中国重汽
SINOTRUK

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

(Incorporated in Hong Kong with limited liability)
Stock Code : 3808

ANNUAL REPORT 2019


中国重汽
HOWO
豪沃TX

CONTENTS

FINANCIAL FIGURES

	2019	2018	Increase/(Decrease)	
				%
Operating results (RMB million)				
Revenue	**62,227**	62,728	(501)	(0.8)
Gross profit	**11,847**	11,324	523	4.6
Profit attributable to owners of the Company	**3,334**	4,346	(1,012)	(23.3)
Profitability and Liquidity				
Gross profit ratio (%)	**19.0**	18.1	0.9	5.0
Net profit ratio (%)	**6.1**	7.5	(1.4)	(18.7)
Current ratio (time)	**1.4**	1.3	0.1	7.7
Trade receivable turnover (days)	**48.4**	46.2	2.2	4.8
Trade payable turnover (days)	**171.2**	159.1	12.1	7.6
Sales volume (units)				
HDTs				
— Domestic	**129,424**	131,748	(2,324)	(1.8)
— Export (including affiliated export)	**40,009**	36,300	3,709	10.2
Total	**169,433**	168,048	1,385	0.8
LDTs	**109,280**	134,046	(24,766)	(18.5)
Buses	**1,187**	1,553	(366)	(23.6)
Trucks sold under auto financing services	**34,133**	27,748	6,385	23
Per share data				
Earnings per share - basic (RMB)	**1.21**	1.57	(0.36)	(22.9)
2019 final dividend per share				
HKD	**0.39**	0.64	(0.25)	(39.1)
or				
RMB	**0.36**	N/A	N/A	N/A

Note: In April 2019, the Group acquired the entire equity interests in Sinotruk Ji'nan HOWO Bus Co., Ltd. ("**HOWO Bus**") from CNHTC. The acquisition of HOWO Bus was considered to be a business combination under common control as the Group and HOWO Bus are under common control of CNHTC both before and after the acquisition of HOWO Bus. Accordingly, the results, the assets and liabilities of HOWO Bus should have been accounted for at historical amounts in the consolidated financial statements of the Company as if HOWO Bus had always been part of the Group. The consolidated financial statements of the Company for the year ended 31 December 2018 have been restated and the above 2018 financial figures have also been restated.

DEFINITIONS

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

"AGM"	the annual general meeting of the Company or any adjournment thereof
"Articles"	the articles of association of the Company, as amended, supplemented, modified or otherwise adopted from time to time
"AsiaInfo Technologies Limited"	a company listed on the Main Board of the Stock Exchange (stock code: 1675)
"Audit Committee"	the audit committee of the Company
"Board"	the board of Directors
"BOCOM International Holdings Company Limited"	a company listed on the Main Board of the Stock Exchange (stock code: 3329)
"CAAM"	China Association of Automobile Manufacturers
"China Everbright Limited"	a company listed on the Main Board of the Stock Exchange (stock code: 0165)
"China" or "PRC"	the People's Republic of China, and for the purpose of this annual report, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"CITIC Dameng Holdings Ltd."	a company listed on the Main Board of the Stock Exchange (stock code: 1091)
"CNHTC Group"	CNHTC and its subsidiaries other than the Group
"CNHTC" or "Parent Company"	中國重型汽車集團有限公司(China National Heavy Duty Truck Group Company Limited), a state-owned enterprise organized under the laws of the PRC with limited liability, being the ultimate holding company of the Company and the controlling shareholder (as defined in the Listing Rules) of the Company
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
"Company"or "Sinotruk"	Sinotruk (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, and the shares of which are listed on the Main Board of the Stock Exchange
"Dali Foods Group Company Limited'	a company listed on the Main Board of the Stock Exchange (stock code: 3799)
"Datong Gear"	中國重汽集團大同齒輪有限公司 (China National Heavy Duty Truck Group Datong Gear Co., Ltd.), a company organized under the laws of the PRC with limited liability
"Director(s)"	the director(s) of the Company
"ED(s)"	the executive Director(s)
"Euro"	the lawful currency of the European Union

DEFINITIONS

"Executive Committee"	the executive committee of the Company
"FPFPS Group"	FPFPS and its subsidiaries including Volkswagen AG and MAN SE
"FPFPS"	Ferdinand Porsche Familien-Privatstiftung, an Austrian private foundation (Privatstifung) (trust), being the beneficiary owner of 25% of the entired issued share capital of the Company plus 1 Share
"GDP"	gross domestic product
"Group" or "We"	the Company and its subsidiaries
"Hainan Drinda Automotive Trim Co., Ltd."	a company listed on the Shenzhen Stock Exchange (stock code: 002865)
"HDT(s)"	heavy duty truck(s) and medium-heavy duty truck(s)
"HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"INED(s)"	the independent non-executive Director(s)
"Ji'nan Power Company"	中國重汽集團濟南動力有限公司 (Sinotruk Ji'nan Power Co., Ltd.), a company organized under the laws of the PRC with limited liability, being a wholly owned subsidiary of the Company
"Ji'nan Truck Company"	中國重汽集團濟南卡車股份有限公司 (Sinotruk Ji'nan Truck Co., Ltd.), a joint stock company organized under the laws of the PRC with limited liability, being a non-wholly owned subsidiary of the Company and the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000951)
"Jiangxi Copper Company Limited"	a company listed on the Main Board of the Stock Exchange (stock code: 0358)
"Kingsoft Corporation Limited"	a company listed on the Main Board of the Stock Exchange (stock code:3888)
"LDT(s)"	light duty truck(s)
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"MAN Group"	MAN SE and its subsidiaries
"MAN SE"	MAN SE, a company incorporated under the laws of Germany with limited liiability, being a non-wholly owned subsidiary of FPFPS and the shares of which are listed on the German Stock Exchange in Germany (stock code: ISIN DE0005937007, WKN 593700 and symbol MAN)

DEFINITIONS

"Navistar International Corporation"	a company listed on New York Stock Exchange (stock code: NAV)
"NED(s)"	the non-executive Director(s)
"PBOC"	The People's Bank of China
"Period"	the year ended 31 December 2019
"Product Revenue"	the revenue of sales of goods and rendering of services by the segments of heavy duty trucks, light duty trucks and buses as well as engines to external customers
"Remuneration Committee"	the remuneration committee of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SG Automotive Group Co., Ltd."	a company listed on the Shanghai Stock Exchange (stock code: 600303)
"Shandong Huatai Paper Co., Ltd."	a company listed on the Shanghai Stock Exchange (stock code: 600308)
"Shanghai Baolong Automotive Corporation"	a company listed on the Shanghai Stock Exchange (stock code: 603197)
"Shanghai Stock Exchange"	Shanghai Stock Exchange in the PRC
"Shantui Construction Machinery Co., Ltd"	a company listed on the Shenzhen Stock Exchange (stock code: 000680)
"Share(s)"	the ordinary share(s) in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s) from time to time
"Shenzhen Stock Exchange"	Shenzhen Stock Exchange in the PRC
"SHIG"	山東重工集團有限公司 (Shandong Heavy Industry Group Co., Ltd.), a state-owned enterprise organized under the laws of the PRC with limited liability
"Silver Grant International Industries Limited"	a company listed on the Main Board of the Stock Exchange (stock code: 0171)
"Songz Automobile Air Conditioning Co., Ltd."	a company listed on the Shenzhen Stock Exchange (stock code: 002454)

DEFINITIONS

"Springland International Limited"	a company listed on the Main Board of the Stock Exchange (stock code: 1700)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strategy and Investment Committee"	the strategy and investment committee of the Company
"Subsidiary"	a subsidiary for the time being of the Company within the meaning of the Companies Ordinance whether incorporated in Hong Kong or elsewhere and "Subsidiaries" shall be construed accordingly
"Sun.King Power Electronics Group Limited"	a company listed on the Main Board of the Stock Exchange (stock code: 0580)
"TRATON SE"	a company listed on Germany Xetra and NASDAQ STOCKHOLM (stock code: ISIN DE000TRAT0N7, WKN: TRAT0N and symbol 8TRA)
"Tsingtao Brewery Company Limited"	a company listed on the Shanghai Stock Exchange, stock code: 600600 and on the Main Board of the Stock Exchange, stock code: 0168
"USD"	United States dollars, the lawful currency of the United States of America
"Volkswagen AG"	Volkswagen AG, a company incorporated under the laws of Germany with limited liability, being a non-wholly owned subsidiary of FPFPS and an intermediate holding company of MAN SE and the shares of which are listed on German Stock Exchange (stock code: ISIN DE0007664005, WKN 766400 and symbol VOW)
"Volkswagen Group"	Volkswagen AG and its subsidiaries, including MAN Group
"Weichai Heavy-duty Machinery Co., Ltd."	a company listed on the Shenzhen Stock Exchange (stock code: 000880)
"Weichai Power"	濰柴動力股份有限公司 (Weichai Power Co., Ltd.), a company organized under the laws of the PRC with limited liability which shares are listed on the Main Board of the Stock Exchange (stock code: 2338) and on the Shenzhen Stock Exchange (stock code: 000338)
"YoY"	year-over-year
"Zhejiang Wanfeng Auto Wheel Co., Ltd."	a company listed on the Shenzhen Stock Exchange (stock code: 002085)
"%"	per cent

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS:

Mr. Cai Dong
(Chairman and President)
Mr. Liu Wei
Mr. Liu Peimin
Mr. Dai Lixin
Mr. Richard von Braunschweig
Mr. Liu Zhengtao
Ms. Qu Hongkun

NON-EXECUTIVE DIRECTORS:

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

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Dr. Lin Zhijun
Mr. Yang Weicheng
Dr. Wang Dengfeng
Mr. Zhao Hang
Mr. Liang Qing
Mr. Lyu Shousheng

EXECUTIVE COMMITTEE

Mr. Cai Dong *(Chairman)*
Mr. Liu Wei
Mr. Liu Peimin
Mr. Dai Lixin
Mr. Richard von Braunschweig
Mr. Liu Zhengtao
Ms. Qu Hongkun

AUDIT COMMITTEE

Dr. Lin Zhijun *(Chairman)*
Dr. Wang Dengfeng
Mr. Lyu Shousheng

STRATEGY AND INVESTMENT COMMITTEE

Mr. Cai Dong *(Chairman)*
Mr. Richard von Braunschweig
Mr. Liu Zhengtao
Ms. Qu Hongkun
Mr. Zhao Hang

REMUNERATION COMMITTEE

Mr. Lyu Shousheng *(Chairman)*
Dr. Lin Zhijun
Mr. Yang Weicheng
Mr. Liang Qing
Mr. Liu Wei

HEAD QUARTERS

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

REGISTERED OFFICE IN HONG KONG

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

COMPANY SECRETARY

Mr. Kwok Ka Yiu

AUTHORIZED REPRESENTATIVES

Mr. Dai Lixin
Mr. Kwok Ka Yiu

BOARD SECRETARY

Mr. Dai Lixin

CORPORATE INFORMATION

PRINCIPAL BANKERS

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

LEGAL ADVISERS

HONG KONG

Reed Smith Richards Butler

PRC

Commerce & Finance Law Offices

AUDITOR

PricewaterhouseCoopers

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

COMPANY WEBSITE

www.sinotruk.com

SECURITIES CODE

Equity: 3808.hk

INVESTOR RELATIONS

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

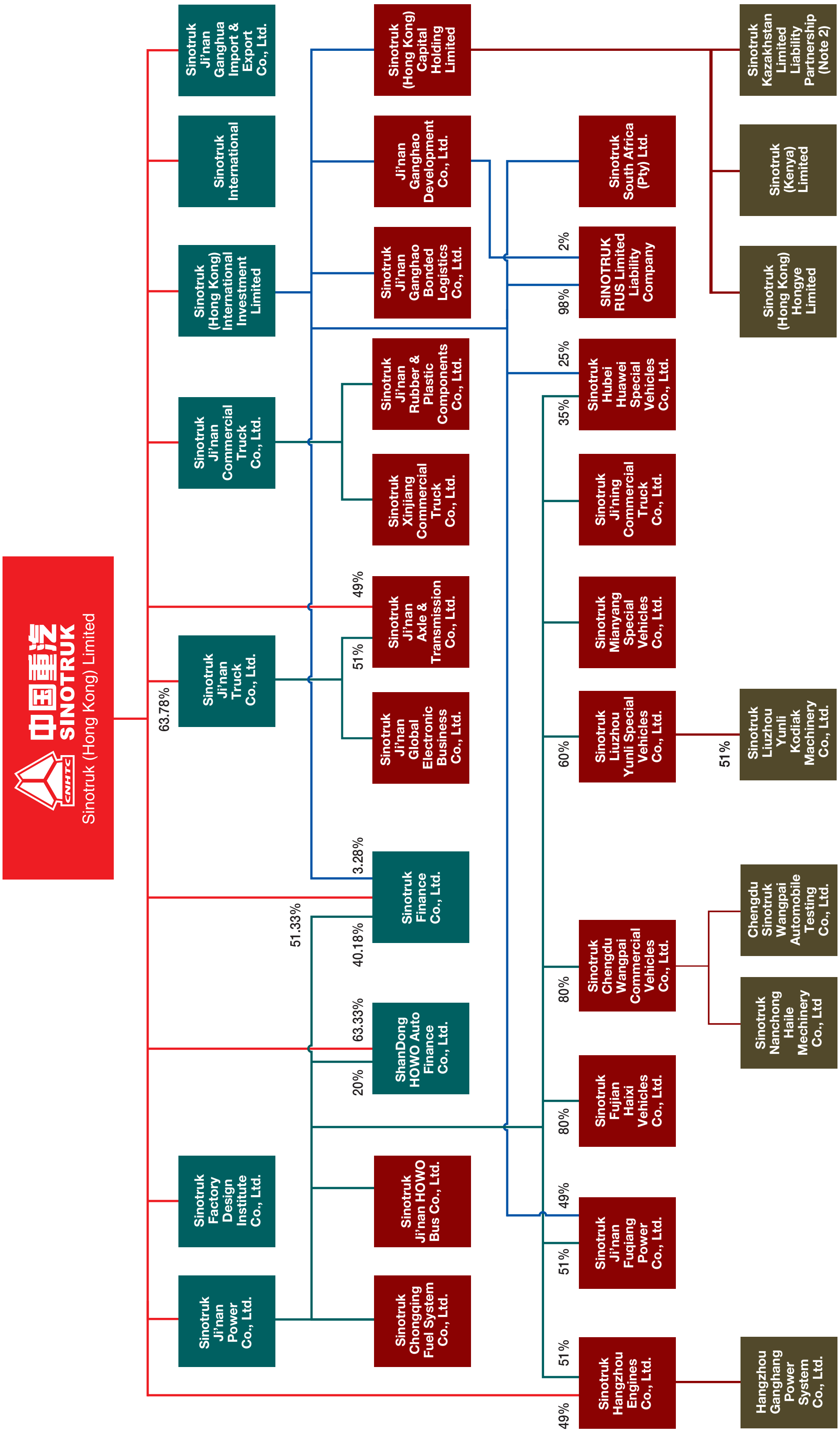
PUBLIC RELATIONS CONSULTANT

Wondersful Sky Financial Group
Tel: (852) 2851 1038
Email: sinotruk@wsfg.hk

ORGANISATION STRUCTURE

ORGANISATION STRUCTURE

As at 31 December 2019



Notes:
1) All of the above subsidiaries are direct wholly-owned subsidiaries of their respective immediate holding companies unless otherwise stated.
2) It is a legal commercial organization in the form of a limited liability partnership.

THE GROUP

BUSINESS

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

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

OPERATIONS

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

(I) HEAVY DUTY TRUCKS SEGMENT

The major source of the Group's revenue is contributed by the sales of HDTs. Its major products series include SITRAK, HOWO, Hohan and Steyr, each of which is further divided into various sub-series. The key production bases are located at Ji'nan, PRC. In addition, the Group engages in truck refitting and manufactures specialty vehicles.

(II) LIGHT DUTY TRUCKS AND BUSES SEGMENT

The Group's LDT products mainly include HOWO, Haoman and Wangpai products, which production bases are located at Ji'nan, Chengdu and Fujian, the PRC. The Group's bus products cover a full range of 6 - 18 meters of medium and large-sized buses, including pure electric power bus, hybrid power bus, hydrogen fuel bus, dual-source trolley bus, diesel bus and natural gas bus, which fully meet different customer needs. Its production base is located in Ji'nan, PRC.

(III) ENGINES SEGMENT

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

(IV) FINANCE SEGMENT

The finance segment of the Group provides financial services to those parties related to the production and sales of the Group's products and to the CNHTC Group. Financial services include deposits taking, borrowings, commercial notes and bank bills discounting, auto financing services and supply chain financing services. It also cooperates with authorized financial institutions to provide auto financing services. It builds up an auto financing services network. Its financing services cover most areas in the PRC.

SHAREHOLDER INFORMATION

Financial Calender 2020

Announce 2019 annual results	31 March
2020 AGM	29 June
Ex-dividend date for 2019 final dividend	3 July
2019 final dividend entitlement date	8 July
Latest time to submit RMB dividend election form	At 4:30 p.m. on 30 July
Announce 2020 interim results	August
Despatch dividend warrants	11 September

2019 Dividends

Proposed 2019 final dividend	HKD0.39 or RMB0.36 per Share
Dividend payout ratio (Note)	30%

Share Information

Stock code	3808
Listing as at 31 December 2019	
– Number of issued Shares	2,760,993,339
– Market capitalisation	RMB41,105 million
Board lot size	500 Shares

For Shareholders to attend and vote at 2020 AGM

Latest time to lodge transfer documents for registration with Sinotruk's registrar	At 4:30pm on 19 June 2020
Closure of Sinotruk's register of members	22 to 29 June 2020 (both dates inclusive)
Record date	29 June 2020

For Shareholders to be entitled to 2019 final dividend

Latest time to lodge transfer documents for registration with Sinotruk's registrar	At 4:30pm on 6 July 2020
Closure of Sinotruk's register of members	7 to 8 July 2020 (both dates inclusive)
Record date	8 July 2020

Sinotruk's Registrar - Computershare Hong Kong Investor Services Limited

For corporate communications:

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

For transfer of shares:

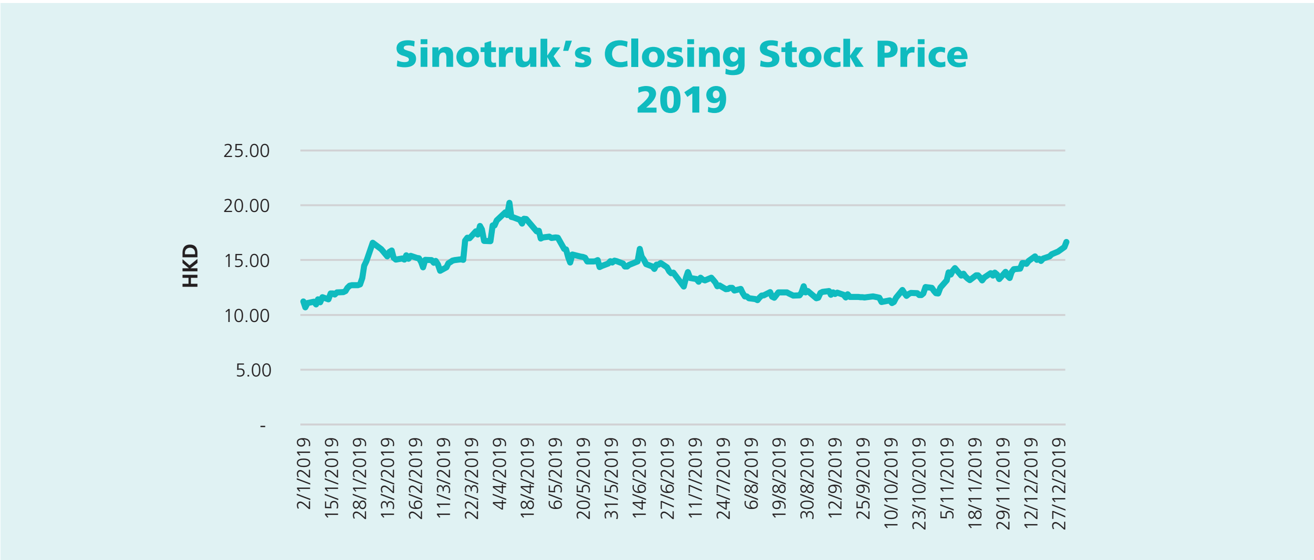
Address:	Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wan Chai, Hong Kong
Tel:	(852) 2862 8555

Note: Being calculated by relevant dividends for the Period divided by profit attributable to owners of the Company for the Period.

SHAREHOLDER INFORMATION

Share Prices During the Period

Maximum price	HKD20.40
Minimum price	HKD10.30
Average closing price	HKD13.84



Shareholding Distribution as at 31 December 2019 (based on Sinotruk's Register of Members)

Size of Shareholding			No. of Shareholders	% of Shareholders	No. of Shares held	% of no. of Shares issued
1	—	500	7,368	77.9%	3,652,094	0.1%
501	—	1000	1,353	14.3%	1,352,501	0.1%
1001	—	2000	607	6.4%	960,001	0.1%
2001	—	10000	109	1.2%	447,500	0.0%
10001	—	100000	21	0.2%	576,000	0.0%
100001	—	500000	2	0.0%	257,500	0.0%
Above 500,000			4	0.0%	2,753,747,743	99.7%
			9,464	100.0%	2,760,993,339	100.0%

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

CHAIRMAN'S STATEMENT

CAI DONG
CHAIRMAN

I am pleased to present, on behalf of the Board of Directors, a review of the Group's operating results for the year ended 31 December 2019, as well as our prospects.

TRUCKS MARKET

China's economy in 2019 remained stable with the growth of GDP at 6.1% YoY. Due to rebound in infrastructure investment, the gradual increase in the total transportation volume of road freight, phasing out of China III Standard trucks, strict crackdown on overweight and overloading etc., China's HDT market continued to maintain a small growth trend, and the total market demand remained high. According to statistics from CAAM, the sales volume of heavy duty trucks in 2019 increased by 2.3% YoY to approximately 1,174,000 units, which was another historic high for China's domestic heavy duty truck market. Impact by "understated truck self-weight", the LDT market experienced a high-beginning followed by low-ending in the first half of 2019, but this situation was improved in the following second half of year, benefiting from the increase in the total transportation volume of road freight as well as the advancement of rural revitalization and urbanization. According to statistics from CAAM, the overall industry achieved sales of light duty trucks of approximately 1,883,000 units or basically the same as the preceding year.

OPERATIONS OF THE GROUP

The Group leveraged the steady growth of China's heavy duty trucks industry and achieved record results during the Period. The Group's total sales volume of trucks and buses in 2019 decreased 7.8% YoY to 279,900 units, of which the sales volume of HDTs increased by 0.8% YoY to 169,433 units, the sales volume of LDTs decreased by 18.5% YoY to 109,280 units and the sales volume of buses decreased by 23.6% YoY to 1,187 units.

CHAIRMAN'S STATEMENT

The Group recorded revenue of RMB62,227 million during the Period, representing a decrease of 0.8% YoY. Profit attributable to owners of the Company was RMB3,334 million, representing a decrease of 23.3% YoY. However, we are still one of the best manufacturers in the domestic trucks industry with respect to profitability and the operating performance.

With the Group's persistence in speeding up the reform and development in quality, the results of the adjustment of the HDTs mix was significantly improved. The Group's tractors took a key step to change from focusing in quantity aspect to quality aspect and resulted a dramatically increase in proportion to the total sales volume. The SITRAK series of trucks excelled in the high-end segment such as long-distance road vehicles and fire engines trucks, reaching the highest record of production and sales. It has established itself as the top brand of high-end special purpose vehicle in China. Hohan hit a remarkable new high in sales. Smart trucks with intelligent technology in compliance with the international L2+ level have been officially released, and electric driverless trucks achieved commercialized sales in batches at Tianjin Port, PRC.

The LDT segment actively dealt with the negative impacts of "understated truck self-weight". It re-positioned and developed new products, comprehensively optimized the product structure, accelerated the introduction of products in compliance with China's Phase VI emission standards, and enriched the production lines and layout. Additionally, by focusing on the development of niche markets such as commercial and trade market, the green market and the rural market, it has phased in achievements that transferred from heavy loading market to light loading market in the light duty truck industry.

The Group's export activities continued to maintain a leading position in the domestic industry. The Group took advantage of opportunities created by the Belt and Road Initiative, collaborating with countries along the route in various forms for the development of international trade. By deeply exploiting the potential overseas markets, it aimed toward greater accuracy in marketing. Thus, the total export volume of HDTs (including affiliated exports) in 2019 increased by 10.2% YoY to 40,009 units, which was a record high.

CHAIRMAN'S STATEMENT

PROSPECTS

In 2020, the international economy is affected by Novel Coronavirus that leads to risks of decline. Although the epidemic is under control in mainland China, the impact of the situation in foreign countries on Chinese economy will last at least in the short-run, resulting in further pressure of a downturn of economy. It is expected that the GDP growth of China in 2020 will slow down.

The demand for HDTs will be stimulated by the following factors, such as the axle-based charge policy, the ongoing phasing out of China's Phase III emission standards trucks, the expected large-scale crackdown on overloading and the national economic stimulus policies after the epidemic. However, it will be a challenge amid the mature trucks market and increase in inventories of vehicles of various distribution channels. Given such factors, the HDT market is expected to see volatility at a high level demand in 2020.

Under these circumstances, we still put customer satisfaction as our core value, with a corporate vision of "Building a world-class full range commercial vehicle group". We also adhere to open cooperation and go global to enhance our competitiveness in the international markets. Marketing across the entire value chain in HDT segment helps maximizing client's operational value, increasing sales volume and improving operational quality. In LDT segment, we secure market segment by focusing on dominant markets, achieving major breakthrough and advancing sophisticated management. By further consolidating traditional dominant markets overseas and deepening our market potential, we continue to progress in localization projects abroad, and achieve sustainable and healthy development of the Group.

DIVIDENDS

The Board recommends the payment of a final dividend per share of HKD0.39 or RMB0.36 for the financial year ended 31 December 31 2019.

Cai Dong
Chairman

31 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

TRUCK MARKET

The Chinese economy maintained stability and achieved progressive development in 2019. Fixed asset investment has grown steadily. Economic structures has continued to optimize and domestic consumption being the driving force of economic growth has further consolidated. 2019 GDP growth was 6.1% YoY.

During the Period, the total transportation volume of road freight and construction projects in China increased steadily, the domestic economy remained vibrant and the stability of the macroeconomic environment was conducive to the development of the heavy duty truck industry, and the policy and regulations had a significant directive impact on the industry. Policies such as emission standard upgrades, the crackdown on overloading and excessive weight, environmentally friendliness, and consistency review of announcements have guided the heavy duty truck market towards operational compliance, efficient transportation, safety, reliability and environmental protection. According to CAAM, the sales volume for the HDT industry amounted to 1.174 million units, representing an increase of 2.3% YoY, out-performing expectations. In the LDT market, although strict investigation regarding to "understated truck self-weight" had significantly affected the market since May, it gradually faded with the successive release of regulations compliance vehicle models in the market. At the same time, the implementation of the policy of reducing fees and taxes, as well as the continuous advancement of scrapping and phasing out China III Standard and older vehicles, have also driven sales of some light duty truck markets. The LDT market experienced a high beginning followed by a low ending in the first half of the year, thus returning to stability during the second half of the year. According to CAAM, the LDT sales volume for the year was 1.883 million units, similar to the preceding year. In 2019, the buses market has undergone major changes, with the importance of new energy buses gradually rising, and market competition entering an era of comprehensive strength competition. According to CAAM, the total buses sales volume in 2019 was 474,000 units, representing a decrease of 2.2% YoY.

LOANS MARKET

In 2019, PBOC announced the adoption of the LPR (loan prime rate) mechanism from 20 August 2019. During the Period, the one-year LPR was lowered twice and the five-year LPR was lowered once. As at 31 December 2019, the one-year LPR was 4.15% and the five-year LPR was 4.8%.

REVIEW OF OPERATIONS

HEAVY DUTY TRUCKS SEGMENT

During the Period, the sales volume of the Group's HDTs was 169,433 units, representing an increase of 0.8% YoY. Revenue (sales of HDT and services provided to such customers) from the HDTs segment was RMB51,086 million, representing an increase of 4.7% YoY. The segment operating profit margin was 6.6%, representing an increase of 2 percentage points YoY, mainly due to the adoption of effective purchase to reduce procurement costs.

DOMESTIC BUSINESS

During the Period, the Group sold 129,424 HDTs in the PRC, representing a decrease of 1.8% YoY.

The Group, with focus on the tractor truck market, accurately perceived market trends and seized the opportunities in the increased demand for short- and medium-distance tractor trucks, formulating the main cart types and marketing strategies for Hohan and SITRAK trucks, and developing the niche markets in-depth. As a result, the increase in sales volume of tractors was approximately 33.9% YoY. Focusing on the cargo truck niche markets, the Group carried out market research and determined its main markets. Through the strategic cooperation with domestic logistics companies and express companies, the Group consolidated its high-end product brand images in the cargo trucks markets. The Group continued to focus on the Group's leading position in mixer trucks market, seized opportunity of replacement of mixer trucks in certain regional markets of which overloading mix trucks are regulated, achieved a year-on-year increase in sales volume and continued to maintain its top position in the market. In the specialty vehicle segment, the Group pushed ahead with emissions upgrading and switching.

MANAGEMENT DISCUSSION AND ANALYSIS

SITRAK's specialty vehicles have been highly recognized in the field of fire emergency rescue, pump trucks, television communications and hazardous transport vehicles, thus establishing itself as the top brand of Chinese high-end specialty vehicles.

During the Period, the Group continued innovation in its HDT marketing methods. Through product benchmarking and demand research, the Group launched the classic model map and defined different accessories configuration for different niche markets so as to support precise marketing. By implementing project-based management and full participation, the Group promoted standardized, informative management improvements and improved the operation efficiency of its distribution network.

As at 31 December 2019, the Group had a total of 882 HDT dealerships (including 137 4S centers and 83 Sinotruk-brand dealerships), 1,282 service centers providing high-quality after-sales service and 137 refitting companies to provide truck-refitting services to HDTs in the PRC.

INTERNATIONAL BUSINESS

In 2019, global trade and production activities slowed down against the backdrop of the global economic downturn, regional political turbulence, and Sino-US trade frictions. Faced with the severe market situation, the Group further explored overseas segment markets, and its product exports continued to maintain a steady and healthy development momentum.

During the Period, the Group's export volume (including affiliated exports) of HDTs was 40,009 units (2018: 36,300 units), representing an increase of 10.2% YoY, and sales volume hit the highest level in the Group's history. The overseas revenue (GAAP measures) was RMB9,937 million (2018:RMB7,390 million), representing an increase of 34.5% YOY. At the same time, the Directors also consider that export revenue (including affiliated exports, non-GAAP measures) was RMB12,167 million (2018: RMB10,237 million) for the Period, representing an increase of 18.9% YoY. According to internal exports information, the Group held a market-leading position in the export of HDTs in China for a fifteenth consecutive year.

Reconciliation of overseas revenue to export revenue (including affiliated exports):

	RMB million	
	2019	2018
Overseas revenue	**9,937**	7,390
Affiliated exports	**2,230**	2,847
Export revenue (including affiliated exports)	**12,167**	10,237

MANAGEMENT DISCUSSION AND ANALYSIS

Affiliated exports are the sales of the Group to Mainland China export dealers who had provided the shipping documents to support these products directly sold to their overseas customers. The Directors consider that affiliated exports is part of the export activities of the Group.

During the Period, the Group took advantage of the opportunities created by the Belt and Road Initiative, endeavored to satisfy the needs of the international market and actively participated in global competition and cooperation, thereby enhancing the influence of its corporate brands among the competition. With the carefully formulated overseas expansion plans for HDT business, the Group has formed effective network coverage in the major market regions of 17 countries devoted to sustainable development while also expanding its overseas HDT network. Concurrently, the Group improved its first-level network and developed the second-level network to reach smaller market segments. With in-depth development of potentials overseas market segments and careful analysis of user needs, the Group implemented precise marketing and hit a record in sales. In the high-end truck market, which is dominated by Europe and the United States, the Group adopted a promotion strategy on high-end brands, promoted the rapid growth of sales for MAN technology products represented by SITRAK, and enhanced the Group's brand image.

As at 31 December 2019, the Group had set up 253 distributor sales centers, 274 service outlets and 237 spare parts and accessory stores in over 110 countries. The Group has 12 overseas KD production plants established through cooperation with overseas partners in 9 countries and regions. The Group's international marketing service network system is well-established to provide strong support for exploring the international market.

LIGHT DUTY TRUCKS AND BUSES SEGMENT

During the Period, the sales volume of the Group's LDTs decreased by 18.5% YoY to 109,280 units. The Group sold 1,187 buses, representing a decrease of 23.6% YoY. The LDTs and buses segment recorded total revenue (sales of LDT and buses and services provided to such customers) of RMB10,211 million, representing a decrease of 19.1% YoY. The segment's operating profit margin was negative 10.9% as opposed to 3.7% in previous year, mainly due to drop in sales as a result of changes in market situation and the increase in provision for impairment loss in trade receivables.

During the Period, the Ji'nan LDTs Division strengthened the investigation of market demand, re-positioned its products, developed and introduced technology-oriented and all-round products which reversed the decline in sales caused by the "understated truck self-weight." As a result, it had achieved initial results in the transformation from heavy-loading market to light-loading market. Additionally, competitiveness was enhanced through the enrichment of product lines and layout, extending its products to cover medium and smaller light duty trucks. Concurrently, focus on the development of commercial and trade market, the green market and the rural market, the Group launched new products to meet customers' needs by promoting the adjustment of product mix and the network coverage.

