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濰柴動力股份有限公司

WEICHAI POWER CO., LTD.

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

(Stock Code: 2338)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB174,361 million, representing an increase of approximately 9.5%.
- Net Profit Attributable to the Shareholders of the Parent was approximately RMB9,105 million, representing an increase of approximately 5.2%.
- Basic Earnings Per Share was approximately RMB1.15, representing an increase of approximately 6.0%.

(Important notice: This announcement is published in Chinese and English versions. In case of inconsistency, the Chinese version shall prevail.)

The board of directors (the "Board") of Weichai Power Co., Ltd. (the "Company") is pleased to announce the audited consolidated financial statements of the Company and its subsidiaries (the "Group") prepared in accordance with the China Accounting Standards for Business Enterprises for the year ended 31 December 2019 (the "Year"), together with comparative figures for the corresponding period of 2018 as follows:

CONSOLIDATED INCOME STATEMENT

January to December 2019 (Expressed in Renminbi Yuan)

	Notes	**2019**	2018
Revenue	*7*	**174,360,892,512.86**	159,255,832,286.92
Less: Cost of sales	*7*	**136,353,235,434.32**	123,686,413,712.22
Taxes and surcharges	*8*	**663,961,091.30**	723,216,029.13
Distribution and selling expenses		**11,254,073,577.96**	10,619,172,364.29
General and administrative expenses		**6,900,199,388.90**	6,259,505,543.37
Research & development expenses		**5,227,973,550.12**	4,320,202,297.54
Finance expenses		**220,333,776.74**	75,343,939.85
Incl: Interest expenses		**1,233,361,936.01**	1,150,950,408.70
Interest income		**1,067,326,294.25**	1,059,722,329.53
Add: Other income		**318,138,370.04**	232,190,063.55
Investment income		**694,686,304.10**	464,812,907.17
Incl: investment income from associates and jointly controlled enterprises		**244,231,790.47**	173,768,638.90
Profit or loss on change of fair value		**71,259,465.16**	177,062,305 .75
Impairment loss of credit		**(266,894,905.54)**	(210,300,037.17)
Impairment loss of assets		**(469,192,133.29)**	(633,519,321.29)
Gain on disposal of assets		**66,779,887.80**	1,501,183.76
Operating profit		**14,155,892,681.79**	13,603,725,502.29
Add: Non-operating income		**289,768,143.18**	307,054,979.29
Less: Non-operating expenses		**94,010,683.92**	52,496,406.05
Total profit		**14,351,650,141.05**	13,858,284,075.53
Less: Income tax expenses	*9*	**2,444,643,048.56**	2,232,550,533.06
Net profit		**11,907,007,092.49**	11,625,733,542.47
(I) Breakdown by continuity of operations			
1. Net profit from continuing operations		**11,907,007,092.49**	11,625,733,542.47
(II) Breakdown by attributable interests			
1. Net profit attributable to shareholders of the parent		**9,104,955,354.35**	8,657,527,308.21
2. Minority interests		**2,802,051,738.14**	2,968,206,234.26

	Notes	2019	2018
Net other comprehensive income after tax		**88,221,996.27**	57,050,287.90
Net other comprehensive income attributable to shareholders of the parent after tax	*11*	**305,975,740.86**	(36,596,730.76)
(I) Those other comprehensive income not to be reclassified into profit or loss			
1. Changes arising from re-measuring of defined benefit plan		**(594,361,674.17)**	9,319,184.93
2. Other comprehensive income not to be reclassified into profit or loss using the equity method		**(132,262.02)**	3,130,071.69
3. Change in fair value of investment in other equity instruments		**619,944,039.01**	(242,977,232.68)
(II) Those other comprehensive income to be reclassified into profit or loss			
1. Other comprehensive income to be reclassified into profit or loss using the equity method		**(996,322.81)**	1,037,935.29
2. Cashflow hedging reserve		**51,461,808.71**	(11,148,493.39)
3. Exchange differences on foreign currency translation		**230,060,152.14**	204,041,803.40
Net other comprehensive income attributable to minority interests after tax		**(217,753,744.59)**	93,647,018.66
Total comprehensive income		**11,995,229,088.76**	11,682,783,830.37
Total comprehensive income attributable to the shareholders of the parent		**9,410,931,095.21**	8,620,930,577.45
Total comprehensive income attributable to minority interests		**2,584,297,993.55**	3,061,853,252.92
Earnings per share	*10*		
(I) Basic earnings per share		**1.15**	1.08
(II) Diluted earnings per share		**1.15**	1.08

