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吉利汽車控股有限公司

GEELY AUTOMOBILE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 175)

FINANCIAL HIGHLIGHTS:

	Year ended 31 December		
	2018	2017	Change
	RMB'000	*RMB'000*	*%*
Sale volume* (Units)	**1,500,838**	1,247,116	20
Revenue	**106,595,133**	92,760,718	15
Other income	**1,236,985**	1,229,147	1
Gain on disposal of subsidiaries	**–**	562,562	(100)
Profit for the year	**12,674,398**	10,735,389	18
Profit attributable to equity holders of the Company	**12,553,207**	10,633,715	18
Earnings per share			
Basic (RMB)	**1.40**	1.19	18
Diluted (RMB)	**1.37**	1.16	18
Proposed final dividend (per ordinary share) (HK$)	**0.35**	0.29	21

* Included the sales volume of "Lynk&Co" vehicles sold by the Group's 50%-owned joint venture.

The Board decides to recommend payment of a final dividend of HK$0.35 per ordinary share (2017: HK$0.29 per ordinary share), and such proposal is subject to approval by shareholders at the annual general meeting of the Company to be held on Monday, 27 May 2019 at 4:00 p.m. (Hong Kong Time).

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000 (Note)
Revenue	5	**106,595,133**	92,760,718
Cost of sales		**(85,081,727)**	(74,779,337)
Gross profit		**21,513,406**	17,981,381
Other income	6	**1,236,985**	1,229,147
Distribution and selling expenses		**(4,523,278)**	(4,055,728)
Administrative expenses, excluding share-based payments		**(3,777,155)**	(2,922,798)
Share-based payments		**(14,594)**	(27,724)
Finance income/(costs), net	8(a)	**78,992**	(35,233)
Share of results of associates		**(59,949)**	39,211
Share of results of joint ventures		**504,566**	3,143
Gain on disposal of subsidiaries		**–**	562,562
Profit before taxation	8	**14,958,973**	12,773,961
Taxation	7	**(2,284,575)**	(2,038,572)
Profit for the year		**12,674,398**	10,735,389
Attributable to:			
Equity holders of the Company		**12,553,207**	10,633,715
Non-controlling interests		**121,191**	101,674
Profit for the year		**12,674,398**	10,735,389
Earnings per share			
Basic	10	**RMB1.40**	RMB1.19
Diluted	10	**RMB1.37**	RMB1.16

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018	2017
	RMB'000	*RMB'000*
		(Note)
Profit for the year	**12,674,398**	10,735,389
Other comprehensive income (after tax of RMBNil) for the year:		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of foreign operations	**92,418**	14,680
Total comprehensive income for the year	**12,766,816**	10,750,069
Attributable to:		
Equity holders of the Company	**12,644,665**	10,648,293
Non-controlling interests	**122,151**	101,776
Total comprehensive income for the year	**12,766,816**	10,750,069

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 *RMB'000*	2017 *RMB'000* *(Note)*
Non-current assets			
Property, plant and equipment		**23,422,617**	14,052,943
Intangible assets		**14,993,188**	10,551,773
Land lease prepayments		**3,268,035**	2,123,909
Goodwill		**26,414**	16,079
Interests in associates		**404,669**	369,360
Interests in joint ventures		**5,917,618**	4,435,530
Available-for-sale financial assets		**–**	21,650
Deferred tax assets	*15*	**642,959**	401,325
		48,675,500	31,972,569
Current assets			
Land lease prepayments		**66,538**	47,810
Inventories		**4,097,380**	6,027,312
Trade and other receivables	*11*	**22,864,974**	33,478,308
Income tax recoverable		**–**	4,072
Pledged bank deposits		**19,392**	36,043
Bank balances and cash		**15,737,196**	13,414,638
		42,785,480	53,008,183
Current liabilities			
Trade and other payables	*12*	**41,438,036**	47,532,529
Bank borrowings		**1,375,280**	1,296,460
Income tax payable		**947,085**	1,072,958
		43,760,401	49,901,947
Net current (liabilities)/assets		**(974,921)**	3,106,236
Total assets less current liabilities		**47,700,579**	35,078,805
CAPITAL AND RESERVES			
Share capital	*13*	**164,470**	164,286
Reserves		**44,779,507**	34,302,761
Equity attributable to equity holders of the Company		**44,943,977**	34,467,047
Non-controlling interests		**430,741**	343,787
Total equity		**45,374,718**	34,810,834
Non-current liabilities			
Bonds payables	*14*	**2,047,822**	–
Deferred tax liabilities	*15*	**278,039**	267,971
		2,325,861	267,971
		47,700,579	35,078,805

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to equity holders of the Company									
	Share capital *RMB'000* *(note 13)*	Share premium *RMB'000*	Capital reserve *RMB'000*	Statutory reserve *RMB'000*	Translation reserve *RMB'000*	Share option reserve *RMB'000*	Accumulated profits *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
Balance at 1 January 2017	162,708	6,212,325	164,790	170,420	(138,153)	478,714	17,386,423	24,437,227	249,022	24,686,249
Profit for the year	–	–	–	–	–	–	10,633,715	10,633,715	101,674	10,735,389
Other comprehensive income:										
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	14,578	–	–	14,578	102	14,680
Total comprehensive income for the year	–	–	–	–	14,578	–	10,633,715	10,648,293	101,776	10,750,069
Transactions with owners:										
Transfer of reserves	–	–	–	9,167	–	–	(9,167)	–	–	–
Shares issued under share option scheme	1,578	428,877	–	–	–	(116,598)	–	313,857	–	313,857
Equity settled share-based payments	–	–	–	–	–	27,724	–	27,724	–	27,724
Transfer upon forfeiture of share options	–	–	–	–	–	(7,942)	7,942	–	–	–
Disposal of subsidiaries	–	–	–	–	–	–	–	–	(7,011)	(7,011)
Dividends paid to equity holders of the Company *(note 9)*	–	–	–	–	–	–	(960,054)	(960,054)	–	(960,054)
Total transactions with owners	1,578	428,877	–	9,167	–	(96,816)	(961,279)	(618,473)	(7,011)	(625,484)
Balance at 31 December 2017 ***(Note)***	164,286	6,641,202	164,790	179,587	(123,575)	381,898	27,058,859	34,467,047	343,787	34,810,834

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2018

	Attributable to equity holders of the Company									
	Share capital *RMB'000* *(note 13)*	Share premium *RMB'000*	Capital reserve *RMB'000*	Statutory reserve *RMB'000*	Translation reserve *RMB'000*	Share option reserve *RMB'000*	Accumulated profits *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
Balance at 31 December 2017 *(Note)*	164,286	6,641,202	164,790	179,587	(123,575)	381,898	27,058,859	34,467,047	343,787	34,810,834
Impact on initial application of HKFRS 9 *(note 3)*	–	–	–	–	–	–	(34,313)	(34,313)	(197)	(34,510)
Adjusted balance at 1 January 2018	164,286	6,641,202	164,790	179,587	(123,575)	381,898	27,024,546	34,432,734	343,590	34,776,324
Profit for the year	–	–	–	–	–	–	12,553,207	12,553,207	121,191	12,674,398
Other comprehensive income:										
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	91,458	–	–	91,458	960	92,418
Total comprehensive income for the year	–	–	–	–	91,458	–	12,553,207	12,644,665	122,151	12,766,816
Transactions with owners:										
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	1,030	1,030
Transfer of reserves	–	–	–	130,811	–	–	(153,609)	(22,798)	–	(22,798)
Shares issued under share option scheme	184	51,095	–	–	–	(15,669)	–	35,610	–	35,610
Equity settled share-based payments	–	–	–	–	–	14,594	–	14,594	–	14,594
Transfer upon forfeiture of share options	–	–	–	–	–	(2,727)	2,727	–	–	–
Dividends paid to equity holders of the Company *(note 9)*	–	–	–	–	–	–	(2,160,828)	(2,160,828)	–	(2,160,828)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(36,030)	(36,030)
Total transactions with owners	184	51,095	–	130,811	–	(3,802)	(2,311,710)	(2,133,422)	(35,000)	(2,168,422)
Balance at 31 December 2018	164,470	6,692,297	164,790	310,398	(32,117)	378,096	37,266,043	44,943,977	430,741	45,374,718

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000 (Note)
Cash flows from operating activities			
Profit before taxation		**14,958,973**	12,773,961
Adjustments for:			
Bad debts written off	*8(c)*	**2,219**	67,371
Bargain purchase gain arising from acquisition of a subsidiary	*6*	**–**	(3,402)
Depreciation and amortisation		**2,413,161**	1,938,008
Equity settled share-based payments		**14,594**	27,724
Finance costs	*8(a)*	**113,930**	162,290
Gain on disposal of an associate	*6*	**–**	(1,192)
Gain on disposal of subsidiaries		**–**	(562,562)
Impairment loss on trade and other receivables	*8(c)*	**9,659**	–
Interest income	*8(a)*	**(192,922)**	(127,057)
Net foreign exchange loss/(gain)		**225,520**	(4,105)
Net loss on disposal of property, plant and equipment	*8(c)*	**64,482**	34,074
Share of results of associates		**59,949**	(39,211)
Share of results of joint ventures		**(504,566)**	(3,143)
Operating profit before working capital changes		**17,164,999**	14,262,756
Inventories		**2,175,291**	(2,870,040)
Trade and other receivables		**11,664,380**	(4,238,240)
Trade and other payables		**(14,458,627)**	6,597,957
Cash generated from operations		**16,546,043**	13,752,433
Income taxes paid		**(2,620,921)**	(1,758,931)
Net cash generated from operating activities		**13,925,122**	11,993,502