Sinotruk Chengdu Wangpai Commercial Vehicles Co., Ltd. ("**Chengdu Wangpai Company**") strengthened product resource management, adjusted its products timely so as to adapt to customers' intentions. Through improving network development and channel capabilities, strengthening standardized operation management, Chengdu Wangpai Company comprehensively improved the efficiency of its marketing networks to reach the target performance. In addition, it strengthened and pushed its internet marketing models, lined up online sales with offline sales, which realised the systematization of brand promotion and established a high-end brand image. Chengdu Wangpai Company transformed its concepts in serving customers by strengthening the protection of customers' interests so as to achieve its goals of being close to the market, securing the market and meeting the market.

Sinotruk Fujian Haixi Vehicles Co., Ltd. met market segment needs by adjusting product strategies, achieving product transformation and optimizing vehicle models. It improved efficiency of sales network through the formulation of criteria of selection of dealers and hierarchical management standards. Additionally, by strengthening the development and management of LDTs channels in dominant overseas markets, it achieved a breakthrough in sales volume. It also provided effective support for export business by exerting efforts on provision of export services and systems for supply of spare parts as well as quick feedback responses.

MANAGEMENT DISCUSSION AND ANALYSIS

THE GROUP HAS HELD A MARKET-LEADING POSITION IN THE EXPORTS OF HDTS IN CHINA FOR

15 CONSECUTIVE YEARS

Sinotruk Ji'nan HOWO Bus Co., Ltd. enhanced its competitiveness through researching the trends of industry and competing product and increasing brand promotion and publicity. Additionally, it improved service quality by strengthening the setup of service networks and the increase in the coverage of service stations.

As at 31 December 2019, the Group had a total of 1,629 dealerships (including 50 4S centers and 445 SINOTRUK branded dealerships), 2,837 service centers that provide LDT after-sale service and 53 refitting companies to provide truck refitting services to LDTs in the PRC. For buses division, the Group had a total of 11 bus dealerships and 138 service centers for bus products after-sale service.

ENGINES SEGMENT

During the Period, the sales volume of the Group's engines increased by 2.3% YoY to 179,959 units. The engine segment recorded total revenue (sales of engines) of RMB14,662 million, representing an increase of 3.9% YoY. The external engine sales amount accounted for 8.2% of the total engine sales amount, representing a decrease of 1.1 percentage points YoY. The segment's operating profit margin was 13.1%, representing a decrease of 2.6 percentage points YoY, mainly due to the increase in research and development ("**R&D**") expenditure.

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

The Group has carried out work on optimizing the performance of the China V Standard MC series engines, developing China VI Standard fuel gas engines and natural gas engines and their compatibility with whole truck, and the development of new models of gas engines. The improved overall engine performance, fuel consumption and gas consumption have been widely recognized by the market, and obvious market competitive advantages have been achieved.

MANAGEMENT DISCUSSION AND ANALYSIS

RESEARCH AND DEVELOPMENT

The Group has comprehensive R&D capabilities for the whole series of commercial vehicles. The ability of R&D in truck is in line with international standards, and technology of key assembly components is close to international standards. An independent innovation R&D system has been established, based on independent research and development, supplemented by production-university-research cooperation.

The Group's Automotive Research Institute is a comprehensive base for new product development and testing. It is among the first batch of nationally recognized enterprise technology centers and national heavy duty truck engineering technology research centers. Through whole trucks and body technology, key assembly and core component technology, examination of testing of vehicle and assembly component, the research and promotion of new HDTs materials and process development, the Group has formed five industry-leading core advantages in body system, power system, transmission system, electronic control system and high level of compatibility of various components in whole truck, and has established product development platform to provide a relatively complete software and hardware R&D system for technology management, design and development, pilot production and testing, which can simultaneously run multiple projects.

During the Period, the Group participated in and formulated 「車輛車速限制系統技術要求及試驗方法」(Technical requirements and test methods for vehicle speed limit systems), 「道路貨物運輸車輛類型劃分」(Classification of types of cargo trucks), 「汽車氣壓制動系統用快插接頭技術要求及試驗方法」(Technical requirements and test methods for quick plug connectors of automotive air pressure braking systems), 「汽車氣壓制動系統用快插接頭尺寸」(Dimensions of Quick Plug Connectors for Automotive Air Brake Systems) and 「汽車柴油機燃油加熱裝置」(Automotive Diesel Fuel Heating Devices) etc. totaling 24 heavy duty truck standards. During the Period, the Automotive Research Institute carried out 160 projects, including R&D vehicles, key assemblies and parts.

Guided by the strategy to become a world-class full range of commercial vehicle enterprise, the Group focuses on independent development, strengthens forward-looking thinking, customer care and problem-based learning, clarifies future product and technology development plans, and strives to accelerate the pace of technology innovation, with an aim to build a world-class enterprise with independent R&D capabilities and core technologies.

FINANCE SEGMENT

During the Period, the Group's finance segment revenue (interest and fee income) was RMB1,587 million, representing an increase of 12.2% YoY. External revenue of the segment was RMB980 million, representing a decrease of 0.8% YoY. The segmental operating profit margin was 58.9%, representing a decrease of 1.2 percentage points YoY, mainly due to narrow average interest spread as a result of the decreased market interest rates.

The Group continued to develop its innovative business model by taking full advantage of national policies and utilizing its auto financing services platform. Aiming different vehicle models sold in different regions and the different financial needs of customer groups, the segment launched differentiated financial solutions to meet the financial needs of vehicle buyers. Innovating the automotive financial product chain in entire life cycle, innovative financial products were launched in the finance segment which improved customers' loyalty. Continuously promoting process improvement, loan approval efficiency was improved in the segment which supported the selling units in exploring regional markets. During the Period, the Group sold 34,133 trucks through auto financing service, representing an increase of 23.0% YoY.

As at 31 December 2019, the Group had 22 heavy duty truck business offices and 4 light duty truck business regions for financing services and further improved its auto financing services by extending its financing services business coverage all over China.

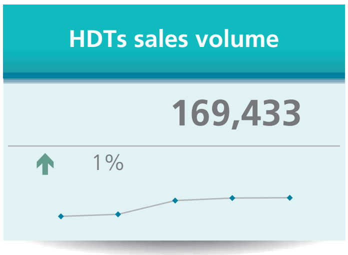
KEY PERFORMANCE INDICATORS ("KPI")

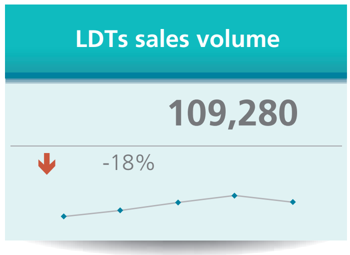
Directors focus on the continuing development of the Group and interests of the Shareholders. Directors use financial and non-financial measures as benchmarks in making assessments and decisions. Sales volume of HDTs, LDTs and buses as well as revenue show actual operating results and performance. Cash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

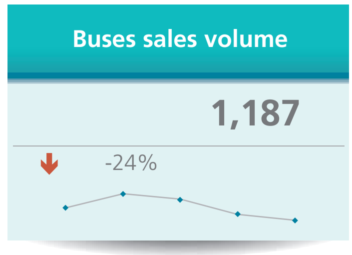
MANAGEMENT DISCUSSION AND ANALYSIS

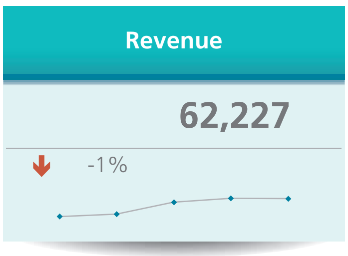
The following charts and table present the Group’s KPIs for the year ended 31 December of the following years:

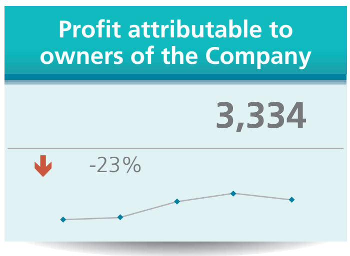
(All amounts of the KPI indicators in RMB million unless otherwise stated)

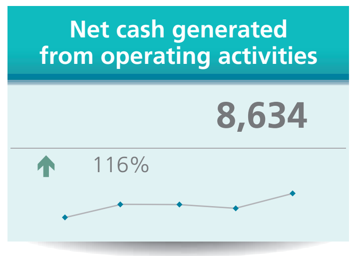


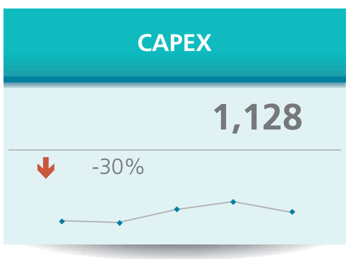


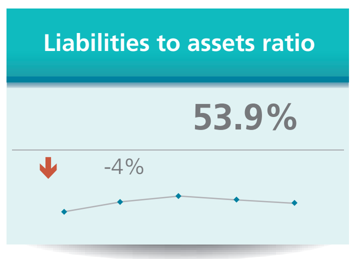












Key performance indicators	2019	2018	2017	2016	2015
HDTs sales volume (units)	169,433	168,048	156,243	91,511	81,959
LDTs sales volume (units)	109,280	134,046	107,660	77,961	54,906
Buses sales volume (units)	1,187	1,553	2,507	2,844	1,968
Revenue	62,227	62,728	55,458	32,959	28,305
Profit attributable to owners of the Company	3,334	4,346	3,023	532	206
Net cash generated from operating activities	8,634	3,993	5,155	5,238	1,040
CAPEX	1,128	1,621	1,245	641	724
Liabilities to assets ratio	53.9%	56.0%	58.4%	54.9%	48.7%

Note: Due to business combination under common control with HOWO Bus in 2019, 2018 figures have been restated while 2015 to 2017 figures have not been restated.

KEY RELATIONSHIPS WITH CUSTOMERS, SUPPLIERS, EMPLOYEES AND OTHERS

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

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

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

The Group always considers its employees as the most valuable asset of the enterprise. The Group provides a complete career path, ensures the safety and health of employees, and provides trainings to help intertwine employees' personal growth with enterprise development. The Group has formulated the "Positions, Performances and Wages System"《崗位績效工資制度》, adheres to the principle of compensation according to work, pays for efficiency and fairness, and has established a mature performance salary system, which stipulates that employee compensation shall consist of basic salary and performance appraisal salary. Employee income is linked to the economic benefits of the enterprise and employee's actual contribution, providing employees with competitive salary compensation. The Group has formulated the "Measures for the Administration of Declaration and Payment of Social Insurance Fees" (《社會保險費申報繳納管理辦法》), and has centralised to report and pay social insurance such as basic retirement insurance premiums, basic medical insurance premiums, unemployment insurance premiums, work-related injury insurance premiums, and maternity insurance premiums. The Group also provides a free inauguration medical examination for newly recruited employees, providing them with employee's benefits such as high-temperature subsidies and lunch allowances. The

MANAGEMENT DISCUSSION AND ANALYSIS

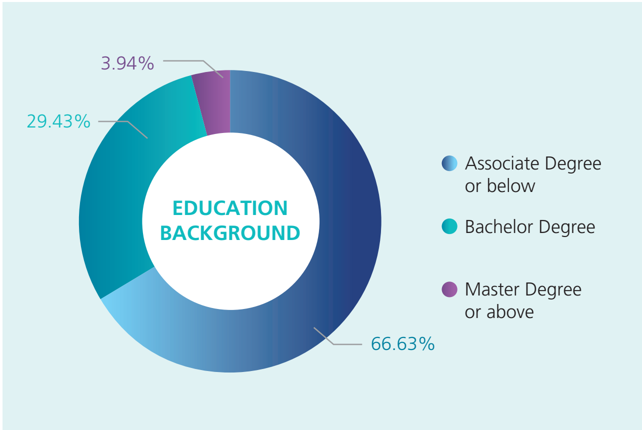
Group integrates the concept of "People-Oriented" into all aspects of management, attaches great importance to the occupational health of employees, and strives to prevent, control and eliminate occupational hazards from the three aspects of occupational health system establishment, workplace occupational hazard screening and occupational health examination. The Group strives to prevent occupational diseases and occupational poisoning and protect employees' health and safety.

During the Period, the remuneration of the Group (including salaries, retirement benefits and other welfare) to all employees including Directors was amounted at RMB4,684 million, representing an increase of 20.4% YoY. The Group did not have share option scheme as at 31 December 2019.

The Group has attached great importance to the growth of personal qualification and professional competency of employees and has formulated the "Measures for Implementation of Employee Training"《員工培訓實施辦法》. With the support of the Group's education and training centers, the Group provides training to its employees in all subsidiaries and departments, and has maintained records for employees' training to improve the overall quality of its workforce. The Group has established a three-level training system and provided trainings to middle and senior management personnel, high-level professionals, engineering technicians, marketing and management personnel, advanced technicians, on-site sub-department heads (sub-department heads directly under the Group), and workshop supervisors. The Group has cooperated with universities and made full use of their faculty and scientific research to train its high level technicians. The Group has also accelerated the construction of internet training institutes with the intent to achieve innovation of remote training mode by taking full advantage of network technology. The Group has also formulated the "Administrative Measures for the Appointment of Full-time and Part-time Trainers" (《專兼職培訓師聘任管理辦法》), which makes full use of various excellent talents and social training resources within the Group to establish a professional trainer team, aiming to meet the needs of corporate development and employee growth.

As at 31 December 2019, the Group had a total of 25,462 employees, which were classified by function and education background as follows:

	Number of employees	%
Management team	235	0.92
Technical and engineering staff	2,805	11.02
Research and development staff	1,129	4.44
Production staff	15,161	59.54
Operation and sales staff	1,816	7.13
Marketing staff	412	1.62
Administrative staff	3,904	15.33
Total	25,462	100.00



MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL RISKS AND SOLUTIONS

The principal risks faced by the Group and the mitigation measures taken during the Period are as follows:

1. QUALITY RISKS

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

MITIGATION MEASURES:

In respect of quality system management, the Group operated the IATF16949 Quality Control System and conducted overall planning of the quality management system in accordance with these relevant standards, applying it in the whole process of product design and development, manufacturing, sales and after-sales service of the Group.

Regarding to quality indicator control, with the launch of such campaigns as "Quality Improvement Year", the relevant indicators were monitored in a dynamic manner and the trends of the changes in these indicators were applied in quality control management decisions.

To enhance quality, in 2019, the Group identified 11 items for improvement and set up cross-departmental project team which carried out projects based on user surveys, old parts dismantling and inspection, and failure mode analysis. The team also coordinated and promoted the projects, and evaluated improvement in terms of decrease in claims amount.

Regarding to after-sales service management, the Group formulated a plan to adjust online price of spare parts, revised three documents including the Administrative Measures on Price of Spare Parts (《配備件價格管理辦法》) and adjusted corresponding procedures in order to further standardize the after-sales management process.

With respect to quality planning, the Group managed the relationship between quality and market demand of China VI natural gas vehicles for emergency preparations and risk prevention.

2. HEALTH, SAFETY AND ENVIRONMENTAL RISKS

In accordance with the revision of laws and regulations and the actual situation of operation, the Group revised its annual safety and environmental responsibility letter by amending the management objectives, work requirements, and responsibility assessment, and used this as the basis for works in the field of health, safety and environmental protection. These measures have propelled the overall work progress of the Group and provided basic supervision standards for related risk prevention.

MITIGATION MEASURES:

According to the requirements of the environmental and occupational health and safety management system, the relevant national laws and standards were identified in a timely manner, and the Comprehensive Environmental Protection Management System (《環境保護綜合管理制度》) was formulated and implemented to prevent risks from occurring to the greatest extent.

Strengthen inspections to discover problems in the production process in a timely manner and urge production units to rectify the problems identified according to the requirements within a timeframe.

Further optimize various safety management system, and combine the occupational health and safety management system certification with the annual review of safety production standardization in 2019 to comprehensively regulate management.

Work on "Three Simultaneity" (i.e. new, renovation and expansion projects for occupational diseases prevention facilities simultaneously), improve technology, and replace high-toxic substances with low-toxic or non-toxic substances in order to control the risks from the source.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FOREIGN EXCHANGE RISKS

The Group's international trades are currently transacted in USD or Euro. If there are any significant exchange rate fluctuations of RMB against these currencies, the Group may face uncertainty that does not exist with fixed exchange rates. The Group could be exposed to potential risks such as foreign exchange losses.

MITIGATION MEASURES:

Given that certain regional markets own abundant RMB deposits, cross-border RMB is more commonly used as contract settlement currency when doing businesses with these regions.

For long-term forward letter of credit, forfeiting is adopted to accelerate collection of loans to avoid adverse effects of forward exchange rate fluctuations.

Closely monitor exchange rate fluctuations and settle foreign exchange transactions based on capital needs and market exchange rates. Study measures such as fixing forward exchange rates and locking in profit from contracts to reduce exchange rate losses.

ENVIRONMENTAL POLICY, PERFORMANCE AND COMPLIANCE

The Group has strictly complied with various applicable national, provincial and local laws and regulations, including the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Energy Conservation Law of the PRC (《中華人民共和國節約能源法》), the Atmospheric Pollution Prevention and Control Law of the PRC (《中華人民共和國大氣污染防治法》), the Water Pollution Prevention and Control Law of the PRC (《中華人民共和國水污染防治法》) and the Law of Prevention and Control of Environmental Pollution Caused by Solid Waste of the PRC (《中華人民共和國固體廢棄物污染環境防治法》), and maintain control over the entire process of operation and services that might cause environmental impact as well as occupational safety risks. Specific measures are as follows:

Strengthen the organization and management of environmental protection works and optimize the construction of system. In accordance with the Environmental Protection Law (《環境保護法》) and the relevant provincial and municipal laws and regulations and the latest standards, the Group revised the "Integrated Environmental Protection Management System" (《環境保護綜合管理制度》) to impose stricter institutional requirements on pollutant emission, hazardous waste management, environmental protection facilities and equipment management, and environmental management of new, renovated and expanded projects;

Strictly fulfill environmental responsibilities as the main body. At the beginning of the year, the Group set emission reduction targets for wastewater, gas, noise and slag pollutants, and implemented the upgrade of pollutant treatment facilities in a planned manner based on these targets. In 2019, reformation of low-nitrogen gas boiler, upgrading of welding fume treatment facilities, replacement of VOCs sources and intelligent renovation of coating lines were completed;

Vigorously enhance the operating level of the ISO14001 environmental management system. In 2019, the Group made 26 amendments to the environmental management system manual and procedural documents. Through internal audits, management reviews, and internal auditor training, the Group improved the operating level of the system and successfully obtained the ISO14001 environmental management system certification; and

Optimize the environmental protection propaganda. The Group launched its environmental protection propaganda in various forms and adhered to scientific measures for pollution prevention and environmental protection, where pollutant discharges and resource consumption from production and operating activities have been efficiently reduced.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS STRATEGIES AND PROSPECTS

In 2020, the international economy is affected by new coronavirus disease (COVID-19) that leads to risks of decline. Chinese national economy, on one hand, is affected by the epidemic to a certain extent, causing more pressure of a downturn of macroeconomy, while Chinese government, on the other hand, would strengthen economic stimulus policies in response to the pressure, in order to pursue a reasonable economic growth.

The commercial vehicle industry combines with opportunities and challenges, and the industry situation becomes more complicated. COVID-19 outbreak has some impact on the Group's production and operation but the Group will actively respond, resume production as soon as possible, take advantage of the national tax reduction and fee reduction policies, adopt promotional strategies, and try to minimize such impact. Faced with a fierce competitive environment, we still uphold "Aiming for Clients' Satisfaction" as our core value, with a corporate vision of "Building a world-class full range commercial vehicle group".

In 2020, the Group will focus on the following areas:

1. Firmly strengthen R&D of technology and optimize product mix

    1. Continue to reduce the weight of tractors, develop engineering vehicles which meet regulations, and continuously reduce fuel consumption of MC series engines to produce products of the highest quality, core technology and cost competitiveness.

    2. By making a breakthrough in our less competitive market of the cargo trucks, fully pushing forward the 4 × 2 and 6 × 2 cargo truck projects, the Group redefines the products in accordance with market needs and offers various types of spectrum planning and design.

    3. By continuously increasing R&D investment, the Group strives to launch a new T7H product with internal and external improvements in June, build up small-outline package (SOP) for the next generation of trunk logistics tractors by the end of this year and quickly initiate the development of the full series of next generation heavy, medium and light duty trucks.

    4. The Group will accelerate product transformation in various aspects of high-end, intelligent, lightweight and experiential and make full use of all resources in terms of intelligent driving, truck connected network and new energy to ensure that we are at the forefront of the industry.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Firmly focus on niche markets to achieve precise breakthroughs

   1. Continuously develop the standard transportation market and maintain the growth momentum of tractor trucks. The Company continues to expand its market share of natural gas tractor trucks in advantages areas and achieve significant improvement in its ability to expand the tractor market.

   2. Develop the mixer trucks market precisely. In addition to securing its current market share, the Group continues to improve and launch lightweight products in order to create greater market influence.

   3. Fully utilize traditional advantages of our tipper truck in terms of sales service network, refitting resources and customer reputation to increase our market share in 8 × 4 tipper truck market.

   4. Continuously develop cargo trucks and specialty vehicles market. Through a new round of product spectrum definition, technology improvement and sales service network optimization, the Group endeavors to achieve important breakthroughs in 2020.

3. Firmly optimize the sales service network to enhance customer satisfaction

   1. Focus on improving our competitiveness in the after-sales market. To ensure end customers can quickly obtain spare parts through implementing systematic measures such as adjusting the spare parts network, rebuilding the operating mechanism, restructuring the logistics system and promoting model innovation. The Group fully complements the after-sales market by streamlining its after-sales service process and continuously strengthening the supporting role of information system in order to enhance the market competitiveness of the Group's products.

   2. Continue to optimize the sales network. The Group strives to boost the sales volume by separating the operation of the HOWO and HOHAN brands. Moreover, an entry, rating and exit mechanism is implemented to identify and retain outstanding distributors and service providers.

   3. Improve and optimize the business policies and regional sales polices. Monthly and quarterly incentive policies are initiated to improve policy flexibility. Franchise stores are encouraged and greater policy support is provided for newly-joined distributors, major customers and refitting companies.

4. Firmly promote informationization upgrade and salary system reform to improve operation quality

   1. Comprehensively strengthen the application of data and information throughout the value chain and improve operational efficiency. By cooperating with internationally renowned enterprises, upgrading the enterprise digital operation management platform based on ERP, and promoting the integration of business and finance, the Group's information management level will reach a new height.

   2. Improve and implement staff promotion system and salary management system. Staff will be promoted based on their qualification and performance and receive KPI assessment and 360 degree review in order to widen their income gap and help the Group to retain talents so as to stimulate the vitality of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

REVENUE, GROSS PROFIT AND GROSS PROFIT MARGIN

The Group's revenue for the Period recorded RMB62,227 million, representing a decrease of RMB501 million or 0.8% YoY. The decrease in the revenue is due to the decrease in the sales volume of LTDs and buses. However, the effect of such decrease is small to the overall revenue of the Group. The Group's gross profit for the Period was RMB11,847 million, representing an increase of RMB523 million or 4.6% YoY. The increase in gross profit due to the lower procurement costs and optimization of the sales mix.

Gross profit margin for the Period was 19.0% (gross profit divided by revenue), representing an increase of 0.9 percentage points.

DISTRIBUTION COSTS

Distribution costs for the Period was RMB3,400 million, representing an increase of RMB339 million or 11.1% YoY. During the Period, distribution costs to Products Revenue ratio was 5.6%, representing an increase of 0.6 percentage points YoY. The increase in the ratio was mainly due to the increase in warranty expenses, the promotion costs for exploration of markets and increase the welfare and remuneration of sales people.

Warranty expenses accounted for 1.5% of Products Revenue for the Period, representing an increase of RMB80 million or 0.1 percentage points YoY. The increase was mainly due to that the Group undertakes estimated provision for warranty expenses of a supplier whose is in progress of liquidation.

ADMINISTRATIVE EXPENSES

Administrative expenses for the Period was RMB3,406 million, representing an increase of RMB477 million or 16.3% YoY. During the Period, administrative expenses to revenue ratio was 5.5%, representing an increase of 0.8 percentage points YoY. The increase in the ratio was mainly due to the increase in research and development expenses which was part of the long-term strategic planning of the Group. By excluding research and development expenses, the administrative expenses recorded a small decrease YoY for the Period.

NET IMPAIRMENT LOSSES OF FINANCIAL ASSETS

Net impairment losses of financial assets for the Period was RMB832 million, respresenting an increase of RMB523 million or 169.3% YoY. The impairment losses of trade and financing receivables was RMB826 million, representing 1.3% of total revenue for the Period. Further details of the trade and financing receivables are set out in the section headed "TRADE AND FINANCING RECEIVABLES" in this report.

OTHER GAINS – NET

Net other gains for the Period was RMB631 million, representing a decrease of RMB68 million or 9.7% YoY. The decrease was mainly due to the significant reduction in government subsidies when compared to the same period last year and no gains from the disposal of assets held for sale during the Period.

FINANCE COSTS – NET

Net finance costs for the Period was RMB96 million, representing an increase of RMB28 million or 41.2% YoY. The increase was due to the decrease in interest income by RMB48 million. The decrease in interest income was mainly due to less interest income recognized for interest element of long term trade receivable following the reduction of these receivables.

MANAGEMENT DISCUSSION AND ANALYSIS

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

The net profit of investments accounted for using the equity method for the Period was RMB61 million, representing a decrease of RMB9 million or 12.9% YoY. The decrease was mainly due to the decrease in profit from the associated company, the group of Prinx (Cayman) Holdings Limited.

INCOME TAX EXPENSE

Income tax expense for the Period was RMB1,029 million, representing an increase of RMB23 million or 2.3% YoY. The increase was due to absence of recognition of deferred tax assets on losses of certain subsidiaries for the Period.

PROFIT FOR THE PERIOD AND BASIC EARNINGS PER SHARE

Profit for the Period was RMB3,776 million, representing a decrease of RMB951 million or 20.1% YoY. Net profit ratio (profit divided by revenue) was 6.1% (2018: 7.5%). Profit attributable to owners of the Company for the Period was RMB3,334 million, representing a decrease of RMB1,012 million or 23.3% YoY. The basic earnings per share attributable to owners of the Company for the Period was RMB1.21, representing a decrease of RMB0.36 or 22.9% YoY.

TRADE AND FINANCING RECEIVABLES

As at 31 December 2019, the trade receivables including related parties trade receivables amounted to RMB8,416 million, representing an increase of RMB584 million or 7.5% when compared to the balance as at 31 December 2018. The main reason for the increase in such trade receivables was the fact that the Group strengthened marketing and seized the domestic market while, at the same time, focused on export business and deepened the international market.

The trade receivables turnover (average trade receivables including related parties trade receivables divided by Products Revenue multiplied by 365 days) for the Period was 48.4 days, representing an increase of 2.2 days YoY and remained within the Group's credit policies which is from three to twelve months.

As at 31 December 2019, the trade receivables including related parties trade receivables aged not more than twelve months amounted to RMB6,113 million or 72.6% of all trade receivables including related parties trade receivables.

At 31 December 2019, all notes receivables received from trading and bills discounting services amounted to RMB2,262 million (classified as financial assets either at amortised cost or at fair value through other comprehensive income) aged not more than twelve months.

As at 31 December 2019, the financing receivables was RMB9,516 million, which included unsecured loans of RMB250 million to related parties, representing an increase of RMB973 million or 11.4% when compared to the balance as at 31 December 2018.

As at 31 December 2019, the financing receivables including loans to related parties aged not more than twelve months amounted to RMB6,890 million or 72.4% of the total financing receivables including loans to related parties.

MANAGEMENT DISCUSSION AND ANALYSIS

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

The Group reviews the repayment progress of key customers or customers with higher risk of default in repayment on monthly basis and assesses impairment loss by reference to their business, actual repayment information and other assessments. During the Period, the Group had made impairment loss allowance for trade receivables and financing receivables at the amount of approximately RMB756 million and RMB70 million respectively.

TRADE PAYABLES

As at 31 December 2019, the trade payables including related parties trade payables amounted to RMB24,843 million, representing an increase of RMB2,538 million or 11.4% when compared to the balance as at 31 December 2018.

The trade payables turnover (average trade payables including related parties trade payables divided by costs of Products Revenue multiplied by 365 days) for the Period was 171.2 days, representing an increase of 12.1 days YoY.

CASH FLOWS

Net cash inflow generated from operating activities for the Period was RMB8,634 million, representing an increase of cash inflow by RMB4,641 million as compared to the corresponding period in 2018. The increase was mainly due to policies implemented by the Group to encourage faster cash collection, measures taken to reduce procurement costs and payments and longer suppliers' financing.

Net cash outflow used in investing activities for the Period was RMB29 million, representing an increase of cash outflow of RMB1,000 million as compared to the cash inflow in the corresponding period in 2018. The decrease in cash outflow was mainly due to large amount of receipts of the proceeds from the maturity of and liquidation of large amount of wealth management products during the same period last year.

Net cash outflow used from financing activities for the Period was RMB5,708 million, compared with net cash outflow in the same period last year, representing an increase of cash outflow of RMB3,621 million. During the Period, the Group further cut its bank borrowings and related party borrowings by RMB1,800 million and RMB1,886 million respectively and paid the purchase consideration of HOWO Bus at the amount of RMB307 million.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2019, the Group had cash and cash equivalents of RMB15,752 million, representing an increase of RMB2,925 million or 22.8% when compared to the balance as at 31 December 2018. The Group's total borrowings (including borrowings from the related parties) were about RMB1,000 million as at 31 December 2019. Its gearing ratio (total borrowings divided by total assets) was 1.5% (31 December 2018: 7.6%). As at 31 December 2019, current ratio (total current assets divided by total current liabilities) was 1.4 (31 December 2018: 1.3).

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2019, all borrowings were denominated in RMB (31 December 2018: all in RMB) and all borrowings are charged with reference to bank's preferential fixed rates and were due within one year. The maturity profile of all borrowings were as follows:

	As at 31 December 2019	As at 31 December 2018
Repayable within one year	**RMB 1,000 million**	RMB 4,886 million

As at 31 December 2019, total consolidated equity of the Company was RMB30,428 million, representing an increase of RMB2,087 million or 7.4% when compared with the balance as at 31 December 2018. As at 31 December 2019, the Company's market capitalisation was RMB41,105 million (calculated based on the issued share capital of the Company: 2,760,993,339 Shares, closing price: HKD16.62 per Share and at the exchange rate of 1: 0.89578 between HKD and RMB).

As at 31 December 2019, total available credit facilities of the Group from the banks amounted to RMB29,884 million, of which RMB6,357 million had been utilised (31 December 2018: RMB6,188 million); an aggregate amount of RMB260 million (31 December 2018: RMB486 million) of security deposits and restricted bank deposits were pledged to secure various credit facilities. In addition, the finance segment has made mandatory deposits of RMB2,133 million (31 December 2018: RMB1,865 million) to PBOC for its financial operations. The Group meets its daily liquidity needs by matching operating cash flow patterns with funds on hand and enhances its liquidity by way of application for longer credit periods from suppliers, utilization of banking facilities and issuance of bills such as short-term commercial acceptance notes and bank acceptance notes.

The Group has capital expenditure contracted for but not yet incurred as at 31 December 2019 amounted to RMB486 million which will be funded by internal resources and borrowing facilities.

INVESTMENTS

INVESTMENTS IN SUBSIDIARIES

In April 2019, the Group purchased the entire equity interest in HOWO Bus from CNHTC at the actual consideration of approximately RMB307 million. For details of the acquisition, please refer to the Company's announcement dated 27 March 2019.

During the Period, the Group purchased the remaining 35% equity of Sinotruk (Hong Kong) Hongye Limited (a joint venture company of the Company) at the consideration of approximately USD12 million and thereafter, it became a wholly-owned subsidiary of the Company, acquired an additional 0.14% equity of Sinotruk Finance Co., Ltd. for a purchase consideration of RMB6 million and established Sinotruk (Kenya) Limited, a wholly-owned subsidiary of the Company, in Kenya. In addition, Sichuan Wangpai Xingcheng Hydraulic Parts Co., Ltd. was merged into Sinotruk Nanchong Haile Machinery Co., Ltd. during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

EQUITY INVESTMENTS FORMING PART OF THE GROUP'S OPERATIONS

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

a) Investments accounted for using equity method

During the Period, the Group injected Euro10,780,000 in cash for 32.89% equity of JV MAN AUTO-Uzbekistan (subsequently renamed as Joint Venture "UZ TRUCK AND BUS MOTORS" Limited Liability Company), being an associated company of the Company. For details of the capital contribution, please refer to the Company's announcement dated 24 December 2019.

As at 31 December 2019, the amount of investments in associates and joint ventures was RMB497 million, representing 0.8% of the total assets of the Group. Performance and details of investments accounted for using the equity method are disclosed in the section headed "SHARE OF PROFITS LESS LOSSES OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD" in this report.

b) Other long term equity investments

As at 31 December 2019, the Group's unlisted equity investments for long term strategic investment purpose amounted to RMB33 million, representing less than 0.1% of the total assets of the Group. These investments were classified as financial assets at fair value through other comprehensive income.

OTHER SECURITIES INVESTMENTS

For the purposes of increasing profitability of short term fund and managing the liquidity of the Group, the Group invests in short-term equity investments which consists of listed securities in Hong Kong. As at 31 December 2019, the Group had equity investment at RMB25 million, representing less than 0.1% of its total assets. These equity investment are accounted for as equity investment included in financial assets at fair value through other comprehensive income. Their fair values keep changing from time to time depending on but not limit to their operation results, economic situations and stock markets sentiments.

