.

## 20 CASH AND CASH EQUIVALENTS

| | As at December 31, | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| Cash at bank and on hand | 16,727,935 | 11,148,878 |
| Short-term deposits | 32,594,564 | 24,241,005 |
| | 49,322,499 | 35,389,883 |

Notes:

(a) As at December 31, 2019, cash and cash equivalents of RMB15,872,433,000 (December 31, 2018: RMB11,133,499,000) were deposited in BAIC Finance (a 20% owned associate of a subsidiary of the Company) which was approved by the China Banking Regulatory Commission as a non-bank financial institution. The remaining 80% equity interests of this associate is owned by BAIC Group. These deposits can be withdrawn on demand.

(b) As at December 31, 2019, approximately 99% (December 31, 2018: 99%) of the Group's cash and cash equivalents are denominated in RMB. The conversion of RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

## 21 SHARE CAPITAL

| | Number of ordinary shares of RMB1 each (thousands) | RMB'000 |
|---|---|---|
| At January 1, 2018 | 7,595,338 | 7,595,338 |
| Additions (note (a)) | 420,000 | 420,000 |
| At December 31, 2018 | 8,015,338 | 8,015,338 |
| At January 1, 2019 and December 31, 2019 | 8,015,338 | 8,015,338 |

Note:

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

## 22 PERPETUAL BOND

On April 10, 2018, the Company issued perpetual bond with par value of RMB2 billion to qualified investors with direct issuance costs of RMB1,840,000 which are deducted from equity.

The perpetual bond holders are entitled to an interest of 5.6% per annum in the first three years after issuance, and the interest rate will be reset once every three years thereafter. The principal amount has a repayment term of once every three years. Upon each maturity the Company can elect to extend repayment of the bond for another three years indefinitely. The interest payments fall due annually. Unless the Company declares dividend to shareholders or reduces the registered capital within 12 months before the interest due date ("mandatory interest payment event"), the Company can elect to defer the payment of all current or deferred interests to the next anniversary.

## 23 OTHER RESERVES

| | Capital reserve RMB'000 (note (a)) | Statutory reserve RMB'000 (note (b)) | Financial assets at FVOCI RMB'000 | Cash flow hedges RMB'000 | Currency translation differences RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **At January 1, 2019** | 17,975,223 | 3,023,465 | 21,169 | 27,303 | (5,582) | – | 21,041,578 |
| **Other comprehensive income/(loss)** | | | | | | | |
| Loss on cash flow hedges | – | – | – | (19,267) | – | – | (19,267) |
| Share of other comprehensive (loss)/income of investments accounted for using the equity method | – | – | – | (495) | 9,314 | (1,155) | 7,664 |
| Currency translation differences | – | – | – | – | 218 | – | 218 |
| Changes in fair value of financial assets at FVOCI | – | – | (463,334) | – | – | – | (463,334) |
| **Transactions with owners** | | | | | | | |
| Appropriation to reserve fund | – | 426,588 | – | – | – | – | 426,588 |
| Others | 14,684 | – | 255 | – | – | – | 14,939 |
| **At December 31, 2019** | 17,989,907 | 3,450,053 | (441,910) | 7,541 | 3,950 | (1,155) | 21,008,386 |
| **At January 1, 2018** | 15,742,154 | 2,691,881 | 538,627 | 10,565 | (844) | – | 18,982,383 |
| **Other comprehensive income/(loss)** | | | | | | | |
| Gain on cash flow hedges | – | – | – | 16,738 | – | – | 16,738 |
| Share of other comprehensive loss of investments accounted for using the equity method | – | – | – | – | (5,223) | – | (5,223) |
| Currency translation differences | – | – | – | – | 485 | – | 485 |
| Changes in fair value of financial assets at FVOCI | – | – | (517,458) | – | – | – | (517,458) |
| **Transactions with owners** | | | | | | | |
| Issue of new shares | 2,233,069 | – | – | – | – | – | 2,233,069 |
| Appropriation to reserve fund | – | 331,584 | – | – | – | – | 331,584 |
| **At December 31, 2018** | 17,975,223 | 3,023,465 | 21,169 | 27,303 | (5,582) | – | 21,041,578 |

## 23 OTHER RESERVES (CONTINUED)

Notes:

(a) Capital reserve

Capital reserve includes share premium and reserves arising from capital contributions from equity holders. Share premium represents the difference between the fair value of shares issued and their respective par value. Incremental costs directly attributable to the issue of new shares are shown as a deduction.

(b) Statutory reserve

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer 10% of the profit after taxation determined in accordance with the PRC accounting standards to the statutory surplus reserve until the balance reaches 50% of the paid-up share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

## 24 BORROWINGS

| | As at December 31, | |
|---|---|---|
| | 2019<br>RMB'000 | 2018<br>RMB'000 |
| **Non-current** | | |
| Borrowings from financial institutions (note (a)) | **1,448,103** | 4,815,733 |
| Corporate bonds (note (b)) | **8,094,615** | 10,091,549 |
| | **9,542,718** | 14,907,282 |
| **Current** | | |
| Borrowings from financial institutions (note (a)) | **4,808,866** | 6,690,287 |
| Add: current portion of non-current borrowings from financial institutions | **3,712,396** | 266,480 |
| Corporate bonds (note(b)) | **5,498,237** | 1,999,193 |
| | **14,019,499** | 8,955,960 |
| **Total borrowings** | **23,562,217** | 23,863,242 |

## 24 BORROWINGS (CONTINUED)

### Maturity of borrowings

| | As at December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Current to 1 year | **14,019,499** | 8,955,960 |
| 1 to 2 years | **3,489,683** | 6,163,302 |
| 2 to 5 years | **6,053,035** | 6,445,811 |
| Over 5 years | **–** | 2,298,169 |
| | **23,562,217** | 23,863,242 |

### Contractual repricing dates upon interest rate changes

| | As at December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Within 6 months | **4,887,866** | 7,667,149 |
| 6 to 12 months | **932,260** | 2,067,180 |
| | **5,820,126** | 9,734,329 |

### Weighted average annual interest rates

| | As at December 31, 2019 | 2018 |
|---|---|---|
| Borrowings from financial institutions | **3.43%** | 3.54% |
| Corporate bonds | **3.87%** | 4.17% |

### Currency denomination

| | As at December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| RMB | **21,394,323** | 21,880,423 |
| Euro | **1,856,780** | 1,982,819 |
| US$ | **311,114** | – |
| | **23,562,217** | 23,863,242 |

## 24 BORROWINGS (CONTINUED)

### Undrawn facilities at floating rates

| | As at December 31, 2019 RMB'000 | As at December 31, 2018 RMB'000 |
|---|---|---|
| Within 1 year | 10,304,111 | 18,218,064 |
| Over 1 year | 5,147,830 | 5,500,724 |
| | 15,451,941 | 23,718,788 |

Notes:

(a) Balances at December 31, 2019 include borrowings of RMB2,120 million (December 31, 2018: RMB1,746 million) obtained from BAIC Finance, an associate of the Group. The remaining balances were obtained from banks.