CONSOLIDATED BALANCE SHEET
31 December 2019 (Expressed in Renminbi Yuan)

	Notes	**31 December 2019**	31 December 2018
Current assets			
Cash and cash equivalents		**48,817,622,206.26**	38,209,952,558.31
Financial assets held for trading		**4,451,059,463.07**	4,115,199,600.23
Notes receivable	*3*	**15,920,141,988.31**	18,056,440,277.52
Accounts receivable	*4*	**14,285,262,297.09**	13,155,363,494.20
Receivable financing		**10,537,909,983.71**	6,936,224,398.10
Prepayments		**996,710,182.20**	1,109,227,313.17
Other receivables		**681,601,186.05**	1,087,148,524.03
Inventories		**24,717,700,810.03**	20,674,287,133.47
Contract assets		**1,174,036,594.50**	935,892,539.90
Assets held for sale		**24,237,289.50**	5,525,306.60
Non-current assets due within one year		**2,658,043,734.50**	2,127,858,173.40
Other current assets		**1,920,759,332.58**	1,692,343,618.45
Total current assets		**126,185,085,067.80**	108,105,462,937.38
Non-current assets			
Long-term receivables		**8,447,617,640.00**	6,483,298,008.60
Long-term equity investments		**4,711,144,533.01**	4,463,591,313.13
Investment in other equity instruments		**2,103,129,675.18**	1,315,633,672.96
Other non-current financial assets		**636,502,629.08**	192,949,412.40
Investment property		**537,298,133.13**	593,459,307.58
Fixed assets		**26,318,667,724.94**	29,454,072,247.73
Construction in progress		**5,408,666,017.06**	2,848,101,239.62
Right-of-use assets		**9,109,528,185.30**	–
Intangible assets		**23,435,580,132.59**	23,299,455,749.37
Development expenditure		**139,500,519.38**	440,148,223.16
Goodwill		**23,822,520,317.99**	23,037,386,296.04
Long-term prepaid expenses		**254,367,462.55**	228,459,134.85
Deferred tax assets		**5,034,346,014.96**	4,458,451,001.33
Other non-current assets		**687,720,493.20**	355,896,630.03
Total non-current assets		**110,646,589,478.37**	97,170,902,236.80
Total assets		**236,831,674,546.17**	205,276,365,174.18

	Notes	**31 December 2019**	31 December 2018
Current liabilities			
Short-term loans		**2,014,692,401.39**	5,472,765,901.24
Financial liabilities held for trading		**131,920,754.38**	213,435,765.47
Notes payable	*5*	**22,446,404,536.58**	15,925,016,265.08
Accounts payable	*6*	**36,748,503,682.85**	30,869,354,934.85
Contract liabilities		**10,654,453,360.19**	8,722,443,043.80
Payroll payable		**5,588,996,060.47**	5,184,666,613.19
Taxes payable		**2,064,584,764.70**	2,506,794,642.37
Other payables		**6,511,002,642.85**	6,502,173,092.72
Non-current liabilities due within one year		**12,998,360,887.57**	6,898,699,368.61
Other current liabilities		**6,717,853,612.80**	6,121,799,350.16
Total current liabilities		**105,876,772,703.78**	88,417,148,977.49
Non-current liabilities			
Long-term borrowings		**11,373,657,990.58**	10,908,512,233.85
Bonds payable		**10,295,279,995.18**	12,265,020,075.27
Lease liabilities		**8,943,580,095.61**	–
Long-term payables		**4,658,205,937.06**	9,895,419,535.20
Long-term payroll payable		**11,667,005,084.73**	9,580,057,732.13
Accruals and provisions		**315,667,957.84**	364,979,471.20
Deferred income		**4,608,566,796.01**	3,256,007,618.70
Deferred tax liabilities		**5,406,314,269.55**	5,772,705,450.50
Other non-current liabilities		**3,911,898,285.35**	2,557,186,306.15
Total non-current liabilities		**61,180,176,411.91**	54,599,888,423.00
Total liabilities		**167,056,949,115.69**	143,017,037,400.49