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2018

	Note	**2018** **RMB'000**	2017 RMB'000 (Note)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2,312,931)**	(3,451,567)
Proceeds from disposal of property, plant and equipment		**104,723**	55,790
Proceeds from disposal of available-for-sale financial assets		**–**	129
Additions of land lease prepayments		**(178,985)**	(240,128)
Additions of intangible assets		**(5,031,452)**	(3,949,951)
Additional capital injection in an associate		**(95,258)**	(38,131)
Additional capital injection in a joint venture		**(880,000)**	–
Investment in a joint venture		**(97,522)**	(3,750,000)
Proceeds from disposal of intangible assets		**4,644**	6,439
Change in pledged bank deposits		**16,651**	3,261
Net cash outflows on acquisition of subsidiaries	*16*	**(3,063,151)**	(1,728,634)
Net cash inflows on disposal of subsidiaries		**–**	1,040,728
Proceeds from disposal of an associate		**–**	13,860
Proceeds from disposal of financial assets at fair value through profit or loss		**21,650**	–
Interest received		**192,922**	127,057
Net cash used in investing activities		**(11,318,709)**	(11,911,147)
Cash flows from financing activities			
Dividends paid	*9(b)*	**(2,160,828)**	(960,054)
Dividends paid to non-controlling interests		**(36,030)**	–
Capital contribution from non-controlling interests		**1,030**	–
Proceeds from issuance of bonds, net of transaction costs	*14*	**1,927,161**	–
Proceeds from issuance of shares upon exercise of share options	*13*	**35,610**	313,857
Proceeds from bank borrowings	*17*	**–**	1,296,460
Repayments of bank borrowings	*17*	**–**	(174,375)
Redemption of senior notes	*17*	**–**	(2,033,536)
Interest paid	*17*	**(73,298)**	(126,950)
Net cash used in financing activities		**(306,355)**	(1,684,598)
Net increase/(decrease) in cash and cash equivalents		**2,300,058**	(1,602,243)
Cash and cash equivalents at the beginning of the year		**13,414,638**	15,045,493
Effect of foreign exchange rate changes		**22,500**	(28,612)
Cash and cash equivalents at the end of the year, represented by bank balances and cash		**15,737,196**	13,414,638

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

NOTES

For the year ended 31 December 2018
*(Amounts expressed in thousands of Renminbi ("**RMB**"), unless otherwise stated)*

1. GENERAL INFORMATION

Geely Automobile Holdings Limited ("**the Company**") was incorporated in the Cayman Islands as an exempted company with limited liability. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**SEHK**"). As at 31 December 2018, the directors consider the immediate holding company of the Company is Proper Glory Holding Inc., which is incorporated in British Virgin Islands (the "**BVI**"). The ultimate holding company of the Company is Zhejiang Geely Holding Group Company Limited[#] 浙江吉利控股集團有限公司, which is incorporated in the People's Republic of China (the "**PRC**") and is beneficially owned by Mr. Li Shu Fu and his associates.

[#] The English translation of the name of the company established in the PRC is for reference only. The official name of the company is in Chinese.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**"), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the SEHK (the "**Listing Rules**").

The HKICPA has issued certain new and amended HKFRSs that are first effective or available for early adoption for the current accounting period of the Company and its subsidiaries (together refered to as the "**Group**"). Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

The consolidated financial statements for the year ended 31 December 2018 comprise the Group and the Group's interests in associates and joint ventures.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that financial assets at fair value through profit or loss are stated at fair value.

The consolidated financial statements have been prepared on a going concern basis, although the Group was in net current liabilities position as at 31 December 2018, the directors consider the cash inflow of the profitable operations and the stand-by bank facilities available which the Group has sufficient financial resources to meet its present requirements.

3. ADOPTION OF NEW AND AMENDED HKFRSs AND CHANGES IN ACCOUNTING POLICIES

3.1 New and amended HKFRSs adopted as at 1 January 2018

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, HKFRS 9 "Financial Instruments" ("**HKFRS 9**") and HKFRS 15 "Revenue from Contracts with Customers" ("**HKFRS 15**") are relevant to the Group's financial statements.

The Group has early adopted the amendments to HKFRS 9 "Prepayment Features with Negative Compensation" at the same time as the adoption of HKFRS 9 as at 1 January 2018.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses. Details of the changes in accounting policies are discussed in note 3.1(a) for HKFRS 9 and note 3.1(b) for HKFRS 15.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by HKFRS 9:

	As at 31 December 2017	**Impact on initial application of HKFRS 9**	**As at 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*
Trade and other receivables	33,478,308	(37,993)	33,440,315
Total current assets	**53,008,183**	**(37,993)**	**52,970,190**
Deferred tax assets	401,325	3,483	404,808
Total non-current assets	**31,972,569**	**3,483**	**31,976,052**
Net assets	**34,810,834**	**(34,510)**	**34,776,324**
Reserves	34,302,761	(34,313)	34,268,448
Equity attributable to equity holders of the Company	**34,467,047**	**(34,313)**	**34,432,734**
Non-controlling interests	343,787	(197)	343,590
Total equity	**34,810,834**	**(34,510)**	**34,776,324**

Further details of these changes are set out in sub-sections (a) and (b) of this note.

(a) HKFRS 9 including the amendments to HKFRS 9 "Prepayment Features with Negative Compensation"

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement" ("**HKAS 39**"). It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. According to the transitional relief, the Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on accumulated profits, non-controlling interests and the related tax impact as at 1 January 2018.

	RMB'000
Accumulated profits	
Recognition of additional expected credit losses on financial assets measured at amortised cost	(37,762)
Related taxation	3,449
Net decrease in accumulated profits as at 1 January 2018	(34,313)
Non-controlling interests	
Recognition of additional expected credit losses on financial assets measured at amortised cost and decrease in non-controlling interests as at 1 January 2018	(197)

Further details of the nature and effect of the changes of the previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("**FVOCI**") and at fair value through profit or loss ("**FVPL**"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount as at 31 December 2017	Reclassification	Remeasurement	HKFRS 9 carrying amount as at 1 January 2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets carried at amortised cost				
Trade and other receivables (excluding prepayment to suppliers and VAT and other taxes receivables)	30,624,347	–	(37,993)	30,586,354
Pledged bank deposits	36,043	–	–	36,043
Bank balances and cash	13,414,638	–	–	13,414,638
	44,075,028	–	(37,993)	44,037,035
Financial assets measured at FVPL				
Unlisted equity securities *(note)*	–	21,650	–	21,650
Financial assets classified as available-for-sale financial assets under HKAS 39 *(note)*	21,650	(21,650)	–	–

Note: Under HKAS 39, unlisted equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as FVPL under HKFRS 9.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities as at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

(ii) *Credit losses*

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("**ECL**") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the financial assets measured at amortised cost (including bank balances and cash, pledged bank deposits and trade and other receivables).

Financial assets measured at fair value, including unlisted equity securities measured at FVPL, are not subject to the ECL assessment.

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to RMB37,993,000, which decreased accumulated profits by RMB34,313,000 and non-controlling interests by RMB197,000 and increased gross deferred tax assets by RMB3,483,000 as at 1 January 2018.

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	RMB'000
Loss allowance as at 31 December 2017 under HKAS 39	–
Additional credit loss recognised as at 1 January 2018 on trade receivables	37,993
Loss allowance as at 1 January 2018 under HKFRS 9	37,993

(iii) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in accumulated profits as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed as at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

– The determination of the business model within which a financial asset is held.

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(b) ***HKFRS 15***

Sales of automobiles and automobile parts and components

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18 "Revenue", which covered revenue arising from sale of goods and rendering of services, and HKAS 11 "Construction Contracts", which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Revenue are generally recognised at a point in time when the customers obtain possession of and control of the promised goods in the contract.

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.

A contract liability is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. The Group recognised its contract liabilities under "Trade and other payables" as receipts in advance from customers in the consolidated statement of financial position.

The directors of the Company consider that the adoption of HKFRS 15 has no material impact on the Group's financial position and results of operation.

3.2 Issued but not yet effective HKFRSs

Up to the date of issue of these financial statements, the HKICPA has issued a number of new and amended HKFRSs which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

HKFRS 16	Leases[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective date not yet determined

The Group is in the process of making an assessment of what the impact of these new and amended HKFRSs is expected to be in the period of initial application. So far the Group has identified some aspects of HKFRS 16 "Leases" ("HKFRS 16") which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. Other new and amended HKFRSs are not expected to have a material impact on the Group's consolidated financial statements. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

HKFRS 16

Currently the Group classifies leases into operating leases. The Group enters into some leases as the lessor and others as the lessee. HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for office and factory premises which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated income statement over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets. Furthermore, the Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information.