CHARGES ON GROUP ASSETS

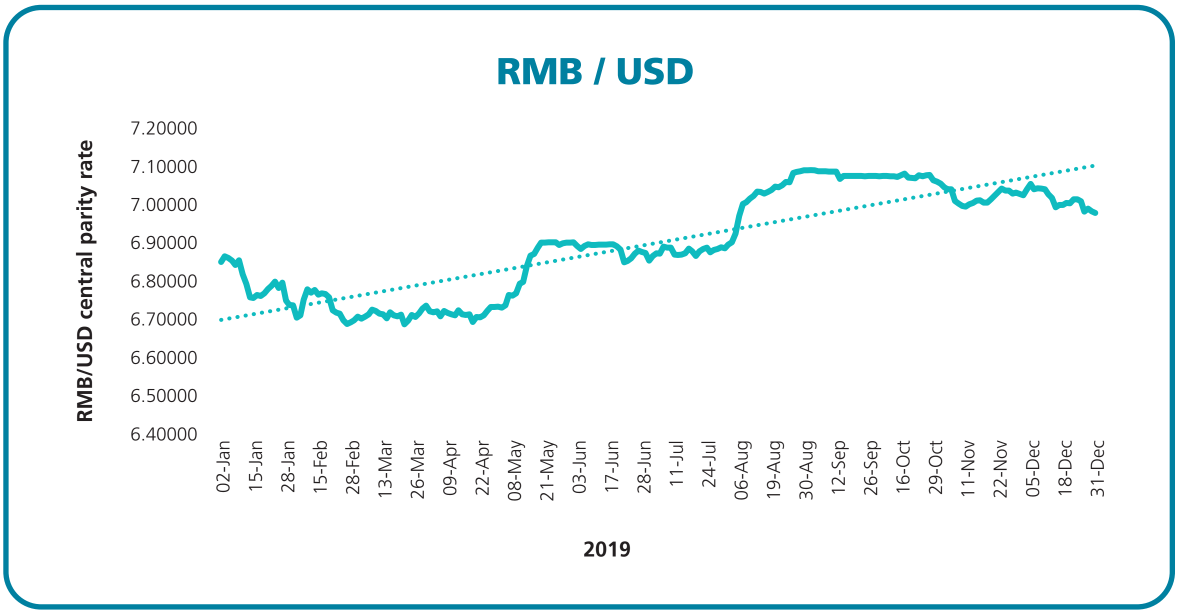
Save as disclosed in the above section headed "FINANCIAL REVIEW — LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE", as at 31 December 2019, there were no assets of the Group being pledged to secure credit facilities.

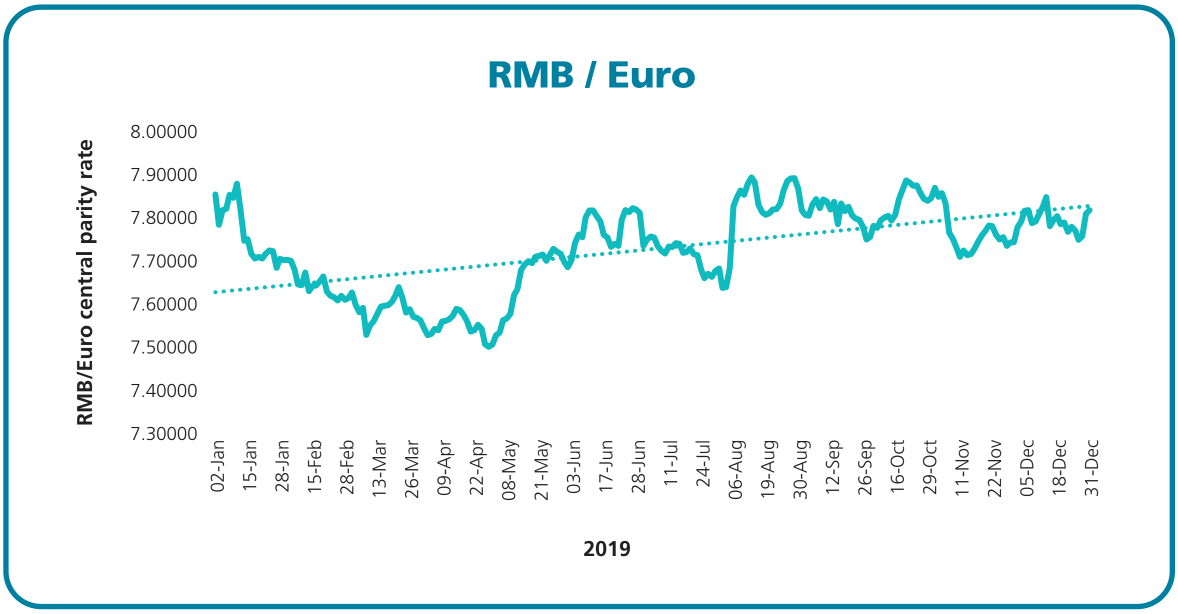
MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL MANAGEMENT AND POLICY

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

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





MANAGEMENT DISCUSSION AND ANALYSIS

The RMB/USD central parity rate in the PRC as at 31 December 2019 was 6.9762, representing a depreciation of RMB by 1.65% when compared to the rate of 6.8632 as at 28 December 2018. The RMB/Euro central parity rate in the PRC as at 31 December 2019 was 7.8155, representing an appreciation of RMB by 0.41% when compared the rate of 7.8473 as at 28 December 2018. During the Period, both the overall trend of RMB/USD and RMB/Euro central parity rates showed a trend of appreciation followed by depreciation in RMB.

As at 31 December 2019, most of the Group's monetary assets and liabilities were denominated in RMB, except for cash and bank balances which in total were equivalent to approximately RMB1,722 million, financial assets at fair value through profit or loss of approximately RMB25 million, accounts receivable and other receivable of approximately RMB3,254 million, accounts and other payables of approximately RMB86 million, all of which were denominated in currencies other than RMB.

At as 31 December 2019, all borrowings were in RMB and non-RMB cash and bank balances were denominated in USD, HKD, EURO and other at RMB1,570 million, RMB44 million, RMB90 million and RMB18 million, respectively.

During the Period, the Group recorded foreign exchange gains of RMB85 million in operating profit. The potential foreign exchange impacts to the USD and Euro denominated net assets of the Group as at 31 December 2019 are:

	USD denominated net assets	Euro denominated net assets
5% strength/weakness against RMB	Loss/Gain before tax of RMB223 million	Loss/Gain before tax of RMB18 million

GOING CONCERN

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

CONTINGENT LIABILITIES, LEGAL PROCEEDINGS AND POTENTIAL LITIGATION

During the Period, the Group was not involved in any litigation, arbitration or administrative proceedings that could have a material adverse effect on the Group's financial condition and results of operations. The Group estimates that the total amount of claims of all lawsuits is approximately RMB201 million. There was provision for legal claims at RMB22 million as at 31 December 2019.

DISCLAIMER

Non generally accepted accounting principles ("**Non-GAAP**") measures

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

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Cai Dong (蔡東先生), born in June 1963, has been an executive Director and the president of the Company since 12 February 2007 and the Chairman since 30 October 2018. In addition, Mr. Cai is also the general manager of CNHTC and a director of certain subsidiaries of the Company. Mr. Cai is a researcher of engineering technology application and with a bachelor's degree in engineering from Jiangsu Polytechnic University (江蘇工學院), the PRC and an executive MBA degree from Nankai University (南開大學), the PRC. He is currently the vice-chairman of China Association of Automobile Manufacturers and vice chairman of China Chamber of International Commerce. He received an "Outstanding National Entrepreneur" award conferred jointly by the China Enterprises Confederation (中國企業聯合會), China Enterprise Directors Association (中國企業家協會) and China Enterprise Management Science Foundation (中國企業管理科學基金會) in April 2006 and Ji'nan City Preeminent Science and Technology Award in February 2013. He joined Ji'nan Auto Manufacturing Factory in 1983 and led its research and development, production and marketing. Mr. Cai was previously the director of the technology center, a director and chief engineer of CNHTC.

Mr. Liu Wei (劉偉先生), born in April 1970, has been an executive Director and a vice president of the Company since 9 December 2014. In addition, Mr. Liu is currently a director of certain subsidiaries of the Company. He has extensive experience in the commercial vehicle industry. Mr. Liu graduated from the Wuhan Institute of Technology (武漢工學院) (now known as the Wuhan University of Technology (武漢理工大學)), the PRC and received a bachelor's degree in engineering majoring in automotive internal combustion engineering in July 1991. In June 2009, he received a master's degree in business administration from the School of Management of the Shandong University (山東大學管理學院), the PRC. Since January 2010, Mr. Liu serves as the head of the international sales division of the Company. Prior to joining the Company, Mr. Liu served in various technical and management positions of CNHTC including the chief of the products testing division, head of the vehicles inspection center, deputy head and head of the technology center from July 1991 to January 2010. He was a director of Ji'nan Truck Company from August 2003 to June 2006 and a director of CNHTC from December 2012 to October 2014.

Mr. Liu Peimin (劉培民先生), born in February 1969, has been an executive Director and a vice president of the Company since 9 December 2014. In addition, Mr. Liu is currently a director of certain subsidiaries of the Company. He has extensive experience in the vehicle industry. Mr. Liu received a bachelor's degree in casting technology and equipment from the Taiyuan Institute of Machinery (太原機械學院) (now known as North University of China (中北大學)), the PRC in July 1990. Mr. Liu serves as the operation controller of the Company since August 2012. Prior to joining the Company, Mr. Liu served in various management positions in China National Heavy Duty Truck Group Company (中國重型汽車集團公司), the predecessor of CNHTC ("CNHTC Predecessor") and CNHTC. He was the office secretary and manager of CNHTC Predecessor and the deputy factory manager of the Sichuan Automobile Factory (a subsidiary of CNHTC Predecessor) from July 1990 to July 1997 and the general manager of China National Heavy Duty Truck Group Sales Company (中國重型汽車集團銷售公司), a wholly-owned subsidiary of CNHTC from July 1997 to April 2001, the chairman of Sinotruk Qingdao Heavy Industry Co., Ltd (中國重汽集團青島重工有限公司), a wholly-owned subsidiary of CNHTC from April 2001 to December 2009, the assistant to the general manager of CNHTC and the chairman of Sinotruk International from December 2009 to August 2012. Mr. Liu was a director of CNHTC Predecessor from July 1997 to April 2001 and a director of CNHTC from April 2001 to October 2014.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Dai Lixin (戴立新先生), born in July 1967, has been an executive Director, a vice president, a board secretary and an authorized representative of the Company since 30 October 2018. In addition, Mr. Dai is currently a director of certain subsidiaries of the Company. Mr. Dai has vast experience in IPOs, financing operations, cross border acquisition and corporate governance for listed companies. He is a committee member of the board secretaries committee for The Listed Company Association of Shandong (山東上市公司協會), as well as an affiliate member of The Hong Kong Institute of Chartered Secretaries. Mr. Dai is a senior economist with a university degree. Mr. Dai joined Weifang Diesel Engine Factory (濰坊柴油機廠) in 1987 and held various managerial positions and previously was the deputy departmental head of the capital operations department of Weifang Diesel Engine Factory. From April 2003 to May 2015, Mr. Dai was the departmental head of the securities department of Weichai Power. Mr. Dai was the board secretary of Weichai Power from September 2003 to October 2018, and the vice president and departmental head of the capital operation department of Weichai Power from May 2015 to October 2018. Since 16 October 2018, Mr. Dai has been the chief investment officer of CNHTC.

Mr. Richard von Braunschweig, born in February 1973, has been an executive Director since 30 November 2019. Mr. von Braunschweig obtained his law degree at the Universities of Heidelberg and Dresden, Germany, and successfully passed his second state exam in 2000 in Düsseldorf, Germany. Mr. von Braunschweig has more than 18 years of experience in consulting and mergers and acquisitions in global companies. From 2001 to 2005, Mr. von Braunschweig served as a senior consultant at PricewaterhouseCoopers corporate finance advisory in Frankfurt. In 2006, Mr. von Braunschweig joined MAN SE and built up the mergers & acquisition department within MAN SE and its subsidiaries. Mr. von Braunschweig was responsible for the management and implementation of multiple mergers and acquisitions transactions, both nationally and internationally. From 2010 to 2014, Mr. von Braunschweig held management positions within MAN SE as the head of international finance cooperations and within MAN Finance International GmbH (the holding company of the former captive of the MAN Group) as the head of strategy & corporate development. Since 2015, Mr. von Braunschweig has been head of cooperations, M&A in MAN Truck & Bus SE.

Mr. Liu Zhengtao (劉正濤先生), born in October 1970, has been an executive Director since 9 March 2020. He is an engineer and holds a bachelor's degree. Mr. Liu joined Ji'nan Auto Manufacturing Factory (濟南汽車製造總廠, one of the predecessors of CNHTC) in July 1992. From January 2001 to December 2009, Mr. Liu held the positions of the deputy division head, the division head and the departmental head of the quality control department of Ji'nan Truck Company. From December 2009 to April 2015, he held the positions of the deputy general manager and the general manager of the sales department, and the executive general manager of Sinotruk Ji'nan Commercial Truck Co., Ltd. (中國重汽集團濟南商用車有限公司, a wholly-owned subsidiary of the Company). From April 2015 to October 2019, Mr. Liu held the positions of the general manager of the marketing department, the chairman of the procurement centre, and the head of procurement of CNHTC. Since November 2015, Mr. Liu has been a director of CNHTC-Hiab (Shandong) Equipment Company Limited (中國重汽集團希爾博 (山東) 裝備有限公司). Since October 2019, Mr. Liu has been the deputy general manager of CNHTC and concurrently holds the positions of the chairman of procurement center and the head of procurement of CNHTC.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Qu Hongkun (曲洪坤女士), born in August 1980, has been an executive Director and the financial controller of the Group since 9 March 2020. She is a senior accountant and a certified public accountant in the PRC. She graduated from Harbin Institute of Technology (哈爾濱工業大學), the PRC and received a bachelor's degree in management majoring in accounting in July 2005. In the same year, Ms. Qu joined Weifang Diesel Engine Works (濰坊柴油機廠) (now known as Weichai Group Holdings Limited (濰柴控股集團有限公司), "Weichai Holdings"). From June 2010 to April 2016, she held various positions at Weichai Holdings, including the division chief and the assistant to the departmental head of the finance department. From April 2016 to February 2017, Ms. Qu was the financial controller and the departmental head of the finance department of Weichai Heavy-duty Machinery Co., Ltd. (濰柴重機股份有限公司). From February 2017 to March 2018, she held the position of the departmental head of the finance department of Weichai Holdings. From May 2017 to March 2018, Ms. Qu served as a supervisor of Weichai (Weifang) After-sales Market Services Co., Ltd. (濰柴 (濰坊) 後市場服務有限公司) and a supervisor of Baudouin (Weifang) Power Co., Ltd. (博杜安 (濰坊) 動力有限公司). She was also a supervisor and the chairman of the supervisory committee of Weichai (Yangzhou) Yaxing Motor Company Limited (濰柴 (揚州) 亞星汽車有限公司) from August 2017 to March 2018. From March 2018 to February 2020, Ms. Qu served as the departmental head of the financial management department of Shandong Heavy Industry Group Co., Ltd. (山東重工集團有限公司), and a supervisor and the chairman of the supervisory committee of Shandong Shantui Machinery Co., Ltd. (山東山推機械有限公司). Since April 2018, Ms. Qu has also been a supervisor of Taishan Property & Casualty Insurance Co., Ltd. (泰山財產保險股份有限公司). Since February 2020, Ms. Qu has been the departmental head of the finance department of the Group.

NON-EXECUTIVE DIRECTORS

Mr. Andreas Hermann Renschler, born in March 1958, has been a non-executive Director since 1 October 2015. He has extensive experience in the vehicle industry. Mr. Renschler received his diploma in business engineering at the Technical College in Esslingen, Germany in 1983 and his diploma in business administration at the University of Tübingen, Germany in 1987. Mr. Renschler began his career at Daimler-Benz AG in 1988. From April 1993 to December 1998, he took charge of the Mercedes-Benz M-Class unit and was responsible for planning and implementation of the company's first US plant in Tuscaloosa, Alabama, where he later served as the chief executive officer of Mercedes-Benz U.S.I., which is principally engaged in M-Class production. From January 1999 to September 1999, he served as the senior vice president of DaimlerChrysler AG, which is principally engaged in the passenger vehicle and commercial vehicle business, where he was responsible for personnel development. From October 1999 to October 2004, Mr. Renschler served as the chairman of the board of management of smart GmbH, which is principally engaged in small passenger car business. From October 2004 to March 2013, Mr. Renschler served as a member of the board of management of Daimler AG, which is principally engaged in the passenger vehicle and commercial vehicle business, where he was responsible for managing Daimler Trucks and Daimler Buses. From April 2013 to January 2014, he was in charge of the production and procurement for Mercedes-Benz Cars and Mercedes-Benz Vans. In February 2015, he joined Volkswagen AG. He is a member of the board of management of Volkswagen AG, responsible for the brand group "Truck & Bus", and is chief executive officer of TRATON SE. Volkswagen AG and TRATON SE are the indirectly non-wholly owned subsidiaries of FPFPS. Furthermore, on 28 February 2017, Mr. Renschler was appointed as a member of the board of directors of Navistar International Corporation. The FPFPS Group held approximately 16.8% of the issued share capital of Navistar International Corporation. In May 2015, Mr. Renschler was appointed as the chairman of the supervisory board of MAN SE, and MAN Truck and Bus SE in September 2015. Since November 2015 he has been the president of the advisory board of MAN Latin America Indústria e Comércio de Veículos Ltda.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Joachim Gerhard Drees, born in November 1964, has been a non-executive Director since 1 October 2015. He has extensive experience in the vehicle industry. He received his master's degree in business administration from the Portland State University, the United States in June 1989. Mr. Drees received his master's degree in business administration at the University of Stuttgart, Germany in March 1991. Mr. Drees served in various management positions at DaimlerChrysler AG, which is principally engaged in the passenger vehicle and commercial vehicle businesses, among others, as the commercial head of the transmission business unit in Gaggenau as well as head of commercial vehicles controlling of Daimler Truck Group in Stuttgart from May 1996 to July 2006. He served as a partner at HgCapital LLP, a British investment company, where he was responsible for investment portfolio management from July 2006 to August 2012. He served as the chief financial officer and head of the divisions of finance and controlling, merger and acquisitions, human resources, administration and globalisation support at Drees & Sommer AG, which is principally engaged in project management and real estate consulting from September 2012 to August 2014. Mr. Drees has been the chief executive officer of MAN Truck & Bus SE since April 2015 as well as a member of the executive board of TRATON SE since June 2015 and chief executive officer and chairman of executive board of MAN SE since October 2015.

Mr. Jiang Kui (江奎先生), born in March 1964, has been a non-executive Director of the Company since 30 October 2018. In addition, Mr. Jiang is currently a director of certain subsidiaries of the Company. He had held various positions including engineer and deputy general manager of assembly department of Shandong Bulldozer General Factory (山東推土機總廠), deputy general manager of Shantui Import and Export Company (山推進出口公司), deputy director, director of manufacturing department, deputy general manager and director of Shantui Construction Machinery Co., Ltd. (山推工程機械股份有限公司), deputy general manager of Shandong Engineering Machinery Group Co., Ltd. (山東工程機械集團有限公司), executive deputy general manager and vice chairman of Weichai Group Holdings Limited, chairman of Shanzhong Jianji Co., Ltd. and director of Shandong Heavy Industry Group Co., Ltd. He is currently the general manager of Shandong Heavy Industry Group Co., Ltd., a director of Shantui Construction Machinery Co., Ltd., a supervisor of KION Group AG, a director of the U.S.-based PSI Inc., a director of Weichai Power, a director of the Canada-based Ballard Power Systems Inc., and the chairman of Weichai Ballard Hydrogen Energy Technology Company Limited. He is a senior engineer and holds an MBA degree.

Ms. Annette Danielski, born in May 1965, has been a non-executive Director since 5 March 2019. Ms. Danielski graduated from the University of Fulda in Germany with a Diploma in Business Administration in Finance and Controlling in 1988. She has more than 30 years of experience in finance and controlling in global companies, and possesses advanced knowledge in general management along with the ability to combine strategy with operational tasks and projects. From 1988 to 1999, Ms. Danielski served as an analyst and senior specialist at Daimler-Benz AG. From 1999 to 2004, she held various management positions at various subsidiaries of DaimlerChrysler AG, including senior manager for Controlling Engines and Powertrain, and senior specialist for Business/Profit & Loss planning and reporting. From 2005 to 2011, Ms. Danielski acted as a senior manager of reporting and controlling department of Business Unit Daimler Trucks, a division of Daimler AG. From January 2012 to August 2017, she was then appointed as a director of costs and funding controlling for Powertrain Plants & Supply Chain MBC of

DIRECTORS AND SENIOR MANAGEMENT

Daimler AG. From June 2016 to August 2017, she also concurrently held an interim position as director of cost and funding controlling at the Mercedes Benz Car Group. From September 2017 to September 2018, Ms. Danielski worked as the head of corporate controlling in Audi AG. Ms. Danielski has been the head of group finance within TRATON SE since October 2018. Since November 2018, Ms. Danielski has been a member of the supervisory board of MAN SE as well as MAN Truck & Bus SE and since June 2019, a member of the supervisory board of Volkswagen Original Teile Logisitk Beteiligungs-GmbH. Furthermore she has been a member of the advisory board of MAN Latin America Indústria e Comércio de Veículos Ltda. since June 2019.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Lin Zhijun (林志軍博士), born in January 1955, has been an independent non-executive Director since 26 July 2007. Dr. Lin is an experienced accounting educator and researcher. Dr. Lin graduated from Xiamen University (廈門大學), the PRC in 1982 with a master's degree in economics and later received a Ph.D. degree in Economics (Accounting) from Xiamen University in 1985. Dr. Lin also received a master's degree (MSc in Accounting) from University of Saskatchewan, Canada in 1991. He is a member of the American Institute of Certified Public Accountants (AICPA), the Chinese Institute of Certified Public Accountants (CICPA) and the Certified Management Accountants of Australia (CMA). He is a member of various educational accounting associations, including the American Accounting Association and the International Association for Accounting Education and Research. He is currently the Vice President of Macau University of Science and Technology and the dean of School of Business of Macau University of Science and Technology. Dr. Lin was previously an auditing staff at an international accounting firm (Touche Ross International, now known as "Deloitte Touche Tohmatsu") in Toronto, Canada. He has been teaching at Xiamen University in China, The University Lethbridge in Canada, The University of Hong Kong and Hong Kong Baptist University and Macau University of Science and Technology since 1983. Dr. Lin is also an author of a series of professional articles and books. Dr. Lin currently is also an independent non-executive director of five companies which securities are listed on the Main Board of the Stock Exchange, including China Everbright Limited, CITIC Dameng Holdings Ltd., Springland International Limited, BOCOM International Holdings Company Limited and Dali Foods Group Company Limited.

Mr. Yang Weicheng (楊偉程先生), born in November 1946, has been an independent non-executive Director since 6 November 2013. Mr. Yang is an experienced lawyer in the PRC. Mr. Yang graduated from Shandong University, the PRC in 1982, majored in history. He is a qualified lawyer in the PRC and is currently the management partner of Shandong Qindao Law Firm (山東琴島律師事務所) in Shandong, the PRC, and the counselor of Shandong Provincial People's Government. He was a deputy director of the general office of Qingdao Municipal Justice Bureau (青島市司法局) from August 1991 to February 1994. From April 1999 to June 2008, he was the vice president of All China Lawyers Association (中華全國律師協會). During January 2005 to April 2011, he was the president of the Shandong Lawyers Association (山東省律師協會). He was awarded "Ten Best Lawyers of China" (全國十佳律師) by the Ministry of Justice of the PRC in 1999. He was a member of the 10th, 11th and 12th National People's Congress of China. Mr. Yang previously served as an independent director of Songz Automobile Air Conditioning Co., Ltd., an independent director of Shandong Huatai Paper Co., Ltd. and a supervisor of Tsingtao Brewery Company Limited.

DIRECTORS AND SENIOR MANAGEMENT

Dr. Wang Dengfeng (王登峰博士), born in March 1963, has been an independent non-executive Director since 9 March 2016. Dr. Wang is currently a professor and doctoral tutor of the Department of Automobiles at the School of Automotive Engineering of Jilin University (吉林大學), the PRC. Dr. Wang is also the chairman of the panelist committee of the China Automotive Lightweight Technology Innovation Strategic Alliance (中國汽車輕量化技術創新戰略聯盟), a member and a council member of the executive committee of the Society of Automotive Engineers of China (中國汽車工程學會), the deputy chairman of the Safety Technology Committee of the Society of Automotive Engineers of China (中國汽車工程學會汽車安全技術分會) and the deputy chairman of the Vehicle Noise and Vibration Committee of the Society of Automotive Engineers of China (中國汽車工程學會汽車振動噪聲分會). Dr. Wang completed his bachelor, master and doctorate degrees in engineering at Jilin University of Technology (吉林工業大學), the PRC. After his graduation from Jilin University of Technology in 1990, he remained at Jilin University of Technology as a lecturer, where he was subsequently promoted to the positions of associate professor, professor, deputy head and then head of the Automotive and Tractor Faculty. Between August 1997 and July 1998, Dr. Wang attended at the University of Birmingham, the United Kingdom as a visiting professor, after which he returned to Jilin University of Technology and continued to serve as a professor, doctoral tutor and head of the Faculty of Automotive and Tractor until May 2000. In June 2000, Jilin University of Technology merged with Jilin University and from December 2000 to December 2008, Dr. Wang served as a professor, doctoral tutor and associate dean of the School of Automotive Engineering of Jilin University. Since January 2009, he has been serving as a professor and doctoral tutor of the Department of Automobiles at the School of Automotive Engineering of Jilin University. Dr. Wang leads several National Research Programs, National Key Technology R&D Program, National High-tech R&D Program (863 Program) and projects supported by the National Natural Science Foundation of China. Dr. Wang was conferred with the title of "Excellent National Teacher" by the Ministry of Education of PRC in 2007. Among other awards he has received in the past, Dr. Wang was awarded the "Outstanding Contribution Award" of the 50th Anniversary of the Establishment of the Society of Automotive Engineers of China (中國汽車工程學會建會50週年「突出貢獻獎」) in 2012, second class reward of Jilin Province S&T Progress Awards in 2015, first class reward of China Automotive S&T Award in 2016, second class of Ministry of Education of China Science and Technology Award in 2017 and special class of Science and Technology Progress Award of China General Chamber of Commerce in 2017. In 2018, he was honored with the "Outstanding Person" Award in the Chinese Automobile Industry for the 40th anniversary of the reform and opening up.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhao Hang (趙航先生), born in July 1955, has been an independent non-executive Director since 11 April 2016. Mr. Zhao is a research-grade senior engineer and obtained his bachelor degree in engineering from Jilin University of Technology, the PRC (中國吉林工業大學) in July 1982. In October 2003, he obtained a degree in executive master of business administration from China Europe International Business School (中歐國際工商學院). Mr. Zhao is also a doctoral tutor at Wuhan University of Technology, the PRC (中國武漢理工大學), and an instructor and adjunct professor at Tongji University, the PRC (中國同濟大學), Jilin University, the PRC (中國吉林大學), Jiangsu University, the PRC (中國江蘇大學) and Chongqing Jiaotong University, PRC (中國重慶交通大學) (which is previously known as Chongqing Vocational College of Transportation (重慶交通學院)). In addition, Mr. Zhao was the deputy chairman and chief secretary of the National Technical Committee of Auto Standardization (全國汽車標準化技術委員會), the president of the China Automobile Human Resources Association (中國汽車人力資源協會), the deputy chairman of the Society of Automotive Engineers of China (中國汽車工程學會), the vice president of the China Association of Automobile Manufacturers (中國汽車工業協會), the deputy chairman of the China Intelligent Transportation Systems Association (中國智能交通協會), the council member of the China Machinery Industry Federation (中國機械工業聯合會), a member of the steering committee of the National 863 Electric Vehicle Key Project (國家863電動汽車重大專項領導小組), a member of the steering committee of the National Clean Energy Automotive Action (國家清潔汽車行動領導小組) and a member of the steering committee of the Tianjin Clean Energy Automotive Action (天津市清潔汽車行動領導小組). After his graduation from Jilin University of Technology in 1982, Mr. Zhao joined the Transportation Engineering Institute of the Chinese People's Liberation Army (中國人民解放軍運輸工程學院) as an instructor until October 1987. After that, he was employed by the China Automotive Technology & Research Center (中國汽車技術研究中心), and had since then until November 2015 held various positions therewith including the center deputy chairman, center deputy secretary of the party committee and center secretary of the party committee and center chairman. Among the awards and recognitions he has received in the past, Mr. Zhao was conferred with the title of Young Technology Specialist in the Machinery Industry (中國機械工業青年科技專家) in the PRC in 1995 and received the 2004 China Automobile Manufacturing Outstanding Technology Talent Award (2004年中國汽車工業優秀科技人才獎). Mr. Zhao is a director of China Yiqi Co., Ltd. (中國一汽股份有限公司) (a unlisted company), an independent director of Shanghai Baolong Automotive Corporation since 30 December 2016, a chairman of Zhongfalian Investment Co., Ltd. (中發聯投資有限公司) (a unlisted company) since 16 May 2017, an independent non-executive director of Sun.King Power Electronics Group Limited, since 4 December 2017, an independent director of Hainan Drinda Automotive Trim Co., Ltd. (海南鈞達汽車飾件股份有限公司) since 26 October 2018 and an independent director of SG Automotive Group Co., Ltd. (遼寧曙光汽車集團股份有限公司) since 29 October 2018. Mr. Zhao was a director of Zhejiang Wanfeng Auto Wheel Co., Ltd. from 29 November 2013 to 26 February 2017.

Mr. Liang Qing (梁青先生), born in May 1953, has been an independent non-executive Director since 1 September 2016. Mr. Liang graduated from Beijing Open University (北京開放大學), the PRC (formerly known as Beijing Radio and Television University (北京廣播電視大學)) in 1985, where he studied Chinese language and literature. Mr. Liang was a president assistant of China Minmetals Corporation, the deputy chairman, a director and the general manager of China Minmetals H.K. (Holdings) Limited. Mr. Liang has abundant experience in international trading and investment. Mr. Liang is currently an independent non-executive director and a member of the audit committee and remuneration committee of Silver Grant International Holdings Group Limited and an executive director of Jiangxi Copper Company Limited.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Lyu Shousheng (呂守升先生), born in May 1971, has been an independent non-executive Director since 16 May 2019. He graduated from the University of Illinois, the United States with an MBA in 2003. Mr. Lyu possesses extensive experience and knowledge in the areas of human resource management and organizational changes. Mr. Lyu has served as the chairman of Human Resource Association for Chinese & Foreign Enterprises (HRA) since September 2016. Since April 2017 to October 2019, he has served as the senior vice president, chief human resources officer and an executive committee member of AsiaInfo Technologies Limited (亞信科技控股有限公司), in which he was responsible for, among other things, the human resources, administration and brand management of the company. From May 2012 to April 2017, he served as the deputy manager of Weichai Group Holdings Limited (濰柴控股集團有限公司), where he was responsible for the optimization of the human resources system and organizational changes. From October 2008 to June 2011, he held the positions of senior vice president and a member of the executive committee of Kingsoft Corporation Limited (金山軟件有限公司), in which he was responsible for the company's human resource management. From December 2003 to October 2008, Mr. Lyu served as the chief consulting officer and the national capability director of the China Region of Hay Group, a U.S. consulting firm, where he provided management consulting services to PRC domestic enterprises. From May 1997 to July 2000, he held positions such as the human resource manager of Bausch & Lomb (美國博士倫公司). From July 1991 to August 1995, he was a principal staff member of the Labour and Personnel Department of Sinohydro Bureau 2 Co., Ltd. (中國水電二局勞動人事主任科員). Mr. Lyu is a member of the National Science and Technology Expert Database and a professional instructor in business administration of National School of Development. Mr. Lyu was honored with the "Best Organizational Change Practice Award" issued by HRA, "Human Resources Management Academy Award" issued by the Business School of Remin University of China, "Annual Character Awards" issued by Human Resources Development of China and "Outstanding Advisor" issued by HayGroup.

DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Mr. Kwok Ka Yiu (郭家耀先生), aged 55, has been our company secretary and financial controller since 12 November 2007. Mr. Kwok holds an MBA degree from the University of Hong Kong and is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Kwok has nearly seven years of audit experience in one of the prestigious international audit firms, KPMG and nearly twenty years of financial and accounting experiences with companies listed on the Stock Exchange.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

During the Period, the Company had been in compliance with the code provisions under the CG Code, save and except for the code provisions A.2.1, A.2.7, A.5.1, A.5.2, A.6.7 and E.1.5 of the CG Code.

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

In respect of code provision A.2.7 of the CG Code, the chairman did not hold meeting with the independent non-executive Directors without the presence of other Directors during the Period. The chairman will hold meeting with the independent non-executive Directors without the presence of other Directors in year 2020.

In respect of code provisions A.5.1 and A.5.2 of the CG Code, the Company did not establish a nomination committee and does not have a nomination policy as the Board takes up all functions of a nomination committee as required under the Listing Rules.

In respect of code provision E.1.5 of the CG Code, the Company should have a policy on payment of dividends. The Company has not established a dividend policy as the Company will consider various factors such as the current operating results, distributable reserves, financial position, expected financial performance, expected working capital requirements, sustainable development to determine the dividend, which is to the best interest of the Company and its shareholders as a whole.

On 15 May 2019, Mr. Chen Zheng resigned as the INED, the chairman of the Remuneration Committee and the member of the Audit Committee. Thereafter, the Board comprised sixteen members with seven EDs, four NEDs and five INEDs. As a result, the number of INEDs fell below the minimum number as prescribed under Rule 3.10A of the Listing Rules, the chairman of the Remuneration Committee as required under Rule 3.25 of the Listing Rules fell vacant and the number of members of the Audit Committee was reduced to two which is below the minimum number as prescribed under Rule 3.21 of the Listing Rules. On 16 May 2019, Mr. Lyu Shousheng was appointed as the INED, the chairman of the Remuneration Committee and the member of the Audit Committee. Following the appointment of Mr. Lyu Shousheng, the Board comprises seven EDs, four NED and six INEDs. The number of INEDs of the Board represents more than one-third of the members of the Board and, therefore, is in compliance with the requirement of the number of INEDs under Rule 3.10A of the Listing Rules, the vacancy of the chairman of the Remuneration Committee is filled, and the Audit Committee comprises three INEDs, and is therefore in compliance with the requirements under Rule 3.21 and Rule 3.25 of the Listing Rules.