	Notes	**31 December 2019**	31 December 2018
Shareholders' equity			
Share capital		**7,933,873,895.00**	7,997,238,556.00
Capital reserve		**118,896,726.65**	113,699,432.76
Less: Treasury shares		**–**	499,911,217.21
Other comprehensive income	*11*	**(1,278,030,636.58)**	(1,570,594,557.01)
Special reserve		**193,099,471.45**	155,056,854.10
Surplus reserve		**973,728,220.76**	674,283,390.61
Retained earnings		**37,282,373,385.43**	32,443,962,374.77
Total equity attributable to the shareholders of the parent		**45,223,941,062.71**	39,313,734,834.02
Minority interests		**24,550,784,367.77**	22,945,592,939.67
Total shareholders' equity		**69,774,725,430.48**	62,259,327,773.69
Total liabilities and shareholders' equity		**236,831,674,546.17**	205,276,365,174.18

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

1. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

a. Preparation basis of the financial statements

Preparation basis

The Group has adopted the Accounting Standards for Business Enterprises and relevant provisions promulgated by the MOF. In addition, the Group also disclosed relevant financial information in accordance with Compilation Rules No. 15 for Information Disclosure by Companies Offering Securities to the Public – General Requirements for Financial Reporting (2014 Revision), the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Continuing operations

The Group carried out assessment on the going concern for the 12 months' period commencing from 31 December 2019, and did not recognize any matters and situation leading to material doubt on the continuity of operation. Therefore, these financial statements have been prepared based on the going-concern assumption.

Basis of Book-Keeping and Principle of Measurement

The Group adopts the accrual basis as the basis of book-keeping in accounting. Other than certain financial instruments, these financial statements have been prepared at historical costs. Disposal group held-to-sale is carried at the lower of carrying amount or the net value of fair value less selling expenses. If the assets are impaired, corresponding provisions for impairment shall be made according to relevant provisions.

Under historical cost method, the amount of assets was measured at the fair value of cash or cash equivalents or consideration paid at the time of purchase. Liabilities were measured at the amount of money or assets due to the current obligations actually received, or a present obligation of the contract amount, or the measurement of cash or cash equivalents in accordance with daily activities to repay the liabilities of the amount expected to be paid.

The fair value refers to the amount, at which both willing parties engaged to an orderly transaction who are familiar with the condition sell their assets or transfer their liabilities. Whether the fair value is observable or measured by valuation techniques, the measurement and disclosure of the fair value in these financial statements were all based on it.

For financial assets with transaction prices as the fair value upon initial recognition and a valuation technique that unobservable inputs are to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals to the transaction price.

Fair value measurements are categorized into three levels based on the degree to which the inputs of the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.

- Level 3 inputs are unobservable inputs for the asset or liability.

b. The accounting treatment of business combinations involving enterprises under common control and business combinations not involving enterprises under common control

Business combinations include business combinations involving enterprises under common control and business combinations not involving enterprises under common control.

Business combinations involving enterprises under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory.

Assets and liabilities that are obtained in a business combination shall be measured at the carrying amounts on the financial statements of the acquiree as at the combination date. The difference between the carrying amount of the net assets obtained by the acquirer and the carrying amount of the consideration paid for the combination (or the aggregate face value of shares issued as consideration) shall be adjusted to share premium under capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Costs that are directly attributable to the combination are charged to profit or loss when incurred.