(b) Corporate bonds are analyzed as follows:

| Issuer | Issue date | Interest rate per annum | Par value RMB'000 | Carrying value RMB'000 | Maturity |
|---|---|---|---|---|---|
| **At December 31, 2019** | | | | | |
| BAIC Investment | December 10, 2015 | 3.60% | 1,500,000 | 1,499,391 | 5 years |
| BAIC Investment | March 17, 2016 | 3.15% | 1,500,000 | 1,499,232 | 5 years |
| BAIC Investment | January 20, 2017 | 4.29% | 800,000 | 799,643 | 7 years |
| The Company | September 10, 2014 | 5.74% | 400,000 | 399,400 | 7 years |
| The Company | September 22, 2014 | 5.54% | 300,000 | 299,550 | 7 years |
| The Company | September 22, 2014 | 5.54% | 300,000 | 299,550 | 7 years |
| The Company | February 12, 2015 | 4.68% | 500,000 | 499,941 | 5 years |
| The Company | April 22, 2016 | 3.45% | 2,500,000 | 2,498,773 | 7 years |
| The Company | July 4, 2017 | 4.72% | 2,300,000 | 2,298,467 | 7 years |
| The Company | May 10, 2019 | 3.30% | 2,000,000 | 1,999,786 | 270 days |
| The Company | October 11, 2019 | 2.40% | 1,000,000 | 999,423 | 270 days |
| The Company | October 21, 2019 | 2.79% | 500,000 | 499,696 | 270 days |
| | | | | 13,592,852 | |
| **At December 31, 2018** | | | | | |
| BAIC Investment | December 10, 2015 | 3.60% | 1,500,000 | 1,498,769 | 5 years |
| BAIC Investment | March 17, 2016 | 3.15% | 1,500,000 | 1,498,618 | 5 years |
| BAIC Investment | January 20, 2017 | 4.29% | 800,000 | 799,564 | 7 years |
| The Company | September 10, 2014 | 5.74% | 400,000 | 399,400 | 7 years |
| The Company | September 22, 2014 | 5.54% | 300,000 | 299,550 | 7 years |
| The Company | September 22, 2014 | 5.54% | 300,000 | 299,550 | 7 years |
| The Company | February 12, 2015 | 4.68% | 500,000 | 499,500 | 5 years |
| The Company | April 22, 2016 | 3.45% | 2,500,000 | 2,498,429 | 7 years |
| The Company | July 4, 2017 | 4.72% | 2,300,000 | 2,298,169 | 7 years |
| The Company | August 15, 2018 | 3.60% | 2,000,000 | 1,999,193 | 270 days |
| | | | | 12,090,742 | |

(c) As at December 31, 2019, all borrowings were unsecured (December 31, 2018: unsecured except for bank borrowings of RMB100,000,000 which were secured by the Company's equity interest in BAIC Guangzhou).

(d) The fair values of the borrowings are not materially different to their carrying amounts, since the interests payable on these borrowings is either close to that calculated by current interest rate or the borrowings are of a short-term nature.

## 25 PROVISIONS

Balances represent warranty provisions for vehicles sold.

| | As at December 31, 2019 RMB'000 | As at December 31, 2018 RMB'000 |
|---|---|---|
| Current | **2,126,249** | 1,821,838 |
| Non-current | **2,507,635** | 2,620,030 |
| Total | **4,633,884** | 4,441,868 |

Movements of warranty provisions are as follows:

| | For the year ended December 31, 2019 RMB'000 | For the year ended December 31, 2018 RMB'000 |
|---|---|---|
| **At January 1** | **4,441,868** | 4,339,928 |
| Additions | **1,697,961** | 1,071,834 |
| Amortization of discount on non-current provisions (Note 33) | **236,633** | 202,072 |
| Payments | **(1,742,578)** | (1,171,966) |
| **At December 31** | **4,633,884** | 4,441,868 |

## 26 DEFERRED INCOME

Balances mainly include supports from local government to compensate for purchases of assets and development of new technologies.

Movements of deferred income are as follows:

| | For the year ended December 31, 2019 RMB'000 | For the year ended December 31, 2018 RMB'000 |
|---|---|---|
| **At January 1** | **4,084,833** | 4,157,716 |
| Additions | **930,685** | 899,677 |
| Decreases | **(1,528,256)** | (972,560) |
| **At December 31** | **3,487,262** | 4,084,833 |

## 27 ACCOUNTS PAYABLE

| | As at December 31, | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| Trade payables | **37,218,453** | 29,746,240 |
| Notes payable | **7,488,997** | 8,886,693 |
| | **44,707,450** | 38,632,933 |

Aging analysis of trade payables is as follows:

| | As at December 31, | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| Current to 1 year | **36,670,037** | 29,723,797 |
| 1 to 2 years | **537,658** | 13,597 |
| 2 to 3 years | **4,895** | 2,797 |
| Over 3 years | **5,863** | 6,049 |
| | **37,218,453** | 29,746,240 |

## 28 CONTRACT LIABILITIES

The balance represents unsatisfied performance obligations at the end of the period which include advances from customers consisting primarily of prepayment received from the dealers for sale of vehicles.

| | For the year ended December 31, | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| Revenue recognized that was included in the contract liabilities balance at the beginning of the year | **225,652** | 403,275 |

## 29 OTHER PAYABLES AND ACCRUALS

| | As at December 31, 2019 RMB'000 | As at December 31, 2018 RMB'000 |
|---|---|---|
| Sales discounts and rebates | 17,658,968 | 8,856,166 |
| Other taxes payable | 3,569,233 | 3,929,019 |
| Payable for general operations | 2,892,069 | 3,430,645 |
| Payables for property, plant and equipment and intangible assets | 3,917,138 | 3,130,033 |
| Payable for services | 3,325,398 | 2,929,696 |
| Advertising and promotion | 2,602,469 | 2,701,719 |
| Wages, salaries and other employee benefits | 1,303,541 | 1,136,396 |
| Payables for transportation and warehouse expenses | 1,258,278 | 1,123,783 |
| Dividends payable | 533,596 | 533,596 |
| Interests payable | | |
| – perpetual bond | 112,000 | 112,000 |
| – other borrowings | 287,831 | 266,876 |
| Derivative financial instruments (note (a)) | 48,950 | 180,391 |
| Deposits | 60,344 | 116,936 |
| Others | 454,421 | 341,810 |
| | 38,024,236 | 28,789,066 |

Note:

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

## 30 OTHER GAINS, NET

| | For the year ended December 31, 2019 RMB'000 | For the year ended December 31, 2018 RMB'000 |
|---|---|---|
| Government grants (note (a)) | 2,356,742 | 1,313,550 |
| Gain from sales of scrap materials | 199,357 | 104,184 |
| Loss on disposals of property, plant and equipment and intangible assets | (88,354) | (64,651) |
| Loss on forward foreign exchange contracts with fair value through profit or loss | (591,450) | (819,266) |
| Foreign exchange (losses)/gains | (110,825) | 133,727 |
| Others | 795 | (44,496) |
| | 1,766,265 | 623,048 |

Note:

(a) In December 2019, the Company received government grants amounting to RMB2,000,000,000 relating to certain strategic restructure project within the Group for product improvements.