Furthermore, code provision A.6.7 of the CG Code requires that NEDs and INEDs should attend general meetings and develop a balanced understanding of the views of the Shareholders. Mr. Andreas Hermann Renschler, Mr. Joachim Gerhard Drees, Mr. Jiang Kui, Ms. Annette Danielski, Dr. Lin Zhijun, Mr. Yang Weicheng, Dr. Wang Dengfeng, Mr. Zhao Hang and Mr. Liang Qing were unable to join 2019 AGM due to business commitments.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

OVERALL ACCOUNTABILITY

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

BOARD RESPONSIBILITIES AND DELEGATION

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

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

COMPOSITION OF THE BOARD

As at 31 December 2019, the Board had a total number of seventeen Directors including seven EDs, four NEDs and six INEDs. Biographies of each existing Director are set out in the section headed "Directors and Senior Management".

CORPORATE GOVERNANCE REPORT

EXECUTIVE DIRECTORS

As at 31 December 2019, there were seven EDs including Mr. Cai Dong, Mr. Wang Shanpo, Mr. Liu Wei, Mr. Liu Peimin, Mr. Dai Lixin, Mr. Sun Chenglong and Mr. Richard von Braunschweig.

NON-EXECUTIVE DIRECTORS

As at 31 December 2019, there were four NEDs including Mr. Andreas Hermann Renschler, Mr. Joachim Gerhard Drees, Mr. Jiang Kui and Ms. Annette Danielski.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS AND THEIR INDEPENDENCE

As at 31 December 2019, there were six INEDs including Dr. Lin Zhijun, Mr. Yang Weicheng, Dr. Wang Dengfeng, Mr. Zhao Hang, Mr. Liang Qing and Mr. Lyu Shousheng.

Each of Dr. Lin Zhijun, Mr. Yang Weicheng, Dr. Wang Dengfeng, Mr. Zhao Hang, Mr. Liang Qing and Mr. Lyu Shousheng has entered into a service contract with the Company for a term of three years commenced from 26 July 2019, 6 November 2019, 9 March 2019, 11 April 2019, 1 September 2019 and 16 May 2019, respectively. Each of the service contracts of the INEDs can be terminated by either party giving not less than three months' prior written notice.

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

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

CORPORATE GOVERNANCE REPORT

ATTENDANCE OF BOARD MEETINGS AND BOARD COMMITTEE MEETINGS

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

	Numbers of meetings attended/entitled to attend (Note)					
Directors	Regular full Board meetings	Executive Committee meetings	Strategy and Investment Committee meetings	Remuneration Committee meetings	Audit Committee meetings	2019 annual general meeting
Executive Directors						
Mr. Cai Dong	4/4	3/3	1/1			1/1
Mr. Wang Shanpo	4/4	3/3	1/1			0/1
Mr. Liu Wei	3/4	3/3		0/0		0/1
Mr. Liu Peimin	4/4	3/3				0/1
Mr. Dai Lixin	4/4	3/3				1/1
Mr. Sun Chenglong	4/4	3/3	1/1			1/1
Mr. Richard von Braunschweig	2/2	0/0	1/1			0/0
Non-executive Directors						
Mr. Andreas Hermann Renschler	1/4					0/1
Mr. Joachim Gerhard Drees	4/4					0/1
Mr. Jiang Kui	3/4					0/1
Ms. Annette Danielski	4/4					0/1
Inedpendent Non-executive Directors						
Mr. Lin Zhijun	4/4			0/0	3/3	0/1
Mr. Yang Weicheng	4/4			0/0		0/1
Mr. Wang Dengfeng	4/4				3/3	0/1
Mr. Zhao Hang	2/4		1/1			0/1
Mr. Liang Qing	4/4			0/0		0/1
Mr. Lyu Shousheng	3/3			0/0	2/2	1/1
Former Directors						
Ms. Wan Chunling	0/0	0/0				0/0
Mr. Chen Zheng	1/1			0/0	1/1	0/0
Mr. Jörg Mommertz	2/2	0/3	0/0			0/1

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

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

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

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

(1) the 2018 annual report of the Company and related results announcements, circulars and documents, the 2018 ESG Report, the call for the 2019 AGM of the Company and the closures of register of members;

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

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

(4) the 2019 interim report of the Company and related results announcements and documents;

(5) the review of the connected transactions for the year 2018;

(6) the recommendation of the re-appointment of PricewaterhouseCoopers as the Company's auditor and the re-election of the retiring Directors in the 2019 AGM;

(7) the recommendation of the payment of the final dividend for the year 2018;

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

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

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

BOARD COMMITTEES

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

EXECUTIVE COMMITTEE

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

As at 31 December 2019, the Executive Committee comprised seven members, namely, Mr. Cai Dong, Mr. Wang Shanpo, Mr. Liu Wei, Mr. Liu Peimin, Mr. Dai Lixin, Mr. Sun Chenglong and Mr. Richard von Braunschweig. Mr. Cai Dong is the chairman of the Executive Committee.

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

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

(2) 2019 business plan and targets; and

(3) determination of employee reward amount and allocation.

STRATEGY AND INVESTMENT COMMITTEE

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

CORPORATE GOVERNANCE REPORT

As at 31 December 2019, the Strategy and Investment Committee comprised five members, namely, Mr. Cai Dong, Mr. Wang Shanpo, Mr. Sun Chenglong, Mr. Richard von Braunschweig and Mr. Zhao Hang. Mr. Cai Dong, Mr. Wang Shanpo, Mr. Sun Chenglong and Mr. Richard von Braunschweig are EDs, while Mr. Zhao Hang is an INED. Mr. Cai Dong is the chairman of the Strategy and Investment Committee.

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

(1) progress report of 2019 fixed assets investment; and

(2) budget of 2020 new fixed assets investment projects.

REMUNERATION COMMITTEE

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

As at 31 December 2019, the Remuneration Committee comprised five members, namely, Mr. Lyu Shousheng, Dr. Lin Zhijun, Mr. Yang Weicheng, Mr. Liang Qing and Mr. Liu Wei. Mr. Lyu Shousheng, Dr. Lin Zhijun, Mr. Yang Weicheng and Mr. Liang Qing are INEDs while Mr. Liu Wei is ED. Mr. Lyu Shousheng is the chairman of the Remuneration Committee. The most up-to-date version of the terms of reference of the Remuneration Committee is available on the websites of the Company and the Stock Exchange.

During the Period, the Remuneration Committee did not convene meeting but had reviewed the draft service contracts for newly appointed EDs, draft appointment letter for newly appointed NED and INED and draft renewal appointment letters for existing INEDs and recommended those agreements and letters to the Board for approval.

AUDIT COMMITTEE

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

As at 31 December 2019, the Audit Committee comprised three members, namely, Dr. Lin Zhijun, Dr. Wang Dengfeng and Mr. Lyu Shousheng who are all INEDs. Dr. Lin Zhijun is the chairman of the Audit Committee.

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

(1) the 2019 annual audit plan of the Group;

(2) the auditor's reports to the Audit Committee in respect of the 2018 annual audit and the 2019 interim review of the Group;

(3) the 2018 annual report, the 2019 interim report and their related preliminary results announcements;

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

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

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

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

NOMINATION, APPOINTMENT, RETIREMENT AND RE-ELECTION OF DIRECTORS

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

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

DIVERSITY POLICY AND NOMINATION PROCEDURES

The Company recognises and embraces the importance and benefit to achieve diversity on the Board to corporate governance and the board effectiveness. The Company adopted a board diversity policy on 1 September 2013. The board diversity policy is to ensure that the Board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance and sets out the measurable objectives to select board candidates based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience.

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

CORPORATE GOVERNANCE REPORT

DIVIDEND POLICY

As at 31 December 2019, the Company did not have a dividend policy in place.

DIRECTORS' SECURITIES TRANSACTIONS

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

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

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

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

In December 2019, the Company had provided "Training on Director's Responsibilities" training materials prepared by Sidley Austin, legal advisers on Hong Kong laws, to all Directors. Each of Mr. Cai Dong, Mr. Wang Shanpo, Mr. Liu Wei, Mr. Liu Peimin, Mr. Dai Lixin, Mr. Sun Chenglong, Mr. Richard von Braunschweig, Mr. Andreas Hermann Renschler, Mr. Joachim Gerhard Drees, Mr. Jiang Kui, Ms. Annette Danielski, Dr. Lin Zhijun, Mr. Yang Weicheng, Dr. Wang Dengfeng, Mr. Zhao Hang, Mr. Liang Qing and Mr. Lyu Shousheng has confirmed in writing he/she had participated in continuous professional developments to develop and refresh their knowledge and skills as directors during the Period by way of reading the above training materials. In addition, each of Mr. Sun Chenglong, Ms. Annette Danielski, Mr. Lyu Shousheng and Mr. Richard von Braunschweig had attended a training on director's responsibilities provided by Sidley Austin in relation to his/her appointment as Director during the Period.

REMUNERATION AND BENEFITS FOR DIRECTORS AND SENIOR MANAGEMENT

For NEDs and INEDs, their remuneration paid to each of them is a director fee only. Apart from basic salaries, EDs are also entitled to year-end bonus and employee incentive scheme, which are depended on the market conditions, and performance of the Group and individual persons during the Period.

For the Period, the remuneration payable to members of senior management by band are follows:

	Emolument bands (in RMB)
500,000 or below	12
500,001 - 1,000,000	6
1,000,001 or above	1

Two Directors waived their remuneration.

ACCOUNTABILITY AND AUDITING

The Directors are responsible for preparing the financial statements for the financial year ended 31 December 2019 to reflect a true and fair view of the Company's and the Group's financial conditions and results and cash flows during the year.

In preparing the financial statements for the year ended 31 December 2019, the generally accepted accounting principles in Hong Kong, Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards are adopted, with consistent use of appropriate accounting policies, for making reasonable and prudent judgments and estimates. The financial statements for the year ended 31 December 2019 were prepared on a going concern basis.

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

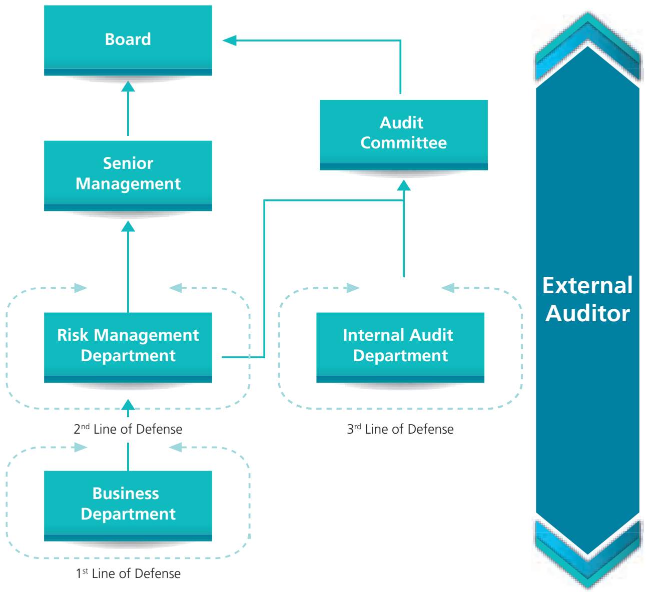
RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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



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

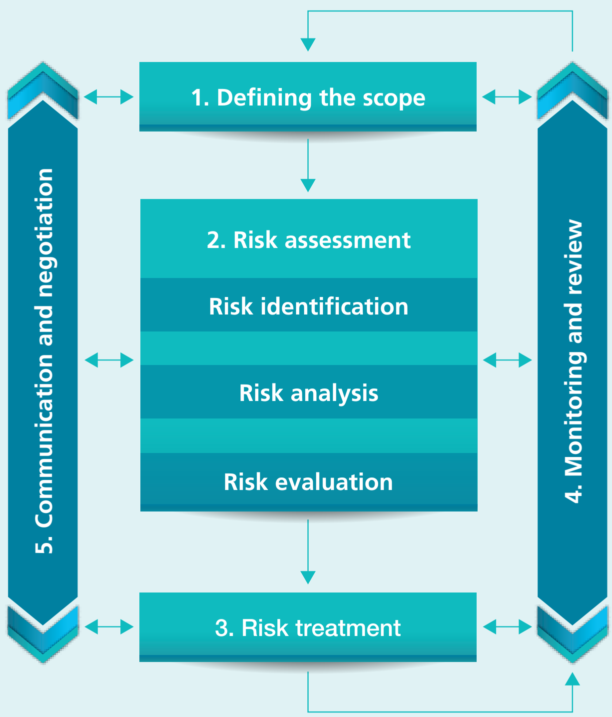
The internal audit department is responsible for assessing, reviewing the effectiveness of risk management processes and systems, assessing whether risk is properly assessed, assessing significant risk reporting, and reviewing significant risk management.

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

CORPORATE GOVERNANCE REPORT

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

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



1	Group risk management department establishes common risk terminology, risk definition, risk assessment criteria and risk classification.
2	Business units carry out internal and external information and risk areas collection to form risk information database, conduct risk assessment based on the standard and develop response action plans. Through the comprehensive evaluation of significant risks, pre-event, during the event and after-event plans and crisis management plans are formulated.
3	Business units, based on established procedures, carry out risk assessment and execute significant risk management programs and regularly report to the group risk management department about the progress.
4 and 5	Group risk management department monitors the risk management status of the business units and reports the relevant information to the Audit Committee on a regular basis. Group risk management department is responsible for negotiation and coordination of risk management tasks over different departments and business units, and reporting risk information. Group internal audit department reviews the effectiveness of risk management, and the assessment and management of significant risks.

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

In addition, Ji'nan Truck Company appointed PricewaterhouseCoopers Zhong Tian LLP ("PWC Zhong Tian") to express audit opinion on the effectiveness of internal controls in its financial reports. PWC Zhong Tian opined that Ji'nan Truck Company had maintained the effective internal controls in its financial reports in all material aspects under "Basic Standard for Enterprise Internal Control" and the relevant regulations as at 31 December 2019.

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

NON-COMPETITION UNDERTAKING

In order to protect the Group's interests, CNHTC entered into a non-competition undertaking (the "Non- competition Undertaking") with the Group in November 2007. The Board has received an annual confirmation from CNHTC for its compliance with the Non-competition Undertaking for the year ended 31 December 2019. After conducting the review, the Directors, including all INEDs, are of the view that the Non-competition Undertaking have been complied with by all parties.

REMUNERATION OF AUDITORS

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

	RMB'000
For financial audit services:	7,200
For other services:	
internal control audit of services for a subsidiary	500
taxation professional services	300
environment, social and governance report reporting services	214
Total fee for other services	1,014
Auditors' remuneration	8,214

COMPANY SECRETARIES

The company secretary of the Company ("Company Secretary"), Mr. Kwok Ka Yiu, has confirmed that he has attended not less than 15 hours of relevant professional training during the Period. His biographies are set out in the section headed "Directors and Senior Management" in this annual report.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS AND INVESTOR RELATIONS

COMMUNICATION POLICY

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

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

Sinotruk's website has been adopted as the designated company website for publication of the Company's announcements, notices and other corporate communications. As at 31 December 2019, about 9.6 per cent of registered Shareholders in Sinotruk's register of the members opted to receive corporate communications via print version.

SHAREHOLDING ANALYSIS

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

As at 31 December 2019, the major shareholders of the Company were CNHTC and FPFPS. CNHTC is a PRC state-owned commercial vehicles manufacturing enterprise and indirectly holds 51% of the entire issued capital of the Company. FPFPS indirectly holds 25% of the entire issued share capital of the Company plus one Share. The FPFPS Group, comprising Volkswagen Group, is one of the world's leading automobile manufacturers in commercial vehicles and passenger cars. Volkswagen Group comprises of twelve brands from seven European countries: Volkswagen Passenger Cars, Audi, SEAT, ŠKODA, Bentley, Bugatti, Lamborghini, Porsche, Ducati, Volkswagen Commercial Vehicles, Scania and MAN.

The Company's market capitalisation and shareholding distribution as at 31 December 2019 are set out in the section headed "Shareholder Information" of this annual report.

INVESTOR RELATIONS

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

CORPORATE GOVERNANCE REPORT

ANNUAL GENERAL MEETING

The Board and senior management are well aware of their important tasks of acting on behalf of the interests of all the Shareholders and raising the Shareholders' returns. The Board considers that AGM is an important opportunity for direct communication with the Shareholders. The 2019 AGM at which the external auditors attended was convened on 26 June 2019 at Regal Ballroom, Basement 1, Regal HongkongHotel, 88 Yee Wo Street, Causeway Bay, Hong Kong. Details of the voting particulars were disclosed in the Company's announcement dated 29 June 2019.

The Board encourages all the Shareholders to participate in the forthcoming 2020 AGM where the members of the Board and external auditors will be present and communicate with the Shareholders.

SHAREHOLDERS' RIGHTS

(1) Procedures for Shareholders to convene a general meeting

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

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

(3) Shareholders' enquiries to the Board

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

CONSTITUTIONAL DOCUMENTS

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

DISCLAIMER

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

REPORT OF THE DIRECTORS

The Directors are pleased to present their report and the audited financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL BUSINESS

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

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

OPERATING RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and consolidated statement of comprehensive income.

PROPOSED DIVIDENDS

The Board recommends to distribute to Shareholders whose names appear on the register of members of the Company on Wednesday, 8 July 2020 a final dividend of either HKD0.39 or RMB0.36 per Share (converted at the exchange rate of RMB0.91370 to HKD1 as published by PBOC on Tuesday, 31 March 2020) for the year ended 31 December 2019 (the "**2019 Final Dividend**") with a sum of approximately HKD1,076,787,000 or RMB993,958,000, which is subject to Shareholders' approval at the forthcoming 2020 AGM.

The Company has been determined as a Chinese-resident enterprise. Pursuant to the "Enterprise Income Tax Law of the PRC"《中華人民共和國企業所得稅法》and the "Detailed Rules for the Implementation of the Enterprise Income Tax Law of the PRC"《中華人民共和國企業所得稅法實施條例》, a Chinese-controlled offshore incorporated enterprise shall withhold and pay enterprise income tax for its non-PRC resident enterprise shareholders. As the withholding and payment obligation lies with the Company, the Company will withhold and pay enterprise income tax for its non-PRC resident enterprise shareholders to whom the Company pays the 2019 Final Dividend.

In respect of all the Shareholders whose names are not registered as natural persons (including HKSCC Nominees Limited, corporate nominees or trustees such as securities companies and banks, and other entities or organisations, which are all considered as non-PRC resident enterprise shareholders), the Company will distribute the 2019 Final Dividend after deducting an enterprise income tax of 10% or other appropriate rates.

The Company will not withhold and pay the income tax in respect of the 2019 Final Dividend payable to PRC resident enterprise shareholders, exempted entities or any natural person shareholders.

PRINCIPAL PROPERTIES

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

REPORT OF THE DIRECTORS

SHARE ISSUED DURING THE PERIOD

There were no issue of shares during the Period. Details of the movements in the equity of the Company during the Period are set out in the consolidated statement of changes in equity and Note 40 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's distributable reserves as at 31 December 2019, calculated under Part 6 of the Companies Ordinance, were approximately RMB2,327,924,000 (2018: RMB1,578,977,000).

CHARITABLE DONATIONS

The Group's total charitable and other donations for the Period amounted to approximately RMB40,000 (2018: RMB298,000).

BORROWINGS

Details of the Group's borrowings as at 31 December 2019 are set out in Note 28 to the consolidated financial statements.

FIVE YEARS FINANCIAL SUMMARY

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

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

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

SHARE OPTIONS

The Company did not have share option scheme as at 31 December 2019.

DIRECTORS

During the Period and as at the date of this report, the Directors were as follows:

EXECUTIVE DIRECTORS:

Mr. Cai Dong *(Chairman and President)*
Mr. Liu Wei
Mr. Liu Peimin
Mr. Dai Lixin
Mr. Richard von Braunschweig (appointed on 30 November 2019)
Mr. Liu Zhengtao (appointed on 9 March 2020)
Ms. Qu Hongkun (appointed on 9 March 2020)

NON-EXECUTIVE DIRECTORS:

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

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Dr. Lin Zhijun
Mr. Yang Weicheng
Dr. Wang Dengfeng
Mr. Zhao Hang
Mr. Liang Qing
Mr Lyu Shousheng (appointed on 16 May 2019)

RESIGNED DIRECTORS:

Ms. Wan Chunling (resigned on 29 January 2019)
Mr. Chen Zheng (resigned on 15 May 2019)
Mr. Jörg Mommertz (resigned on 30 November 2019)
Mr. Wang Shanpo (resigned on 9 March 2020)
Mr. Sun Chenglong (appointed on 29 January 2019 and resigned on 9 March 2020)

REPORT OF THE DIRECTORS

Each of Ms. Wan Chunling, Mr. Chen Zheng, Mr. Jörg Mommertz, Mr. Wang Shanpo and Mr. Sun Chenglong has confirmed that she/he has no disagreement with the Board and nothing relating to the affairs of the Company needed to be brought to the attention of the Shareholders.

Pursuant to article 82 of the Articles, Mr. Richard von Braunschweig, Mr. Liu Zhengtao and Ms. Qu Hongkun will be retired at the forthcoming annual general meeting and, being eligible, will be available for re-election as Director. Pursuant to article 83 (1) of the Articles, Mr. Liu Wei, Mr. Yang Weicheng and Mr. Liang Qing will be retired at the forthcoming annual general meeting and, being eligible, will be available for re-election as Directors.

DIRECTORS OF THE COMPANY'S SUBSIDIARIES

During the Period and up to the date of this report, Mr. Cai Dong, Mr. Liu Wei, Mr. Liu Peimin, Mr. Dai Lixin, Mr. Jiang Kui and, former EDs, Mr. Wang Shanpo, Mr. Sun Chenglong and Ms. Wan Chunling are also directors in certain subsidiaries of the Company.

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

PERMITTED INDEMNITY

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS AND COMPETING BUSINESS

During the Period, Mr. Cai Dong is the general manager of CNHTC; Ms. Wan Chunling is the chief accountant and a director of CNHTC; Mr. Dai Lixin is the investment director of CNHTC; Mr. Jiang Kui is a non-executive director of Weichai Power; Mr. Andreas Hermann Renschler is a member of the board of management of Volkswagen AG, responsible for the brand group "Truck & Bus", chief executive officer of TRATON SE and a member of the board of directors of the Navistar International Corporation; Mr. Joachim Gerhard Drees is the chief executive officer and a member of the executive board of MAN Truck & Bus SE, a member of the executive board of TRATON SE, the chief executive officer and chairman of executive board of MAN SE; Ms. Annette Danielski is the head of group finance within TRATON SE; Mr. Richard von Braunschweig is the head of cooperations, M&A in MAN Truck & Bus SE and Mr. Jörg Mommertz was the chairman and managing director of MAN Trucks India. Volkswagen AG, TRATON SE, MAN SE, MAN Truck & Bus SE, and MAN Trucks India are non-wholly owned subsidiaries of FPFPS. The FPFPS Group held 16.8% of the issued share capital of Navistar International Corporation.

REPORT OF THE DIRECTORS

Save for transactions amongst group members, between the Group and the CNHTC Group and between the Group and the FPFPS Group as disclosed in section headed "connected transactions" below in the report of the Directors and in the related party transactions in note 39 to the consolidated financial statements, no other transactions, arrangements and contracts of significance to which the Company, any of its subsidiaries, fellow subsidiaries or its parent companies was a party and in which a Director and the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

The manufacture and sales of trucks and/or bus activities of the CNHTC Group, Weichai Power, Volkswagen AG, TRATON SE, MAN SE, MAN Truck & Bus SE, MAN Trucks India and Navistar International Corporation constitute competing businesses to the Group.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company as at the date of this report are set out on pages 36 to 44.

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

As at 31 December 2019, none of the Directors and chief executives of the Company or their associates (as defined in the Listing Rules) had interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

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

As at 31 December 2019, other than the interests of the Directors and chief executives of the Company as disclosed above, the Company has been notified of the following interests in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO:

A) THE COMPANY

Long position

Name of Shareholder	Capacity in which interests are held	Note	Number of Shares held	Approximate percentage of shareholding
SHIG	Interest in controlled corporation	(a)	1,408,106,603	51%
CNHTC	Interest in controlled corporation	(b)	1,408,106,603	51%
Sinotruk (BVI) Limited	Beneficial owner		1,408,106,603	51%
FPFPS	Interest in controlled corporation	(c)	690,248,336	25%
Ferdinand Porsche Familien-Holding GmbH	Interest in controlled corporation	(d)	690,248,336	25%
Ferdinand Alexander Porsche GmbH	Interest in controlled corporation	(e)	690,248,336	25%
Familie Porsche Beteiligung GmbH	Interest in controlled corporation	(f), (l)	690,248,336	25%
Porsche Automobil Holding SE	Interest in controlled corporation	(g), (m)	690,248,336	25%
Volkswagen AG	Interest in controlled corporation	(h)	690,248,336	25%
Volkswagen Finance Luxemburg S.A.	Interest in controlled corporation	(i)	690,248,336	25%
TRATON SE	Interest in controlled corporation	(j)	690,248,336	25%
MAN SE	Interest in controlled corporation	(k)	690,248,336	25%
MAN Finance and Holding S.A.	Beneficial owner		690,248,336	25%

REPORT OF THE DIRECTORS

Notes:

(a) For the purpose of Part XV of the SFO, SHIG has interest in a total of 65% of the voting right in CNHTC, and therefore, is deemed to have interest in all the Shares held (or deemed to be held) by CNHTC under the SFO.

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

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

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

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

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

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

(h) Volkswagen AG holds 100% interest in Volkswagen Finance Luxemburg S.A. Volkswagen AG is deemed to have interest in all the Shares held (or deemed to be held) by Volkswagen Finance Luxemburg S.A. under the SFO.

(i) Volkswagen Finance Luxemburg S.A. holds 89.72% voting interest in TRATON SE. Volkswagen Finance Luxemburg S.A. is deemed to have interest in all the Shares held (or deemed to be held) by TRATON SE under the SFO.

(j) TRATON SE holds 94.68% voting interest in MAN SE. TRATON SE is deemed to have interest in all the Shares held (or deemed to be held) by MAN SE under the SFO.

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

(l) Notwithstanding the information recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO, the Company has been informed that, as at 31 December 2019, Famille Porsche Beteiligung GmbH held a 27.73% interest in the capital of Porsche Automobil Holding SE and had a voting interest of 55.46% in this entity.

(m) Notwithstanding the information recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO, the Company has been informed that, as at 31 December 2019, Porsche Automobil Holding SE held a 31.10% interest in the capital of Volkswagen AG and had a voting interest of 53.10% in this entity.

B) MEMBERS OF THE GROUP

Long position

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

Save as disclosed above, as at 31 December 2019, no other persons had any interests or short positions in the shares or underlying shares of the Company recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO or who were directly or indirectly interested in 5% or more of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

Sales

– the largest customer	2.13%
– the five largest customers	8.02%

Purchases

– the largest supplier	2.02%
– the five largest suppliers	9.80%

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

REPORT OF THE DIRECTORS

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

CONNECTED TRANSACTIONS

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

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

1) The Equity Transfer Agreement

Date of agreement	:	27 March 2019
Parties	:	CNHTC (seller) Ji'nan Power Company (purchaser)
Objective and consideration	:	Due to adjustments to the Group's business strategy, in order to diversify the Group's product line, as well as to survive against cyclical volatility of the industry, Ji'nan Power Company agreed to purchase 100% equity interest in 中國重汽集團濟南豪沃客車有限公司 (Sinotruk Ji'nan HOWO Bus Co., Ltd.) at the final consideration (after adjustments pursuant to the Equity Transfer Agreement) of approximately RMB307 million in cash.

Details of the transactions contemplated under the Equity Transfer Agreement were disclosed in the Company's announcement dated 27 March 2019. The acquisition was completed in April 2019.

2) The Capital Contribution Agreement

Date of agreement	:	24 December 2019
Parties	:	UZAVTOSANOAT (independent third party) MAN Truck & Bus SE (a non-wholly owned subsidiary of FPFPS) Sinotruk (Hong Kong) International Investment Limited (a wholly owned subsidiary of the Company)
Objective and consideration	:	In order to establish and develop production of trucks and buses of the Group in Uzbekistan for sales in the territory of the Republic of Uzbekistan and other countries, directly participate in the local production and development of trucks and buses business in the Belt and Road Initiative region, promote vehicles export business to Central Asia countries, provide comprehensive and efficient after-sales services, and help reduce the possible taxation burden on the Group in Uzbekistan, Sinotruk (Hong Kong) International Investment Limited acquired 32.89% equity interest in UZ Truck and Bus Motors LLC at the consideration of Euro10,780,000

Details of the transactions contemplated under the Capital Contribution Agreement were disclosed in the Company's announcement dated 24 December 2019. The capital contribution was completed in December 2019.

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

1) 2021 General Services Agreement

Date of agreement	:	26 March 2018
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) the Company (for itself and on behalf of its subsidiaries)
Term	:	three years from 1 January 2019 to 31 December 2021
Objective	:	the CNHTC Group has agreed to provide services such as property management, transportation, staff training, medical services and products testing and improvement services, etc. to the Group
Consideration	:	the consideration was determined on the basis of: (a) government guidance price; (b) market price; or (c) if there is no market price, the cost with a reasonable margin
Annual cap for the year ended 31 December 2019	:	RMB126,000,000
Actual consideration for the year ended 31 December 2019	:	RMB77,308,192

Details of the transactions contemplated under the 2021 General Services Agreement were disclosed in the Company's announcement dated 26 March 2018.

REPORT OF THE DIRECTORS

2) 2021 Property Leasing In Agreement

Date of agreement	:	26 March 2018
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) the Company (for itself and on behalf of its subsidiaries)
Term	:	three years from 1 January 2019 to 31 December 2021
Objective	:	the CNHTC Group has agreed to provide leasing services to the Group including lease of land, office buildings and factory premises
Consideration	:	the consideration was determined on the basis of the market price approach
Annual cap for the year ended 31 December 2019	:	RMB40,000,000
Actual consideration for the year ended 31 December 2019	:	RMB31,013,335

Details of the transactions contemplated under the 2021 Property Leasing In Agreement were disclosed in the Company's announcement dated 26 March 2018.

3) 2021 Property Rent Out Agreement

Date of agreement	:	26 March 2018
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) the Company (for itself and on behalf of its subsidiaries)
Term	:	three years from 1 January 2019 to 31 December 2021
Objective	:	the Group has agreed to provide leasing services to the CNHTC Group including lease of land, office buildings and factory premises
Consideration	:	the consideration was determined on the basis of the market price approach
Annual cap for the year ended 31 December 2019	:	RMB33,000,000
Actual consideration for the year ended 31 December 2019	:	RMB15,001,581

Details of the transactions contemplated under the 2021 Property Rent Out Agreement were disclosed in the Company's announcement dated 26 March 2018.

4) 2021 Construction and Project Management Services Agreement

Date of agreement	:	26 March 2018
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) the Company (for itself and on behalf of its subsidiaries)
Term	:	three years from 1 January 2019 to 31 December 2021
Objective	:	the CNHTC Group has agreed to provide construction and project management services to the Group
Consideration	:	the consideration was determined on the basis of: (a) the price stipulated or guidance price by the PRC government; (b) market price
Annual cap for the year ended 31 December 2019	:	RMB397,000,000
Actual consideration for the year ended 31 December 2019	:	RMB47,366,235

Details of the transactions contemplated under the 2021 Construction and Project Management Services Agreement were disclosed in the Company's announcement dated 26 March 2018.

REPORT OF THE DIRECTORS

5) 2021 Technology Development Service Agreement

Date of agreement	:	26 March 2018
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) the Company (for itself and on behalf of its subsidiaries)
Term	:	three years from 1 January 2019 to 31 December 2021
Objective	:	the CNHTC Group agreed to provide technology development services for the production and operation of gearbox including but not limited to providing new technology, production procedures and supply new products and materials in relation to gearbox technologies to the Group
Consideration	:	the consideration was determined on the basis of a cost plus profit margin approach with margin between 5% and 25%
Annual cap for the year ended 31 December 2019	:	RMB27,000,000
Actual consideration for the year ended 31 December 2019	:	RMB24,528,302

Details of the transactions contemplated under the 2021 Technology Development Service Agreement were disclosed in the Company's announcement dated 26 March 2018.

REPORT OF THE DIRECTORS

6) 2021 Technology Support and Services Agreement

Date of agreement	:	26 March 2018
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) the Company (for itself and on behalf of its subsidiaries)
Term	:	three years from 1 January 2019 to 31 December 2021
Objective	:	the Group has agreed to provide the CNHTC Group the technology support and services such as technology research and development, technology consultancy and support services
Consideration	:	the consideration was determined on the bases of: (a) guidance price; (b) a cost plus profit margin approach with margin between 5% to 25%
Annual cap for the year ended 31 December 2019	:	RMB50,000,000
Actual consideration for the year ended 31 December 2019	:	RMB6,739,292

Details of the transactions contemplated under the 2021 Technology Support and Services Agreement were disclosed in the Company's announcement dated 26 March 2018.

REPORT OF THE DIRECTORS

7) 2021 CNHTC Guarantee Agreement

Date of agreement	:	26 March 2018
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) (as grantor of the credit guarantee) the Company (for itself and on behalf of its subsidiaries) (as beneficiary of the credit guarantee)
Term	:	three years from 1 January 2019 to 31 December 2021
Objective	:	members of the CNHTC Group agreed to provide credit guarantee to the Group in respect of the payment obligations of loans to customers of the CNHTC Group
Consideration	:	Nil
Annual cap for the year ended 31 December 2019	:	maximum day-end guarantee balance: RMB250,000,000
Actual consideration for the year ended 31 December 2019	:	maximum day-end guarantee balance: RMB120,836,671

Details of the transactions contemplated under the 2021 CNHTC Guarantee Agreement were disclosed in the Company's announcement dated 26 March 2018.