Business combinations not involving enterprises under common control and goodwill

A business combination involving enterprises not under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination.

Combination cost refers to the fair value of assets paid, liabilities incurred or assumed and equity instruments issued by the acquirer for acquiring control of the acquiree. For business combinations of enterprises not under common control achieved in stages through multiple transactions, the combination cost shall be the sum of the consideration paid on the date of acquisition and the fair value, as at the date of acquisition, of the equity interests in the acquiree held prior to the date of acquisition.

The fees paid to intermediaries including audit, legal services, appraisal and so forth and other related administrative expenses incurred by the acquirer for the business combination are charged to profit or loss for the current period when incurred.

The identifiable assets, liabilities and contingent liabilities of acquiree qualifying for the conditions of recognition acquired by the acquirer in the business combination are measured at fair value on the date of acquisition. When the business combination contract provides that, upon the occurrence of multiple future contingencies, the acquirer shall require the return of consideration paid for the business combination, such contingent consideration as set out in the contract shall be recognised as an asset by the Group as a part of the aggregate consideration transferred in the business combination, and be included in the cost of combination at the fair value at the date of acquisition. Within twelve months after the acquisition, if the contingent consideration needs to be adjusted as new or further evidences are obtained in respect of circumstances existed as of the date of acquisition, the amount previously included in the goodwill shall be adjusted. A change in or adjustment to the contingent consideration under other circumstances shall be measured in accordance with Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments and Accounting Standards for Business Enterprises No. 13 – Contingencies. Any change or adjustment is included in profit or loss for the current period.

Where the combination cost is larger than the portion of fair value of net identifiable assets of acquiree acquired in the business combination, the difference is recognized as goodwill as an asset, and initially measured at cost. For those with combination cost lower than the portion of fair value of net identifiable assets of acquiree acquired in the business combination, re-verification is first carried out on the measurement of the fair value of all identifiable assets, liabilities and contingent liabilities as well as the combination cost. For those with combination cost lower than the portion of fair value of net identifiable assets of acquiree acquired in the business combination after re-verification, they are charged to profit or loss for the current period.

Goodwill arising from the business combination shall be recognized separately in the consolidated financial statements and measured at cost less accumulated impairment losses.

c. **Basis for preparation of consolidated financial statements**

The consolidation scope of consolidated financial statements is determined on the basis of control. Control refers to the power of an investor over an investee, and exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of its returns. Once the relevant facts and situation which alters the elements that define control change, the Group shall perform re-evaluation.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

For a subsidiary acquired through a business combination not involving enterprises under common control, the operating results and cash flows from the date of acquisition (the date when the control is obtained) are included in the consolidated income statement and consolidated cash flow statement, as appropriate.

No matter when the business combination occurs in the reporting period, subsidiaries acquired through a business combination involving enterprises under common control or the party being absorbed under merger by absorption are included in the Group's scope of consolidation as if they had been included in the scope of consolidation from the date when they first came under the common control of the ultimate controlling party. Their operating results and cash flows from the beginning of the earliest reporting period or from the date when they first came under the common control of the ultimate controlling party are included in the consolidated income statement and consolidated cash flow statement, as appropriate.

The significant accounting policies and accounting periods adopted by the subsidiaries are determined based on the uniform accounting policies and accounting periods set out by the Company.

The effect of all intra-group transactions between the Company and its subsidiaries and among subsidiaries on the consolidated financial statements is eliminated on consolidation.

The portion of subsidiaries' equity that is not attributable to the Company is treated as minority interests and presented as "minority interests" in the consolidated balance sheet within shareholders' equity. The portion of net profits or losses of subsidiaries attributable to minority interests is presented as "minority interests" in the consolidated income statement below the "net profit" line item.

Where the amount of losses of a subsidiary attributable to the minority shareholders exceeds their share of the opening balance of owner's equity of the subsidiary, the excess shall be allocated against minority interests.