However, based on an initial assessment, the Group expects that the adoption of HKFRS 16 will not materially affect the Group's consolidated financial statements.

4. SEGMENT INFORMATION

The only operating segment of the Group is the production and sale of automobiles, automobile parts and related automobile components. The directors consider that the Group operates in a single business segment. No separate analysis of the reportable segment results by operating segment is necessary.

Geographical information

The following tables set out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets, interests in associates and joint ventures, goodwill and land lease prepayments ("**specified non-current assets**"). The geographical location of customers is based on the location at which the services are provided or the goods are delivered. The geographical location of the specified non-current assets is based on the physical location of the assets in the case of property, plant and equipment and land lease prepayments, the location of the operations to which they are allocated in the case of intangible assets and goodwill, and the location of operations in the case of interests in associates and joint ventures.

	2018	2017
	RMB'000	*RMB'000*
Revenue from external customers		
PRC	**105,157,280**	92,168,021
Eastern Europe	**618,281**	180,560
Middle East	**488,135**	187,756
Africa	**190,818**	76,443
Central and South America	**138,220**	67,536
Other countries	**2,399**	80,402
	106,595,133	92,760,718
Specified non-current assets		
Hong Kong, place of domicile	**196**	232
PRC	**47,896,705**	31,442,068
Other countries	**135,640**	107,294
	48,032,541	31,549,594

5. REVENUE

Revenue from sales of automobiles and automobile parts and components, net of value-added taxes ("**VAT**") or related sales taxes and net of discounts, was generally recognised at a point in time when the customers obtain possession of and control of the promised goods in the contract.

	2018	2017
	RMB'000	*RMB'000*
		(Note)
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
– Sales of automobiles	**102,651,387**	91,282,893
– Sales of automobile parts and components	**3,943,746**	1,477,825
	106,595,133	92,760,718

Note: The Group has initially applied HKFRS 15 using the cumulative effect transition method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18. See note 3.

The Group's customer base is diversified and no customer with whom the transactions has exceeded 10% of the Group's revenue.

6. OTHER INCOME

	2018	2017
	RMB'000	*RMB'000*
Rental income	**32,715**	25,215
Gain on disposal of scrap materials	**30,187**	26,751
Gain on disposal of an associate	**–**	1,192
Net claims income on defective materials purchased	**–**	31,095
Net foreign exchange gain	**–**	89,974
Bargain purchase gain arising from acquisition of a subsidiary	**–**	3,402
Government grants and subsidies *(note)*	**992,859**	905,300
Sundry income	**181,224**	146,218
	1,236,985	1,229,147

Note: Government grants and subsidies mainly related to cash subsidies in respect of operating and research and development activities from government which are either unconditional grants or grants with conditions having been satisfied.

7. TAXATION

	2018	2017
	RMB'000	*RMB'000*
Current tax:		
– PRC enterprise income tax	**2,500,577**	2,283,957
– Over-provision in prior years	**(1,457)**	(118,079)
	2,499,120	2,165,878
Deferred tax *(note 15)*	**(214,545)**	(127,306)
	2,284,575	2,038,572

Hong Kong profits tax has not been provided as the Hong Kong incorporated companies within the Group had no estimated assessable profits in Hong Kong for the years ended 31 December 2018 and 2017.

The income tax provision of the Group in respect of its operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the year based on the existing legislation, interpretations and practises in respect thereof. The PRC enterprise income tax rate is 25% (2017: 25%).

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group obtained the High and New Technology Enterprises qualification. Accordingly, they enjoyed a preferential income tax rate of 15% for the years ended 31 December 2018 and 2017.

The share of results of associates and joint ventures in the consolidated income statement is after income taxes accrued in the appropriate income tax jurisdictions.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The tax charge for the year can be reconciled from the profit before taxation per consolidated income statement as follows:

	2018	2017
	RMB'000	*RMB'000*
Profit before taxation	**14,958,973**	12,773,961
Tax at the PRC enterprise income tax rate of 25% (2017: 25%)	**3,739,743**	3,193,490
Tax effect of expenses not deductible	**185,479**	207,029
Tax effect of non-taxable income	**(105,529)**	(11,152)
Tax effect of unrecognised tax losses	**60,197**	42,594
Utilisation of previously unrecognised tax losses	**(20,482)**	(38,438)
Tax effect of different tax rates of entities operating in other jurisdictions	**15,860**	(65,338)
Deferred tax charge on distributable profits withholding tax *(note 15)*	**10,068**	69,899
Effect of tax concessions and lower tax rates for certain PRC subsidiaries	**(1,599,304)**	(1,241,433)
Over-provision in prior years	**(1,457)**	(118,079)
Tax expense for the year	**2,284,575**	2,038,572

The Group is also liable to withholding tax on dividends to be distributed from the Group's subsidiaries in the PRC in respect of its profits generated from 1 January 2008. Deferred tax liabilities of RMB10,068,000 (2017: RMB69,899,000) was recognised for the distributable profits not yet paid out as dividends that are generated by the PRC subsidiaries of the Company during the year.

8. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2018 *RMB'000*	2017 *RMB'000* *(Note a)*
(a) Finance income and costs		
Finance costs		
Effective interest expense on senior notes	**–**	8,908
Coupon expense on senior notes	**–**	96,714
Loss on early redemption of senior notes	**–**	52,015
Effective interest expense on bonds payables *(note 14)*	**8,624**	–
Coupon expense on bonds payables	**67,769**	–
Interest on bank borrowings	**37,537**	4,653
	113,930	162,290
Finance income		
Bank and other interest income	**(192,922)**	(127,057)
Net finance (income)/costs	**(78,992)**	35,233
(b) Staff costs (including directors' emoluments) ***(note b)***		
Salaries, wages and other benefits	**5,679,709**	4,241,354
Retirement benefit scheme contributions	**378,262**	269,085
Equity settled share-based payments	**14,594**	27,724
	6,072,565	4,538,163
(c) Other items		
Cost of inventories *(note b)*	**85,081,727**	74,779,337
Auditor's remuneration	**7,203**	7,443
Depreciation *(note b)*	**978,233**	742,679
Amortisation of land lease prepayments	**57,223**	48,072
Amortisation of intangible assets (related to capitalised product development costs)	**1,377,705**	1,147,257
Research and development costs	**548,653**	331,241
Net loss on disposal of property, plant and equipment	**64,482**	34,074
Net foreign exchange loss/(gain)	**328,355**	(89,974)
Net claims paid/(income) on defective materials purchased	**53,470**	(31,095)
Operating leases charges on premises	**17,589**	18,525
Impairment loss on trade and other receivables	**9,659**	–
Bad debts written off	**2,219**	67,371

Notes:

(a) The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

(b) Cost of inventories included RMB4,851,363,000 (2017: RMB3,643,052,000) relating to staff costs and depreciation, which amounts were also included in the respective total amounts disclosed separately for each of these types of expenses.

9. DIVIDENDS

(a) Dividends payable to equity holders of the Company attributable to the year:

	2018	2017
	RMB'000	*RMB'000*
Final dividend proposed after the reporting date of Hong Kong dollars ("**HK$**") 0.35 (2017: HK$0.29) per ordinary share	**2,767,091**	2,159,774

The final dividend proposed after the reporting date has not been recognised as a liability as at 31 December 2018.

(b) Dividends payable to equity holders of the Company attributable to the previous financial year, approved and paid during the year:

	2018	2017
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year of HK$0.29 (2017: HK$0.12) per ordinary share	**2,160,828**	960,054

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of RMB12,553,207,000 (2017: RMB10,633,715,000) and weighted average number of ordinary shares of 8,976,494,672 shares (2017: 8,932,151,751 shares), calculated as follows:

Weighted average number of ordinary shares

	2018	2017
Issued ordinary shares as at 1 January	**8,970,514,540**	8,882,861,540
Effect of shares options exercised	**5,980,132**	49,290,211
Weighted average number of ordinary shares as at 31 December	**8,976,494,672**	8,932,151,751

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company of RMB12,553,207,000 (2017: RMB10,633,715,000) and the weighted average number of ordinary shares (diluted) of 9,174,027,477 shares (2017: 9,155,568,487 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2018	2017
Weighted average number of ordinary shares (basic) as at 31 December	**8,976,494,672**	8,932,151,751
Effect of deemed issue of shares under the Company's share option scheme	**197,532,805**	223,416,736
Weighted average number of ordinary shares (diluted) as at 31 December	**9,174,027,477**	9,155,568,487