## 31 EXPENSES BY NATURE

| | For the year ended December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Changes in inventories of finished goods and work in progress | **574,065** | 1,356,182 |
| Raw materials and consumables used | **119,668,809** | 98,330,845 |
| Service fees and charges | **7,984,257** | 7,465,758 |
| Depreciation and amortization (Notes 7, 8, 9) | **7,441,615** | 7,144,950 |
| Employee benefit costs (Note 32) | **5,143,854** | 5,087,637 |
| Taxes and levies | **4,732,280** | 4,856,789 |
| Advertising and promotion | **2,143,067** | 2,506,611 |
| Transportation and warehouse expenses | **3,605,787** | 2,290,503 |
| Daily operating expenses | **1,545,704** | 1,428,661 |
| Provision for impairment on non-financial assets | **349,596** | 704,202 |
| Warranty expenses | **481,820** | 526,312 |
| Auditor's remuneration- audit services | **8,038** | 8,745 |
| Others | **723,036** | 75,153 |
| Total cost of sales, selling and distribution expenses, and general and administrative expenses | **154,401,928** | 131,782,348 |

## 32 EMPLOYEE BENEFIT COSTS

| | For the year ended December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Wages and salaries | **3,652,536** | 3,679,351 |
| Pension scheme and other social security costs | **502,822** | 561,562 |
| Welfare, medical and other expenses | **677,979** | 549,895 |
| Housing benefits | **310,517** | 296,829 |
| | **5,143,854** | 5,087,637 |

## 32 EMPLOYEE BENEFIT COSTS (CONTINUED)

### Five highest paid individuals

The five individuals whose emoluments were the highest in the Group did not include any director (2018: Nil) or supervisor (2018: Nil) for the year ended December 31, 2019. The directors' and supervisors' emoluments are reflected in the analysis shown in Note 42. The emoluments payable to the five (2018: five) highest individuals are as follows:

| | For the year ended December 31, | |
|---|---|---|
| | 2019<br>RMB'000 | 2018<br>RMB'000 |
| Salaries, allowances and other benefits | **15,921** | 15,827 |
| Employer's contribution to pension scheme | **374** | 284 |
| | **16,295** | 16,111 |

The emoluments of the individuals fell within the following bands:

| | For the year ended December 31, | |
|---|---|---|
| | 2019<br>Number of individuals | 2018<br>Number of individuals |
| Emolument band (in HK dollar) | | |
| HK$3,000,001 – HK$3,500,000 | **5** | 5 |

During the year, there was no emolument paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2018: Nil).

## 33 FINANCE COSTS, NET

| | For the year ended December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Finance income** | | |
| Interest income on deposits in financial institutions | **884,190** | 760,930 |
| **Finance costs** | | |
| Interest expense on borrowings from financial institutions | **404,241** | 690,377 |
| Interest expense on corporate bonds | **562,032** | 515,108 |
| Interest expense on lease liabilities (Note 7(c)(ii)) | **1,405** | – |
| Amortization of discount on non-current provisions (Note 25) | **236,633** | 202,072 |
| | **1,204,311** | 1,407,557 |
| Less: amounts capitalized in qualifying assets (Notes 7(b), 9(b)) | **(255,721)** | (289,600) |
| | **948,590** | 1,117,957 |
| **Finance costs, net** | **64,400** | 357,027 |

## 34 INCOME TAX EXPENSE

| | For the year ended December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Current income tax | **9,620,275** | 7,829,027 |
| Deferred income tax credit | **(2,628,956)** | (925,502) |
| | **6,991,319** | 6,903,525 |

According to the New and High-Technology Enterprise Certificate issued by relevant government regulatory bodies, certain entities of the Group in the PRC were recognized as new and high-technology enterprises with preferential income tax rate of 15%. Further some Group entities in the PRC are recognized as small and low-profit enterprises with preferential income tax treatments effective from 2019.

## 34 INCOME TAX EXPENSE (CONTINUED)

Except for the aforementioned companies and certain overseas subsidiaries in Hong Kong and Germany which are subject to statutory income tax rates in respective tax jurisdictions, provision for income tax is calculated based on the statutory income tax rate of 25% for each of the years ended December 31, 2019 and 2018 on the assessable income of respective Group entities in accordance with relevant PRC enterprise income tax rules and regulations.

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

| | For the year ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| | **RMB'000** | **RMB'000** |
| Profit before income tax | **21,314,426** | 21,174,858 |
| Tax calculated at the statutory tax rate of 25% | **5,328,606** | 5,293,715 |
| Preferential tax rates on profit or loss | **515,555** | 506,123 |
| Impact on share of results of investments accounted for using equity method | **150,260** | (225,959) |
| Income not subject to tax | **(3,471)** | (3,274) |
| Expenses not deductible for tax purposes | **13,811** | 148,697 |
| Tax losses/deductible temporary differences for which no deferred tax was recognized | **1,052,501** | 1,223,727 |
| Additional deduction on research and development expenses | **(65,960)** | (40,351) |
| Others | **17** | 847 |
| Tax charge | **6,991,319** | 6,903,525 |

## 35 EARNINGS PER SHARE

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

| | For the year ended December 31, | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| Profit attributable to ordinary shareholders of the Company (note (a)) | 3,970,698 | 4,317,465 |
| Weighted average number of ordinary shares in issue (thousands) | 8,015,338 | 7,875,338 |
| Earnings per share for profit attributable to ordinary shareholders of the Company for the year (RMB) | 0.50 | 0.55 |

Notes:

(a) For the year ended December 31, 2019, the profit attributable to equity holders of the Company amounted to RMB4,082,698,000 (2018: RMB4,429,465,000), including the profit attributable to ordinary shareholders and perpetual bond holders of approximately RMB3,970,698,000 and RMB112,000,000 (2018: RMB4,317,465,000 and RMB112,000,000), respectively.

(b) During the years ended December 31, 2019 and 2018, there were no potential dilutive ordinary shares and diluted earnings per share was equal to basic earnings per share.

## 36 DIVIDENDS

| | For the year ended December 31, | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| Proposed final dividend of RMB0.17 per share (2018: RMB0.19 per share) (note (a)) | 1,362,607 | 1,522,914 |

Note:

(a) The Board of Directors proposes that the Company distributes a final dividend for the year 2019 of RMB0.17 per share (tax inclusive). The proposal will be submitted to the Company's 2019 annual general meeting for consideration and approval. This is not reflected as dividend payable in these financial statements but will be reflected as an appropriation of retained earnings for the year ending December 31, 2020.

The final dividend of approximately RMB1,522,914,000 (RMB0.19 per share) relating to the year ended December 31, 2018 was approved by the shareholders at the annual general meeting held in June 2019 and paid in September 2019.

## 37 CONSOLIDATED STATEMENTS OF CASH FLOWS

### (a) Cash generated from operations

| | For the year ended December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Profit before income tax | **21,314,426** | 21,174,858 |
| Adjustments for: | | |
| Share of loss/(profit) of investments accounted for using equity method | **304,910** | (903,836) |
| Loss on disposals of non-current assets | **88,364** | 64,651 |
| Depreciation and amortization | **7,441,615** | 7,144,950 |
| Provision for impairment on non-financial assets | **349,596** | 704,202 |
| Net impairment losses on financial assets | **313,323** | 133,041 |
| Foreign exchange gains | **(22,697)** | (64,179) |
| Finance costs, net | **64,400** | 357,027 |
| Amortization of deferred income | **(303,004)** | (289,964) |
| | **29,550,933** | 28,320,750 |
| Changes in working capital: | | |
| – Inventories | **(1,223,813)** | (2,341,973) |
| – Accounts receivable | **361,094** | (2,182,389) |
| – Advances to suppliers, other receivables and prepayments | **(551,038)** | 1,017,552 |
| – Accounts payable | **5,991,179** | 2,958,537 |
| – Contract liabilities, other payables and accruals | **9,157,291** | 4,057,005 |
| – Provisions | **192,015** | (100,133) |
| Cash generated from operations | **43,477,661** | 31,729,349 |

### (b) Proceeds from disposals of property, plant and equipment and intangible assets

| | For the year ended December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Net book amounts disposed | **273,406** | 618,720 |
| Loss on disposals | **(88,354)** | (64,651) |
| Change in related receivables | **(86,236)** | (553,732) |
| Cash proceeds | **98,816** | 337 |