REPORT OF THE DIRECTORS

8) 2020 MTB Parts Sales Agreement

Date of agreement	:	7 December 2017
Parties	:	MAN Truck & Bus AG (for itself and on behalf of its subsidiaries ("MTB Group")), a non-wholly owned subsidiary of FPFPS the Company (for itself and a behalf of its subsidiaries)
Term	:	three years from 1 January 2018 to 31 December 2020
Objective	:	the Group has agreed to supply raw materials, auxiliary materials, parts and spare parts, semi-finished products and moulds for the production of these spare parts, etc. to the MTB Group
Consideration	:	the consideration was determined on the bases of: (a) off-the-shelf products: market price approach (b) unique and proprietary products: a cost plus profit margin approach with margin between 5% to 25%
Annual cap for the year ended 31 December 2019	:	RMB489,000,000
Actual consideration for the year ended 31 December 2019	:	RMB14,891,172

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

REPORT OF THE DIRECTORS

9) 2021 Deposits Taking Services Agreement

Date of agreement	:	26 March 2018
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) the Company (for itself and on behalf of its subsidiaries)
Term	:	three years from 1 January 2019 to 31 December 2021
Objective	:	the eligible members of the Group provides the deposits taking services to the CNHTC Group
Consideration	:	the consideration was determined on the basis of the market price approach
Annual cap for the year ended 31 December 2019	:	(i) maximum day end balance: RMB1,800,000,000 and (ii) interest expenses: RMB50,000,000
Actual consideration for the year ended 31 December 2019	:	(i) maximum day end balance: RMB1,017,938,863 and (ii) interest expenses: RMB8,129,446

Details of the transactions contemplated under 2021 Deposits Taking Services Agreement were disclosed in the Company's announcement dated 26 March 2018.

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

1) 2021 Products Sales Agreement

Date of agreement	:	26 March 2018
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) the Company (for itself and on behalf of its subsidiaries)
Term	:	three years from 1 January 2019 to 31 December 2021
Objective	:	the Group has agreed to supply products including trucks, chassis and semi-tractor trucks to the CNHTC Group
Consideration	:	the consideration was determined on the basis of the market price approach with reference to same price list to the CNHTC Group and independent third parties
Annual cap for the year ended 31 December 2019	:	RMB991,000,000
Actual consideration for the year ended 31 December 2019	:	RMB247,875,663

Details of the transactions contemplated under the 2021 Products Sales Agreement were disclosed in the Company's announcement dated 26 March 2018 and the Company's circular dated 9 May 2018.

2) 2021 Products Purchase Agreement

Date of agreement	:	26 March 2018
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) the Company (for itself and on behalf of its subsidiaries)
Term	:	three years from 1 January 2019 to 31 December 2021
Objective	:	the CNHTC Group has agreed to sell products including refitted trucks to the Group
Consideration	:	the consideration was determined on the basis of: (a) refitted products: market price approach or, at the case may be, prices mutually agreed between the Group's customers and the CNHTC Group (b) products only available from the CNHTC Group: prices as quoted in the price lists of the CNHTC Group for all its customers
Annual cap for the year ended 31 December 2019	:	RMB3,147,000,000
Actual consideration for the year ended 31 December 2019	:	RMB2,515,357,557

Details of the transactions contemplated under the 2021 Products Purchase Agreement were disclosed in the Company's announcement dated 26 March 2018 and the Company's circular dated 9 May 2018.

REPORT OF THE DIRECTORS

3) 2021 Parts Sales Agreement

Date of agreement	:	26 March 2018
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) the Company (for itself and on behalf of its subsidiaries)
Term	:	three years from 1 January 2019 to 31 December 2021
Objective	:	the Group has agreed to supply raw materials, parts and components and semi-finished products to the CNHTC Group
Consideration	:	the consideration was determined on the basis of the market price approach with reference to the same price list both to independent third parties and the CNHTC Group
Annual cap for the year ended 31 December 2019	:	RMB1,135,000,000
Actual consideration for the year ended 31 December 2019	:	RMB605,078,242

Details of the transactions contemplated under the 2021 Parts Sales Agreement were disclosed in the Company's announcement dated 26 March 2018 and the Company's circular dated 9 May 2018.

4) 2021 Parts Purchase Agreement

Date of agreement	:	26 March 2018
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) the Company (for itself and on behalf of its subsidiaries)
Term	:	three years from 1 January 2019 to 31 December 2021
Objective	:	the CNHTC Group has agreed to supply raw materials, parts and components and semi-finished products to the Group
Consideration	:	the consideration was determined on the basis of the market price approach with reference to the prices as quoted in the price lists of the CNHTC Group for all its customers including the Group
Annual cap for the year ended 31 December 2019	:	RMB1,819,000,000
Actual consideration for the year ended 31 December 2019	:	RMB1,261,712,122

Details of the transactions contemplated under the 2021 Parts Purchase Agreement were disclosed in the Company's announcement dated 26 March 2018 and the Company's circular dated 9 May 2018.

REPORT OF THE DIRECTORS

5) 2021 Financial Services Agreement

Date of agreement	:	26 March 2018
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) the Company (for itself and on behalf of its subsidiaries)
Term	:	three years from 1 January 2019 to 31 December 2021
Objective	:	the Group will provide a wide range of financial services to the CNHTC Group
Consideration	:	(a) bills discounting services, (b) unsecured loan services, (c) issue of bills and (d) entrustment loan arrangements: market price approach
Annual cap for the year ended 31 December 2019	:	(a) bills discounting services: (i) maximum day end balance: RMB200,000,000 and (ii) interest income: RMB9,600,000 (b) unsecured loan services: (i) maximum day end balance: RMB1,000,000,000 and (ii) interest income: RMB47,900,000 (c) issue of bills: (i) maximun day and balance: RMB300,000,000, (ii) fee income: RMB300,000, and (iii) interest expense for surety: RMB2,500,000 (d) entrustment loan arrangements' fee income: RMB1,600,000
Actual consideration for the year ended 31 December 2019	:	(a) bills discounting services: (i) maximum day end balance: Nil and (ii) interest income: Nil (b) unsecured loan services: (i) maximum day end balance: RMB700,000,000 and (ii) interest income: RMB6,725,059 (c) issue of bills: (i) maximun day and balance: Nil, (ii) fee income: Nil and (iii) interest expense for surety: Nil (d) entrustment loan arrangements' fee income: RMB85,830

Details of the transactions contemplated under the 2021 Financial Services Agreement were disclosed in the Company's announcements dated 26 March 2018 and 3 April 2018, and the Company's circular dated 9 May 2018.

Reference is made to the announcement of the Company dated 16 December 2019 in respect of possible continuing connected transactions. Since SHIG was not the controlling shareholder (as defined in the Listing Rules) of the Company during the Period, 濰柴控股集團有限公司 (Weichai Group Holdings Limited) and its subsidiaries ("**Weichai Holdings Group**") were not connected parties of the Company. Accordingly, the transactions between the Group and Weichai Holdings Group during the Period were not connected transactions. In order to determine the Parts Sales Price List under 2020 Parts For Sale Agreement (as both defined in the above mentioned announcement), the Group will obtain one to two comparable transactions from its competitors for similar products. As long as the highest selling price of the transactions among the aforementioned samples taken is higher than the cost of the relevant Parts for Sales, the Group will then compile the Parts Sales Price List based on such highest selling price of the transactions. In addition, the Group would review and update the Parts Sales Price List on an annual basis or when there is a material changes in the market conditions.

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

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

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

ii. on normal commercial terms or better; and

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

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

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

i. have not been approved by the Board;

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

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

iv. have exceeded the relevant annual caps.

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

RELATED PARTY TRANSACTIONS

The related party transactions are set out in Note 39 to the consolidated financial statements. Apart from the connected transactions disclosed above, the other related party transactions as disclosed in Notes 39(a)(i), (ii) and (vii) fall under the scope of connected transactions under Chapter 14A of the Listing Rules but are exempt from reporting, annual review, announcement or independent shareholders' approval requirements and, therefore, have complied with the requirements of Chapter 14A of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The 2019 Environmental, Social and Governance Report of the Company will be disclosed separately at the websites of the Company and the Stock Exchange.

AUDITORS

The consolidated financial statements have been audited by PricewaterhouseCoopers who will retire at the forthcoming AGM of the Company.

REPORT OF THE DIRECTORS

SUBSEQUENT EVENTS

1. PROPOSED CHANGE OF AUDITORS

On 31 March 2020, with the recommendation from the Audit Committee, the Board has resolved to propose the appointment of Deloitte Touche Tohmatsu as the new auditors of the Company following the retirement of PricewaterhouseCoopers, subject to the passing of an ordinary resolution of the Shareholders at the forthcoming AGM, with effect from the conclusion of the AGM to hold the office as auditors until the conclusion of the next AGM of the Company.

For more details of the proposed change of auditors, please refer to the announcement of the Company dated 31 March 2020.

2. ACQUISITION OF THE ENTIRE INTEREST IN DATONG GEAR

On 31 March 2020, Ji'nan Power Company entered into an equity transfer agreement with CNHTC and Datong Gear, pursuant to which Ji'nan Power Company has agreed to acquire, and CNHTC has agreed to sell, the entire equity interest in Datong Gear at the consideration of RMB1,392,708,300. The said acquisition will be completed in April 2020.

For more details, please refer to the announcement of the Company dated 31 March 2020.

By Order of the Board
Cai Dong
Chairman and President

Ji'nan, PRC, 31 March 2020

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

OPINION

WHAT WE HAVE AUDITED

The consolidated financial statements of Sinotruk (Hong Kong) Limited (the "Company") and its subsidiaries (the "Group") set out on pages 90 to 211, which comprise:

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

OUR OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

BASIS FOR OPINION (CONTINUED)

INDEPENDENCE

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

KEY AUDIT MATTERS

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

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

- Recoverability of Accounts Receivable
- Warranty Provisions

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of Accounts Receivable Refer to Note 2.2(m) (Summary of significant accounting policies), Note 4.1(d) (Critical accounting estimates and assumptions) and Note 23 (Receivables and other assets) of the consolidated financial statements. At 31 December 2019, the Group held accounts receivable from third party customers amounted to RMB10,411 million, against which a provision of RMB1,997 million was set aside.	We understood and validated management's controls to assess, review and determine the impairment of receivables, including controls over identification of objective evidence of impairment and calculations of the impairment provisions. For receivable balances with objective evidence of impairment that the Group may not recover the receivable balance entirely, we performed the following procedures: We discussed with the management and understood the method and basis on evaluating the customers' operating and financial performance.

pwc

羅兵咸永道

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of Accounts Receivable (Continued)	
The Group, applying the HKFRS 9 simplified approach to measure a lifetime expected credit losses, made the estimation based on a number of variable factors and assumptions including: the operating and financial performance of the customers, the past collection history of customers, the amounts and time the Group expected to collect the receivables, discounted rate of future cash flows, groupings based on credit risk characteristics and taking into consideration of the historical loss experience and forward-looking macroeconomic factors. We focused on this area due to the magnitude of accounts receivable balances and the significance of management judgements applied in determining the provision for impairment of such balances.	We validated the related supporting evidence used by the management for evaluating the customers' operating and financial performance on sample basis, including: • We searched the background and operating and financial performance of customers through public enterprise credit information, and compared with the information the management recorded; • We reviewed management's correspondence and communication records with customers; and • For customers the Group started legal proceedings with, we sent confirmation to the Group's external lawyer to evaluate the background and the status of the legal proceedings. We understood and tested the basis, assumptions and evidence used for evaluating the expected future cash flow on sample basis, including: testing the consistency of key assumptions with the sales contract terms and financial records, comparing with the information obtained from the above procedures, and testing the accuracy of the calculation of expected future cash flows. We understood the discounted rate of future cash flows and evaluated the reasonableness after considering customers' specific credit risk.

INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of Accounts Receivable (Continued)	For receivable balances without objective evidence of impairment and grouped based on their credit risk characteristics, we performed following procedures: We understood the standards for determining different groupings based on their credit risk characteristics, and tested the accuracy and completeness of the groupings on sample basis, including searching the background and operating and financial performance of customers through public enterprise credit information, checking the consistency of credit terms in sales contract with management's records. We checked the accuracy of aging analysis of accounts receivable on sample basis. We assessed the appropriateness of the Group's grouping and provision percentage, and the accuracy of the calculation of estimating collective provisions by considering and testing the historical bad debts amounts and pattern, taking into consideration of factors such as customers' credit and market condition and disclosed public information of companies of same type. Understand and assess management's considerations on forward-looking macroeconomic factors. Based on the procedures performed, we considered management's judgments in assessing the recoverability of accounts receivable were supported by the evidence we obtained.

INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
The Recognition of Warranty Provisions Refer to Note 4.1(b) (Critical accounting estimates and assumptions), Note 6 (Expenses by nature) and Note 32 (Provisions for other liabilities) of the consolidated financial statements. As at 31 December 2019, the Group had warranty provisions amounted to RMB1,197 million. The provisions for product warranties granted by the Group to customers are recognised based on estimated costs of warranty claims on products sold. The estimation of the warranty provisions includes a number of variable factors and assumptions including: the time of the expected repair occurred, future labour costs and parts costs. We focused on this area because of inherent level of management judgement required in calculating the amount of provisions needed as a result of the complex and subjective elements around these variable factors and assumptions.	We understood, evaluated and tested the design and operating effectiveness of the Group's controls over the estimation of the provisions for the warranty costs. We compared the current year actual claims results with the year 2019 figures included in the prior year forecast to consider whether there is a bias in the management's estimation. Through testing the after sales service system on sample basis, we tested the completeness and accuracy of the historical claims input data. We tested management's warranty provision model, including: • We checked the sales contracts on sample basis to evaluate whether the key assumptions in the warranty provision model is in accordance with the contract terms; • We checked the Group's sales quantity and amounts of this year, and compared with related financial information and other supporting evidence; • In particular, we challenged the management's assumptions for the time of future warranty claims by comparing historical information of products sold and actual claims results with recent market trends to assess whether past information might differ from future actual claims; • We evaluated the management's assumptions on future labour and parts costs by comparing the trend of historical labour and parts costs, and taking into consideration of the latest market conditions;

INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

KEY AUDIT MATTERS (CONTINUED)

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

OTHER INFORMATION

The directors of the Company are responsible for the other information. 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.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

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

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

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

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

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

As part of an audit in accordance with HKSAs, we exercise professional judgment 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.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

The engagement partner on the audit resulting in this independent auditor's report is Dou Wang, Angel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

	Note	2019	2018 Restated
Revenue	5	**62,226,708**	62,727,504
Cost of sales	6	**(50,380,101)**	(51,403,463)
Gross profit		**11,846,607**	11,324,041
Distribution costs	6	**(3,399,708)**	(3,060,792)
Administrative expenses	6	**(3,406,475)**	(2,929,019)
Net impairment losses on financial assets	3.1(c)	**(831,817)**	(309,475)
Other gains – net	7	**630,510**	699,099
Operating profit		**4,839,117**	5,723,854
Finance income	9	**45,225**	92,979
Finance costs	9	**(141,294)**	(160,757)
Finance costs – net	9	**(96,069)**	(67,778)
Share of profits less losses of investments accounted for using the equity method	11	**61,465**	70,351
Dilution gain on investment in an associate	11	**—**	6,283
Profit before income tax		**4,804,513**	5,732,710
Income tax expense	12	**(1,028,846)**	(1,005,719)
Profit for the year		**3,775,667**	4,726,991
Profit attributable to:			
– Owners of the Company		**3,333,794**	4,345,891
– Non-controlling interests		**441,873**	381,100
		3,775,667	4,726,991
Earnings per share for profit attributable to owners of the Company for the year (expressed in RMB per share)			
– basic and diluted	13	**1.21**	1.57

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

	Note	2019	2018 Restated
Profit for the year		**3,775,667**	4,726,991
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of post-employment benefit obligations		**420**	122
Items that may be reclassified to profit or loss			
Share of other comprehensive income of investments accounted for using the equity method	11	**2,903**	6,151
Other comprehensive income realised due to step acquisition as a subsidiary		**(7,281)**	—
Currency translation differences		**(3,370)**	(5,089)
Other comprehensive (loss)/profit for the year, net of tax		**(7,328)**	1,184
Total comprehensive income for the year		**3,768,339**	4,728,175
Attributable to:			
– Owners of the Company		**3,326,468**	4,690,014
– Non-controlling interests		**441,871**	38,161
Total comprehensive income for the year		**3,768,339**	4,728,175

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

	Note	31 December 2019	31 December 2018 Restated
ASSETS			
Non-current assets			
Land use rights	14	—	1,611,631
Right-of-use assets	17	1,629,136	—
Property, plant and equipment	15	9,905,639	10,451,415
Investment properties	16	797,168	712,797
Intangible assets	18	278,587	325,163
Goodwill		17,478	3,868
Deferred income tax assets	29	1,675,933	1,490,079
Investments accounted for using the equity method	11	496,521	534,148
Financial assets at fair value through other comprehensive income	20	33,125	37,925
Financial assets at fair value through profit or loss	22	—	173,688
Receivables and other assets	23	2,907,073	2,300,620
		17,740,660	17,641,334
Current assets			
Inventories	24	9,720,820	11,600,047
Receivables and other assets	23	16,050,575	15,023,133
Financial assets at amortised cost	21	9,711	33,990
Financial assets at fair value through other comprehensive income	20	2,251,792	2,530,235
Financial assets at fair value through profit or loss	22	1,715,101	2,078,180
Amounts due from related parties	39(b)	270,601	370,972
Cash and bank balances	25	18,191,252	15,190,878
		48,209,852	46,827,435
Total assets		65,950,512	64,468,769
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	16,717,024	16,717,024
Other reserves		438,288	(60,683)
Retained earnings		10,105,758	8,832,204
		27,261,070	25,488,545
Non-controlling interests		3,166,801	2,852,307
Total equity		30,427,871	28,340,852

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

	Note	**31 December 2019**	31 December 2018 Restated
LIABILITIES			
Non-current liabilities			
Lease liabilities	17	**26,164**	—
Deferred income tax liabilities	29	**28,452**	41,056
Termination and post-employment benefit obligations	30	**6,892**	9,307
Deferred income	31	**285,959**	316,438
		347,467	366,801
Current liabilities			
Lease liabilities	17	**31,215**	—
Trade payables and other liabilities	27	**31,454,580**	29,194,413
Current income tax liabilities		**385,240**	284,642
Borrowings	28	**1,000,000**	3,000,000
Amounts due to related parties	39(b)	**1,084,640**	2,305,088
Provisions for other liabilities	32	**1,219,499**	976,973
		35,175,174	35,761,116
Total liabilities		**35,522,641**	36,127,917
Total equity and liabilities		**65,950,512**	64,468,769

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

The financial statements on pages 90 to 211 were approved by the Board of Directors on 31 March 2020 and were signed on its behalf.

Cai Dong
Director

Qu Hongkun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

		Restated										
		Attributable to owners of the Company									Non-controlling interests	Total equity
	Note	Share capital	Capital reserve	Revaluation reserve	Statutory reserves	Discretionary reserve	Merger reserve	Translation reserve	Retained earnings	Total		
Balance at 1 January 2018		16,717,024	(3,623,161)	41,249	1,707,360	104,294	1,144,582	21,700	6,572,413	22,685,461	2,669,557	25,355,018
Business combination between entities under common control		–		–	–	–	273,388	–	(212,623)	60,765	–	60,765
Restated balance at 1 January 2018		16,717,024	(3,623,161)	41,249	1,707,360	104,294	1,417,970	21,700	6,359,790	22,746,226	2,669,557	25,415,783
Profit for the year		–	–	–	–	–	–	–	4,345,891	4,345,891	381,100	4,726,991
Other comprehensive income												
Remeasurements of termination and post-employment benefit obligations		–	–	61	–	–	–	–	–	61	61	122
Share of other comprehensive income of investments accounted for using the equity method		–	–	–	–	–	–	6,151	–	6,151	–	6,151
Currency translation differences		–	–	–	–	–	–	(5,089)	–	(5,089)	–	(5,089)
Total other comprehensive income for the year		–	–	61	–	–	–	1,062	–	1,123	61	1,184
Transactions with owners in their capacity as owners												
Dividends of the Company relating to 2017		–	–	–	–	–	–	–	(1,614,554)	(1,614,554)	–	(1,614,554)
Dividends of subsidiaries distributed to non-controlling interests	33(c)	–	–	–	–	–	–	–	–	–	(181,759)	(181,759)
Changes in ownership interests in a subsidiary without change of control		–	9,859	–	–	–	–	–	–	9,859	(16,652)	(6,793)
Total transactions with owners in their capacity as owners		–	9,859	–	–	–	–	–	(1,614,554)	(1,604,695)	(198,411)	(1,803,106)
Appropriation to reserves		–	–	–	258,923	–	–	–	(258,923)	–	–	–
Balance at 31 December 2018		16,717,024	(3,613,302)	41,310	1,966,283	104,294	1,417,970	22,762	8,832,204	25,488,545	2,852,307	28,340,852

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

	Note	Attributable to owners of the Company									Non-controlling interests	Total equity
		Share capital	Capital reserve	Revaluation reserve	Statutory reserves	Discretionary reserve	Merger reserve	Translation reserve	Retained earnings	Total		
Balance at 31 December 2018		16,717,024	(3,613,302)	41,310	1,966,283	104,294	1,144,582	22,762	9,092,592	25,475,545	2,852,307	28,327,852
`Business combination between entities under common control		–		–	–	–	273,388	–	(260,388)	13,000	–	13,000
Balance at 1 January 2019 (Restated)		16,717,024	(3,613,302)	41,310	1,966,283	104,294	1,417,970	22,762	8,832,204	25,488,545	2,852,307	28,340,852
Profit for the year		–	–	–	–	–	–	–	3,333,794	3,333,794	441,873	3,775,667
Other comprehensive income												
Remeasurements of post-employment benefit obligations		–	–	422	–	–	–	–	–	422	(2)	420
Share of other comprehensive income of investments accounted for using the equity method		–	–	–	–	–	–	2,903	–	2,903	–	2,903
Share of other comprehensive income realized due to step acquistion as a subisdiary		–	–	–	–	–	–	(7,281)	–	(7,281)	–	(7,281)
Currency translation differences		–	–	–	–	–	–	(3,370)	–	(3,370)	–	(3,370)
Total other comprehensive loss for the year		–	–	422	–	–	–	(7,748)	–	(7,326)	(2)	(7,328)
Transactions with owners in their capacity as owners												
Dividends of the Company relating to 2018		–	–	–	–	–	–	–	(1,554,691)	(1,554,691)	–	(1,554,691)
Dividends of subsidiaries distributed to non-controlling interests	33(c)	–	–	–	–	–	–	–	–	–	(120,630)	(120,630)
Changes in ownership interests in a subsidiary without change of control		–	748	–	–	–	–	–	–	748	(6,747)	(5,999)
Total transactions with owners in their capacity as owners		–	748	–	–	–	–	–	(1,554,691)	(1,553,943)	(127,377)	(1,681,320)
Appropriation to reserves		–	–	–	505,549	–	–	–	(505,549)	–	–	–
Balance at 31 December 2019		16,717,024	(3,612,554)	41,732	2,471,832	104,294	1,417,970	15,014	10,105,758	27,261,070	3,166,801	30,427,871

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

	Note	2019	2018 Restated
Cash flows from operating activities			
Cash generated from operations	34(a)	9,982,791	5,220,038
Interest paid		(148,086)	(184,388)
Income tax paid		(1,200,226)	(1,042,668)
Net cash generated from operating activities		8,634,479	3,992,982
Cash flows from investing activities			
Inflow of cash to acquire a subsidiary	38	16,100	—
Purchase of property, plant and equipment		(785,863)	(1,370,389)
Proceeds from disposals of property, plant and equipment	34(b)	40,300	20,180
Proceeds from disposals of assets classified as held for sale		—	184,682
Purchase of intangible assets		(40,344)	(40,417)
Purchase of financial assets at amortised cost		—	(1,800,000)
Proceeds from disposal of financial assets at amortised cost		—	2,727,912
Purchase of financial assets at fair value through profit or loss		(34,250,000)	(9,894,906)
Proceeds from disposal of financial assets at fair value through profit or loss		34,973,773	11,026,153
Dividends income received from financial assets at fair value through profit or loss		521	1,354
Proceeds from disposal of financial assets at fair value through other comprehensive income		5,051	—
Dividends received from financial assets at fair value through other comprehensive income		—	2,250
Proceeds from disposal of investment properties		433	—
Proceeds from government grants		15,622	—
Interest received		50,623	88,066
Acquisition of an associate		(86,342)	(5,000)
Dividends received from an associate		21,825	22,723
Dividends received from a joint venture		9,506	8,741
Net cash (used in)/generated from investing activities		(28,795)	971,349

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

	Note	2019	2018 Restated
Cash flows from financing activities			
Proceeds from borrowings		653,892	5,150,000
Repayments of borrowings		(4,339,892)	(5,440,000)
Dividends paid to the owners of the Company		(1,554,691)	(1,614,554)
Dividends paid to non-controlling interests of subsidiaries		(120,630)	(182,555)
Principal elements of lease payments		(27,608)	—
Acquisition ownership interests in a subsidiary from minority shareholders		(12,792)	—
Purchase of a subsidary under common control		(306,612)	—
Net cash used in from financing activities		(5,708,333)	(2,087,109)
Net increase in cash and cash equivalents		2,897,351	2,877,222
Cash and cash equivalents at beginning of the year	25(b)	12,826,516	9,896,098
Exchange gains on cash and cash equivalents		28,254	53,196
Cash and cash equivalents at end of the year	25(b)	15,752,121	12,826,516

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

1. GENERAL INFORMATION

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

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

The financial information relating to the year ended 31 December 2018 that is included in consolidated statement of financial position ended 31 December 2019 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements and combined with the financial statements of Sinotruk Ji'nan HOWO Bus Co., Ltd. ("HOWO Bus") for the year ended 31 December 2018 under merger accounting (Note 2.1.3). Further information relating to these statutory financial statements required to be disclosed in accordance with Section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by Section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under Sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 BASIS OF PREPARATION

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

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

2.1.1 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies accordingly. None of which has significant financial impact to the Group except for HKFRS 16:

		Effective for annual periods beginning on or after
HKFRS 16	Leases	1 January 2019
HK (IFRIC) 23	Uncertainty over income tax treatments	1 January 2019
HKFRS 9 (Amendments)	Prepayment features with negative compensation	1 January 2019
HKAS 28 (Amendments)	Long-term interests in associates and joint venture	1 January 2019
HKAS 19 (Amendments)	Plan amendment, curtailment or settlement	1 January 2019
Annual Improvements to HKFRS Standards 2015-2017 Cycle	Annual improvements of HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23	1 January 2019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 BASIS OF PREPARATION (CONTINUED)

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

The Group changed its accounting policies as a result of adopting HKFRS 16 and the related impact is disclosed below. The other newly adopted standards or amendments listed above did not have material impact on these financial statements.

Leases

The Group has adopted HKFRS 16 Leases from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard. The reclassifications and the adjustments arising from the new leasing standard are therefore recognised in the opening statement of financial position on 1 January 2019. The new accounting policies are disclosed in Note 2.2(z).

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 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 1 January 2019 in each territory or region where the lease assets are located. The weighted average discount rate applied to the lease liabilities on 1 January 2019 was 4.13% per annum.

(1) Practical expedients applied

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

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend the lease.

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 HKAS 17 and HKFRIC 4 Determining whether an Arrangement contains a Lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 BASIS OF PREPARATION (CONTINUED)

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

Leases (Continued)

(2) Measurement of lease liabilities

Operating lease commitments disclosed as at 31 December 2018	17,148
Less:	
Short-term leases recognised on a straight-line basis as expense	(6,582)
	10,566
Discounted using the lessee's incremental borrowing rate at the date of initial application, lease liabilities recognised as at 1 January 2019	9,918
Add:	
Rental prepayments recognised as at 31 December 2018	63
Reclassification from land use rights	1,611,631
Right-of-use assets recognised as at 1 January 2019	1,621,612

(3) Measurement of right-of-use assets

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid rental expenses relating to that lease recognised in the consolidated statement of financial position as at 1 January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(4) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

- Right-of-use assets – increase by RMB1,621,612,000
- Prepayments – decrease by RMB63,000
- Land use rights - decrease by RMB1,611,631,000
- Lease liabilities (current portion) – increase by RMB5,038,000
- Lease liabilities (non-current portion) – increase by RMB4,880,000

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

(5) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 BASIS OF PREPARATION (CONTINUED)

2.1.2 New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. 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:

		Effective for annual periods beginning on or after
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	1 January 2020
HKFRS 3 (Amendments)	Definition of a Business	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17	Insurance contracts	1 January 2021

2.1.3 Business combination between entities under common control

In April 2019, Sinotruk Ji'nan Power Co., Ltd. (Ji'nan Power), a wholly-owned subsidiary of the Company, acquired from CNHTC the entire equity interest of HOWO Bus. The consideration was satisfied by cash, amounting to approximately RMB306,612,000.

Since Ji'nan Power and HOWO Bus are ultimately controlled by CNHTC both before and after the above mentioned acquisition, the acquisition is regarded as "common control combination". Accordingly, the Group has applied merger accounting to account for the acquisition of HOWO Bus in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

For this business combination under common control, the financial information of the Group and that of HOWO Bus has been combined, by using the merger accounting, as if the Group had acquired HOWO Bus from the beginning of the earliest financial period presented. The net assets of the Group and HOWO Bus are combined using the existing book values from the perspective of CNHTC, the controlling party. No amount is recognised in consideration for goodwill or excess of the Group's interest in the net fair value of HOWO Bus's identifiable assets, liabilities and contingent liabilities over the cost of acquisition at the time of common control combination. The difference between the consolidation and book value of HOWO Bus at the time of common control combination is taken to the reserves of the Group. Accordingly, the comparative figures of this consolidated financial information have been restated.

The consolidated income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 BASIS OF PREPARATION (CONTINUED)

2.1.3 Business combination between entities under common control (Continued)

The comparative amounts in the consolidated financial statements are presented as if the entities had been combined at the previous date of consolidated statement of financial position unless they first came under common control at a later date.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, included in relation to the common control combination that are to be accounted for by using merger accounting are recognised as expense in the year in which they are incurred.

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING

(a) Subsidiaries

(i) Consolidation

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

Business combinations

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

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

Acquisition-related costs are expensed as incurred.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING (CONTINUED)

(a) Subsidiaries (Continued)

(i) Consolidation (Continued)

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

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

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

Changes in ownership interests in subsidiaries without change of control

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

Disposal of subsidiaries

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING (CONTINUED)

(a) Subsidiaries (Continued)

(ii) Separate financial statements

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

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

(b) Associates

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING (CONTINUED)

(b) Associates (Continued)

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

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

(c) Joint arrangements

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

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

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

(d) Segment reporting

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING (CONTINUED)

(e) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

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

(iii) Group companies

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING (CONTINUED)

(e) Foreign currency translation (Continued)

(iv) Disposal of foreign operation and partial disposal

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

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

(f) Land use rights

All land in the People's Republic of China (the "PRC") is state-owned and no individual land ownership right exists. The Group acquired the right to use certain land. Before 1 January 2019, the upfront prepayments made for such right were treated as prepayment for operating lease and recorded as land use rights, which were amortised in profit or loss on a straight-line basis over the period of the rights. The land use rights were stated at historical cost less accumulated amortisation and impairment losses.

As disclosed in Note 2.1.1, the Group has adopted HKFRS 16 Leases from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard. The reclassifications from land use rights to right-of-use assets arising from the new leasing standards are therefore recognised in the opening consolidated statement of financial position on 1 January 2019.

(g) Property, plant and equipment

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING (CONTINUED)

(g) Property, plant and equipment (Continued)

Depreciation on assets is calculated using the straight-line method or, for certain equipment, the double declining balance method to allocate their costs to their residual values over their estimated useful lives, as follows:

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.2(j)).

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

(h) Investment property

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING (CONTINUED)

(h) Investment property (Continued)

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

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

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

(i) Intangible assets

(i) Proprietary technology

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

(ii) Computer software

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING (CONTINUED)

(k) Investments and other financial assets

(i) Classification

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

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

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

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

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

(ii) Recognition and derecognition

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING (CONTINUED)

(k) Investments and other financial assets (Continued)

(iii) Measurement

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

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

Debt instruments

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING (CONTINUED)

(k) Investments and other financial assets (Continued)

(iii) Measurement (Continued)

Equity instruments

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

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

(iv) Impairment

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

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 23 for further details.

(l) Inventories

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

(m) Trade and other receivables

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

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

The creation and release of provision for impaired receivables have been included in 'Net impairment losses on financial assets' in the consolidated statement of profit or loss. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash. See Note 23 for further information about the Group's accounting for trade and other receivables and Note 2.2 (k) for a description of the Group's impairment policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING (CONTINUED)

(n) Cash and cash equivalents

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

(o) Share capital

Ordinary shares are classified as equity.

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

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

(p) Trade and other payables

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

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

(q) Borrowings

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING (CONTINUED)

(r) Borrowing costs

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

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

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

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

(s) Current and deferred income tax

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

(i) Current income tax

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

(ii) Deferred income tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING (CONTINUED)

(s) Current and deferred income tax (Continued)

(ii) Deferred income tax (Continued)

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

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

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

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

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

(iii) Offsetting

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

(t) Employee benefits

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

(i) Pension obligations

Pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING (CONTINUED)

(t) Employee benefits (Continued)

(i) Pension obligations (Continued)

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

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

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

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

For employees in Mainland China:

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

For employees in Hong Kong:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING (CONTINUED)

(t) Employee benefits (Continued)

(ii) Profit sharing and bonus plan

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

(iii) Termination benefits

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

(iv) Other post-employment obligations

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING (CONTINUED)

(t) Employee benefits (Continued)

(v) Housing funds

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

(u) Provisions

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

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

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

(v) Government assistance and grants

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING (CONTINUED)

(w) Revenue recognition

(i) Sales of goods

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

Dealers

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

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

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

End user customers

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

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

(ii) Rendering of services

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

(iii) Rental income

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

(iv) Financing components

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING (CONTINUED)

(x) Interest income

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

(y) Dividend income

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

(z) Leases

As explained in Note 2.1.1 above, the Group has changed its accounting policy for leases where the Group is the lessee with effect from 1 January 2019. The new policy is described below and the impact of the change is set out in Note 2.1.1.