11. TRADE AND OTHER RECEIVABLES

	Note	As at 31 December 2018 RMB'000	As at 1 January 2018 RMB'000	As at 31 December 2017 RMB'000 (Note)
Trade and notes receivables				
Trade receivables, net of loss allowance				
– Third parties		**338,158**	357,472	377,966
– Joint ventures		**145,183**	–	–
– Associates		**269,538**	256,308	271,002
– Related companies controlled by the substantial shareholder of the Company		**330,812**	48,928	51,733
	(a)	**1,083,691**	662,708	700,701
Notes receivables	*(b)*	**16,988,253**	28,790,926	28,790,926
		18,071,944	29,453,634	29,491,627
Deposit, prepayment and other receivables				
Prepayment to suppliers				
– Third parties		**151,444**	129,080	129,080
– Related companies controlled by the substantial shareholder of the Company		**1,974**	847,093	847,093
		153,418	976,173	976,173
Deposits paid for acquisition of property, plant and equipment		**609,953**	600,692	600,692
VAT and other taxes receivables		**3,592,041**	1,877,788	1,877,788
Utility deposits and other receivables		**414,586**	208,595	208,595
		4,769,998	3,663,248	3,663,248
Amounts due from related companies controlled by the substantial shareholder of the Company	*(c)*	**23,032**	323,433	323,433
		4,793,030	3,986,681	3,986,681
		22,864,974	33,440,315	33,478,308

(a) Trade receivables

The Group allows average credit periods ranged from 30 days to 90 days to its PRC customers. The following is an ageing analysis of the trade receivables of the PRC customers, based on invoice date and net of loss allowance, at the reporting date:

	2018	2017
	RMB'000	*RMB'000*
0 – 60 days	**478,099**	167,875
61 – 90 days	**26,919**	7,689
Over 90 days	**80,998**	67,476
	586,016	243,040

For overseas customers, the Group allows average credit periods ranged from 30 days to 720 days. The following is an ageing analysis of the trade receivables of the overseas customers, based on invoice date and net of loss allowance, at the reporting date:

	2018	2017
	RMB'000	*RMB'000*
0 – 60 days	**285,290**	102,041
61 – 90 days	**10,233**	84,174
91 – 365 days	**148,989**	155,309
Over 365 days	**53,163**	116,137
	497,675	457,661

As at 31 December 2018, 1% (2017: 1%) of the total trade receivables was due from the Group's five largest customers.

(b) Notes receivables

All notes receivables are denominated in RMB. As at 31 December 2018 and 2017, all notes receivables were guaranteed by established banks in the PRC and have maturities of less than six months from the reporting date.

(c) Amounts due from related companies

The amounts due are unsecured, interest-free and repayable on demand.

Except for trade and other receivables of RMB12,509,000 (2017: RMB140,027,000) which are expected to be recovered after one year from the reporting date, all other trade and other receivables are expected to be recovered or recognised as an expense within one year.

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

12. TRADE AND OTHER PAYABLES

	Note	**2018** *RMB'000*	2017 *RMB'000*
Trade and notes payables			
Trade payables			
– Third parties		**23,562,370**	26,848,633
– An associate		**726,074**	1,252,227
– Related companies controlled by the substantial shareholder of the Company		**916,316**	2,492,942
	(a)	**25,204,760**	30,593,802
Notes payables	*(b)*	**2,076,400**	1,045,043
		27,281,160	31,638,845
Other payables			
Receipts in advance from customers	*(c)*		
– Third parties		**1,885,021**	7,980,480
– Related companies controlled by the substantial shareholder of the Company		**5,751**	3,992
		1,890,772	7,984,472
Deferred government grants which conditions have not been satisfied		**3,190,186**	3,379,500
Payables for acquisition of property, plant and equipment		**2,017,144**	1,074,740
Payables for acquisition of subsidiaries *(notes 16(d) and 16(e))*		**1,265,277**	–
Accrued staff salaries and benefits		**1,224,556**	908,966
VAT and other taxes payables		**167,710**	104,388
Other accrued charges		**2,427,879**	2,430,232
		12,183,524	15,882,298
Amounts due to related companies controlled by the substantial shareholder of the Company	*(d)*	**1,752,809**	9,412
Amount due to ultimate holding company	*(d)*	**220,543**	1,974
		14,156,876	15,893,684
		41,438,036	47,532,529

(a) Trade payables

The following is an ageing analysis of trade payables, based on invoice date, at the reporting date:

	2018	2017
	RMB'000	*RMB'000*
0 – 60 days	**20,013,747**	27,331,331
61 – 90 days	**2,586,200**	1,849,868
Over 90 days	**2,604,813**	1,412,603
	25,204,760	30,593,802

Trade payables do not carry interest. The average credit period on purchase of goods is 60 days.

(b) Notes payables

All notes payables are denominated in RMB and are notes paid and/or payable to third parties for settlement of trade payables. As at 31 December 2018 and 2017, all notes payables had maturities of less than six months from the reporting date.

As at 31 December 2018, the Group pledged bank deposits of RMB19,392,000 (2017: RMB36,043,000) to secure the notes payables.

(c) Receipts in advance from customers

The amounts represent the advance payments from customers for goods, which revenue will be recognised when the performance obligation was satisfied through the goods were transferred to the customers.

	2018
	RMB'000
Revenue recognised during the year that was included in the contract liabilities at the beginning of the year	**(7,984,472)**

The Group's contracts with customers are for period of one year or less. The entire contract liabilities balance at the period end would be recognised into revenue in the next period. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts which have an original expected duration of one year or less is not disclosed.

(d) Amounts due to related companies/ultimate holding company

The amounts due are unsecured, interest-free and repayable on demand.

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

13. SHARE CAPITAL

	2018		2017	
	Number of shares	**Nominal value** *RMB'000*	Number of shares	Nominal value *RMB'000*
Authorised:				
Ordinary shares of HK$0.02 each				
At 31 December	**12,000,000,000**	**246,720**	12,000,000,000	246,720
Issued and fully paid:				
Ordinary shares of HK$0.02 each				
At 1 January	**8,970,514,540**	**164,286**	8,882,861,540	162,708
Shares issued under share option scheme *(note)*	**11,098,000**	**184**	87,653,000	1,578
At 31 December	**8,981,612,540**	**164,470**	8,970,514,540	164,286

Note:

During the year ended 31 December 2018, share options were exercised to subscribe for 11,098,000 ordinary shares (2017: 87,653,000 ordinary shares) of the Company at a consideration of approximately RMB35,610,000 (2017: RMB313,857,000) of which approximately RMB184,000 (2017: RMB1,578,000) was credited to share capital and approximately RMB35,426,000 (2017: RMB312,279,000) was credited to the share premium account. As a result of the exercise of share options, share option reserve of RMB15,669,000 (2017: RMB116,598,000) has been transferred to the share premium account.

14. BONDS PAYABLES

On 18 January 2018, the Company issued bonds with an aggregate principal amount of US$300,000,000 (equivalent to approximately RMB1,944,690,000) (the "**Bonds**"). The Bonds carried interest at 3.625% per annum, payable semi-annually in arrears on 25 January and 25 July of each year, and the maturity date was 25 January 2023.

The Bonds were listed on Singapore Exchange Securities Trading Limited. They constitute direct, unconditional, unsubordinated and (subject to the terms and conditions of the Bonds) unsecured obligations of the Company and shall at all times rank pari passu and without any preference among themselves. The payment obligations of the Company under the Bonds shall, save for such exceptions as may be provided by applicable law and subject to the terms and conditions of the Bonds, at all times rank pari passu with all its other present and future unsecured and unsubordinated obligations.

The carrying amount of the Bonds at initial recognition, net of transaction costs, amounted to US$297,296,000 (equivalent to approximately RMB1,927,161,000) and the effective interest rate was 3.825% per annum. The Bonds were carried at amortised cost.

The movements of the Bonds during the year are set out below:

	2018
	RMB'000
Carrying amount	
At 1 January	**–**
Initial fair value on the date of issuance	**1,927,161**
Exchange differences	**112,037**
Interest expenses	**8,624**
At 31 December	**2,047,822**

15. DEFERRED TAX ASSETS AND LIABILITIES

The following is the deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements thereon during the year:

	2018	2017
	RMB'000	*RMB'000*
At 1 January	**(133,354)**	9,965
Impact on initial application of HKFRS 9 *(note 3.1(a))*	**(3,483)**	–
Acquisition through business combinations *(note 16)*	**(13,538)**	(16,013)
Credit to the consolidated income statement *(note 7)*	**(214,545)**	(127,306)
At 31 December	**(364,920)**	(133,354)

Deferred tax assets

	Unused tax losses *RMB'000*	Intangible assets *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2017	7,657	126,039	54,411	188,107
(Charge)/Credit to the consolidated income statement	(7,657)	43,027	161,835	197,205
Acquisition through business combinations	–	–	16,013	16,013
At 31 December 2017	–	169,066	232,259	401,325
Impact on initial application of HKFRS 9 *(note 3.1(a))*	–	–	3,483	3,483
At 1 January 2018	–	169,066	235,742	404,808
Credit/(Charge) to the consolidated income statement	101,308	136,149	(12,844)	224,613
Acquisition through business combinations *(note 16)*	13,538	–	–	13,538
At 31 December 2018	**114,846**	**305,215**	**222,898**	**642,959**

Deferred tax liabilities

	Withholding tax on undistributed profits from the PRC subsidiaries *RMB'000*
At 1 January 2017	198,072
Charge to the consolidated income statement *(note 7)*	69,899
At 31 December 2017 and 1 January 2018	267,971
Charge to the consolidated income statement *(note 7)*	10,068
At 31 December 2018	**278,039**

The deferred tax assets have been offset against certain deferred tax liabilities in the consolidated statement of financial position as they are related to the same entity and related to tax levied by the same tax authority. The amounts recognised in the consolidated statement of financial position are as follows:

	2018	2017
	RMB'000	*RMB'000*
Deferred tax assets recognised in the consolidated statement of financial position	**(642,959)**	(401,325)
Deferred tax liabilities recognised in the consolidated statement of financial position	**278,039**	267,971
Net deferred tax assets	**(364,920)**	(133,354)

Withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred tax liabilities has been provided in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries based on the expected dividends payout ratio of these PRC subsidiaries. Deferred tax liabilities have not been recognised in respect of temporary differences relating to the post-2007 profits earned by the PRC subsidiaries amounting to approximately RMB12,219,028,000 (2017: RMB11,557,434,000).