## 37 CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

### (c) Debt reconciliation

The following sets out an analysis and the movements in cash and cash equivalents and liabilities arising from financing activities for each of the periods presented.

| | As at December 31, 2019 RMB'000 | As at December 31, 2018 RMB'000 |
|---|---|---|
| Cash and cash equivalents | **49,322,499** | 35,389,883 |
| Borrowings – repayable within one year | **(14,019,499)** | (8,955,960) |
| Borrowings – repayable after one year | **(9,542,718)** | (14,907,282) |
| Lease liabilities | **(49,591)** | – |
| | **25,710,691** | 11,526,641 |
| Cash and cash equivalents | **49,322,499** | 35,389,883 |
| Gross debt – fixed interest rates | **(17,791,682)** | (14,828,913) |
| Gross debt – variable interest rates | **(5,820,126)** | (9,034,329) |
| | **25,710,691** | 11,526,641 |

| | Cash and cash equivalents RMB'000 | Liabilities arising from financing activities: Borrowings due within 1 year RMB'000 | Borrowings due after 1 year RMB'000 | Lease liabilities RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **As at January 1, 2019** | **35,389,883** | **(8,955,960)** | **(14,907,282)** | **(13,144)** | **11,513,497** |
| Cash flows | **13,909,700** | **(5,057,199)** | **5,364,564** | **(19,865)** | **14,197,200** |
| Addition of leases | **–** | **–** | **–** | **(16,582)** | **(16,582)** |
| Foreign exchange adjustments | **22,916** | **(6,340)** | **–** | **–** | **16,576** |
| **As at December 31, 2019** | **49,322,499** | **(14,019,499)** | **(9,542,718)** | **(49,591)** | **25,710,691** |
| **As at January 1, 2018** | 36,824,906 | (18,478,051) | (13,166,960) | – | 5,179,895 |
| Cash flows | (1,499,202) | 9,522,327 | (1,799,957) | – | 6,223,168 |
| Foreign exchange adjustments | 64,179 | (236) | 59,635 | – | 123,578 |
| **As at December 31, 2018** | 35,389,883 | (8,955,960) | (14,907,282) | – | 11,526,641 |

## 38 COMMITMENTS

### (a) Capital commitments

The Group has the following capital commitments for property, plant and equipment not provided for as at December 31, 2019 and 2018 respectively.

| | As at December 31, | |
|---|---|---|
| | **2019** | **2018** |
| | **RMB'000** | **RMB'000** |
| Contracted but not provided for | **13,714,867** | 10,540,926 |
| Authorized but not contracted for | **3,400,293** | 3,703,094 |

### (b) Lease commitments

The future aggregate minimum lease payments under non-cancellable leases are as follows:

| | As at December 31, | |
|---|---|---|
| | **2019** | **2018** |
| | **RMB'000** | **RMB'000** |
| Up to 1 year | **387** | 121,930 |
| 1 to 5 years | **–** | 7,963 |
| | **387** | 129,893 |

From January 1, 2019, the Group has recognized right-of-use assets and lease liabilities for leases, except for short-term and low-value leases, see Note 7 (c) for further information.

## 39 RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The immediate parent company of the Company is BAIC Group, and as a result related parties of the Group include BAIC Group, other entities and corporations in which BAIC Group is able to control or exercise significant influence, and key management personnels of the Company and BAIC Group, as well as their close family members.

BAIC Group is a company beneficially owned by SASAC Beijing which also owns a significant portion of the productive assets and entities in the PRC (collectively referred as the "government-related entities"). Apart from transactions with abovementioned related parties, the Group has transactions with other government-related entities which are conducted in the ordinary course of the Group's business on terms comparable to those with non-government-related entities. For the purpose of the related party transaction disclosures, management believes that meaningful information relating to related party transactions has been adequately disclosed.

In addition to the information disclosed elsewhere in the financial statements, the following transactions were carried out in the ordinary course of the Group's business and were determined based on mutually agreed terms for each of the years ended December 31, 2019 and 2018.

## 39 RELATED PARTY TRANSACTIONS (CONTINUED)

### (a) Significant transactions with related parties

| | For the year ended December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Sale of goods and materials, property, plant and equipment and intangible assets to | | |
| – immediate parent company | **750** | – |
| – fellow subsidiaries | **23,595,327** | 16,955,101 |
| – joint ventures | **939,645** | 1,028,128 |
| – other related companies | **2,360,085** | 1,535,598 |
| Services provided to | | |
| – immediate parent company | **–** | 192 |
| – fellow subsidiaries | **75,536** | 12,942 |
| – joint ventures | **1,085** | – |
| – other related companies | **327,845** | 206,279 |
| Purchases of goods and materials from | | |
| – fellow subsidiaries | **17,897,669** | 13,961,508 |
| – joint ventures | **187,031** | 4,043 |
| – other related companies | **56,881,243** | 45,856,330 |
| Services received from | | |
| – immediate parent company | **675,836** | 632,778 |
| – fellow subsidiaries | **2,421,687** | 2,582,728 |
| – joint ventures | **1,360,164** | 1,400,746 |
| – other related companies | **5,383,858** | 4,687,229 |
| Lease expenses to | | |
| – fellow subsidiaries | **134,577** | 277,044 |
| Interest income from | | |
| – an associate | **276,349** | 210,542 |
| – an other related company | **106** | – |
| Interest expenses to | | |
| – an associate | **46,480** | 101,795 |
| Key management compensations | | |
| – salaries, allowances and other benefits | **8,708** | 10,102 |
| – employer's contributions to pension schemes | **728** | 869 |
| – discretionary bonuses | **8,266** | 7,101 |

## 39 RELATED PARTY TRANSACTIONS (CONTINUED)

### (b) Significant balances with related parties

| | As at December 31, | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| **Assets** | | |
| Financial assets at FVOCI | | |
| – a fellow subsidiary | **1,275,650** | 1,738,729 |
| Trade receivables | | |
| – fellow subsidiaries | **2,841,678** | 3,060,276 |
| – joint ventures | **103,504** | 142,948 |
| – an associate | **–** | 134,080 |
| – other related companies | **1,578,239** | 506,832 |
| Notes receivables | | |
| – fellow subsidiaries | **261,989** | 942,870 |
| – joint ventures | **–** | 31,575 |
| – other related companies | **–** | 5,550 |
| Advances to suppliers | | |
| – fellow subsidiaries | **195,275** | 197,678 |
| – other related companies | **732** | 85,757 |
| Other receivables | | |
| – fellow subsidiaries | **607,781** | 827,455 |
| – a joint venture | **14,192** | 1,344 |
| – an associate | **68,424** | 64,718 |
| – other related companies | **366,343** | 216,903 |
| Cash and cash equivalents | | |
| – an associate (Note 20(a)) | **15,872,433** | 11,133,499 |
| – an other related company | **437** | – |

## 39 RELATED PARTY TRANSACTIONS (CONTINUED)

### (b) Significant balances with related parties (Continued)

| | As at December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Liabilities** | | |
| Trade payables | | |
| – fellow subsidiaries | 8,995,524 | 6,033,645 |
| – a joint venture | 40,992 | 257 |
| – other related companies | 14,465,350 | 12,836,316 |
| Notes payable | | |
| – fellow subsidiaries | 2,922,592 | 5,829,054 |
| – joint ventures | 198 | 716 |
| – other related companies | 445,330 | 65,908 |
| Contract liabilities | | |
| – fellow subsidiaries | 7,566 | 17,187 |
| – an associate | 327 | 327 |
| – other related companies | 205 | 460 |
| Other payables | | |
| – immediate parent company | 266,790 | 587,311 |
| – fellow subsidiaries | 1,303,443 | 1,081,157 |
| – joint ventures | 269,272 | 524,543 |
| – other related companies | 2,918,222 | 2,075,139 |
| Dividends payable to | | |
| – other related companies | 533,596 | 533,596 |
| Borrowings from | | |
| – an associate (Note 24(a)) | 2,120,210 | 1,745,680 |