The Group leases various offices, warehouses, equipment and vehicles. Rental contracts are typically made for fixed periods of 12 to 60 months. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

For the year ended 31 December 2018 and before, leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Until the 2018 financial year, payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 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. Each lease payment is allocated between the liability 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. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments).

The lease payments are discounted using incremental borrowing rate of the Group which the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING (CONTINUED)

(z) Leases (Continued)

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

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

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability and any lease payments made at or before the commencement date. Depreciation on right-of-use assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated lease period.

Payments associated with short-term leases and 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. Low-value assets comprise small items of office furniture.

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 statement of financial position 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.

(aa) Dividend distribution

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

(ab) Research and development

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING (CONTINUED)

(ab) Research and development (Continued)

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

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

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

(ac) Contingent liabilities and contingent assets

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

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

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

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

(ad) Financial guarantee contracts

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING (CONTINUED)

(ad) Financial guarantee contracts (Continued)

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

3. FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISK FACTORS

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

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

(a) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. The major foreign exchange risk exposure arises from its exporting and importing activities as well as the financing activities in Hong Kong. Accordingly, the Group has certain financial assets at fair value through profit or loss, trade and other receivables, amounts due from related parties, cash and bank balances, trade and other payables and amounts due to related parties denominated in foreign currencies, mainly US Dollar ('USD'), Hong Kong Dollar ('HKD') and EURO, which are exposed to foreign currency translation risk. Details of the Group's financial assets and liabilities dominated in foreign currencies are disclosed in Notes 22, 23, 25, 27 and 39(b) respectively.

To manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward contracts to reduce the foreign exchange risk. During the year, the Group used forward contracts to hedge the foreign exchange risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(a) Foreign exchange risk (Continued)

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

	2019	2018 Restated
Amounts recognised in profit or loss		
Net foreign exchange gains included in other gains-net	85,160	46,286
Exchange gains included in finance costs	—	53,196
Total net foreign exchange gains recognised in profit before income tax for the year	85,160	99,482

As at 31 December 2019, if RMB had strengthened/weakened by 5% against the USD with all other variables held constant, profit before income tax for the year would have been approximately RMB223,416,000 (2018: RMB156,776,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD-denominated trade and other receivables, cash and bank balances, and trade and other payables.

As at 31 December 2019, if RMB had strengthened/weakened by 5% against the EURO with all other variables held constant, profit before income tax for the year would have been approximately RMB17,773,000 (2018: RMB6,280,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of EURO-denominated trade and other receivables, cash and bank balances.

As at 31 December 2019, if RMB had strengthened/weakened by 5% against the HKD with all other variables held constant, profit before income tax for the year would have been approximately RMB3,414,000 (2018: RMB4,496,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of HKD-denominated trade and other receivables, financial assets at fair value through profit or loss, cash and bank balances, and trade and other payables.

(b) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets and liabilities other than financing receivables, bank deposits and borrowings. Certain borrowings bearing floating rates, expose the Group to cash flow interest-rate risk. Financing receivables, bank deposits and borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's financing receivables, bank deposits, bank borrowings, deposits taking and borrowings been disclosed in Notes 23, 25, 28 and 39(b) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(b) Cash flow and fair value interest rate risk (Continued)

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

As at 31 December 2019, all bank borrowings of the Group were with fixed rate. Accordingly, if the interest rates on bank borrowings had been 150 basis points higher/lower than the average coupon interest rate of 3.59% (2018: 4.11%) per annum as at 31 December 2019 with all other variables held constant, profit before income tax for the year would have been RMB5,942,000 (2018: RMB19,421,000) lower/higher, mainly as a result of higher/lower interest expense on bank borrowings with fixed rates.

(c) Credit risk

The carrying amounts of financial assets at fair value through other comprehensive income (Note 20), financial assets at amortised cost (Note 21), financial assets at fair value through profit and loss (Note 22), receivables and other assets excluding prepayments (Note 23), cash and bank balances (Note 25), and amounts due from related parties (Note 39(b)) represent the Group's maximum exposure to credit risk in relation to financial assets.

(i) Impairment of financial assets

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

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

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

Trade receivables

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(c) Credit risk (Continued)

(i) Impairment of financial assets (Continued)

Trade receivables (Continued)

The expected loss rates are based on the payment profiles of sales over a period of 60 months before 31 December 2019 or 1 January 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at 31 December 2019 and 31 December 2018 was determined as follows for both trade receivables:

31 December 2019	**Less than 1 year**	**1 – 2 years**	**2 – 3 years**	**More than 3 years**	**Total**
Gross carrying amount	6,357,984	1,844,681	727,433	1,481,247	10,411,345
Loss allowance	247,252	465,352	243,360	1,041,506	1,997,470
Expected loss rate	3.89%	25.23%	33.45%	70.31%	

31 December 2018	Less than 1 year	1 – 2 years	2 – 3 years	More than 3 years	Total
Gross carrying amount	5,838,021	927,162	1,224,814	716,176	8,706,173
Loss allowance	222,566	227,895	174,770	620,286	1,245,517
Expected loss rate	3.81%	24.58%	14.27%	86.61%	

The closing loss allowances for trade receivables as at 31 December 2019 and 31 December 2018 reconcile to the opening loss allowances as follows:

	2019	2018 Restated
Opening balance – calculated under HKFRS 9	**1,245,517**	1,002,039
Provision for impairment of receivables	**756,057**	254,106
Receivables written off during the year as uncollectible	**(4,104)**	(10,628)
Closing amount	**1,997,470**	1,245,517

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(c) Credit risk (Continued)

(i) Impairment of financial assets (Continued)

Trade receivables (Continued)

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

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

Loans to related and third parties

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

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

- A financing receivable that is not credit-impaired on initial recognition is classified in"Stage 1" and has its credit risk continuously monitored by the Group;

- If a significant increase in credit risk ("SICR") since initial recognition is identified but is not yet deemed to be credit-impaired, the financing receivable is moved to "Stage 2"; and

- If the financing receivables is credit-impaired, the financing receivable is then moved to"Stage 3".

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(c) Credit risk (Continued)

(i) Impairment of financial assets (Continued)

Loans to related and third parties (Continued)

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

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

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

Measuring ECL – inputs, assumptions and estimation techniques

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(c) Credit risk (Continued)

(i) Impairment of financial assets (Continued)

The criteria of SICR

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

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

Definition of credit-impaired assets

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

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

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

Forward-looking information

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(c) Credit risk (Continued)

(i) Impairment of financial assets (Continued)

Forward-looking information (Continued)

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

Provision for impairment of financing receivables

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

	Stage1 ECL	Stage2 ECL	Stage3 ECL	Total
Provision for impairment of financing receivables as at 31 December 2018 (Restated)	132,195	15,191	30,231	177,617
Increase	—	13,857	74,355	88,212
Decrease	(18,056)	—	—	(18,056)
Recovered after write-off	—	—	2,755	2,755
Provision for impairment of financing receivables as at 31 December 2019	114,139	29,048	107,341	250,528

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(c) Credit risk (Continued)

(i) Impairment of financial assets (Continued)

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

During the year, the following provisions of impairment losses were recognised in profit or loss in relation to impaired financial assets:

	2019	2018 Restated
The provision of impairment losses		
– The provision of impairment losses on trade receivables	**756,057**	254,106
– The provision of impairment losses on financing receivables	**70,156**	49,163
– The provision of impairment losses on other receivables and other assets	**5,604**	6,206
Net impairment losses on financial assets	**831,817**	309,475

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

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

The Group enters into the wealth management products contracts with relatively higher estimated yield rates with certain financial institutions. As at 31 December 2019, the wealth management products are bought from the major financial institutions in Mainland China. Management has exercised due care when makes investment decision with focus only on relatively low risk products and considers its loss allowance is immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(d) Liquidity risk

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

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

	Repayment period			
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Total
As at 31 December 2019				
Borrowings	**1,000,000**	**—**	**—**	**1,000,000**
Interest payments on borrowings (i)	**14,210**	**—**	**—**	**14,210**
Trade and other payables	**28,502,473**	**—**	**—**	**28,502,473**
Amounts due to related parties	**1,075,778**	**—**	**—**	**1,075,778**
	30,592,461	**—**	**—**	**30,592,461**
As at 31 December 2018 (Restated)				
Borrowings	3,000,000	—	—	3,000,000
Interest payments on borrowings (i)	54,707	—	—	54,707
Trade and other payables	25,953,793	—	—	25,953,793
Amounts due to related parties	2,297,725	—	—	2,297,725
Interests payments on borrowings from related parties	26,816	—	—	26,816
	31,333,041	—	—	31,333,041

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 CAPITAL MANAGEMENT

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

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

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

	As at 31 December 2019	As at 31 December 2018 Restated
Total borrowings (Note 28)	**1,000,000**	3,000,000
Borrowings due to related parties (Note 39(b))	**—**	1,886,000
Less: cash and cash equivalents (Note 25(b))	**(15,752,121)**	(12,826,516)
Net debt	**(14,752,121)**	(7,940,516)
Total equity	**30,427,871**	28,340,852
Total capital	**15,675,750**	20,400,336
Gearing ratio	**Not applicable**	Not applicable

3.3 FAIR VALUE ESTIMATION

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2019 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 FAIR VALUE ESTIMATION (CONTINUED)

The following table presents the Group's financial assets that are measured at fair value at 31 December 2019 and 2018.

	Level 1	Level 2	Level 3	Total
As at 31 December 2019				
Assets				
Financial assets at fair value through profit or loss	**24,966**	**—**	**1,690,135**	**1,715,101**
Financial assets at fair value through other comprehensive income	**—**	**—**	**2,284,917**	**2,284,917**
Total assets	**24,966**	**—**	**3,975,052**	**4,000,018**
As at 31 December 2018 (Restated)				
Assets				
Financial assets at fair value through profit or loss	103,544	1,458,268	690,056	2,251,868
Financial assets at fair value through other comprehensive income	—	—	2,568,160	2,568,160
Total assets	103,544	1,458,268	3,258,216	4,820,028

During the year ended 31 December 2019, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets.

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

Level 3 financial assets at fair value through profit or loss include wealth management products acquired from a trust company at a principal of RMB152 million and from banks at principals of RMB1,500 million respectively with principal and interests non-guaranteed. Their fair values are estimated by using a discounted cash flow approach and main inputs used by the Group are estimated yield rates written in contracts by the counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 FAIR VALUE ESTIMATION (CONTINUED)

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

(a) Income taxes

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(b) Warranty claims provision

The Group generally offers warranties with period from 6 months to 96 months for its trucks, buses and engines. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims.

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

(c) Net realisable value of inventories

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

(d) Impairment of financial assets

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

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

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

The Group decided to depreciate the fixed assets of related equipment with high vibration, high corrosion and rapid technological advancement by double declining balance method from 1 March 2019; the Group increases the depreciation expense of 2019 by approximately RMB407 million after adopting the double declining balance method.

(f) Fair value of investment properties

The fair value of investment properties is determined by using valuation technique.

Details of the judgement and assumptions have been disclosed in Note 16.

5. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Board while it delegates the Executive Committee to execute its decisions. The Executive Committee reviews the Group's internal reporting in order to assess performance and allocate resources. The Executive Committee has determined the operating segments based on these reports.

The Executive Committee considers the business from both a geographic and business perspective. From a geographic perspective, the Executive Committee assesses the revenue from Mainland China and overseas. From a business perspective, the Executive Committee assesses the performance of heavy duty trucks, light duty trucks and buses, engines and finance.

(i) Heavy duty trucks – Manufacture and sale of heavy duty trucks, medium-heavy duty trucks and related components;

(ii) Light duty trucks and buses – Manufacture and sale of light duty trucks, buses and related components;

(iii) Engines – Manufacture and sale of engines and related parts; and

(iv) Finance – Provision for deposits taking, borrowings, bills and notes discounting and entrustment loans to the members of the Group and the members of CNHTC and its subsidiaries excluding the Group ("CNHTC Group") as well as provision for auto and supplier chain financing services to the public.

The Executive Committee assesses the performance of the operating segments based on a measure of revenue and operating profit.

Operating expenses of a functional unit are allocated to the relevant segment which is the predominant user of the services provided by the unit. Operating expenses of other shared services which cannot be allocated to a specific segment and corporate expenses are included as unallocated expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

5. SEGMENT INFORMATION (CONTINUED)

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment assets are determined after deducting related allowance that are reported as direct offsets in the consolidated statement of financial position. Segment assets consist of primarily of right-of-use assets, investment properties, property, plant and equipment, intangible assets, inventories, investments accounted for using the equity method, financial assets at fair value through other comprehensive income, profit or loss and amortised cost, goodwill, amounts due from related parties, receivables and other assets, and operating cash (prior year: land use rights, investment properties, property, plant and equipment, intangible assets, inventories, investments accounted for using the equity method, financial assets at fair value through other comprehensive income, profit or loss and amortised cost, goodwill, amounts due from related parties, receivables and other assets, and operating cash). They exclude income tax assets.

Segment liabilities are those operating liabilities that result from the operating activities of a segment. Segment liabilities do not include borrowings and other liabilities that are incurred for financing rather than operating purpose unless the segment is engaged in financing activities. Segment liabilities do not include income tax liabilities.

Unallocated assets mainly represent deferred tax assets, prepaid tax and the assets of the Company. Unallocated liabilities mainly represent borrowings, deferred tax liabilities, current tax liabilities and the liabilities of the Company.

Addition to non-current assets comprises mainly additions to right-of-use assets (Note 17), property, plant and equipment (Note 15), and intangible assets (Note 18), including additions resulting from acquisitions through business combinations.

Sales between segments are carried out on terms mutually agreed amongst these operating segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

5. SEGMENT INFORMATION (CONTINUED)

The segment results for the year ended 31 December 2019 as follows:

	Year ended 31 December 2019					
	Heavy duty trucks	Light duty trucks and buses	Engines	Finance	Elimination	Total
Revenue from external customers						
Sales of goods	49,636,444	9,693,140	1,159,358	—	—	60,488,942
Provision of financing services	—	—	—	979,661	—	979,661
Rendering of services	714,780	6,404	36,921	—	—	758,105
Total revenue from external customers	50,351,224	9,699,544	1,196,279	979,661	—	62,226,708
Inter-segment revenue	735,256	511,779	13,466,111	607,074	(15,320,220)	—
Segment revenue	51,086,480	10,211,323	14,662,390	1,586,735	(15,320,220)	62,226,708
Operating profit/(loss) before unallocated expenses	3,394,240	(1,112,145)	1,921,583	934,565	(288,750)	4,849,493
Unallocated expenses						(10,376)
Operating profit						4,839,117
Finance costs – net						(96,069)
Share of profit less loss of investments accounted for using the equity method						61,465
Profit before income tax						4,804,513
Income tax expense						(1,028,846)
Profit for the year						3,775,667

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

5. SEGMENT INFORMATION (CONTINUED)

The segment results for the year ended 31 December 2018 are as follows:

	Restated Year ended 31 December 2018					
	Heavy duty trucks	Light duty trucks and buses	Engines	Finance	Elimination	Total
Revenue from external customers						
Sales of goods	47,690,661	11,986,441	1,287,919	—	—	60,965,021
Provision of financing services	—	—	—	987,993	—	987,993
Rendering of services	753,707	3,233	17,550	—	—	774,490
Total revenue from external customers	48,444,368	11,989,674	1,305,469	987,993	—	62,727,504
Inter-segment revenue	350,137	631,615	12,806,027	427,447	(14,215,226)	—
Segment revenue	48,794,505	12,621,289	14,111,496	1,415,440	(14,215,226)	62,727,504
Operating profit before unallocated expenses	2,268,497	461,582	2,212,951	851,103	(25,569)	5,768,564
Unallocated expenses						(44,710)
Operating profit						5,723,854
Finance costs – net						(67,778)
Share of profit less loss of investments accounted for using the equity method						70,351
Dilution gain on investment in an associate						6,283
Profit before income tax						5,732,710
Income tax expense						(1,005,719)
Profit for the year						4,726,991

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

5. SEGMENT INFORMATION (CONTINUED)

Other segment items included in profit or loss for the year ended 31 December 2019 are as follows:

	Year ended 31 December 2019					
	Heavy duty trucks	Light duty trucks and buses	Engines	Finance	Unallocated	Total
Depreciation of property, plant and equipment	439,762	166,789	886,624	1,780	43	1,494,998
Depreciation of right-of-use assets	38,538	20,692	8,187	301	19	67,737
Amortisation of intangible assets	23,938	2,365	39,698	522	—	66,523

Other segment items included in profit or loss for the year ended 31 December 2018 are as follows:

	Restated Year ended 31 December 2018					
	Heavy duty trucks	Light duty trucks and buses	Engines	Finance	Unallocated	Total
Depreciation of property, plant and equipment	392,361	149,502	539,701	1,653	44	1,083,261
Amortisation of intangible assets and land use rights	42,508	11,380	47,929	468	19	102,304

The segment assets and liabilities as at 31 December 2019 and addition to non-current assets of the segments for the year then ended are as follows:

	As at 31 December 2019					
	Heavy duty trucks	Light duty trucks and buses	Engines	Finance	Unallocated	Total
Segment assets	48,544,043	7,579,797	19,628,441	43,331,497	1,780,964	120,864,742
Elimination						(54,914,230)
Total assets						65,950,512
Segment liabilities	30,315,948	7,966,168	8,165,991	36,023,474	1,122,118	83,593,699
Elimination						(48,071,058)
Total liabilities						35,522,641
Addition to non-current assets	361,713	186,072	578,382	1,644	—	1,127,811

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

5. SEGMENT INFORMATION (CONTINUED)

Reconciled to entity assets and liabilities as follows:

	As at 31 December 2019	
	Assets	**Liabilities**
Segment assets/liabilities after elimination	**64,169,548**	**34,400,523**
Unallocated:		
Deferred tax assets/liabilities	**1,675,933**	**28,452**
Current tax assets/liabilities	**76,526**	**385,240**
Current borrowings	**—**	**700,000**
Other assets/liabilities of the Company	**28,505**	**8,426**
Total	**65,950,512**	**35,522,641**

The segment assets and liabilities as at 31 December 2018 and addition to non-current assets of the segments for the year then ended are as follows:

	Restated As at 31 December 2018					
	Heavy duty trucks	Light duty trucks and buses	Engines	Finance	Unallocated	Total
Segment assets	42,217,468	8,035,022	17,670,474	33,838,256	1,522,687	103,283,907
Elimination						(38,815,138)
Total assets						64,468,769
Segment liabilities	24,862,912	4,823,316	6,729,186	27,074,651	4,718,916	68,208,981
Elimination						(32,081,064)
Total liabilities						36,127,917
Addition to non-current assets	512,070	287,008	819,780	2,344	—	1,621,202

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

5. SEGMENT INFORMATION (CONTINUED)

Reconciled to entity assets and liabilities as follows:

	Restated As at 31 December 2018	
	Assets	Liabilities
Segment assets/liabilities after elimination	62,946,082	31,409,001
Unallocated:		
Deferred tax assets/liabilities	1,490,079	41,056
Current tax assets/liabilities	3,006	284,642
Current borrowings	—	4,386,000
Other assets/liabilities of the Company	29,602	7,218
Total	64,468,769	36,127,917

Revenue is allocated based on the countries in which the customers are located.

	2019	2018 Restated
Revenue		
Mainland China	**52,289,622**	55,337,765
Overseas	**9,937,086**	7,389,739
	62,226,708	62,727,504

Total assets are allocated based on where the assets are located.

	2019	2018 Restated
Total assets		
Mainland China	**64,092,193**	62,547,001
Overseas	**1,858,319**	1,921,768
	65,950,512	64,468,769

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

5. SEGMENT INFORMATION (CONTINUED)

Non-current assets excluding deferred income tax assets are allocated based on where the assets are located.

	2019	2018 Restated
Non-current assets other than deferred income tax assets		
Mainland China	15,282,741	15,258,948
Overseas	781,986	892,307
	16,064,727	16,151,255

Addition to non-current assets is allocated based on where the assets are located.

	2019	2018 Restated
Addition to non-current assets		
Mainland China	1,127,400	1,606,677
Overseas	411	14,525
	1,127,811	1,621,202

The Group has recognised following liabilities related to contracts with customers including related parties:

	As at 31 December 2019	As at 31 December 2018 Restated
Heavy duty trucks	1,172,674	1,797,403
Light duty trucks and buses	568,761	519,470
Engines	21,693	32,787
Total contract liabilities	1,763,128	2,349,660

All contract liabilities as at 31 December 2018 have been recognised as revenue during the year ended 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

6. EXPENSES BY NATURE

	2019	2018 Restated
Materials cost (Note 24)	44,887,405	46,235,057
Employee benefit expenses (Note 8)	4,684,264	3,890,794
Depreciation of property, plant and equipment (Note 15)	1,494,998	1,083,261
Transportation expenses	1,124,803	1,326,177
Warranty expenses (Note 32)	940,944	861,097
Subcontracting costs	923,343	920,980
Utilities expenses	697,410	825,934
Maintenance costs	390,364	528,279
Travel and office expenses	323,652	352,627
Write-down of inventories to net realisable value (Note 24)	255,043	179,450
Transaction taxes	169,164	201,584
Promotion expenses	108,443	4,013
Depreciation of right-of-use assets (Note 17(b))	67,737	—
Amortisation of intangible assets (Note 18)	66,523	63,812
Advertising costs	44,609	100,693
Exhibition expenses	43,971	37,376
Rental expenses	34,713	52,642
Amortisation of land use right (Note 14)	—	38,492
Auditors' remuneration		
– Financial audit services	7,200	10,000
– Internal control audit services	500	500
– Taxation professional services	300	300
– Environmental, social and governance report services	214	200
Other charges	920,684	680,006
Total	57,186,284	57,393,274
Representing:		
Cost of sales	50,380,101	51,403,463
Distribution costs	3,399,708	3,060,792
Administrative expenses	3,406,475	2,929,019
Total	57,186,284	57,393,274

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

7. OTHER GAINS – NET

	2019	2018 Restated
Gains on disposal of property, plant and equipment (Note 34(a))	6,960	3,894
Fair value gains on investment properties (Note 16 and Note 34(a))	16,970	3,221
Losses on disposal of intangible assets (Note 34(a))	—	(29)
Gains on disposal of financial assets at fair value through other comprehensive income	251	—
Dividends received from financial assets at fair value through other comprehensive income (Note 34(a))	—	2,250
Dividends received from financial assets at fair value through profit or loss (Note 34(a))	521	1,354
Fair value gains/(losses) on financial assets at fair value through profit or loss (Note 22(b) and Note 34(a))	798	(25,882)
Gains on disposal of financial assets at fair value through profit or loss (Note 34(a))	186,208	119,335
Gains on disposal of wealth management products with principal and interests guaranteed (Note 34(a))	—	27,912
Gains on disposal of assets classified as held for sale	—	63,087
Government grants	163,675	194,980
Penalties income	17,114	102,605
Disposal of scraps	61,013	41,580
Rental income	41,568	36,409
Foreign exchange gains – net	85,160	46,286
Others	50,272	82,097
Total	630,510	699,099

Government grants were contributed from various government organisations to the Group in respect of relocation compensations, subsidies for research and development, overseas promotion activities and other incentives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

8. EMPLOYEE BENEFIT EXPENSES

	2019	2018 Restated
Salaries, wages and bonuses	3,547,305	2,854,595
Contributions to pension plans	373,976	361,162
Termination benefits (Note 30 (a))	(340)	(440)
Post-employment benefits (Note 30 (b))	236	250
Medical insurance plans (Note 30 (c))	3	16
Housing benefits	266,669	237,474
Other welfare expenses	496,415	437,737
Total (Note 6)	4,684,264	3,890,794

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2018: four) directors of the Company ("Director(s)") whose emoluments are reflected in the analysis in Note 41. The emoluments payable to the remaining one (2018: one) individual during the year are as follows:

	2019	2018 Restated
Basic salaries, housing allowances and other allowances	1,159	1,113
Contribution to pension plans	58	55
	1,217	1,168

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

8. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(a) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

	Number of individuals	
	2019	2018 Restated
Emolument bands (in HKD)		
HKD 1,000,001 – HKD 1,500,000	**1**	1

9. FINANCE COSTS – NET

	2019	2018 Restated
Finance costs:		
– Borrowings	**139,523**	215,198
– Net foreign exchange transaction gains	**—**	(53,196)
– Interest expenses on right of use assets (Note 17(b))	**3,424**	—
	142,947	162,002
Less: amount capitalised in construction in progress (Note 15(b))	**(1,653)**	(1,245)
Total finance costs	**141,294**	160,757
Finance income:		
– Interest income from bank deposits (Note 34(a))	**(45,225)**	(92,979)
Finance costs – net	**96,069**	67,778

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

10. SUBSIDIARIES

As at 31 December 2019, the Company had direct or indirect interest in the following subsidiaries:

Company Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Issued/paid in capital (in million)	Ownership interest directly held by the Company	Ownership interest held by the Group	Ownership interest held by non-controlling interests
Listed -						
Sinotruk Ji'nan Truck Co., Ltd. (中國重汽集團濟南卡車股份有限公司)	PRC, Joint stock company with limited liability	Manufacture and sales of trucks and spare parts in PRC	RMB671.08	63.78%	63.78%	36.22%
Unlisted -						
Sinotruk Ji'nan Power Co., Ltd. (中國重汽集團濟南動力有限公司)	PRC, Limited liability company	Manufacture and reproduction of engines in PRC	RMB6,713.08	100%	100%	—
Sinotruk Ji'nan Commercial Truck Co., Ltd. (中國重汽集團濟南商用車有限公司)	PRC, Limited liability company	Manufacture and sales of trucks and spare parts in PRC	RMB1,871.29	100%	100%	—
Sinotruk International (中國重汽集團國際有限公司)	PRC, Limited liability company	Import and export of trucks and spare parts in PRC	RMB555	100%	100%	—
Sinotruk Ji'nan Ganghua Import & Export Co., Ltd. (中國重汽集團濟南港華進出口有限公司)	PRC, Limited liability company	Import and export of heavy duty trucks in PRC	RMB206	100%	100%	—
Sinotruk Factory Design Institute Co., Ltd. (中國重汽集團設計研究院有限公司)	PRC, Limited liability company	Construction design and technical consulting service in PRC	RMB10.5	100%	100%	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

10. SUBSIDIARIES (CONTINUED)

As at 31 December 2019, the Company had direct or indirect interest in the following subsidiaries: (Continued)

Company Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Issued/paid in capital (in million)	Ownership interest directly held by the Company	Ownership interest held by the Group	Ownership interest held by non-controlling interests
Sinotruk (Hong Kong) International Investment Limited (中國重汽(香港)國際資本有限公司)	Hong Kong, Limited liability company	Consultations and strategic planning in respect of automobile market, import and export trading, asset operations and investment holdings in Hong Kong	HKD1,518.27	100%	100%	—
Sinotruk Finance Co., Ltd. (中國重汽財務有限公司)(i)	PRC, Limited liability company	Taking deposits, facilitating borrowings, discounting notes, providing entrusted loan, entrusted investment and customer credit in PRC	RMB3,050	51.33%	94.79%	5.21%
Sinotruk Ji'nan Axle & Transmission Co., Ltd. (中國重汽集團濟南橋箱有限公司)	PRC, Limited liability company	Manufacture and sales of trucks and axle and transmission parts in PRC	RMB646.74	49%	81.53%	18.47%
ShanDong HOWO Auto Finance Co., Ltd. (山東豪沃汽車金融有限公司)	PRC, Limited liability company	Taking deposits, facilitating borrowings and financing leases, providing loan and customer credit in PRC	RMB1,500	63.33%	83.33%	16.67%

(i) In December 2019, Ji'nan Power, the subsidiary of the Company, acquired an additional 0.14% equity of Sinotruk Finance Co., Ltd. for a purchase consideration of RMB6 million from non-controlling interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

10. SUBSIDIARIES (CONTINUED)

As at 31 December 2019, the Company had direct or indirect interest in the following subsidiaries: (Continued)

Company Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Issued/paid in capital (in million)	Ownership interest directly held by the Company	Ownership interest held by the Group	Ownership interest held by non-controlling interests
Sinotruk Hangzhou Engines Co., Ltd. (中國重汽集團杭州發動機有限公司)	PRC, Limited liability company	Manufacture and reproduction of engines in PRC	RMB1,931	49%	100%	—
Sinotruk Chongqing Fuel System Co., Ltd. (中國重汽集團重慶燃油噴射系統有限公司)	PRC, Limited liability company	Manufacture and sales of oil pump and nozzle in PRC	RMB338.49	—	100%	—
Sinotruk Ji'nan Fuqiang Power Co., Ltd. (中國重汽集團濟南復強動力有限公司)	PRC, Limited liability company	Manufacture and reproduction of engines in PRC	USD81.15	—	100%	—
Sinotruk Liuzhou Yunli Special Vehicles Co., Ltd. (中國重汽集團柳州運力專用汽車有限公司)	PRC, Limited liability company	Refit and sales of heavy duty trucks in PRC	RMB103	—	60%	40%
Ji'nan Ganghao Development Co., Ltd. (濟南港豪發展有限公司)	PRC, Limited liability company	Manufacture and sales of trucks and spare parts in PRC	HKD1,503.7	—	100%	—
Hangzhou Ganghang Power System Co., Ltd. (杭州港杭動力系統有限公司)	PRC, Limited liability company	Manufacture and reproduction of engines in PRC	HKD60	—	100%	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

10. SUBSIDIARIES (CONTINUED)

As at 31 December 2019, the Company had direct or indirect interest in the following subsidiaries: (Continued)

Company Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Issued/paid in capital (in million)	Ownership interest directly held by the Company	Ownership interest held by the Group	Ownership interest held by non-controlling interests
Sinotruk Hubei Huawei Special Vehicles Co., Ltd. (中國重汽集團湖北華威專用汽車有限公司)	PRC, Limited liability company	Refit and sales of heavy duty trucks in PRC	RMB62.77	—	60%	40%
Sinotruk Mianyang Special Vehicles Co., Ltd. (中國重汽集團綿陽專用汽車有限公司)	PRC, Limited liability company	Manufacture and reproduction of spare parts; sales of trucks in PRC	RMB50	—	100%	—
Sinotruk Ji'ning Commercial Truck Co., Ltd. (中國重汽集團濟寧商用車有限公司)	PRC, Limited liability company	Manufacture and sales of trucks and spare parts in PRC	RMB300	—	100%	—
Sinotruk Ji'nan Ganghao Bonded Logistics Co., Ltd. (中國重汽集團濟南港豪保税物流有限公司)	PRC, Limited liability company	Provision of storage services, bonded logistics services, local freight forwarding, related information consulting and logistics engineering; research, development, processing and manufacture of spare parts; import and export in PRC	USD16	—	100%	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

10. SUBSIDIARIES (CONTINUED)

As at 31 December 2019, the Company had direct or indirect interest in the following subsidiaries: (Continued)

Company Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Issued/paid in capital (in million)	Ownership interest directly held by the Company	Ownership interest held by the Group	Ownership interestheld by non-controlling interests
Sinotruk Chengdu Wangpai Commercial Vehicles Co., Ltd. (中國重汽集團成都王牌商用車有限公司)	PRC, Limited liability company	Research, development, manufacture and sales of commercial vehicles in PRC	RMB800	—	80%	20%
Sinotruk Nanchong Haile Machinery Co., Ltd. (中國重汽集團南充海樂機械有限公司)(ii)	PRC, Limited liability company	Research, development, manufacture and sales of auto parts, machinery components and coal mining mechanic equipment in PRC	RMB10.1	—	80%	20%
Chengdu Sinotruk Wangpai Automobile Testing Co., Ltd. (成都重汽王牌汽車檢測有限公司)	PRC, Limited liability company	Sales of spare parts and vehicle inspection in PRC	RMB2	—	80%	20%
Sinotruk Fujian Haixi Vehicles Co., Ltd. (中國重汽集團福建海西汽車有限公司)	PRC, Limited liability company	Manufacture and sales of trucks and spare parts and related information consulting in PRC	RMB200	—	80%	20%
Sinotruk Xinjiang Commercial Truck Co., Ltd. (中國重汽集團新疆商用車有限公司)	PRC, Limited liability company	Research, development, manufacture and sales of spare parts (excluding engines) and trucks; after-sales service of trucks; import and export in PRC	RMB40	—	100%	—

(ii) During the year, Sinotruk Nanchong Haile Mechanies Co., Ltd. (中國重汽集團南充海樂機械有限公司) mergered with Sichuan Sinotruk Wangpai Xingcheng Hydraulic Parts Co., Ltd. (四川重汽王牌興城液壓件有限公司) and, hence, its paid in capital increased to RMB10.1 million. The registered capital is RMB50 million and has not been fully paid. It will be fully paid on or before 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

10. SUBSIDIARIES (CONTINUED)

As at 31 December 2019, the Company had direct or indirect interest in the following subsidiaries (continued):

Company Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Issued/paid in capital (in million)	Proportion of ordinary shares directly held by parent	Proportion of ordinary shares held by the Group	Proportion of ordinary shares held by non-controlling interests
Sinotruk Ji'nan Rubber & Plastic Components Co., Ltd. (中國重汽集團濟南橡塑件有限公司)	PRC, Limited liability company	Research, development, manufacture, sales and consulting of spare parts, engineering machinery and rubber products; maintenance and lease of machinery equipment in PRC	RMB240	—	100%	—
Sinotruk (Kenya) Limited (中國重汽(肯尼亞)有限公司) (iii)	Kenya, Limited liability company	Retail and wholesale of trucks and spare parts; agency of sales of motor vehicle and spare parts; after-sales service of trucks, cars and other motor vehicles in Kenya	USD-	-	100%	-
SINOTRUK RUS Limited Liability Company (中國重汽俄羅斯有限公司)	Russia, Limited liability company	Retail and wholesale of trucks and spare parts; agency of sales of motor vehicle and spare parts; after-sales service of trucks, cars and other motor vehicles in Russia	RUB15	—	100%	—
Sinotruk (Hong Kong) Capital Holding Limited (中國重汽(香港)投資控股有限公司)	Hong Kong, Limited liability company	Consultations and strategic planning in respect of automobile market, import and export trading, asset operations and investment holdings in Hong Kong	HKD310	—	100%	—
Sinotruk South Africa (Pty) Ltd. (中國重汽南非有限公司)	South Africa, Limited liability company	Retail and wholesale of trucks and spare parts; agency of sales of motor vehicle and spare parts; after-sales service of trucks and other motor vehicles in South Africa	USD4.3	—	100%	—

(iii) The registered capital is USD0.15 million and has not been paid. It will be fully paid on or before 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

10. SUBSIDIARIES (CONTINUED)

As at 31 December 2019, the Company had direct or indirect interest in the following subsidiaries (continued):

Company Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Issued/paid in capital (in million)	Proportion of ordinary shares directly held by parent	Proportion of ordinary shares held by the Group	Proportion of ordinary shares held by non-controlling interests
Sinotruk Liuzhou Yunli Kodiak Machinery Co., Ltd. (中國重汽集團柳州運力科迪亞克機械有限責任公司)	PRC, Limited liability company	Production, sales, and rendering service of snow removal equipment, and spreader multi-functional snow removal equipment and rail snow blower	USD3.5	—	30.6%	69.4%
Sinotruk Ji'nan Global Electronic Business Co., Ltd. (中國重汽集團濟南地球村電子商務有限公司)	PRC, Limited liability company	Commercial vehicles and automobile spare parts purchase, sales and wholesale in PRC	RMB20	—	63.78%	36.22%
Sinotruk Kazakhstan Limited Liability Partnership (中國重汽哈薩克斯坦有限責任合夥公司)	Kazakhstan, Limited liability partnership	Retail and wholesale trade of automobile; maintenance and service of automobile in Kazakhstan	Tenge61.5	—	100%	—
Sinotruk (Hong Kong) Hongye Limited (中國重汽(香港)宏業有限公司) (iv)	Hong Kong, Limited liability company	Import and export of trucks and spare parts in Hong Kong	USD30	—	100%	—
Sinotruk Ji'nan HOWO Bus Co., Ltd. (中國重汽集團濟南豪沃客車有限公司) (v)	PRC, Limited liability company	Manufacture and sales of bus and spare parts and related information consulting in PRC	RMB580	—	100%	—

(iv) On 31 December 2019, the Group completed the acquisition of 35% equity interest in Sinotruk (Hong Kong) Hongye Limited (Hongye), a joint venture at a cash consideration of approximately USD12 million.