As at the reporting date, the Group has unused tax losses of approximately RMB2,239,044,000 (2017: RMB2,163,395,000) available for offset against future profits. Of the total tax losses, approximately RMB497,505,000 (2017: RMB300,535,000) may be carried forward for five years from the year of incurring the loss, and the remaining unrecognised tax losses have no expiry dates. No deferred tax asset has been recognised in respect of those tax losses due to the unpredictability of future profit streams.

16. BUSINESS COMBINATIONS

(a) Ningbo Jirun Automobile Components Company Limited# 寧波吉潤汽車部件有限公司 ("Ningbo Jirun")

On 18 July 2018, Zhejiang Jirun Automobile Company Limited# 浙江吉潤汽車有限公司 ("**Jirun Automobile**"), an indirect 99% owned subsidiary of the Company, and a fellow subsidiary owned by the Company's ultimate holding company entered into an acquisition agreement pursuant to which Jirun Automobile has conditionally agreed to acquire, and the fellow subsidiary has conditionally agreed to sell the entire equity interests of Ningbo Jirun for a cash consideration of approximately RMB1,169,399,000. Ningbo Jirun is engaged in the research and development, manufacturing, promotion and sales of vehicles and related automobile components and provision of related after-sales and technical services in the PRC. The acquisition of Ningbo Jirun was completed on 28 September 2018. Please refer to the Company's circular dated 16 August 2018 for further details.

The assets acquired and liabilities recognised at the acquisition date are as follows:

	Pre-acquisition carrying amounts *RMB'000*	Fair value adjustments *RMB'000*	Recognised values on acquisition *RMB'000*
The net assets acquired:			
Property, plant and equipment	2,555,650	–	2,555,650
Intangible assets	113,409	–	113,409
Land lease prepayments	177,727	41,100	218,827
Trade and other receivables	371,571	–	371,571
Inventories	105,485	–	105,485
Bank balances and cash	24,740	–	24,740
Trade and other payables	(2,221,404)	–	(2,221,404)
	1,127,178	41,100	1,168,278
Goodwill arising on acquisition:			
Cash consideration transferred			1,169,399
Fair value of identifiable net assets acquired			(1,168,278)
			1,121
Net cash outflow arising on acquisition of a subsidiary:			
Cash consideration paid			(1,169,399)
Bank balances and cash acquired			24,740
			(1,144,659)

No acquisition-related costs had been incurred in relation to the acquisition.

As a result of the acquisition, the Group is expected to increase its manufacturing capacity to meet the increasing demand of automobiles in the PRC, as well as enhancing its production capabilities. Goodwill arose because the consideration paid included amounts in relation to the revenue growth and future market development of the businesses acquired. These benefits are not recognised separately from goodwill, because they do not meet the recognition criteria for identifiable intangible assets. Goodwill arising from the acquisition is not expected to be deductible for tax purpose.

Ningbo Jirun has contributed revenue of RMBNil and loss of RMB53,176,000, respectively from the acquisition date to 31 December 2018.

If the acquisition had occurred on 1 January 2018, the consolidated revenue and consolidated profit of the Group for the year ended 31 December 2018 would be RMB106,595,133,000 and RMB12,642,667,000, respectively. The proforma financial information is for illustrative purpose only and does not necessarily reflect the Group's revenue and operating results if the acquisition had been occurred on 1 January 2018 and could not serve as a basis for the forecast of future operation results.

(b) Hangzhou Geely Automobile Company Limited# 杭州吉利汽車有限公司 ("Hangzhou Automobile")

On 18 July 2018, Jirun Automobile and a fellow subsidiary owned by the Company's ultimate holding company entered into an acquisition agreement pursuant to which Jirun Automobile has conditionally agreed to acquire, and the fellow subsidiary has conditionally agreed to sell the entire equity interests of Hangzhou Automobile for a cash consideration of approximately RMB930,620,000. Hangzhou Automobile is engaged in the research and development, manufacturing, promotion and sales of vehicles and related automobile components and provision of related after-sales and technical services in the PRC. The acquisition of Hangzhou Automobile was completed on 5 September 2018. Please refer to the Company's circular dated 16 August 2018 for further details.

The assets acquired and liabilities recognised at the acquisition date are as follows:

	Pre-acquisition carrying amounts *RMB'000*	**Fair value adjustments** *RMB'000*	**Recognised values on acquisition** *RMB'000*
The net assets acquired:			
Property, plant and equipment	1,139,387	–	1,139,387
Intangible assets	18,376	–	18,376
Land lease prepayments	327,562	44,500	372,062
Trade and other receivables	207,648	–	207,648
Inventories	440	–	440
Bank balances and cash	19,380	–	19,380
Trade and other payables	(827,536)	–	(827,536)
	885,257	44,500	929,757
Goodwill arising on acquisition:			
Cash consideration transferred			930,620
Fair value of identifiable net assets acquired			(929,757)
			863
Net cash outflow arising on acquisition of a subsidiary:			
Cash consideration paid			(930,620)
Bank balances and cash acquired			19,380
			(911,240)

No acquisition-related costs had been incurred in relation to the acquisition.

As a result of the acquisition, the Group is expected to increase its manufacturing capacity to meet the increasing demand of automobiles in the PRC, as well as enhancing its production capabilities. Goodwill arose because the consideration paid included amounts in relation to the revenue growth and future market development of the businesses acquired. These benefits are not recognised separately from goodwill, because they do not meet the recognition criteria for identifiable intangible assets. Goodwill arising from the acquisition is not expected to be deductible for tax purpose.

Hangzhou Automobile has contributed revenue of RMBNil and loss of RMB29,277,000, respectively from the acquisition date to 31 December 2018.

If the acquisition had occurred on 1 January 2018, the consolidated revenue and consolidated profit of the Group for the year ended 31 December 2018 would be RMB106,595,133,000 and RMB12,662,961,000, respectively. The proforma financial information is for illustrative purpose only and does not necessarily reflect the Group's revenue and operating results if the acquisition had been occurred on 1 January 2018 and could not serve as a basis for the forecast of future operation results.

(c) Guizhou Geely Automobile Components Company Limited# 貴州吉利汽車部件有限公司 ("Guizhou Automobile")

On 18 July 2018, Jirun Automobile and a fellow subsidiary owned by the Company's ultimate holding company entered into an acquisition agreement pursuant to which Jirun Automobile has conditionally agreed to acquire, and the fellow subsidiary has conditionally agreed to sell the entire equity interests of Guizhou Automobile for a cash consideration of approximately RMB1,074,309,000. Guizhou Automobile is engaged in the research and development, manufacturing, promotion and sales of vehicles and related automobile components and provision of related after-sales and technical services in the PRC. The acquisition of Guizhou Automobile was completed on 5 September 2018. Please refer to the Company's circular dated 16 August 2018 for further details.

The assets acquired and liabilities recognised at the acquisition date are as follows:

	Pre-acquisition carrying amounts *RMB'000*	Fair value adjustments *RMB'000*	Recognised values on acquisition *RMB'000*
The net assets acquired:			
Property, plant and equipment	1,682,667	–	1,682,667
Intangible assets	299,095	–	299,095
Land lease prepayments	264,148	28,000	292,148
Trade and other receivables	283,863	–	283,863
Inventories	29,506	–	29,506
Bank balances and cash	10,651	–	10,651
Trade and other payables	(1,527,437)	–	(1,527,437)
	1,042,493	28,000	1,070,493
Goodwill arising on acquisition:			
Cash consideration transferred			1,074,309
Fair value of identifiable net assets acquired			(1,070,493)
			3,816
Net cash outflow arising on acquisition of a subsidiary:			
Cash consideration paid			(1,074,309)
Bank balances and cash acquired			10,651
			(1,063,658)

No acquisition-related costs had been incurred in relation to the acquisition.

As a result of the acquisition, the Group is expected to increase its manufacturing capacity to meet the increasing demand of automobiles in the PRC, as well as enhancing its production capabilities. Goodwill arose because the consideration paid included amounts in relation to the revenue growth and future market development of the businesses acquired. These benefits are not recognised separately from goodwill, because they do not meet the recognition criteria for identifiable intangible assets. Goodwill arising from the acquisition is not expected to be deductible for tax purpose.

Guizhou Automobile has contributed revenue of RMBNil and loss of RMB35,194,000, respectively from the acquisition date to 31 December 2018.