## 40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

| Company name | Place and date of establishment/ incorporation | Issued and paid-up capital (million) | Attributable equity interests | Principal activities |
|---|---|---|---|---|
| **Subsidiaries*** | | | | |
| BAIC Guangzhou Automotive Co., Ltd. | The PRC August 18, 2000 | RMB1,360 | 100% | Manufacture of passenger vehicles |
| BAIC Investment Co., Ltd. | The PRC June 28, 2002 | RMB3,500 | 97.95% | Investment holding |
| Beijing Beinei Engine Parts and Components Co., Ltd. | The PRC September 2, 2003 | RMB471 | 98.98% | Manufacture of auto parts |
| Beijing Benz Automotive Co., Ltd. | The PRC August 8, 2005 | USD2,320 | 51% | Manufacture and sales of passenger vehicles |
| BAIC Hong Kong Investment Corp. Limited | Hong Kong Oct 21, 2009 | RMB60 | 100% | Investment holding |
| BAIC Motor Powertrain Co., Ltd. | The PRC February 9, 2010 | RMB1,476 | 100% | Manufacture of auto engine |
| Beijing Motor Sales Co., Ltd. | The PRC May 3, 2012 | RMB100 | 100% | Sale of passenger vehicles |
| Zhuzhou (BAIC) Motor Sales Co., Ltd. | The PRC August 5, 2013 | RMB8 | 100% | Sale of passenger vehicles |
| China Automobile Development United (Beijing) Technology Investment Co., Ltd. | The PRC December 18, 2013 | RMB104 | 54.0865% | Investment management |
| **Joint Ventures** | | | | |
| Beijing Hyundai Motor Company | The PRC October 16, 2002 | USD2,036 | 50% | Manufacture and sales of passenger vehicles |
| Beijing Mercedes-Benz Sales Service Co., Ltd. | The PRC December 7,2012 | RMB102 | 49% | Marketing and sales of vehicles |
| Fujian Benz Automotive Co., Ltd. | The PRC June 8, 2007 | Euro287 | 35% | Manufacture and sales of passenger vehicles |
| Beijing Bai Das Auto System Co., Ltd. | The PRC June 27, 2011 | USD41 | 50% | Manufacture and sales of automobile interior decoration parts |
| **Associates** | | | | |
| BAIC Group Finance Co., Ltd. | The PRC November 9, 2011 | RMB2,500 | 20% | Auto financing and currency settlement |
| Beijing Hyundai Auto Finance Co., Ltd. | The PRC June 26, 2012 | RMB4,000 | 33% | Automobile financing services |
| Mercedes-Benz Leasing Co., Ltd. | The PRC January 9, 2012 | RMB3,598 | 35% | Finance lease services |

* All of the subsidiaries established in the PRC are limited liability companies. Beijing Benz is registered as a sino-foreign equity joint venture under the PRC law.

## 41 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

### Balance sheet of the Company

| | As at December 31, | |
|---|---|---|
| | 2019<br>RMB'000 | 2018<br>RMB'000 |
| **ASSETS** | | |
| **Non-current assets** | | |
| Property, plant and equipment | 5,993,135 | 6,107,084 |
| Land use rights | 529,979 | 541,925 |
| Intangible assets | 9,034,796 | 9,234,403 |
| Investments in subsidiaries | 23,239,798 | 23,239,798 |
| Investments accounted for using equity method | 2,310,176 | 2,139,036 |
| Financial assets at fair value through other comprehensive income | 3,000 | 4,000 |
| Other non-current assets | 51,873 | 1,040 |
| | 41,162,757 | 41,267,286 |
| **Current assets** | | |
| Inventories | 2,758,643 | 2,042,874 |
| Accounts receivable | 17,795,507 | 15,521,061 |
| Advances to suppliers | 76,188 | 215,028 |
| Other receivables and prepayments | 21,940,396 | 20,519,381 |
| Restricted cash | 458,366 | 420,072 |
| Cash and cash equivalents | 3,648,831 | 835,161 |
| | 46,677,931 | 39,553,577 |
| **Total assets** | 87,840,688 | 80,820,863 |

## 41 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

### Balance sheet of the Company (Continued)

| | As at December 31, 2019 RMB'000 | As at December 31, 2018 RMB'000 |
|---|---|---|
| **EQUITY** | | |
| **Capital and reserves attributable to equity holders** | | |
| Share capital | 8,015,338 | 8,015,338 |
| Perpetual bond | 1,998,160 | 1,998,160 |
| Other reserves (note (a)) | 25,599,990 | 25,159,213 |
| Retained earnings (note (a)) | 11,044,720 | 9,582,381 |
| **Total equity** | 46,658,208 | 44,755,092 |
| **LIABILITIES** | | |
| **Non-current liabilities** | | |
| Borrowings | 7,166,750 | 9,152,097 |
| Provisions | 28,838 | 23,967 |
| Deferred income | 388,064 | 394,322 |
| | 7,583,652 | 9,570,386 |
| **Current liabilities** | | |
| Accounts payable | 16,683,034 | 12,405,596 |
| Contract liabilities | 942 | 942 |
| Other payables and accruals | 6,652,355 | 7,403,513 |
| Current income tax liabilities | – | 8,677 |
| Borrowings | 10,226,346 | 6,665,000 |
| Provisions | 36,151 | 11,657 |
| | 33,598,828 | 26,495,385 |
| **Total liabilities** | 41,182,480 | 36,065,771 |
| **Total equity and liabilities** | 87,840,688 | 80,820,863 |

The balance sheet of the Company was approved by the Board of Directors on March 26, 2020 and was signed on its behalf.

Xu Heyi, Director　　　　Chen Hongliang, Director

## 41 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

### Balance sheet of the Company (Continued)

Note:

(a) Reserve movement of the Company is as set out below:

| | Capital reserve RMB'000 (Note 23(a)) | Statutory reserve RMB'000 (Note 23(b)) | Financial assets at FVOCI RMB'000 | Cash flow hedges RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **At January 1, 2019** | **22,819,328** | **2,339,885** | **–** | **–** | **9,582,381** | **34,741,594** |
| Profit for the year | **–** | **–** | **–** | **–** | **3,412,096** | **3,412,096** |
| Changes in fair value of financial assets at FVOCI | **–** | **–** | **(255)** | **–** | **–** | **(255)** |
| Share of other comprehensive loss of investments accounted for using the equity method | **–** | **–** | **–** | **(495)** | **–** | **(495)** |
| Appropriation to reserve fund | **–** | **426,588** | **–** | **–** | **(426,588)** | **–** |
| 2018 final dividends | **–** | **–** | **–** | **–** | **(1,522,914)** | **(1,522,914)** |
| Others | **14,684** | **–** | **255** | **–** | **(255)** | **14,684** |
| **At December 31, 2019** | **22,834,012** | **2,766,473** | **–** | **(495)** | **11,044,720** | **36,644,710** |
| **At January 1, 2018** | 20,586,259 | 2,008,301 | 538,627 | – | 7,483,525 | 30,616,712 |
| Profit for the year | – | – | – | – | 2,598,296 | 2,598,296 |
| Changes in fair value of financial assets at FVOCI | – | – | 95,050 | – | – | 95,050 |
| Issue of new shares | 2,233,069 | – | – | – | – | 2,233,069 |
| Appropriation to reserve fund | – | 331,584 | – | – | (331,584) | – |
| 2017 final dividends | – | – | – | – | (801,533) | (801,533) |
| Disposal of financial assets at FVOCI to a subsidiary | – | – | (633,677) | – | 633,677 | – |
| **At December 31, 2018** | 22,819,328 | 2,339,885 | – | – | 9,582,381 | 34,741,594 |