(v) In April 2019, Ji'nan Power, a wholly-owned subsidiary of the Company, acquired from CNHTC Group the entire equity interest of HOWO Bus. The consideration was settled by cash, amounting to RMB307 million.

(All amounts in RMB thousands unless otherwise stated)

10. SUBSIDIARIES (CONTINUED)

(a) Material non-controlling interests

As at 31 December 2019, the total non-controlling interests is RMB 3,166,801,000 (2018: RMB2,852,307,000), of which RMB 2,126,403,000 (2018: RMB1,845,759,000) is attributed by Sinotruk Ji'nan Truck Co., Ltd. Except for the dividends paid to non-controlling interests (Note 33(c)) and acquisition of ownership interest from non-controlling interests, there was no other transactions with non-controlling interests during the year.

Summarised financial information on subsidiaries with material non-controlling interests

The following tables illustrate the financial information of Sinotruk Ji'nan Truck Co., Ltd., that has non-controlling interests that are material to the Group, The financial information extracted from the financial statements has been adjusted for differences in accounting policies between the Group and the subsidiary.

Summarised statement of financial position

	2019	2018
Current		
Assets	**18,133,910**	17,078,786
Liabilities	**(13,090,432)**	(12,777,007)
Total current net assets	**5,043,478**	4,301,779
Non-current		
Assets	**1,356,529**	1,329,759
Liabilities	**(127,712)**	(131,437)
Total non-current net assets	**1,228,817**	1,198,322
Net assets	**6,272,295**	5,500,101

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

10. SUBSIDIARIES (CONTINUED)

(a) Material non-controlling interests (Continued)

Summarised statement of profit or loss and comprehensive income

	2019	2018
Revenue	**36,739,244**	37,942,140
Profit before income tax	**1,310,553**	991,619
Income tax expense	**(231,262)**	(155,350)
	1,079,291	836,269
Other comprehensive gain/(loss)	**1,601**	(3,686)
Post-tax profit and total comprehensive income	**1,080,892**	832,583
Total comprehensive income allocated to non-controlling interests	**391,500**	301,562
Dividends paid to non-controlling interests	**111,810**	165,285

Summarised statement of cash flows

	2019	2018 Restated
Cash flows from operating activities		
Cash generated from operations	**1,182,977**	445,691
Interest paid	**(159,837)**	(172,475)
Income tax paid	**(162,056)**	(294,149)
Net cash generated from/(used in) operating activities	**861,084**	(20,933)
Net cash generated from investing activities	**238,008**	239,290
Net cash used in financing activities	**(308,697)**	(1,708,727)
Net increase/(decrease) in cash and cash equivalents	**790,395**	(1,490,370)
Cash and cash equivalents at beginning of the year	**671,630**	2,162,000
Cash and cash equivalents at end of the year	**1,462,025**	671,630

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the consolidated statement of financial position are as follows:

	2019	2018 Restated
Associates	**496,521**	381,307
Joint venture	**—**	152,841
	496,521	534,148

The amounts recognised in the consolidated statement of profit or loss are as follows:

	2019	2018 Restated
Share of profit less loss:		
Associates	**50,202**	60,203
Joint venture	**11,263**	10,148
	61,465	70,351
Dilution gain in an associate	**—**	6,283

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(a) Investments in associates

	2019	2018 Restated
At 1 January	**381,307**	333,675
Additions	**86,342**	5,000
Share of profits less losses	**50,202**	60,203
Share of other comprehensive income/(losses) of investments accounted for using the equity method	**495**	(1,131)
Dilution gain	**—**	6,283
Dividend received	**(21,825)**	(22,723)
At 31 December	**496,521**	381,307

The particulars of the associates of the Group at 31 December 2019 and 2018, except for Prinx (Cayman) Holding Limited (Prinx Cayman), being a listed company, at 31 December 2019, all of which are unlisted companies, are set out as follows:

Company name	Place of business/ Country/place of incorporation	% of ownership interest as at 31 December 2019	% of ownership interest as at 31 December 2018	Principal activities
Prinx Cayman	PRC/Cayman Islands	**9.98%**	9.98%	Investment holding
Sinotruk Panzhihua Mining Truck Co., Ltd. (Panzhihua Mining Truck)	PRC	**30%**	30%	Sales of heavy duty truck
Shandong Changjiu Sinotruk Logistics Co., Ltd. (Changjiu Sinotruk)	PRC	**25%**	25%	Provision of premier delivery service
Joint Venture "UZ TRUCK AND BUS MOTORS" Limited Liability Company (UZ TRUCK AND BUS MOTORS)	Uzbekistan	**32.89%**	—	Manufacture and Sales of heavy duty truck

In December 2019, the Group had injected EURO10,780,000 in cash for 32.89% equity of an associate – UZ TRUCK AND BUS MOTORS, for the primary purpose to expand overseas truck market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(a) Investments in associates (Continued)

The results, assets and liabilities of the Group's associates, are as follows:

	2019	2018 Restated
Assets	**11,132,990**	5,356,462
Liabilities	**5,502,343**	2,249,639
Revenue	**6,633,872**	5,234,853
Profit	**514,812**	480,024

(b) Investment in a joint venture

	2019	2018 Restated
At 1 January	**152,841**	144,152
Share of profits less losses	**11,263**	10,148
Share of other comprehensive income of investments accounted for using the equity method	**2,408**	7,282
Dividend received	**(9,506)**	(8,741)
Step acquisition as a subsidiary (Note 38(a))	**(157,006)**	—
At 31 December	**—**	152,841

On 31 December 2019, the Group acquired the remaining 35% equity interests and, thereafter, Hongye ceased to be the joint venture and became a wholly-owned subsidiary of the Company.

The results of the joint venture, and its assets and liabilities, are as follows:

	2019	2018 Restated
Assets	**—**	670,581
Liabilities	**—**	435,441
Revenue	**197,404**	1,333,936
Profit	**16,725**	15,612
% interest held	**—**	65%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

12. TAXATION

(a) Income tax expense

The estimated weighted average annual income tax rate expected for the full financial year is 21% (the estimated tax rate for the year ended 31 December 2018 was 18%).

The Company, Sinotruk (Hong Kong) Capital Holding Limited and Hongye are subject to Hong Kong profits tax at the rate of 16.5% (2018: 16.5%) on their estimated assessable profit for the year. The Company is determined as a Chinese-resident enterprise and, accordingly, is subject to corporate income tax of the People's Republic of China ("PRC"), which has been calculated based on the corporate income tax rate of 25% (2018: 25%). Sinotruk (Hong Kong) International Investment Limited will entitle to Two-tiered Profits Tax Rates Regime in Hong Kong under which its first HKD2 million assessable profits will be calculated at tax rate at 8.25% and the rest at 16.5% from the financial year 2019 (2018: full amounts at 16.5%).

Taxation on overseas profits has been calculated on the estimated assessable profit during the year ended 31 December 2019 at the rates of taxation prevailing in the countries in which the Group operates.

Sinotruk Hubei Huawei Special Vehicles Co., Ltd. has been recognised as the High New Tech Enterprises in 2016, and has already applied the renewal of its High New Tech certificate before it expires in 2019. Sinotruk Ji'nan Power Co., Ltd. and Sinotruk Hangzhou Engines Co., Ltd. have been recognised as the High New Tech Enterprises in 2017. Sinotruk Ji'nan Fuqiang Power Co., Ltd. had been recognised as the High New Tech Enterprises in 2018. According to the tax incentives of the Corporate Income Tax Law of the People's Republic of China (the "CIT Law") for High New Tech Enterprises, these companies are subject to a reduced corporate income tax rate of 15% (2018: 15%).

Sinotruk Chongqing Fuel System Co., Ltd., Sinotruk Liuzhou Yunli Special Vehicles Co., Ltd., Sinotruk Chengdu Wangpai Commercial Vehicles Co., Ltd. and Sinotruk Mianyang Special Vehicles Co., Ltd. are subject to a corporate income tax rate of 15% according to the Western Development tax incentives of the CIT Law (2018: 15%).

SINOTRUK RUS Limited Liability Company is subject to a corporate income tax rate of 20% according to Tax Code of the Russian Federation (2018: 20%).

Sinotruk South Africa (Pty) Ltd. is subject to a corporate income tax rate of 28% according to South Africa Tax Law (2018: 28%).

Sinotruk Kazakhstan Limited Liability Partnership is subject to a corporate income tax rate of 20% according to Kazakhstan Tax Law (2018: 20%).

Sinotruk (Kenya) Limited is subject to a corporate income tax rate of 30% according to Kenya Tax Law.

The remaining subsidiaries are subject to the PRC corporate income tax, which have been calculated based on the corporate income tax rate of 25% (2018: 25%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

12. TAXATION (CONTINUED)

(a) Income tax expense (Continued)

The amount of income tax expense charged to profit or loss represents:

	2019	2018 Restated
Current tax:		
– Hong Kong profits tax	**7,925**	1,686
– PRC corporate income tax	**1,218,056**	929,224
– Income tax in other jurisdictions	**1,323**	1,754
Total current tax	**1,227,304**	932,664
Deferred tax (Note 29 (b))	**(198,458)**	73,055
Income tax expense	**1,028,846**	1,005,719

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2019	2018 Restated
Profit before income tax	**4,804,513**	5,732,710
Tax calculated at tax rates applicable to profits of the respective entities	**1,193,561**	1,413,385
Tax effects of:		
Preferential tax of certain subsidiaries	**(157,682)**	(218,123)
Additional deduction for research and development expenditures	**(148,352)**	(73,344)
Expenses not deductible for tax purposes	**3,571**	6,555
Tax losses for which no deferred tax assets were recognised	**144,081**	20,777
Utilisation of previously unrecognised deferred tax assets	**(8,325)**	(86,396)
Re-measurement of deferred tax resulted from recognition changes of tax losses of certain subsidiaries	**1,992**	(57,135)
Income tax expense	**1,028,846**	1,005,719

As at 31 December 2019, the Group has unrecognised tax losses of approximately RMB1,107,160,000 (2018: RMB452,203,000) which can be carried forward against future taxable income and will expire within 5 years. Tax losses amounting to approximately RMB77,193,000, RMB100,720,000, RMB79,837,000, RMB76,494,000, RMB772,916,000 will expire in 2020, 2021, 2022, 2023 and 2024, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

12. TAXATION (CONTINUED)

(b) Value-added tax ("VAT") and related taxes

Certain of the Group's entities are subject to output VAT. Pursuant to the Circular of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates (Cai Shui [2019] No. 39) and related regulations issued by the Ministry of Finance and the State Administration of Taxation, the Group's revenue from the sales of products is subject to VAT at rate of 13% from 1 April 2019 (before 16%) and 6% or 9% (before 6%, 10%, 11% or 16%) of the service fee income. An input credit is available whereby input VAT previously paid on purchases of raw materials, semi-finished products or other can be used to offset the output VAT to determine the net VAT payable. The subsidiaries are also subject to city construction tax and educational surcharge based on 5% or 7% and 5% of net VAT payable, respectively.

13. EARNINGS PER SHARE

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

	2019	2018 Restated
Profit attributable to owners of the Company	3,333,794	4,345,891
Weighted average number of ordinary shares in issue (thousands)	2,760,993	2,760,993
Basic earnings per share (RMB per share)	1.21	1.57

Diluted earnings per share equals to basic earnings per share for the years ended 31 December 2019 and 2018 as there are no dilutive potential shares existed during the years.

14. LAND USE RIGHTS

Land in the Mainland China is state-owned or collectively-owned and no individual land ownership right exists. Land use rights in the Mainland China represent the Group's interests in land which are held on leases between 35 to 50 years.

Land use rights in Hong Kong represent the Group's interests in three parcels of land which are held on leases of 32 to 867 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

14. LAND USE RIGHTS (CONTINUED)

The movements for land use rights are as follows:

	Restated
Balance as at 1 January 2018	1,650,123
Amortisation (Note 6)	(38,492)
Balance as at 31 December 2018	1,611,631
Change in accounting policy – HKFRS 16 (Note 2.1.1)	(1,611,631)
Balance as at 1 January 2019	—

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery	Restated Furniture, fittings and equipment	Vehicles	Construction in progress	Total
At 1 January 2018						
Cost	6,707,752	11,219,047	409,668	282,096	959,287	19,577,850
Accumulated depreciation	(1,558,002)	(7,635,219)	(274,542)	(148,978)	—	(9,616,741)
Net book amount	5,149,750	3,583,828	135,126	133,118	959,287	9,961,109
Year ended 31 December 2018						
Opening net book amount	5,149,750	3,583,828	135,126	133,118	959,287	9,961,109
Additions	21,207	36,766	31,612	14,490	1,505,530	1,609,605
Transfers	83,854	692,187	28,631	13,746	(818,418)	—
Transfer to intangible assets (Note 18)	—	—	—	—	(19,752)	(19,752)
Disposals (Note 34(b))	(6,383)	(9,158)	(405)	(340)	—	(16,286)
Depreciation charge (Note 6)	(219,854)	(817,554)	(22,758)	(23,095)	—	(1,083,261)
Closing net book amount	5,028,574	3,486,069	172,206	137,919	1,626,647	10,451,415
As at 31 December 2018						
Cost	6,789,300	11,814,201	458,948	298,865	1,626,647	20,987,961
Accumulated depreciation	(1,760,726)	(8,328,132)	(286,742)	(160,946)	—	(10,536,546)
Net book amount	5,028,574	3,486,069	172,206	137,919	1,626,647	10,451,415

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings	Machinery	Furniture, fittings and equipment	Vehicles	Construction in progress	Total
Year ended 31 December 2019						
Opening net book amount	5,028,574	3,486,069	172,206	137,919	1,626,647	10,451,415
Additions	51,863	138,733	27,242	6,392	886,869	1,111,099
Transfers	163,647	1,668,352	36,478	9,064	(1,877,541)	—
Transfer to investment properties (Note 16)	(10,275)	—	—	—	(57,751)	(68,026)
Impairment loss	(632)	(34,482)	(2,460)	(191)	(19,511)	(57,276)
Disposals (Note 34(b))	(1,292)	(25,604)	(1,228)	(5,216)	—	(33,340)
Transfer to intangible assets (Note 18)	—	—	—	—	(3,235)	(3,235)
Depreciation charge (Note 6)	(234,920)	(1,205,946)	(32,542)	(21,590)	—	(1,494,998)
Closing net book amount	4,996,965	4,027,122	199,696	126,378	555,478	9,905,639
As at 31 December 2019						
Cost	6,989,525	13,199,966	496,587	290,719	574,989	21,551,786
Accumulated depreciation and impairment loss	(1,992,560)	(9,172,844)	(296,891)	(164,341)	(19,511)	(11,646,147)
Net book amount	4,996,965	4,027,122	199,696	126,378	555,478	9,905,639

(a) Depreciation expense of property, plant and equipment has been charged to profit or loss as follows:

	2019	2018 Restated
Cost of sales	1,255,761	872,094
Distribution costs	9,865	5,483
Administrative expenses	229,372	205,684
	1,494,998	1,083,261

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) The borrowing costs capitalised into the costs of property, plant and equipment during the year are as follows:

	2019	2018 Restated
Borrowing costs capitalised (Note 9)	**1,653**	1,245
Weighted average capitalisation rate	**3.84%**	3.95%

As at 31 December 2019, the Group was in the process of applying the certificates of ownership for the buildings, with net book amount of approximately RMB146,055,135 (2018: approximately RMB138,119,840).

16. INVESTMENT PROPERTIES

	2019	2018 Restated
As at 1 January	**712,797**	709,576
Transfer from buildings (Note 15)	**10,275**	—
Transfer from construction in progress (Note 15)	**57,751**	—
Disposal	**(433)**	—
Transfer to right-of-use assets	**(192)**	—
Revaluation gains recognised in other gains – net (Note 7)	**16,970**	3,221
As at 31 December	**797,168**	712,797

(a) Investment properties are located in the Hong Kong, Shandong province and Guangxi province, PRC and revalued as at 31 December 2019 on an open market value. Investment properties in Hong Kong are held on leases over 50 years. Investment properties in Mainland China are held on leases between 35 to 50 years.

(b) The following amounts have been recognised in profit or loss:

	2019	2018 Restated
Rental income	**35,252**	29,679

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

16. INVESTMENT PROPERTIES (CONTINUED)

(c) Fair value hierarchy

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers among level 1, 2 and 3 during the year.

The following table analyses the investment properties carried at fair value, by fair value hierarchy levels.

	Fair value measurements at 31 December 2019 using		
Description	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Recurring fair value measurements:			
– Warehouses	**—**	**—**	**63,058**
– Factories	**—**	**—**	**345,632**
– Office units	**—**	**304,841**	**83,637**
	—	**304,841**	**492,327**

	Restated Fair value measurements at 31 December 2018 using		
Description	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurements:			
– Warehouses	—	—	59,447
– Factories	—	—	287,341
– Office units	—	287,858	78,151
	—	287,858	424,939

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

16. INVESTMENT PROPERTIES (CONTINUED)

(d) Valuation process of the Group

An independent valuation of the Group's investment properties was performed by the surveyors, PRUDENTIAL Property Surveyors (Hong Kong) Limited and Shandong Pan-China Assets Appraisal Co., Ltd., to determine the fair value of the investment properties as at 31 December 2019 (2018: PRUDENTIAL Property Surveyors (Hong Kong) Limited and Shandong Pan-China Assets Appraisal Co., Ltd.). The revaluation gains or losses are included in 'Other gains – net' in profit or loss.

(e) Valuation techniques

Level 2 fair values of the investment properties have been generally derived using sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is selling price per square foot or per square meter.

Level 3 fair values of the investment properties are based on income capitalisation approach (term and reversionary method), direct comparison method or replacement cost approach. Income capitalisation approach largely used unobservable inputs (rental value and capitalisation rate) and taking into account the significant adjustment on term yield to account for the risk upon reversionary and the estimation in vacancy rate after expiry of current lease.

Information about fair value measurements of investment properties using significant unobservable inputs (Level 3):

Fair value at 31 December 2019	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
416,733	Income capitalisation approach	Rental value	RMB0.32-2.6 per day per square meter	The higher the rental value, the higher the fair value
		Capitalisation rate	6.8%-8%	The higher the capitalisation rate, the lower the fair value
44,999	Direct comparison method	Unit price	RMB851.00-860.00 per day per square meter	The higher the unit price, the higher the fair value
30,595	Replacement cost approach	Integrated depreciation rate	59%-70%	The higher the integrated depreciation rate, the lower the fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

17. LEASES

(a) Amounts recognised in the consolidated statement of financial position

	As at 31 December 2019	As at 1 January 2019 Restated
Right-of-use assets		
– Land use rights	1,572,917	1,611,631
– Buildings	56,075	9,981
– Vehicles	144	—
Total right-of-use assets	1,629,136	1,621,612
Lease liabilities		
– Current	31,215	5,038
– Non-current	26,164	4,880
Total lease liabilities	57,379	9,918

(b) Amounts recognised in the consolidated statement of profit or loss

The consolidated statement of profit or loss shows the following amounts relating to leases:

	For the year ended 31 December	
	2019	2018 Restated
Depreciation of right-of-use assets		
– Land use rights	38,854	—
– Buildings	28,824	—
– Vehicles	59	—
Total depreciation (Note 6)	67,737	—
Interest expense (Note 9)	3,424	—
Expense relating to short-term leases	34,713	—

The total cash payment for leases in 2019 was RMB65,745,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

18. INTANGIBLE ASSETS

Intangible assets mainly represent the costs of acquiring proprietary technology and computer software. The movement is as follows:

	Proprietary technology	Restated Computer software	Total
At 1 January 2018			
Cost	1,361,503	85,633	1,447,136
Accumulated amortisation	(1,037,439)	(52,042)	(1,089,481)
Net book amount	324,064	33,591	357,655
Year ended 31 December 2018			
Opening net book amount	324,064	33,591	357,655
Additions	—	11,597	11,597
Disposals	—	(29)	(29)
Transfer from property, plant and equipment (Note15)	19,184	568	19,752
Amortisation charge (Note 6)	(54,931)	(8,881)	(63,812)
Closing net book amount	288,317	36,846	325,163
At 31 December 2018			
Cost	1,380,687	97,715	1,478,402
Accumulated amortisation	(1,092,370)	(60,869)	(1,153,239)
Net book amount	288,317	36,846	325,163

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

18. INTANGIBLE ASSETS (CONTINUED)

	Proprietary technology	Computer software	Total
Year ended 31 December 2019			
Opening net book amount (Restated)	288,317	36,846	325,163
Additions	—	16,712	16,712
Transfer from property, plant and equipment (Note15)	—	3,235	3,235
Amortisation charge (Note 6)	(56,334)	(10,189)	(66,523)
Closing net book amount	231,983	46,604	278,587
At 31 December 2019			
Cost	1,380,687	117,662	1,498,349
Accumulated amortisation	(1,148,704)	(71,058)	(1,219,762)
Net book amount	231,983	46,604	278,587

(a) Amortisation of the Group's intangible assets has been charged to administrative expenses in profit or loss.

(b) Research and development expenditures that do not meet criteria for capitalisation are recognised as an expense as incurred. The total amount of expenses charged into profit or loss is approximately RMB 1,721,331,000 (2018: RMB1,225,833,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

19. FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	Note	2019	2018 Restated
Financial assets			
Receivables and other assets before prepaid items	23	**17,911,467**	16,351,361
Financial assets at amortised cost	21	**9,711**	33,990
Cash and bank balance	25	**18,191,252**	15,190,878
FVOCI	20	**2,284,917**	2,568,160
FVPL	22	**1,715,101**	2,251,868
Amounts due from related parties excluding prepayments	39(b)	**252,620**	370,972
Total		**40,365,068**	36,767,229
Financial liabilities			
Trade and bills payables, accrued expense and other payables	27	**28,502,473**	25,953,793
Borrowings	28	**1,000,000**	3,000,000
Amounts due to related parties excluding contract liabilities	39(b)	**1,075,778**	2,297,725
Total		**30,578,251**	31,251,518

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3.1. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets at fair value through other comprehensive income

The classification of financial assets at fair value through other comprehensive income (FVOCI) comprise:

- Equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. They are strategic investments and the Group considers this classification to be more relevant.

- Debt investments where the contractual cash flows are solely principal and interest and the objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets.

	2019	2018 Restated
Non-current		
Equity investments	**33,125**	37,925
Current		
Debt investments (a)		
– bank acceptance notes	**2,203,549**	2,512,798
– commercial acceptance notes	**48,243**	17,437
	2,251,792	2,530,235

(a) The Group receives acceptance notes from its customers to settle purchase consideration and intends to use these acceptance notes either to pay off its trade and other payables or to hold until maturity. The ageing analysis of these acceptance notes based on transaction dates at the respective dates of statement of financial position is as follows:

	2019	2018 Restated
Less than 3 months	**1,356,762**	1,467,545
3 months to 6 months	**804,201**	855,267
6 months to 12 months	**90,829**	207,423
	2,251,792	2,530,235

On disposal of these debt investments, any related balance within the FVOCI reserve is reclassified to profit or loss.

(b) All equity investments and debt investments as at 31 December 2019 are dominated in RMB.

(All amounts in RMB thousands unless otherwise stated)

21. FINANCIAL ASSETS AT AMORTISED COST

Financial assets at amortised cost include the following debt investments:

	2019	2018 Restated
Bills discounted (a)	9,711	33,990

(a) The aging analysis of receivables from bills discounting services based on transaction dates at the respective dates of statement of financial position is as follows:

	2019	2018 Restated
Less than 3 months	2,961	4,480
3 months to 6 months	5,750	24,351
6 months to 12 months	1,000	5,159
	9,711	33,990

(b) All bills discounted as at 31 December 2019 are dominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Classification of financial assets at fair value through profit or loss

Financial assets at FVPL include the following:

	2019	2018 Restated
Non-current		
Wealth management product		
– with principal and interests non-guaranteed	—	173,688
Current		
Listed securities – held for trading		
– Equity securities	24,966	103,544
Wealth management product		
– with principal preservation and floating return	—	1,458,268
– with principal and interests non-guaranteed	1,690,135	516,368
	1,715,101	2,078,180

FVPL are denominated in the following currencies:

	2019	2018 Restated
RMB	1,690,135	2,148,324
HKD	24,966	103,544
	1,715,101	2,251,868

(b) Amounts recognised in profit or loss

During the year, the following gains/(losses) were recognised in 'other gains – net':

	2019	2018 Restated
Fair value losses on equity securities (i)	(11,013)	(12,850)
Fair value gains/(losses) on wealth management product	11,811	(13,032)
Net gains/(losses) (Note 7)	798	(25,882)

(i) The fair values of all equity securities are based on their current bid prices in an active market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

23. RECEIVABLES AND OTHER ASSETS

	2019	2018 Restated
Non-current		
Accounts receivable	**265,115**	105,936
Less: Provision for impairment of account receivables	**(30,996)**	—
Accounts receivable – net (c)	**234,119**	105,936
Financing receivables	**2,691,424**	2,210,192
Less: Provision for impairment of financing receivables	**(72,233)**	(44,876)
Financing receivables – net (d)	**2,619,191**	2,165,316
Prepayments for long term assets	**53,763**	29,368
Receivables and other assets – net	**2,907,073**	2,300,620
Current		
Accounts receivable	**10,146,230**	8,600,237
Less: Provision for impairment of accounts receivable	**(1,966,474)**	(1,245,517)
Accounts receivable – net (c)	**8,179,756**	7,354,720
Financing receivables	**6,825,341**	6,510,697
Less: Provision for impairment of financing receivables	**(178,295)**	(132,741)
Financing receivables – net (d)	**6,647,046**	6,377,956
Other receivables and other assets	**220,757**	346,629
Less: Provision for impairment of other receivables and other assets	**(60,682)**	(55,078)
Other receivables and other assets – net	**160,075**	291,551
Interest receivables	**71,280**	55,882
Receivables and other assets before prepaid items	**15,058,157**	14,080,109
Prepayments	**265,547**	226,522
Prepaid taxes other than income tax	**650,345**	713,496
Prepaid income taxes	**76,526**	3,006
Receivables and other assets – net	**16,050,575**	15,023,133

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

23. RECEIVABLES AND OTHER ASSETS (CONTINUED)

(a) As at 31 December 2019 and 2018, the carrying amounts of the Group's receivables and other assets before prepaid items approximated their fair values.

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

Information about the impairment of trade receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 3.1.

(b) The movements in the provision for impairment of receivables and other assets are disclosed in Note 3.1(c).

(c) The ageing analysis of trade receivables – net based on invoice date at respective dates of statement of financial position are as follows:

	2019	2018 Restated
Less than 3 months	**4,147,412**	3,892,099
3 months to 6 months	**1,244,273**	864,601
6 months to 12 months	**719,047**	858,755
1 year to 2 years	**1,379,329**	699,267
2 years to 3 years	**484,073**	1,050,044
Over 3 years	**439,741**	95,890
	8,413,875	7,460,656

The sales policy of the Group generally requires its customers to pay a certain amount of deposits when orders commercial vehicles are made and settle purchase price either in cash, on credit or by acceptance notes. A credit period from 3 to 12 months is granted to selected customers based on credit assessment.

As at 31 December 2019, accounts receivable of the Group of approximately RMB1,262,400,000 (2018: RMB668,673,000) were secured by certain letters of credit issued by overseas third parties. As at 31 December 2019, RMB2,959,646,000 (2018: RMB2,427,334,000) were guaranteed by China Export and Credit Insurance Corporation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

23. RECEIVABLES AND OTHER ASSETS (CONTINUED)

(d) The ageing analysis of financing receivables – net at respective dates of statement of financial position is as follows:

	2019	2018 Restated
Less than 3 months	**1,999,901**	1,914,717
3 months to 6 months	**1,617,283**	1,330,683
6 months to 12 months	**3,023,068**	3,407,030
1 year to 2 years	**2,281,593**	1,837,589
2 years to 3 years	**296,536**	53,253
Over 3 years	**47,856**	—
	9,266,237	8,543,272

Financing receivables represents loans granted by Sinotruk Finance Co., Ltd. and ShanDong HOWO Auto Finance Co., Ltd. which are involved in the provision of financing services, to suppliers of the Group at interest rates ranging from 3.48% to 7.80% per annum and to individuals and entities when they purchased commercial vehicles of the Group from dealers at interest rates ranging from 5.00% to 18.00% per annum. Receivables to those who purchased commercial vehicles of the Group from dealers were secured by the vehicles and most of these receivables were guarantees provided by these dealers and their relevant parties.

(e) The carrying amounts of the Group's receivables and other assets before prepaid items are denominated in the following currencies:

	2019	2018 Restated
RMB	**14,657,815**	14,553,092
USD	**2,976,469**	1,730,231
EURO	**269,214**	58,422
ZAR (South African Rand)	**4,811**	9,132
HKD	**3,158**	484
	17,911,467	16,351,361

(f) The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

24. INVENTORIES

	2019	2018 Restated
Raw materials	1,585,937	1,670,438
Work in progress	2,409,753	1,539,262
Finished goods - engines, parts and components	254,548	197,913
Finished goods - trucks and buses	5,825,676	8,448,481
	10,075,914	11,856,094
Less: write-down of inventories to net realisable value	(355,094)	(256,047)
	9,720,820	11,600,047

The costs of inventories that have been charged to profit or loss are analysed as follows:

	2019	2018 Restated
Materials cost (Note 6)	44,887,405	46,235,057
Write-down of inventories to net realisable value (Note 6)	255,043	179,450
	45,142,448	46,414,507
Representing:		
Cost of sales	44,566,908	45,905,663
Administrative expenses	575,540	508,844
	45,142,448	46,414,507

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

25. CASH AND BANK BALANCES

	2019	2018 Restated
Restricted cash (a)	**2,439,131**	2,364,362
Cash and cash equivalents (b)	**15,752,121**	12,826,516
	18,191,252	15,190,878

(a) Restricted cash

The breakdown of restricted cash by nature as at 31 December 2019 and 2018 is as follows:

	2019	2018 Restated
Deposits for issuing bank acceptance notes	**239,098**	422,627
Deposits for issuing letters of credit	**20,478**	63,461
Mandatory reserve deposits (i)	**2,132,978**	1,864,827
Other restricted cash	**46,577**	13,447
	2,439,131	2,364,362

(i) The Group is required to place mandatory deposits with the People's Bank of China ("PBOC") for deposits taking.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

25. CASH AND BANK BALANCES (CONTINUED)

(b) Cash and cash equivalents

	2019	2018 Restated
Cash on hand	147	181
Current bank deposits (i)	15,751,974	12,826,335
Cash and cash equivalents	15,752,121	12,826,516

(i) The weighted average effective interest rate on current bank deposits was 0.80% (2018: 0.84%) per annum.

(ii) Most of the Group's cash and cash equivalents denominated in RMB are deposited with banks in Mainland China. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(iii) Credit quality of cash at bank

The Group categorises its cash at bank into the following:

i) Group 1 – Major international banks

ii) Group 2 – Large China reputable banks

The management considered the credit risks in respect of bank deposits with financial institutions are relatively minimum as each counterparty either bears a high credit rating or is large state-owned or listed PRC bank with good reputation.