If the acquisition had occurred on 1 January 2018, the consolidated revenue and consolidated profit of the Group for the year ended 31 December 2018 would be RMB106,595,133,000 and RMB12,669,490,000, respectively. The proforma financial information is for illustrative purpose only and does not necessarily reflect the Group's revenue and operating results if the acquisition had been occurred on 1 January 2018 and could not serve as a basis for the forecast of future operation results.

(d) Guizhou Geely Engine Company Limited# 貴州吉利發動機有限公司 ("Guizhou Engine")

On 5 October 2018, Zhejiang Geely Powertrain Company Limited# 浙江吉利動力總成有限公司 ("**Zhejiang Powertrain**"), an indirect 99% owned subsidiary of the Company, and a fellow subsidiary owned by the Company's ultimate holding company entered into an acquisition agreement pursuant to which Zhejiang Powertrain has conditionally agreed to acquire, and the fellow subsidiary has conditionally agreed to sell the entire equity interests of Guizhou Engine for a cash consideration of approximately RMB484,003,000. Guizhou Engine is engaged in the preparation and construction of engine manufactory project in the PRC. The acquisition of Guizhou Engine was completed on 10 December 2018. Please refer to the Company's circular dated 20 November 2018 for further details.

The assets acquired and liabilities recognised at the acquisition date are as follows:

	Pre-acquisition carrying amounts *RMB'000*	Fair value adjustments *RMB'000*	Recognised values on acquisition *RMB'000*
The net assets acquired:			
Property, plant and equipment	874,643	–	874,643
Deferred tax assets *(note 15)*	5,269	–	5,269
Intangible assets	112,710	–	112,710
Land lease prepayments	48,851	12,300	61,151
Trade and other receivables	167,279	–	167,279
Inventories	4,493	–	4,493
Bank balances and cash	55,122	–	55,122
Trade and other payables	(800,375)	–	(800,375)
	467,992	12,300	480,292
Goodwill arising on acquisition:			
Consideration payable *(note 12)*			484,003
Fair value of identifiable net assets acquired			(480,292)
			3,711
Cash inflow arising on acquisition of a subsidiary:			
Bank balances and cash acquired			55,122

No acquisition-related costs had been incurred in relation to the acquisition.

As a result of the acquisition, the Group is expected to increase its manufacturing capacity to meet the increasing demand of automobiles in the PRC, as well as enhancing its production capabilities. Goodwill arose because the consideration to be paid included amounts in relation to the revenue growth and future market development of the businesses acquired. These benefits are not recognised separately from goodwill, because they do not meet the recognition criteria for identifiable intangible assets. Goodwill arising from the acquisition is not expected to be deductible for tax purpose.

Guizhou Engine has not contributed any revenue and loss from the acquisition date to 31 December 2018.

If the acquisition had occurred on 1 January 2018, the consolidated revenue and consolidated profit of the Group for the year ended 31 December 2018 would be RMB106,595,133,000 and RMB12,658,553,000, respectively. The proforma financial information is for illustrative purpose only and does not necessarily reflect the Group's revenue and operating results if the acquisition had been occurred on 1 January 2018 and could not serve as a basis for the forecast of future operation results.

(e) Taizhou Binhai Geely Engine Company Limited# 台州濱海吉利發動機有限公司 ("Binhai Engine")

On 5 October 2018, Zhejiang Powertrain and a fellow subsidiary owned by the Company's ultimate holding company entered into an acquisition agreement pursuant to which Zhejiang Powertrain has conditionally agreed to acquire, and the fellow subsidiary has conditionally agreed to sell the entire equity interests of Binhai Engine for a cash consideration of approximately RMB781,274,000. Binhai Engine is engaged in the preparation and construction of engine manufactory project in the PRC. The acquisition of Binhai Engine was completed on 14 December 2018. Please refer to the Company's circular dated 20 November 2018 for further details.

The assets acquired and liabilities recognised at the acquisition date are as follows:

	Pre-acquisition carrying amounts *RMB'000*	**Fair value adjustments** *RMB'000*	**Recognised values on acquisition** *RMB'000*
The net assets acquired:			
Property, plant and equipment	1,018,691	–	1,018,691
Deferred tax assets *(note 15)*	8,269	–	8,269
Intangible assets	248,722	–	248,722
Land lease prepayments	70,504	26,400	96,904
Trade and other receivables	215,648	–	215,648
Inventories	105,435	–	105,435
Bank balances and cash	1,284	–	1,284
Trade and other payables	(914,503)	–	(914,503)
	754,050	26,400	780,450
Goodwill arising on acquisition:			
Consideration payable *(note 12)*			781,274
Fair value of identifiable net assets acquired			(780,450)
			824
Cash inflow arising on acquisition of a subsidiary:			
Bank balances and cash acquired			1,284

No acquisition-related costs had been incurred in relation to the acquisition.

As a result of the acquisition, the Group is expected to increase its manufacturing capacity to meet the increasing demand of automobiles in the PRC, as well as enhancing its production capabilities. Goodwill arose because the consideration to be paid included amounts in relation to the revenue growth and future market development of the businesses acquired. These benefits are not recognised separately from goodwill, because they do not meet the recognition criteria for identifiable intangible assets. Goodwill arising from the acquisition is not expected to be deductible for tax purpose.

Binhai Engine has not contributed any revenue and loss from the acquisition date to 31 December 2018.

If the acquisition had occurred on 1 January 2018, the consolidated revenue and consolidated profit of the Group for the year ended 31 December 2018 would be RMB106,595,133,000 and RMB12,649,452,000, respectively. The proforma financial information is for illustrative purpose only and does not necessarily reflect the Group's revenue and operating results if the acquisition had been occurred on 1 January 2018 and could not serve as a basis for the forecast of future operation results.

The English translation of the names of the companies established in the PRC is for reference only. The official names of these companies are in Chinese.

17. CASH FLOW INFORMATION

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividends payable *RMB'000*	Bank borrowings *RMB'000*	Senior notes *RMB'000*	Bonds payables *RMB'000*	Total *RMB'000*
At 1 January 2017	–	174,375	2,068,316	–	2,242,691
Change from financing cash flows:					
Proceeds from new bank borrowings	–	1,296,460	–	–	1,296,460
Repayment of bank borrowings	–	(174,375)	–	–	(174,375)
Redemption of senior notes	–	–	(2,033,536)	–	(2,033,536)
Other borrowing costs paid	–	(4,104)	(122,846)	–	(126,950)
Dividends paid	(960,054)	–	–	–	(960,054)
Total changes from financing cash flows	(960,054)	1,117,981	(2,156,382)	–	(1,998,455)
Exchange adjustments	–	–	(95,703)	–	(95,703)
Other changes *(note)*:					
Interest expenses	–	4,653	105,622	–	110,275
Loss on early redemption of senior notes	–	–	52,015	–	52,015
Dividends declared	960,054	–	–	–	960,054
Others	–	(549)	26,132	–	25,583
Total other changes	960,054	4,104	183,769	–	1,147,927
At 31 December 2017 and 1 January 2018	–	1,296,460	–	–	1,296,460

	Dividends payable *RMB'000*	Bank borrowings *RMB'000*	Senior notes *RMB'000*	Bonds payables *RMB'000*	Total *RMB'000*
Change from financing cash lows:					
Initial fair value on the date of issuance	–	–	–	1,927,161	1,927,161
Other borrowing costs paid	–	(38,041)	–	(35,257)	(73,298)
Dividends paid	(2,160,828)	–	–	–	(2,160,828)
Total changes from financing cash flows	(2,160,828)	(38,041)	–	1,891,904	(306,965)
Exchange adjustments	–	78,820	–	112,037	190,857
Other changes *(note)*:					
Interest expenses	–	37,537	–	76,393	113,930
Dividends declared	2,160,828	–	–	–	2,160,828
Others	–	504	–	(32,512)	(32,008)
Total other changes	2,160,828	38,041	–	43,881	2,242,750
At 31 December 2018	**–**	**1,375,280**	**–**	**2,047,822**	**3,423,102**

Note: Other changes include interest accruals.

18. COMPARATIVE FIGURES

The Group has initially applied HKFRS 9 and HKFRS 15 as at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Our group's financial performance in 2018 met the management's expectations with total revenue increased by 15% to RMB106.6 billion for the year ended 31 December 2018. Total net profit of our group grew 18% from RMB10.74 billion in 2017 to RMB12.67 billion in 2018 due to increase in overall sales volume and better profit margin during the year. After accounting for non-controlling interests, our net profit attributable to shareholders was up 18% from RMB10.63 billion in 2017 to RMB12.55 billion in 2018. Diluted earnings per share was up 18% to RMB1.37. As a result of the launch of a few lower-priced compact SUV models since the second half of 2017 and the exclusion of the higher-priced "Lynk&Co" vehicles, which were sold under our 50%-owned joint-venture, from the calculation, our group's average ex-factory selling price ("**ASP**") was up only 1.1% compared to the same period last year. During the year, our manufacturing operations continued to generate good operational cash inflow with our group's total cash level (bank balances and cash + pledged bank deposits) increased further by 17% to RMB15.76 billion at the end of 2018.