## 42 BENEFITS AND INTERESTS OF DIRECTORS AND SUPERVISORS

### (a) Directors', supervisors' and chief executive's emoluments

For the year ended December 31, 2019

| | Emoluments paid or receivable in respect of services as a director/supervisor | | | | | | |
|---|---|---|---|---|---|---|---|
| | Salaries, allowances and estimated money value of other benefits RMB'000 | Employer's contribution to a retirement benefit scheme RMB'000 | Discretionary bonus[1] RMB'000 | Housing allowance RMB'000 | Remunerations paid or receivable in respect of accepting office as director RMB'000 | Emoluments paid or receivable in respect of other services in connection with the management of the affairs of the Company or its subsidiary undertakings RMB'000 | Total RMB'000 |
| **Executive director** | | | | | | | |
| Chen Hongliang (陳宏良) (Chief Executive) | 837 | 75 | 698 | – | – | – | 1,610 |
| **Non-executive director** | | | | | | | |
| Xu Heyi (徐和誼) | – | – | – | – | – | – | – |
| Shang Yuanxian (尚元賢) | – | – | – | – | – | – | – |
| Yan Xiaolei (閆小雷) | – | – | – | – | – | – | – |
| Xie Wei (謝偉) | – | – | – | – | – | – | – |
| Qiu Yinfu (邱銀富) | – | – | – | – | – | – | – |
| Hubertus Troska (唐仕凱) | – | – | – | – | – | – | – |
| Bodo Uebber (于博)[2] | – | – | – | – | – | – | – |
| Jiao Ruifang (焦瑞芳)[3] | – | – | – | – | – | – | – |
| Jin Wei (金偉)[4] | – | – | – | – | – | – | – |
| Lei Hai (雷海) | – | – | – | – | – | – | – |
| Harald Emil Wilhelm[5] | – | – | – | – | – | – | – |

## 42 BENEFITS AND INTERESTS OF DIRECTORS AND SUPERVISORS (CONTINUED)

### (a) Directors', supervisors' and chief executive's emoluments (Continued)

For the year ended December 31, 2019 (Continued)

| | Emoluments paid or receivable in respect of services as a director/supervisor | | | | | | |
|---|---|---|---|---|---|---|---|
| | Salaries, allowances and estimated money value of other benefits RMB'000 | Employer's contribution to a retirement benefit scheme RMB'000 | Discretionary bonus[1] RMB'000 | Housing allowance RMB'000 | Remunerations paid or receivable in respect of accepting office as director RMB'000 | Emoluments paid or receivable in respect of other services in connection with the management of the affairs of the Company or its subsidiary undertakings RMB'000 | Total RMB'000 |
| **Independent non-executive director** | | | | | | | |
| Wong Lung Tak Patrick (黃龍德) | – | – | – | – | 120 | – | 120 |
| Bao Robert Xiaochen (包曉晨) | – | – | – | – | 120 | – | 120 |
| Zhao Fuquan (趙福全) | – | – | – | – | 120 | – | 120 |
| Liu Kaixiang (劉凱湘) | – | – | – | – | 120 | – | 120 |
| Ge Songlin (葛松林) | – | – | – | – | 120 | – | 120 |
| **Supervisor** | | | | | | | |
| Zhang Guofu (張國富)[6] | – | – | 361 | – | – | – | 361 |
| Pang Minjing (龐民京) | – | – | – | – | 120 | – | 120 |
| Zhan Zhaohui (詹朝暉) | – | – | – | – | 120 | – | 120 |
| Wang Min (王敏) | – | – | – | – | – | – | – |
| Gu Zhangfei (顧章飛) | – | – | – | – | – | – | – |
| Yao Shun (姚舜)[7] | – | – | – | – | – | – | – |
| Meng Meng(孟猛) | – | – | – | – | – | – | – |
| Li Shuangshuang (李雙雙) | 546 | 50 | 974 | – | – | – | 1,570 |
| Wang Bin (王彬) | 733 | 67 | 470 | – | – | – | 1,270 |
| Li Chengjun (李承軍)[8] | 680 | 75 | 506 | – | – | – | 1,261 |
| Qi Chunyu (齊春雨)[9] | – | – | – | – | – | – | – |

Notes:

(1) Discretionary bonuses are determined based on the performance of the Group.

(2) Resigned in May 2019.

(3) Resigned in June 2019.

(4) Appointed in June 2019.

(5) Appointed in June 2019.

(6) Resigned in March 2019.

(7) Resigned in August 2019.

(8) Appointed in March 2019.

(9) Appointed in August 2019.

## 42 BENEFITS AND INTERESTS OF DIRECTORS AND SUPERVISORS (CONTINUED)

### (a) Directors', supervisors' and chief executive's emoluments (Continued)

For the year ended December 31, 2018

| | Emoluments paid or receivable in respect of services as a director/supervisor | | | | | | |
|---|---|---|---|---|---|---|---|
| | Salaries, allowances and estimated money value of other benefits RMB'000 | Employer's contribution to a retirement benefit scheme RMB'000 | Discretionary bonus[1] RMB'000 | Housing allowance RMB'000 | Remunerations paid or receivable in respect of accepting office as director RMB'000 | Emoluments paid or receivable in respect of other services in connection with the management of the affairs of the Company or its subsidiary undertakings RMB'000 | Total RMB'000 |
| **Executive director** | | | | | | | |
| Chen Hongliang (陳宏良) (Chief Executive) | 919 | 80 | 718 | – | – | – | 1,717 |
| **Non-executive director** | | | | | | | |
| Xu Heyi (徐和誼) | – | – | – | – | – | – | – |
| Shang Yuanxian (尚元賢)[2] | – | – | – | – | – | – | – |
| Yan Xiaolei (閆小雷)[3] | – | – | – | – | – | – | – |
| Xie Wei (謝偉)[4] | – | – | – | – | – | – | – |
| Qiu Yinfu (邱銀富) | – | – | – | – | – | – | – |
| Hubertus Troska (唐仕凱) | – | – | – | – | – | – | – |
| Bodo Uebber (于博) | – | – | – | – | – | – | – |
| Jiao Ruifang (焦瑞芳)[5] | – | – | – | – | – | – | – |
| Lei Hai (雷海)[6] | – | – | – | – | – | – | – |
| Zhang Xiyong (張夕勇)[7] | – | – | – | – | – | – | – |
| Zhang Jianyong (張建勇)[8] | – | – | – | – | – | – | – |
| Guo Xianpeng (郭先鵬)[9] | – | – | – | – | – | – | – |
| Wang Jing (王京)[10] | – | – | – | – | – | – | – |
| Zhu Baocheng (朱保成)[11] | – | – | – | – | – | – | – |