	2019	2018 Restated
Group 1	173,050	144,531
Group 2	15,578,924	12,681,804
	15,751,974	12,826,335

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

25. CASH AND BANK BALANCES (CONTINUED)

(c) Cash and bank balances are denominated in:

	2019	2018 Restated
RMB	16,469,114	13,958,327
USD	1,570,298	1,132,318
HKD	43,887	33,246
EURO	90,223	46,685
GBP (Great Britain Pound)	251	2,661
Others	17,479	17,641
	18,191,252	15,190,878

26. EQUITY

(a) Share capital

Ordinary shares, issued and fully paid:

	Number of shares	Share capital
Balance at 1 January 2019 and at 31 December 2019	**2,760,993,339**	**16,717,024**
Balance at 1 January 2018 and at 31 December 2018	2,760,993,339	16,717,024

(b) Notes to the Group's reserves

(i) The Group's capital reserve is the reserve arising from asset donations and transactions with CNHTC as a result of the Reorganisation and transactions with non-controlling interests.

(ii) The Group's statutory reserves is the aggregate of statutory reserves of all PRC subsidiaries. In accordance with PRC regulations and the articles of the association of the subsidiaries incorporated in PRC ("PRC subsidiaries"), before distributing the profit of each year, the PRC subsidiaries are required to set aside 10% of their statutory net profit for the year after offsetting any prior year's losses as determined under the PRC accounting regulations to the statutory reserve. When the balance of such reserve reached 50% of the capital, any further appropriation is optional. The statutory reserve can be utilised to offset prior year's losses or to issue bonus shares. However, such statutory reserve must be maintained at a minimum of 25% of the entity's capital after such issuance.

(iii) The merger reserve of the Group represents the difference between the nominal value of the shares or the capital of the subsidiaries that had been acquired and the nominal value of the Company's shares issued in exchange therefore pursuant to the Reorganisation or cash consideration paid for purchase of subsidiary as a business combination under common control subsequent to the Reorganisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

26. EQUITY (CONTINUED)

(b) Notes to the Group's reserves (Continued)

(iv) According to the regulations of the Notice of the Ministry of Finance on Issuing the Administrative Measures for the Provision of Reserves of Financial Enterprises (Cai Jin [2012] No. 20) issued on 30 March 2012, financial enterprises shall, based on their actual conditions, carry out quantitative analysis on the risks to which the risk assets are exposed via the internal model approach or standard approach to determine the estimated value of potential risk. A general provision is made for the part that the estimated value of potential risk excesses the impairment of assets. In principle, balance of general provision shall be no lower than 1.5% of the ending balance of risk assets. The proportion (1.5%) that the balance of general provision accounts for the ending balance of risk assets could be reached in several years, but no more than 5 years in principle, if it is not available for a financial enterprise by one-time.

According to the regulations of the Administrative Measures for the Provision of Reserves of Financial Enterprises (Cai Jin [2012] No. 20) issued by the Ministry of Finance, Sinotruk Finance Co., Ltd. and ShanDong HOWO Auto Finance Co., Ltd., both are subsidiaries of the Company, appropriates the general risk reserve and have reached 1.57% and 1.5% of ending balances of their risk assets of the current year respectively.

27. TRADE PAYABLES AND OTHER LIABILITIES

	2019	2018 Restated
Trade and bills payables	**24,688,730**	22,234,261
Contract liabilities	**1,754,266**	2,342,297
Accrued expenses	**1,137,433**	1,128,632
Staff welfare and salaries payable	**1,008,043**	605,133
Taxes liabilities other than income tax	**189,798**	293,190
Other payables	**2,676,310**	2,590,900
	31,454,580	29,194,413

(All amounts in RMB thousands unless otherwise stated)

27. TRADE PAYABLES AND OTHER LIABILITIES (CONTINUED)

The ageing analysis of the trade and bills payables based on invoice date at respective dates of statement of financial position is as follows:

	2019	2018 Restated
Less than 3 months	21,374,981	20,486,701
3 months to 6 months	3,156,624	1,583,580
6 months to 12 months	63,036	68,962
1 year to 2 years	70,834	79,247
2 years to 3 years	13,690	6,322
Over 3 years	9,565	9,449
	24,688,730	22,234,261

The carrying amounts of the Group's trade and bills payables, and other payables are denominated in the following currencies:

	2019	2018 Restated
RMB	27,278,880	24,798,048
USD	78,451	24,002
EURO	3,985	—
HKD	3,724	2,960
ZAR (South African Rand)	—	151
	27,365,040	24,825,161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

28. BORROWINGS

	2019	2018 Restated
Current		
Short-term bank borrowings		
– unsecured	1,000,000	3,000,000

(a) The Group's borrowings are repayable as follows:

	2019	2018 Restated
Within 1 year	1,000,000	3,000,000

(b) The carrying amounts of the Group's borrowings are denominated in the following currency:

	2019	2018 Restated
RMB	1,000,000	3,000,000

(c) The average coupon rates in respect of borrowings at the respective dates of statement of financial position are set out as follows:

	2019	2018 Restated
Bank borrowings	3.59%	4.11%

Interest rates of the bank borrowings denominated in RMB are reset periodically by reference to the primary rates announced by PBOC or prevailing market interest rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

28. BORROWINGS (CONTINUED)

(d) The exposure of the Group's borrowings to interest-rate changes and contractual repricing dates at the respective date of statement of financial position are as follows:

	2019	2018 Restated
Within 6 months	**1,000,000**	2,400,000
Between 6 and 12 months	**—**	600,000
	1,000,000	3,000,000

(e) The Group has the following undrawn borrowing facilities:

	2019	2018 Restated
– Expiring within one year	**18,150,000**	3,738,833

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

29. DEFERRED INCOME TAX

(a) The amounts are as follows:

	2019	2018 Restated
Deferred tax assets:		
– Deferred tax assets to be recovered after more than 12 months	311,474	224,463
– Deferred tax assets to be recovered within 12 months	1,411,594	1,277,114
	1,723,068	1,501,577
Set-off of deferred tax liabilities pursuant to set-off provisions	(47,135)	(11,498)
Net deferred tax assets	1,675,933	1,490,079
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	(71,920)	(52,206)
– Deferred tax liabilities to be recovered within 12 months	(3,667)	(348)
	(75,587)	(52,554)
Set-off of deferred tax liabilities pursuant to set-off provisions	47,135	11,498
Net deferred tax liabilities	(28,452)	(41,056)
Deferred tax assets – net	1,647,481	1,449,023

(b) The gross movements on the deferred income tax assets – net are as follows:

	2019	2018 Restated
As at 1 January	1,449,023	1,522,078
Credited/(Charged) to profit or loss (Note 12 (a))	198,458	(73,055)
As at 31 December	1,647,481	1,449,023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

29. DEFERRED INCOME TAX (CONTINUED)

(c) The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax assets	Provisions for receivables and inventories	Pensions and other post-retirement benefits	Unrealised profit	Accrued expenses and provisions	Fair value adjustment arising from business combination	Deferred income	Tax losses	Others	Total
As at 1 January 2018 (Restated)	341,011	812	384,340	424,601	59,132	58,257	221,583	83,740	1,573,476
Credited/(charged) to profit or loss	48,718	433	(3,564)	50,136	(2,493)	(818)	(155,529)	(8,782)	(71,899)
As at 31 December 2018 (Restated)	389,729	1,245	380,776	474,737	56,639	57,439	66,054	74,958	1,501,577
Credited/(charged) to profit or loss	233,174	(366)	(11,092)	23,786	(2,993)	(2,566)	(47,972)	29,520	221,491
As at 31 December 2019	622,903	879	369,684	498,523	53,646	54,873	18,082	104,478	1,723,068

Deferred tax liabilities	Accelerated tax depreciation	Fair value adjustment arising from business combination	Fair value adjustment arising from property, plant and equipment and land use right	Fair value adjustment arising from investment properties	Fair value adjustment arising from available-for-sale financial assets	Total
As at 1 January 2018 (Restated)	(4,133)	(23,767)	(8,781)	(7,357)	(7,360)	(51,398)
(Charged)/credited to profit or loss	(14,701)	507	—	5,678	7,360	(1,156)
As at 31 December 2018 (Restated)	(18,834)	(23,260)	(8,781)	(1,679)	—	(52,554)
(Charged)/credited to profit or loss	(24,400)	80	—	1,287	—	(23,033)
As at 31 December 2019	(43,234)	(23,180)	(8,781)	(392)	—	(75,587)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

30. TERMINATION AND POST-EMPLOYMENT BENEFITS

	2019	2018 Restated
Termination benefits (a)	1,034	2,979
Post-employment benefits (b)	5,854	6,260
Post-employment medical insurance plan (c)	4	68
	6,892	9,307

(a) The termination benefits recognised in the consolidated statement of profit or loss are as follows:

	2019	2018 Restated
Termination benefits, included in staff costs (Note 8)	(340)	(440)

(b) The amounts of post-employment benefits recognised in the consolidated statement of financial position are determined as follows:

	2019	2018 Restated
Present value of benefit plans	5,854	6,260
Unrecognised actuarial losses	—	—
Liability in the consolidated statement of financial position	5,854	6,260

The movements of post-employment benefits recognised in the consolidated statement of financial position are as follows:

	2019	2018 Restated
As at 1 January	6,260	6,712
Total expenses (interest cost) (Note 8)	236	250
Remeasurements of post-employment benefits recognised in other comprehensive income	69	38
Benefits paid	(711)	(740)
As at 31 December	5,854	6,260

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

30. TERMINATION AND POST-EMPLOYMENT BENEFITS (CONTINUED)

(c) The amounts of medical insurance plan recognised in the consolidated statement of financial position are determined as follows:

	2019	2018 Restated
Present value of benefit plan	4	68
Unrecognised actuarial losses	—	—
Liability in the consolidated statement of financial position	4	68

The movements of medical insurance plan recognised in the consolidated statement of financial position are as follows:

	2019	2018 Restated
As at 1 January	68	426
Total expenses (interest expense) (Note 8)	3	16
Remeasurements of medical insurance plan recognised in other comprehensive income	5	(160)
Benefits paid	(72)	(214)
As at 31 December	4	68

The material actuarial assumptions used in valuing these obligations are as follows:

(i) Discount rates adopted and salary increase rate adopted:

	2019	2018 Restated
Post-employment benefits and medical insurance plan discount rate	3.77%	3.72%
Average salary increase rate	10% to 12%	10% to 12%

(ii) Mortality: Average life expectancy of residents in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

31. DEFERRED INCOME

	2019	2018 Restated
Government grants	**285,266**	305,371
Relocation compensation	**693**	11,067
	285,959	316,438

During 2019, recognition of deferred income amounting to RMB46,101,000 is credited to profit or loss (2018: RMB55,559,000).

32. PROVISIONS FOR OTHER LIABILITIES

	2019		
	Legal claims	**Products warranties**	**Total**
As at 1 January	**—**	**976,973**	**976,973**
Additional provision (Note 6)	**22,225**	**940,944**	**963,169**
Untilised during the year	**—**	**(720,643)**	**(720,643)**
As at 31 December	**22,225**	**1,197,274**	**1,219,499**

	2018 Restated		
	Legal claims	Products warranties	Total
As at 1 January	—	1,029,919	1,029,919
Additional provision (Note 6)	—	861,097	861,097
Untilised during the year	—	(914,043)	(914,043)
As at 31 December	—	976,973	976,973

33. DIVIDENDS

(a) At a meeting held on 31 March 2020, the Board proposed a final dividend in respect of the year ended 31 December 2019 of either HKD0.39 or RMB0.36 (2018: HKD0.64) per ordinary share representing total dividend at approximately HKD1,076,787,000 (2018: approximately HKD1,767,036,000) or approximately RMB993,958,000 (2018: equivalent to approximately RMB1,554,691,000). Such dividend is to be approved by the shareholders at the forthcoming annual general meeting of the Company. The consolidated financial statements does not reflect this dividend payable.

(b) Pursuant to the CIT Law, the Company is determined as a Chinese resident enterprise and required to withhold and pay corporate income tax at the specific tax rates according to the CIT Law for its non-PRC resident enterprise shareholders to whom the Company pays dividend. Accordingly, the Company had withheld corporate income tax amounting to approximately HKD63,961,000 or approximately RMB56,286,000 in respect of the final dividend for the year 2018 (withholding corporate income tax for the final dividend for the year 2017: approximately HKD69,743,000 or approximately RMB58,263,000) for its non-PRC resident enterprise shareholders and fully paid in July 2019.

(c) During the year ended 31 December 2019, certain Group's non-wholly owned subsidiaries have approved dividends to non-controlling interests amounting to approximately RMB120,630,000 (2018: approximately RMB181,759,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from operations

	2019	2018 Restated
Profit before income tax	**4,804,513**	5,732,710
Adjustments for:		
– Provision of impairment losses on financial assets (Note 3.1 (c))	**831,817**	309,475
– Provision of impairment losses on fixed assets	**57,276**	—
– Depreciation (Note 6 and Note 15)	**1,494,998**	1,083,261
– Amortisation of intangible assets (Note 6 and Note 18)	**66,523**	63,812
– Depreciation of right-of-use assets (Note 6 and Note 17)	**67,737**	—
– Amortisation of land use rights	**—**	38,228
– Write-down inventories to net realisable value (Note 6 and Note 24)	**255,043**	179,450
– Fair value (gains)/losses on financial assets at fair value through profit or loss (Note 7 and Note 22)	**(798)**	25,882
– Gains on disposal of property, plant and equipment (Note 7 and Note 34(b))	**(6,960)**	(3,894)
– Losses on disposal of intangible assets (Note 7)	**—**	29
– Gains on disposal of financial assets at fair value through profit or loss (Note 7)	**(186,208)**	(119,335)
– Dividends received from financial assets at fair value through profit or loss (Note 7)	**(521)**	(1,354)
– Dividends received from financial assets at fair value through other comprehensive income (Note 7)	**—**	(2,250)
– Gains on disposal of wealth management products with principal and interests guaranteed (Note 7)	**—**	(27,912)
– Gains on disposal of financial assets at fair value through other comprehensive income	**(251)**	—
– Gains on disposal of assets classified as held for sale	**—**	(63,087)
– Fair value gains on investment properties (Note 7 and Note16)	**(16,970)**	(3,221)
– Share of profits less losses of investments accounted for using the equity method	**(68,746)**	(70,351)
– Dilution gain on investment in an associate	**—**	(6,283)
– Finance income (Note 9)	**(45,225)**	(92,979)
– Finance costs	**141,294**	160,757
– Recognition of deferred income (Note 31)	**(46,101)**	(55,559)
– Foreign exchange gains	**(28,254)**	(53,196)
	7,319,167	7,094,183

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(a) Cash generated from operations (Continued)

	2019	2018 Restated
Changes in working capital:		
– Inventories	1,624,184	1,471,886
– Trade and other receivables and amounts due from related parties	(2,568,847)	(1,976,323)
– Restricted cash	(74,769)	224,877
– Trade and other liabilities, and amounts due to related parties	3,647,699	(1,247,901)
– Operating fund of finance segment (d)	(200,000)	(300,000)
– Interest receivable of finance segment	(20,796)	(3,174)
– Receipt of government grant	15,622	10,797
– Provisions for other liabilities	242,526	(49,503)
– Termination and post-employment benefits obligations	(1,995)	(4,804)
Cash generated from operations	9,982,791	5,220,038

(b) In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	2019	2018 Restated
Net book amount (Note 15)	33,340	16,286
Gains on disposal of property, plant and equipment (Note 34(a))	6,960	3,894
Proceeds from disposal of property, plant and equipment	40,300	20,180

(c) Major non-cash transactions

For the year ended 31 December 2019, the Group endorsed bank acceptance notes to the suppliers for purchase of property, plant and equipment amounting to approximately RMB315,052,000 (2018: approximately RMB158,965,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(d) Reconciliation of liabilities from financing activities

	Liabilities from financing activities			
	Borrowings from third parties due within 1 year	Borrowings from related parties due within 1 year	Leases	Total
Net debt as at 1 January 2018 Restated	4,990,000	486,000	—	5,476,000
Financing cash flows	(1,690,000)	1,400,000	—	(290,000)
Operating cash flows (i)	(300,000)	—	—	(300,000)
Net debt as at 31 December 2018 Restated	3,000,000	1,886,000	—	4,886,000
Recognised on adoption of HKFRS16 (Note 2.1.1)	—	—	9,918	9,918
Acquisition - leases	—	—	75,069	75,069
Financing cash flows (a)	(1,800,000)	(1,886,000)	(27,608)	(3,713,608)
Operating cash flows (i)	(200,000)	—	—	(200,000)
Net debt as at 31 December 2019	1,000,000	—	57,379	1,057,379

(i) Borrowings arising from finance segment is reflected as operating cash flow.

35. CONTINGENCIES AND GUARANTEES

The Directors are of the opinion that except for the provision for legal claims already made as disclosed in Note 32, there is no other material contingent liability in respect of legal claims. The provision for guarantees of products warranties has been disclosed in Note 32.

36. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the year end but not yet incurred is as follows:

	2019	2018 Restated
Property, plant and equipment	**486,434**	379,751

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

36. COMMITMENTS (CONTINUED)

(b) Lease payments receivable – As a lessor

The future aggregate minimum lease payments receivable under non-cancellable operating leases in respect of investment properties, warehouses, plants and other assets are as follows:

	2019	2018 Restated
No later than 1 year	27,391	29,345
Later than 1 year and no later than 2 years	20,392	28,660
Later than 2 years and no later than 5 years	34,611	34,105
Later than 5 years	31,737	35,500
	114,131	127,610

37. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

Effects of changes in ownership interests in a subsidiary without change of control on the equity

In December 2019, the Group acquired 0.14% equity of Sinotruk Finance Co., Ltd. for a consideration of RMB5,999,272, which subsequently increased the Group's equity interest to 94.79%.

38. BUSINESS COMBINATION

(a) Summary of acquisition

On 31 December 2019, the Group acquired through step acquisition by purchase of the remaining 35% equity interests of Hongye and, thereafter, Hongye is a wholly owned subsidiary of the Company (Note 11 (b)).

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Purchase consideration (refer to (b) below):	
Cash paid	84,512
Fair value of interest in a joint venture (note 11 (b))	157,006
Total purchase consideration	241,518

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

38. BUSINESS COMBINATION (CONTINUED)

(a) Summary of acquisition (Continued)

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value
Cash	100,612
Trade receivables	319,997
Trade payables	(158,415)
Contract liabilities	(34,286)
Net identifiable assets acquired	227,908
Add: Goodwill	13,610
Net assets acquired	241,518

There were no acquisition in the year ended 31 December 2018.

(b) Purchase consideration – cash inflow

	2019	2018
Inflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration	84,512	—
Less: Cash balances acquired	(100,612)	—
Net inflow of cash – investing activities	(16,100)	—

39. RELATED PARTY TRANSACTIONS

The immediate holding company of the Group is Sinotruk (BVI) Limited, a company incorporated in the British Virgin Islands. The ultimate holding company of the Group is CNHTC which is a state-owned company established in the PRC and is controlled by the PRC Government.

The Group is an associated company of MAN Finance and Holding S.A., a non-wholly owned subsidiary of Ferdinand Porsche Familien – Privatstiftung ("FPFPS"). FPFPS and its subsidiaries are referred as the FPFPS Group.

Before 31 December 2019, Hongye was a jointly controlled entity of the Company. As at 31 December 2019, the Group had acquired all remaining equity interest of Hongye, and thereafter Hongye has become a wholly-owned subsidiary of the Company.

Prinx Cayman and its subsidiaries (referred as "Prinx Cayman Group"), Panzhihua Mining Truck and Changjiu Sinotruk are associated companies of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

39. RELATED PARTY TRANSACTIONS (CONTINUED)

The Directors consider that, the major related parties are the CNHTC Group, FPFPS Group, Hongye (before become as wholly-owned subsidiary of the Company), Prinx Cayman Group, Panzhihua Mining Truck, Changjiu Sinotruk, key management personnel of the Company and CNHTC as well as their close family members, and other PRC government-related entities ("Other State-owned Enterprises").

(a) Significant related party transactions

	2019	2018 Restated
Transactions with related parties		
(i) CNHTC Group		
Sales of trucks	247,876	424,222
Purchases of trucks	2,515,358	2,567,374
Sales of spare parts	605,078	670,764
Purchases of spare parts	1,261,712	1,308,508
Supply of auxilliary production services	11,451	12,620
Purchases of general services	77,308	112,077
Rental income	15,002	16,681
Rental expenses	31,013	17,591
Purchases of construction and project management services	47,366	32,577
Provision for technology support and services	6,739	2,610
Purchase of technology development	24,528	22,642
Interest expenses for deposits taking services	8,129	8,091
Interest expenses for accepting loan service	1,583	1,570
Aggregate of interest income for loan service	6,725	1,223
Fee income	86	484
	4,859,954	5,199,034
(ii) FPFPS Group		
Sales of spare parts	14,891	28,045

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

39. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Significant related party transactions (Continued)

		2019	2018 Restated
(iii)	Prinx Cayman Group		
	Purchases of spare parts	295,841	310,509
	Sales of raw materials	—	60,734
		295,841	371,243
(iv)	Hongye		
	Sales of trucks	153,551	1,299,231
	Aggregate of interest expenses for deposits taking services	1,175	934
	Purchases of spare parts	—	7,707
		154,726	1,307,872
(v)	Panzhihua Mining Truck		
	Sales of trucks	1,504	—
(vi)	Changjiu Sinotruk		
	Purchases of general services	179,381	6,913
(vii)	Key management		
	Salaries and other short-term benefits	7,380	7,506
	Post-employment benefits	261	279
		7,641	7,785

(viii) Other State-owned Enterprises

The Group has transactions with Other State-owned Enterprises including but not limited to sales of products, purchase of raw material and services, deposits placement and borrowings. The Directors are of the opinion that these transactions are conducted in the ordinary business of the Group and no disclosure is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

39. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties

	2019	2018 Restated
Amounts due from related parties		
(i) CNHTC Group		
Trade receivables	2,620	3,401
Prepayments	17,981	—
Loans	250,000	—
	270,601	3,401
(ii) Prinx Cayman Group		
Trade receivables	—	1,936
(iii) Hongye		
Trade receivables	—	365,550
Other receivables	—	85
	—	365,635
	270,601	370,972

The carrying amounts due from related parties excluding prepayment are denominated in the following currencies:

	2019	2018 Restated
RMB	252,620	3,401
USD	—	347,074
EURO	—	20,497
	252,620	370,972

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

39. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties (Continued)

The ageing analysis of trade receivables from related parties based on invoice date at respective dates of statement of financial position are as follows:

	2019	2018 Restated
Less than 3 months	**320**	335,739
3 months to 6 months	**24**	34,728
6 months to 12 months	**2,276**	—
1 year to 2 years	**—**	—
2 years to 3 years	**—**	100
Above 3 years	**—**	320
	2,620	370,887

The ageing analysis of loans to related parties as at the respective dates of statement of financial position is as follows:

	2019	2018 Restated
Within 6 months	**50,000**	—
6 months to 12 months	**200,000**	—
	250,000	—

The interest rate of loans to related parties is 4.13% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

39. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties (Continued)

	2019	2018 Restated
Amounts due to related parties		
(i) CNHTC Group		
Trade payables	74,119	7,499
Other payables	8,468	10,351
Contract liabilities	8,679	7,363
Deposits taking	900,720	109,814
Borrowings	—	1,886,000
	991,986	2,021,027
(ii) Prinx Cayman Group		
Trade payables	63,984	57,758
(iii) Panzhihua Mining Truck		
Contract liabilities	183	—
(iv) Hongye		
Other payables	—	94,503
Deposits taking	—	126,497
	—	221,000
(v) Changjiu Sinotruk		
Trade payables	16,557	5,014
Other payables	11,930	289
	28,487	5,303
	1,084,640	2,305,088

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

39. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties (Continued)

Amounts due to related parties (Continued)

The carrying amounts due to related parties excluding contract liabilities are denominated in the following currencies:

	2019	2018 Restated
RMB	**1,075,778**	2,203,222
USD	**—**	50,101
HKD	**—**	44,402
	1,075,778	2,297,725

The ageing analysis of trade payables to related parties at respective dates of statement of financial position are as follows:

	2019	2018 Restated
Less than 3 months	**154,586**	69,705
3 months to 6 months	**70**	566
6 months to 12 months	**4**	—
	154,660	70,271

As at 31 December 2019 and 2018, except for deposits taking, borrowings and loan to a related party, amounts due from/to related parties were all unsecured, interest free and due within one year. As at 31 December 2019 and 2018, deposits taking from related parties were unsecured, interest bearing and repayable on demand. As at 31 December 2019, loan to a related party was unsecured, interest bearing and repayable with one year (2018: Nil). As at 31 December 2019, no borrowing from related parties was outstanding while that of 31 December 2018 was unsecured, due within one year and bearing with interest at rate of 4.13%.

As at 31 December 2019 and 2018, trade receivables due from related parties were not past due nor impaired.

Balances with Other State-owned Enterprises

As at 31 December 2019 and 2018, majority of the Group's bank balances and borrowings are with state-owned banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

40. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENTS OF THE COMPANY

Statement of financial position of the Company

	31 December 2019	31 December 2018
ASSETS		
Non-current assets		
Land use rights	—	16,253
Property, plant and equipment	309	352
Right-of-use assets	16,234	—
Deferred income tax assets	9,394	11,975
Investments in subsidiaries	17,913,207	19,513,207
	17,939,144	19,541,787
Current assets		
Amounts due from subsidiaries	10,997	19,339
Dividends receivable	1,500,008	714,948
Receivables and other assets	4,412	1,737
Cash and bank balances	9,213	12,997
	1,524,630	749,021
Total assets	19,463,774	20,290,808
EQUITY		
Equity attributable to the owners of the Company		
Share capital	16,717,024	16,717,024
Retained earnings (a)	2,327,924	1,578,977
Total equity	19,044,948	18,296,001

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

40. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENTS OF THE COMPANY (CONTINUED)

Statement of financial position of the Company (Continued)

	31 December 2019	31 December 2018
LIABILITIES		
Current liabilities		
Amounts due to subsidiaries	410,400	1,986,293
Trade and other payables	8,426	8,514
Total liabilities and total current liabilities	418,826	1,994,807
Total equity and liabilities	19,463,774	20,290,808

The statement of financial position of the Company was approved by the Board of Directors on 31 March 2020 and was signed on its behalf.

Cai Dong
Director

Qu Hongkun
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

40. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENTS OF THE COMPANY (CONTINUED)

(a) Reserve movements of the Company

	Retained earnings
At 1 January 2018	1,847,918
Profit for the year	1,345,613
Dividends relating to 2017	(1,614,554)
At 31 December 2018	1,578,977
Profit for the year	**2,303,638**
Dividends relating to 2018	**(1,554,691)**
At 31 December 2019	**2,327,924**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

41. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The Company does not have a chief executive who is not also the Director.

The remuneration of each Director for the year ended 31 December 2019 is set out below:

Name of Director	Fees	Salaries	Discretionary bonus	Allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Total
Executive directors						
Mr. Cai Dong	—	680	—	76	34	790
Mr. Wang Shanpo	—	543	—	141	34	718
Mr. Liu Wei	—	543	—	141	34	718
Mr. Liu Peimin	—	543	—	169	33	745
Mr. Dai Lixin	—	543	—	141	34	718
Mr. Sun Chenglong (a)	—	477	—	85	34	596
Mr. Richard von Braunschweig (b)	—	92	—	—	—	92
Non executive directors						
Mr. Andreas Hermann Renschler	180	—	—	—	—	180
Mr. Joachim Gerhard Drees	180	—	—	—	—	180
Mr. Jiang Kui (c)	—	—	—	—	—	—
Ms. Annette Danielski (d)	148	—	—	—	—	148
Independent non-executive directors						
Dr. Lin Zhijun	180	—	—	—	—	180
Mr. Yang Weicheng	180	—	—	—	—	180
Dr. Wang Dengfeng	180	—	—	—	—	180
Mr. Zhao Hang	180	—	—	—	—	180
Mr. Liang Qing	180	—	—	—	—	180
Mr. Lyu Shousheng (e)	113	—	—	—	—	113
Former directors						
Ms. Wan Chunling (f)	—	—	—	—	—	—
Mr. Chen Zheng (g)	67	—	—	—	—	67
Mr. Jörg Mommertz (h)	—	459	—	—	—	459

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

41. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' and chief executive's emoluments (Continued)

The remuneration of each Director for the year ended 31 December 2018 is set out below:

			Restated			
Name of Director	Fees	Salaries	Discretionary bonus	Allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Total
Executive directors						
Mr. Cai Dong	—	660	—	85	36	781
Mr. Wang Shanpo	—	528	—	101	36	665
Mr. Liu Wei	—	528	—	101	36	665
Mr. Liu Peimin	—	528	—	96	34	658
Ms. Wan Chunling (f)	—	—	—	—	—	—
Mr. Dai Lixin	—	88	—	—	—	88
Mr. Jörg Mommertz (h)	—	92	—	—	—	92
Non executive directors						
Mr. Andreas Hermann Renschler	180	—	—	—	—	180
Mr. Joachim Gerhard Drees	180	—	—	—	—	180
Mr. Jiang Kui (c)	—	—	—	—	—	—
Independent non-executive directors						
Dr. Lin Zhijun	180	—	—	—	—	180
Mr. Chen Zheng (g)	180	—	—	—	—	180
Mr. Yang Weicheng	180	—	—	—	—	180
Dr. Wang Dengfeng	180	—	—	—	—	180
Mr. Zhao Hang	180	—	—	—	—	180
Mr. Liang Qing	180	—	—	—	—	180
Former directors						
Mr. Wang Bozhi	—	550	—	43	27	620
Mr. Tong Jingen	—	440	—	78	27	545
Mr. Kong Xiangquan	—	440	—	75	27	542
Mr. Franz Neundlinger	—	446	—	—	—	446
Mr. Matthias Gründler	75	—	—	—	—	75

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

41. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' and chief executive's emoluments (Continued)

(a) Mr. Sun Chenglong was appointed as executive director on 29 January 2019.

(b) Mr. Richard von Braunschweig was appointed as executive director on 30 November 2019.

(c) Mr. Jiang Kui waived his emoluments during his appointment as non-excutive director.

(d) Ms. Annette Danielski was appointed as non executive director on 5 March 2019.

(e) Mr. Lyu Shousheng was appointed as non executive director on 16 May 2019.

(f) Ms. Wan Chunling resigned as executive director with effect from on 29 January 2019. She waived all her emoluments during her tenure.

(g) Mr. Chen Zheng resigned as independent non executive director with effect from 15 May 2019.

(h) Mr. Jörg Mommertz resigned as executive director with effect from 30 November 2019.

(b) CONSIDERATION PROVIDED TO THIRD PARTIES FOR MAKING AVAILABLE DIRECTORS' SERVICES

The Group did not pay consideration to any third parties for making available Directors' services during the year.

(c) INFORMATION ABOUT LOANS, QUASI-LOANS AND OTHER DEALINGS IN FAVOUR OF DIRECTORS, CONTROLLED BODIES CORPORATE BY AND CONNECTED ENTITIES WITH SUCH DIRECTORS:

No loans, quasi-loans and other dealings were made available in favour of Directors, controlled bodies corporate by and connected entities with such directors subsisted at the end of the year or at any time during the year.

(d) DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

42. EVENTS AFTER THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATE

Since the outbreak of COVID-19 (Epidemic) began in January 2020 across PRC and other countries, the Group has actively responded to and strictly implemented the various regulations and requirements of the national governments at all levels for virus epidemic prevention and controls. To ensure both epidemic prevention and production, the Group have resumed since the beginning of February 2020 and implemented strict internal management to implement epidemic prevention work.

The Group expects that Epidemic and its prevention and control measures will have a certain temporary impact on the Group's production and operation, and the extent of such impact depends on the progress and duration of epidemic prevention and control measures and the progress of the execution of domestic prevention and control policies.

The Group continues to pay close attention to the development of the Epidemic, and evaluates and actively responds to its impact on the financial position and operating results of the Group.

FIVE YEARS FINANCIAL SUMMARY

OPERATING RESULTS

	For the year ended 31 December				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019** **RMB'000**
Revenue	28,304,893	32,958,901	55,457,928	62,727,504	**62,226,708**
Profit before income tax	426,135	921,582	4,055,433	5,732,710	**4,804,513**
Income tax expense	(102,694)	(258,750)	(719,538)	(1,005,719)	**(1,028,846)**
Profit for the year	323,441	662,832	3,335,895	4,726,991	**3,775,667**
Attributed to:					
Owners of the Company	205,946	532,105	3,023,023	4,345,891	**3,333,794**
Non-controlling interests	117,495	130,727	312,872	381,100	**441,873**
Profit for the year	323,441	662,832	3,335,895	4,726,991	**3,775,667**

ASSETS, LIABILITIES AND EQUITY

	As at 31 December				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019** **RMB'000**
Total assets	42,335,438	49,485,343	61,183,016	64,468,769	**65,950,512**
Total liabilities	20,619,768	27,146,246	35,752,305	36,127,917	**35,522,641**
Total equity:					
Owners of the Company	19,338,120	19,911,809	22,757,463	25,488,545	**27,261,070**
Non-controlling interests	2,377,550	2,427,288	2,673,248	2,852,307	**3,166,801**
	21,715,670	22,339,097	25,430,711	28,340,852	**30,427,871**

In April 2019, the Group acquired the entire equity interests in HOWO Bus from CNHTC. The acquisition of HOWO Bus was considered to be a business combination under common control as the Group and HOWO Bus are under common control of CNHTC both before and after the acquisition of HOWO Bus. Accordingly, the results, assets and liabilities of HOWO Bus should have been accounted for at historical amounts in the consolidated financial statements of the Company as if HOWO Bus had always been part of the Group. The figures for the years of 2018 and 2019 have been restated while the figures for the years of 2015 to 2017 have not been restated.

CNHTC

中国重汽
SINOTRUK