Business Overview

China's passenger vehicle market experienced a 4% decline in 2018, after strong growth over the past few year driven by government stimulus ended 31 December 2017. The deterioration of consumer confidence in China caused by increased political and economic uncertainties also affected demand for passenger vehicles during the year.

Despite the overall downward trend for China's passenger vehicle market, we continued to increase our market share and strengthen our leading position in China's passenger vehicle segment in 2018, helped by the good sales performance of our A-segment sedans and Sport Utility Vehicle ("**SUV**"), making us the largest indigenous brand vehicle manufacturer in China in terms of sales volume and maintaining our position as the third largest passenger vehicle brand in China. The launch of our newest A-segment sedan model "Bin Rui" (繽瑞) and new compact SUV model "Bin Yue" (繽越) towards the end of the year further enhanced our product portfolio. As a result, we achieved a 19% growth in domestic sales volume (including the sales volume of "Lynk&Co" vehicles sold by our 50%-owned joint venture) in 2018. Our group's export sales volume also exhibited a strong rebound of 136% year-on-year ("**YoY**") increase in 2018 as a result of the introduction of more updated products to the export markets. Our group sold a total of 1,500,838 units of vehicles (including the sales volume of "Lynk&Co" vehicles sold by our 50%-owned joint venture) in 2018, up 20% from 2017. Despite the much weaker passenger vehicle demand in China towards the end of 2018, our group's 2018 sales volume is only 5% below the target we set at the beginning of 2018, reflecting the strong underlying demand for the group's products.

Financial Resources

Total capital expenditures (excluding acquisitions through business combinations) on property, plant and equipment, intangible assets (i.e. capitalised product development costs) and land lease prepayments for the Group amounted to RMB7.5 billion in 2018, which was within the budgeted amount of RMB11.5 billion fixed at the beginning of the year. Working capital (inventories + trade and other receivables – trade and other payables) decreased by about RMB6,449 million to minus RMB14,476 million at the end of 2018 mainly due to significant decrease in trade and notes receivables. Further, as a result of the good operational cash inflow from the Group's manufacturing operations and the issuance of the Company's US$300 million 5-year bonds, the group's total cash level (bank balances and cash + pledged bank deposits) increased by 17% YoY to RMB15.76 billion at the end of 2018. The Group's total borrowings (included bank borrowings and bonds payables) also increased by 164% to RMB3.42 billion. Despite this, interest expense was down 30% in 2018 due to lower funding cost driven by improved credit ratings and success in restructuring debt during the year. At the end of 2018, the financial position of the Group remained strong with net cash on hand (total cash level – borrowings) of RMB12.33 billion versus a net cash level of RMB12.88 billion six months ago. At the end of 2018, the Group's total borrowings were solely denominated in US$, which aligned with the currency mix of the Group's revenues from export business. In addition, net notes receivable (notes receivables – notes payables) at the end of 2018 amounted to RMB14.91 billion, which could provide the Group with additional cash reserves when needed through discounting the notes receivables with the banks.

The Group has been assigned credit ratings from both Standard & Poor's Ratings Services and Moody's Investors Service. Standard & Poor's corporate credit rating on the Group is currently "BBB-/Stable". On 28 August 2018, Moody's Investors Service upgraded the Group's credit rating outlook to positive from stable and affirmed the Group's corporate family rating of "Ba1".

Budgeted capital expenditures (excluding acquisitions through business combinations) of the Group amount to about RMB11.6 billion in 2019, including the funding for the research and development of new vehicle platforms and models and the financing of the expansion and upgrading of production facilities at existing plants. In 2019, the Group plans to acquire an engine plant in Yiwu City, Zhejiang Province, the PRC from Geely Holding. Details of which will be announced by the Company whenever necessary. The Group plans to fund capital expenditures from its operational cash flow, cash reserve, additional bank borrowings, and fund raising exercises in the international capital market. As at the date of this announcement, the Company has no definite plan or schedule on raising funds in the international capital market.

Research and Development

During the year ended 31 December 2018, the Group recognised a total expense of RMB1,926 million (2017: RMB1,478 million) in relation to its research and development activities and such expense was included in "Administrative expenses" in the consolidated income statement. Further details were illustrated in the table below:

	2018 **_RMB('000)_**	2017 _RMB('000)_	_YoY change (%)_
Amortisation of intangible assets (i.e. capitalised product development costs)	**1,377,705**	1,147,257	20
Research and development costs (i.e. not qualified for capitalisation)	**548,653**	331,241	66
Total research and development costs charged to profit or loss	***1,926,358***	*1,478,498*	*30*

Prospects

The prevailing political and economic uncertainties should continue to affect the passenger vehicle market in China and could cause the current slowdown in motor vehicle demand to continue into the 2019. This, together with the intense market competition in China would continue to put pressure on the sales performance and profitability of Chinese vehicle manufacturers in 2019. Although the competition would be further intensified with the increased entry of new vehicle makers in the China market, especially in the new energy and electrified vehicles ("**NEEV**") segment, the vast interests demonstrated by these new comers to squeeze into the already very crowded market should also suggest that the Chinese vehicle market still offer huge growth potential ahead. Despite the increased competition, huge changes and complications they have brought into the market, these new vehicle makers should also bring with them huge additional resources, specific expertise and innovation, new idea and technologies into the automobile industry, thus enabling us to serve and satisfy our customers better. Long-term, these changes should bode well for the future success of China's automobile industry.

Nowadays, our Group is already a market leader in China's passenger vehicle market, equipped with completed range of core technologies and expertise, sustainable development capabilities, marketing our products under a variety of brands for different market segments. The Group's annual sales volume exceeded 1.5 million units in 2018 and its market share in the China's passenger vehicle market increased from 5% in 2017 to 6.2% in 2018, making the Group the third largest passenger vehicle brands in China in terms of annual sales volume. In addition, the Group's financial position has strengthened considerably as a result of the strong operational cash-flow generated over the past few years. This should enable the Group to continue investing for the future and respond to the huge market changes in the coming years.

In 2019, the Group will significantly increase the proportion of NEEVs in its sales volume by introducing more competitive NEEV products. The amount of new product offerings should stay at high levels at least over the next two years, providing sufficient momentum to sustain the Group's strong sales volume growth during the period. This, together with our proven competitive advantages in product standards, quality and technologies should enable the Group to compete effectively in different segment of China's passenger vehicle market. As a result, the Group is in a good position to secure higher market share in China's passenger vehicle market in the years ahead. To alleviate capacity constraints which have hindered the sales performance of some of the Group's new products, the Group completed the acquisitions of three manufacturing plants and two engine plants in 2018. All of which will commence production in phases over the next 12 months. It also set up two investing entities with leading suppliers in the areas of automatic transmissions, battery cells, battery modules and battery packs, aiming to ensure reliable supply of key components and parts. The Group therefore should be in a good position to sell more passenger vehicles once the Chinese vehicle market started to recover.

Additional growth could be provided by the Lynk&Co JV, which is a key element of the Group's strategy to expand into the premium vehicle segment in China and the global automobile market. With a more comprehensive product ranges, equipped with both traditional ICE and electrified powertrain, its own manufacturing facilities since mid 2018, and an innovative distribution system largely completed by the end of 2018, the joint-venture is ready to significantly expand its sales volume from 2019 onwards.

The Group's major export markets should continue to show significant recovery in 2019, in view of the current suppressed level of sales and the introduction of more updated products to these markets. The Group had largely completed the rebranding and restructuring of its distribution channels in its major export markets. Localisation of production to reduce costs and currency risk has started to yield positive results in markets like Belarus and Malaysia, where customer feedback and demand for the Group's products significantly improved recently. In a few years' time, exports would not only become a key driver to the Group's growth, but also help to further enhance the Group's economies of scale.

The few major acquisitions in the automobile sector by the Group's parent, namely Geely Holding, over the past few years has started to created synergies and huge opportunities for the Group in both its existing automobile business and other new business areas. The partnership created by these acquisitions should provide the Group substantial opportunities for technologies and costs sharing, economies of scale and new market penetration. Longer-term, these acquisitions should provide additional sources for growth of the Group.

Given the prevailing uncertainties in China's passenger vehicle market, the Group's board of directors preliminarily set the Group's sales volume target for the year of 2019 at a conservative level of 1,510,000 units (including the sales volume target for "Lynk&Co" vehicles), in line with the overall sales volume achieved in 2018.

CAPITAL STRUCTURE AND TREASURY POLICIES

The Group funds its short-term working capital requirement mainly through its own operational cash flow, short-term bank loans from commercial banks in China and Hong Kong and the payment credit from its suppliers. For its longer-term capital expenditures including product and technology development costs, investment in the construction, expansion and upgrading of production facilities, the Group's strategy is to fund these longer-term capital commitments by a combination of its operational cash flow, bank borrowings and fund raising exercises in the capital market. As at 31 December 2018, the Group's shareholders' funds amounted to approximately RMB44.9 billion (As at 31 December 2017: approximately RMB34.5 billion). The Company issued 11.098 million ordinary shares upon exercise of share options during the year.