## 42 BENEFITS AND INTERESTS OF DIRECTORS AND SUPERVISORS (CONTINUED)

### (a) Directors', supervisors' and chief executive's emoluments (Continued)

For the year ended December 31, 2018 (Continued)

| | Emoluments paid or receivable in respect of services as a director/supervisor | | | | | | |
|---|---|---|---|---|---|---|---|
| | Salaries, allowances and estimated money value of other benefits RMB'000 | Employer's contribution to a retirement benefit scheme RMB'000 | Discretionary bonus[1] RMB'000 | Housing allowance RMB'000 | Remunerations paid or receivable in respect of accepting office as director RMB'000 | Emoluments paid or receivable in respect of other services in connection with the management of the affairs of the Company or its subsidiary undertakings RMB'000 | Total RMB'000 |
| **Independent non-executive director** | | | | | | | |
| Wong Lung Tak Patrick (黃龍德) | – | – | – | – | 120 | – | 120 |
| Bao Robert Xiaochen (包曉晨) | – | – | – | – | 120 | – | 120 |
| Zhao Fuquan (趙福全) | – | – | – | – | 120 | – | 120 |
| Liu Kaixiang (劉凱湘) | – | – | – | – | 120 | – | 120 |
| Ge Songlin (葛松林) | – | – | – | – | 120 | – | 120 |
| **Supervisor** | | | | | | | |
| Zhang Guofu (張國富) | 786 | 80 | 535 | – | – | – | 1,401 |
| Pang Minjing (龐民京) | – | – | – | – | 120 | – | 120 |
| Zhan Zhaohui (詹朝暉) | – | – | – | – | 120 | – | 120 |
| Wang Min (王敏) | – | – | – | – | – | – | – |
| Gu Zhangfei (顧章飛) | – | – | – | – | – | – | – |
| Yao Shun (姚舜) | – | – | – | – | – | – | – |
| Meng Meng(孟猛)[12] | – | – | – | – | – | – | – |
| Jiang Dali (姜大力)[13] | – | – | – | – | – | – | – |
| Li Shuangshuang (李雙雙) | 603 | 55 | 1,035 | – | – | – | 1,693 |
| Wang Bin (王彬) | 1,012 | 80 | 425 | – | – | – | 1,517 |

## 42 BENEFITS AND INTERESTS OF DIRECTORS AND SUPERVISORS (CONTINUED)

### (a) Directors', supervisors' and chief executive's emoluments (Continued)

For the year ended December 31, 2018 (Continued)

Notes:

(1) Discretionary bonuses are determined based on the performance of the Group.

(2) Appointed in June 2018.

(3) Appointed in June 2018.

(4) Appointed in June 2018.

(5) Appointed in June 2018.

(6) Appointed in June 2018.

(7) Resigned in June 2018.

(8) Resigned in June 2018.

(9) Resigned in June 2018.

(10) Resigned in June 2018.

(11) Resigned in June 2018.

(12) Appointed in December 2018.

(13) Resigned in December 2018.

**(b)** During the year ended December 31, 2019, no retirement benefits by a defined benefit pension plan operated by the Group were paid or made, directly or indirectly, to or receivable by a director/supervisor in respect of his services as a director/supervisor or other services in connection with the management of the affairs of the Company or its subsidiaries (2018: Nil).

**(c)** During the year ended December 31, 2019, no payments or benefits in respect of termination of director/supervisor 's services were paid or made, directly or indirectly, to or receivable by a director/supervisor; nor are any payable (2018: Nil).

**(d)** During the year ended December 31, 2019, no consideration was provided to or receivable by third parties for making available director/supervisor 's services (2018: Nil).

**(e)** There are no loans, quasi-loans or other dealings in favour of the director/supervisor, his controlled bodies corporate and connected entities (2018: Nil).

**(f)** Save as disclosed elsewhere in these financial statements, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director/supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2018: Nil).

## 43 EVENTS AFTER THE REPORTING PERIOD

**(a)** On January 8, 2020, the Company issued 2020 first tranche of corporate bonds in an amount of RMB600 million with a term of 3 years and annual coupon interest rate of 3.39%.

On March 10, 2020, the Company further issued 2020 first tranche of ultra-short-term bond in an amount of RMB1,500 million with a term of 269 days and annual coupon interest rate of 2.39%.

**(b)** On February 13, 2020, BAIC Investment, a subsidiary of the Company, entered into an agreement with BAIC Finance, pursuant to which BAIC Investment agreed to further contribute RMB500 million to the newly increased registered capital of BAIC Finance. BAIC Investment will continue to hold 20% of equity interests in BAIC Finance upon completion of this capital increase.

**(c)** On March 13, 2020, the Company and BAIC Group entered into an equity transfer agreement, pursuant to which the Company agreed to purchase, and BAIC Group agreed to dispose of 100% equity interest in BAIC International Development Co., Ltd. ("BAIC International") and 24.78% equity interest in BAIC Yunnan Ruili Motor Co., Ltd. ("BAIC Ruili") held by BAIC Group respectively, at a total cash consideration of approximately RMB80,593,623. Upon completion of the transaction, BAIC International will become a wholly-owned subsidiary and BAIC Ruili will become a non wholly-owned subsidiary of the Company.

These acquisitions are business combinations under common control given that the Company, BAIC International and BAIC Ruili are under common control of BAIC Group immediately before and after the business combinations. The Company will apply the principles of merger accounting in preparing its consolidated financial statements for the year ending December 31, 2020 which will also include the financial positions, results and cash flows of BAIC International and BAIC Ruili as if they had been combined with the Group throughout the whole year ending December 31, 2020. Comparative figures as at December 31, 2019 and for the year then ended will be re-presented on the same basis.

The impacts to the consolidated financial statements of the Company are not expected to be significant based on the latest financial information of BAIC International and BAIC Ruili.

**(d)** After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country/region. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorized for issue, the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

# Definitions

| | |
|---|---|
| **"2018" or "the year 2018"** | the year ended December 31, 2018 |
| **"2019" or "the year 2019" or "the year"** | the year ended December 31, 2019 |
| **"Articles of Association"** | the Articles of Association of BAIC Motor Corporation Limited considered and amended at the second extraordinary general meeting of the Company for 2018 held on December 28, 2018 |
| **"Audit Committee"** | audit committee of the Board of the Company |
| **"BAIC BluePark"** | BAIC BluePark New Energy Technology Co., Ltd. |
| **"BAIC Finance"** | BAIC Group Finance Co., Ltd. |
| **"BAIC Group"** | Beijing Automotive Group Co., Ltd. |
| **"Foton"** | Beiqi Foton Motor Co., Ltd. |
| **"BAIC Holding"** | Beijing Automotive Industry Holding Co., Ltd., the predecessor of BAIC Group, a state-owned enterprise incorporated in the PRC on June 30, 1994, which changed its name to BAIC Group on September 28, 2010 |
| **"BAIC HK"** | BAIC Hong Kong Investment Corp. Limited |
| **"BAIC Investment"** | BAIC Investment Co., Ltd. |
| **"National Innovation Center"** | Beijing New Energy Vehicle Technology Innovation Center Co., Ltd. (北京新能源汽車技術創新中心有限公司) |
| **"BAIC SA"** | BAIC Automobile SA Proprietary Limited |
| **"Investment Universe"** | Investment Universe Co., Limited |
| **"IDC"** | The Industrial Development Corporation of South Africa Limited |
| **"Beijing Benz"** | Beijing Benz Automotive Co., Ltd. (formerly known as Beijing Jeep Motor Co., Ltd. and Beijing Benz-Daimler Chrysler Automotive Co., Ltd.) |
| **"Beijing Brand"** | When referring to a brand, "Beijing Brand" means the passenger vehicle business of our proprietary brand; When referring to a business segment, means the consolidated business of our Company and its subsidiaries (excluding Beijing Benz). Segment profits of Beijing Brand included the share of profits of Beijing Hyundai and other invested enterprises |