EXPOSURE TO FOREIGN EXCHANGE RISK

During the year, the Group's operations were principally related to domestic sales of automobiles and related automobile parts and components in the Mainland China and the Group's assets and liabilities were mainly denominated in Renminbi (RMB), the functional currency of the Company and its key subsidiaries.

In terms of export operations, most of the Group's export sales were denominated in United States dollars (US$) during the year. Also, the Group could face foreign exchange risk, particularly in emerging markets if it had local subsidiaries, associates or joint ventures in overseas export markets. The devaluation of local currencies in overseas markets could result in foreign exchange losses and affect the Group's competitiveness and therefore its sales volume in these markets. To mitigate the foreign exchange risk, the Group has embarked on plans to build additional overseas plants to increase the proportion of its costs in local currencies to engage in local business activities. Also, to compensate for higher costs in export markets, the Group has speeded up the renewal of its export models, and has started to streamline its export operations displaying comparative advantages with an aim to achieve higher customer satisfaction, better operating efficiency and economies of scale in its export markets.

The Group's management would also closely monitor the market situation and might consider tools to manage foreign exchange risk whenever necessary.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group's current ratio (current assets/current liabilities) was about 0.98 (As at 31 December 2017: 1.06) and the gearing ratio of the Group was about 7.6% (As at 31 December 2017: 3.8%) which was calculated on the Group's total borrowings (excluding trade and other payables) to total shareholders' equity (excluding non-controlling interests). As at 31 December 2018, the substantial decrease in receivables (in particular, the notes receivables) was (a) mainly due to the deterioration of consumer confidence in China arising from the increased political and economic uncertainties, which in turn adversely affected the customers' demand for passenger vehicles in the fourth quarter of the current year (i.e. the traditional peak season for the automobile industry) and the Group received lesser notes receivables from its customers which did not mature by the end of December 2018; and (b) thanks to the relatively low interest environment and strong net cash level, the Group did not opt to discount these notes receivables without recourse but wait to hold them until maturity during most of the times in 2018. Accordingly, it resulted in a slight decrease in current ratio at the end of year 2018 over the previous year.

Total borrowings (excluding trade and other payables) as at 31 December 2018 amounted to approximately RMB3.4 billion (As at 31 December 2017: approximately RMB1.3 billion) were mainly the Group's borrowings and bonds payable. At the end of 2018, the Group's total borrowings were denominated in United States Dollars (US$). They were well matched by the currency mix of the Group's revenues, which were mainly denominated in US$. For the borrowings, they were unsecured, interest-bearing and repaid on maturity. The increase in gearing ratio during the year was mainly due to the issue of bonds payables in the principal amount of US$300 million, which was partially offset by the increase in equity as a result of profit attained by the Group during the year of 2018. Should other opportunities arise requiring additional funding, the Directors believe the Group is in a good position to obtain such financing.

EMPLOYEES' REMUNERATION POLICY

As at 31 December 2018, the total number of employees of the Group was about 52,400 (As at 31 December 2017: 41,600). Employees' remuneration packages are based on individual experience and work profile. The packages are reviewed annually by the management who takes into account the overall performance of the working staff and market conditions. The Group also participates in the Mandatory Provident Fund Scheme in Hong Kong and state-managed retirement benefit scheme in the PRC. In addition, employees are eligible for share options under the share option scheme adopted by the Company.

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

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

PROPOSED FINAL DIVIDEND

The directors have recommended the payment of a final dividend of HK$0.35 per ordinary share for the year ended 31 December 2018. The proposed dividend payments are subject to approval by the shareholders of the Company at the annual general meeting to be held on Monday, 27 May 2019 at 4:00 p.m. (Hong Kong Time). Upon shareholders' approval at the upcoming annual general meeting, the proposed final dividend will be paid in July 2019 to shareholders whose names shall appear on the register of members of the Company on 21 June 2019.

CLOSING OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 22 May 2019 to 27 May 2019, both dates inclusive, during which period no transfer of shares will be registered. In order to establish entitlements of attending and voting at the forthcoming annual general meeting of the Company to be held on 27 May 2019, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. on 21 May 2019.

The register of members of the Company will be closed from 18 June 2019 to 21 June 2019, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. on 17 June 2019.

CORPORATE GOVERNANCE

For the year ended 31 December 2018, the Company has complied with the code provisions ("**CPs**") of the Corporate Governance Code and Corporate Governance Report, as set out in Appendix 14 to the Listing Rules, except for CPs A.2.7, A.6.5 and E.1.2.

CP A.2.7 provides that the chairman (the "**Chairman**") of the board of directors of the Company (the "**Board**") should at least annually hold meetings with the independent non-executive directors without the presence of other directors. During the year ended 31 December 2018, a formal meeting could not be arranged between the Chairman and the independent non-executive directors without the presence of other directors due to the tight schedules of the Chairman and the independent non-executive directors. Although such meeting was not held during the year, the Chairman has delegated the company secretary of the Company to gather any concerns and/or questions that the independent non-executive directors might have and report to him for setting up follow-up meetings, whenever necessary.

CP A.6.5 provides that the Company should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director. During the year, the Company did not host a continuous professional development session for the directors as the Company has made alternative arrangement so that the directors may elect to participate in courses and topics of their own interests. To accommodate the directors' development and to refresh their knowledge and skills, so as to ensure that their contribution to the Board would remain informed and relevant, the directors can submit their applications with details of the curriculum and the relevant course fees to the chief executive officer of the Company. Once the training is considered acceptable, the course fees will be fully reimbursed when valid payment receipts are presented.

CP E.1.2 provides that the Chairman and the chairman of respective Board committees should attend the annual general meeting of the Company. During the year ended 31 December 2018, the Chairman did not attend the annual general meeting of the Company in person due to conflict of his schedules and other prior business engagement in the PRC. If the Chairman could not attend the general meeting of the Company in person, he would assign an executive director, who does not have a material interest in the businesses contemplating in the meeting and should report to him on any enquiries the shareholders of the Company might have, to attend such general meeting on his behalf. Further, the Company would facilitate a conference call for the shareholders and the directors of the Company who are unable to attend in person (including the Chairman) to discuss any specific enquiries with respect to the businesses contemplating in the general meeting. Through these measures, views of the shareholders of the Company would be properly communicated to the Board as a whole. In addition, the external auditor will be invited to attend the annual general meeting of the Company to answer questions about the conduct of the audit, the preparation and content of the auditor's report, accounting policies and auditor's independence.

The Company held its annual general meeting on 25 May 2018. Due to conflict of schedules and other prior business engagement in the PRC, Mr. Li Shu Fu, the Chairman, was unable to attend the general meeting in person but he participated the meeting via conference call. Two executive directors, one independent non-executive director and the Company's external auditor attended and answered questions raised by the shareholders of the Company at the meeting physically. Two independent non-executive directors, one non-executive director and four executive directors (including the Chairman) participated the meeting via conference call.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the year, the Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own Code for Securities Transactions by Officers (the "**Code**"). All directors of the Company have confirmed their compliance during the year with the required standards set out in the Model Code and the Code.

AUDIT COMMITTEE

The Listing Rules require every listed issuer to establish an Audit Committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Audit Committee is accountable to the Board and the primary duties of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. The Audit Committee currently comprises Mr. Lee Cheuk Yin, Dannis, Mr. Yeung Sau Hung, Alex, Mr. An Qing Heng and Mr. Wang Yang, who are the independent non-executive directors of the Company.

The Audit Committee has reviewed the consolidated results of the Group for the year ended 31 December 2018.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held in Hong Kong on Monday, 27 May 2019 at 4:00 p.m. (Hong Kong Time). A notice of the annual general meeting will be issued and delivered to shareholders of the Company in due course.

SCOPE OF WORK OF THE AUDITOR

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Group's auditor, Grant Thornton Hong Kong Limited (the "**Auditor**"), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Auditor on the preliminary announcement.

PUBLICATION OF 2018 ANNUAL REPORT ON THE WEBSITES OF THE COMPANY AND THE STOCK EXCHANGE OF HONG KONG LIMITED

Pursuant to the requirements of the Listing Rules regarding the reporting period, the 2018 annual report will set out all information disclosed in the annual results announcement for 2018 and will be disclosed on the websites of the Company (http://www.geelyauto.com.hk) and The Stock Exchange of Hong Kong Limited (http://www.hkexnews.hk) on or before 30 April 2019.

By Order of the Board of
Geely Automobile Holdings Limited
Li Shu Fu
Chairman

Hong Kong, 21 March 2019

As at the date of this announcement, the executive directors of the Company are Mr. Li Shu Fu (Chairman), Mr. Yang Jian (Vice Chairman), Mr. Li Dong Hui, Daniel (Vice Chairman), Mr. Gui Sheng Yue (Chief Executive Officer), Mr. An Cong Hui, Mr. Ang Siu Lun, Lawrence and Ms. Wei Mei, the non-executive director of the Company is Mr. Carl Peter Edmund Moriz Forster, and the independent non-executive directors of the Company are Mr. Lee Cheuk Yin, Dannis, Mr. Yeung Sau Hung, Alex, Mr. An Qing Heng and Mr. Wang Yang.