# Definitions



| | |
|---|---|
| **"Bai Das"** | Beijing Bai Das Auto System Co., Ltd. |
| **"Beijing Electric Vehicle" or "BJEV"** | Beijing Electric Vehicle Co., Ltd. |
| **"Beijing Hyundai"** | Beijing Hyundai Motor Co., Ltd. |
| **"Benz Sales"** | Beijing Mercedes-Benz Sales Service Co., Ltd. |
| **"BH Leasing"** | BH Leasing Co., Ltd. |
| **"Beijing Hyundai Information"** | Beijing Hyundai Information Technology Co., Ltd. |
| **"BHAF"** | Beijing Hyundai Auto Finance Co., Ltd. |
| **"Board of Directors" or "Board"** | the Board of Directors of the Company |
| **"Board of Supervisors"** | the Board of Supervisors of the Company |
| **"Powertrain"** | BAIC Motor Powertrain Co., Ltd. |
| **"Bohai Automotive"** | Bohai Automotive Systems Co., Ltd. (渤海汽車系統股份有限公司) |
| **"CAAM"** | China Association of Automobile Manufacturers |
| **"China Accounting Standards" or "PRC Accounting Standards"** | Chinese Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC |
| **"Company"** | BAIC Motor Corporation Limited |
| **"Company Law"** | the Company Law of the People's Republic of China, as amended and adopted by the Standing Committee of the Thirteenth National People's Congress on October 26, 2018 and effective from October 26, 2018, as amended, supplemented or otherwise modified from time to time |
| **"connected transaction(s)"** | has the meaning ascribed thereto in the Listing Rules |
| **"Controlling Shareholder(s)"** | has the meaning ascribed thereto in the Listing Rules |
| **"Corporate Governance Code"** | the Code on Corporate Governance as set forth in Appendix 14 to the Listing Rules |
| **"Daimler AG"** | Daimler AG |
| **"Daimler Greater China"** | Daimler Greater China Ltd. |

# Definitions

| | |
|---|---|
| **"Date of Issue of the Report"** | March 26, 2020, i.e. the date on which the annual report is submitted to the Board of Directors for approval |
| **"Director(s)"** | director(s) of the Company |
| **"Domestic Share(s)"** | ordinary shares in the Company's share capital, with a nominal value of RMB1.0 each, which are subscribed for and paid up in Renminbi |
| **"end of 2018"** | December 31, 2018 |
| **"end of 2019"** | December 31, 2019 |
| **"FJMOTOR"** | Fujian Motor Industry Group Co. |
| **"Fujian Benz"** | Fujian Benz Automotive Co., Ltd. |
| **"2019 Annual General Meeting"** | the Shareholder's general meeting of the Company for the year of 2019 |
| **"general meeting"** | the Shareholder's general meeting of the Company |
| **"Group", "our Group" or "We" or "our"** | the Company and its subsidiaries |
| **"H Share(s)"** | overseas listed foreign shares in the ordinary share capital of the Company with a nominal value of RMB1.0 each, to be subscribed for and traded in HK dollars and listed and traded on the Stock Exchange |
| **"HK$"** | the lawful currency of Hong Kong |
| **"Hong Kong"** | the Hong Kong Special Administrative Region of the PRC |
| **"Hyundai Motor"** | Hyundai Motor Company |
| **"IFRSs"** | International Financial Reporting Standards issued by the International Accounting Standards Board |
| **"Latest Practicable Date"** | March 31, 2020, being the latest practicable date prior to the printing of the annual report for the purpose of ascertaining the relevant information contained in the annual report |
| **"Listing"** | Listing of the H Shares on the Stock Exchange |
| **"Listing Rules"** | the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited |

| | |
|---|---|
| **"Main Board"** | the stock market operated by the Stock Exchange (excluding options market), independent of the growth enterprise market of the Stock Exchange and under parallel operation with the growth enterprise market |
| **"MBLC"** | Mercedes-Benz Leasing Co., Ltd. |
| **"Model Code"** | the Model Code for Securities Transactions by Directors of Listed Issuers as set forth in Appendix 10 to the Listing Rules |
| **"Nomination Committee"** | nomination committee of the Board of the Company |
| **"PBOC"** | the People's Bank of China |
| **"Prospectus"** | the prospectus of the Company dated December 9, 2014 |
| **"PwC"** | PricewaterhouseCoopers |
| **"PwC Zhong Tian"** | PricewaterhouseCoopers Zhong Tian LLP |
| **"Remuneration Committee"** | remuneration committee of the Board of the Company |
| **"Renminbi" or "RMB"** | the lawful currency of the PRC |
| **"SFO"** | the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time |
| **"Share(s)"** | Domestic share(s) and H share(s) |
| **"Shareholder(s)"** | holder(s) of the Share(s) |
| **"Shougang Shares"** | Beijing Shougang Company Limited |
| **"Shougang Cold-Rolled"** | Beijing Shougang Cold-Rolled Sheet Co., Ltd. (北京首鋼冷軋薄板有限公司) |
| **"Special Committees"** | collectively, Strategy Committee, Audit Committee, Remuneration Committee and Nomination Committee under the Board of Directors |
| **"Stock Exchange" or "Hong Kong Stock Exchange"** | The Stock Exchange of Hong Kong Limited |

# Definitions

| | |
|---|---|
| **"CBRC"** | China Banking Regulatory Commission, which was merged with China Issuance Regulatory Commission and formed China Banking and Issuance Regulatory Commission according to the Notice of the State Council regarding the Establishment of Organizations (GuoFa [2018] No.6) issued by the State Council on March 24, 2018 |
| **"Strategy Committee"** | strategy committee of the Board of the Company |
| **"Subsidiary(ies)"** | has the meaning ascribed thereto in section 2 of the Company Ordinance |
| **"Supervisor(s)"** | Supervisor of the Company |
| **"Financial Services Framework Agreement"** | the financial services framework agreement entered into between the Company and BAIC Finance on December 2, 2014 |
| **"Trademark and Technology Licensing Framework Agreement"** | the trademark and technology licensing framework agreement entered into between the Company and BAIC Group on December 2, 2014 |
| **"Licensed Trademarks"** | a non-exclusive license for the use of certain registered trademarks owned by BAIC Group granted by BAIC Group to the Group (excluding Beijing Benz) on a royalty-free basis |
| **"Trademark Licensing Agreement"** | the trademark licensing agreement entered into between Beijing Benz, a non-wholly owned subsidiary of the Company and BAIC Group on February 28, 2013 with regard to its company name of "Beijing Benz", the production and assembly of its existing vehicle models |
| **"Property and Facility Leasing Framework Agreement"** | the property and facility leasing framework agreement entered into between the Company and BAIC Group on December 2, 2014 |
| **"Property and Facility Leasing Supplemental Agreement"** | the property and facility leasing supplemental agreement entered into between the Company and BAIC Group on March 27, 2019 |
| **"Products and Services Purchasing Framework Agreement"** | the products and services purchasing framework agreement entered into between the Company and BAIC Group on December 2, 2014 |
| **"Provision of Products and Services Framework Agreement"** | the provision of products and services framework agreement entered into between the Company and BAIC Group on December 2, 2014 |
| **"General Product Supply Series Agreements"** | the general product supply series agreements entered into between the Company and Daimler AG on July 12, 2017 |
| **"Hainachuan Automobile"** | Beijing Hainachuan Automobile Components Corporation Limited |

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