Acquisition of minority interests or disposal of interest in a subsidiary that does not result in the loss of control over the subsidiary is accounted for as an equity transaction. The carrying amounts of the interests attributable to the parent and minority interests are adjusted to reflect the changes in their relative interests in the subsidiary. The difference between the amount by which the minority interests are adjusted and the fair value of the consideration paid or received is adjusted to capital reserve. If the capital reserve is not sufficient to absorb the difference, the excess is adjusted against retained earnings.

d. Change in accounting policies

New Standard on Lease

With effect from 1 January 2019 (the "date of first adoption"), the Group has adopted the Accounting Standards for Business Enterprises No. 21 – Leases (the "New Standard on Lease"; the standard on lease before amendment is referred as the "Original Standard on Lease") amended by the MOF in 2018. The New Standard on Lease improved the definition of lease; and added the identification, allocation and combination; cancelled the classification of operating lease and finance lease; required to recognize right-of-use assets and lease liabilities for all leases at the commencement date (except for short-term lease and leases of low-value assets) and the respective depreciation and interest expense; improved the lessee's subsequent measurement of lease, added the accounting treatment for the re-assessment of selection right and lease modifications, and added relevant disclosure requirements. In addition, it enriched the disclosure contents by the lessors.

For the contracts already existed before the date of first adoption, the Group chose not to re-assess whether they were of lease or included lease on the date of first adoption.

The Group as lessee

The Group adjusted the beginning amount of the retained earnings and other relevant items on financial statements on the first date of adoption based on the cumulative impact of first adoption of the New Standard on Lease without adjusting the information for the comparable period.

For the operating leases before the date of first adoption except for lease of low value assets, the Group adopted one or more than one simplified treatments as follows based on each lease option:

- Leases to be completed within 12 months from the date of first adoption shall be treated as short-term leases;

- When measuring the lease liabilities, a single discount rate is adopted for leases with similar characteristics;

- The measurement of right-of-use assets does not include initial direct cost;

- For the leases with extension option or termination option, the Group determines the lease term based on the exercise of options in practice prior to the date of first adoption and other latest developments;

- The Group assesses whether the contracts with leases are onerous before the date of first adoption according to the Accounting Standards for Business Enterprises No.13 – Contingencies and adjusts the right-of-use assets based on the provision for loss made in the balance sheet before the date of first adoption as an alternative to performing an impairment test on the right-of-use assets;

- For the change of the lease before the date of first adoption, accounting treatments shall be in accordance with the final arrangements of the change of the lease.

On the date of first adoption, the Group made the adjustments as follows in connection with the adoption of the New Standard on Lease:

- For the finance leases before the date of first adoption, the Group measured the right-of-use assets and lease liabilities at the original carrying amounts of the assets under finance lease and the finance lease payable respectively on the date of first adoption.

- For the operating leases before the date of first adoption, Company shall measure lease liabilities on the date of first adoption based on remaining lease payments discounted to the present value using the incremental borrowing rate for lessees prevailing on the date of first adoption, and select one of the following measures to measure the right-of-use assets depending on each lease:

  – assume that the New Standard on Lease is adopted to measure right-of-use assets once the lease term commenced, with the carrying amount discounted using the incremental borrowing rate at the date of first adoption.

  – the amount equal to the lease liability and the necessary adjustments based on the prepaid rent.

The Group recognized lease liabilities of RMB17,418,755,002.55 and right-of-use assets of RMB10,847,665,335.76 on 1 January 2019. For the operating leases before the date of first adoption, the Group measures the lease liabilities according to the present value discounted at the incremental borrowing rate on the date of first adoption, where the range of discount rate of the incremental borrowing is between 0%-15%.

The effects of the adoption of the New Standard on the Lease on related items in the Balance Sheet of the Group and the Company as at 1 January 2019 are set out as below:

The Group

RMB

Item	31 December 2018	Adjustment for the Change in Accounting Policies	**1 January 2019**
Fixed assets	29,454,072,247.73	(8,169,185,573.01)	**21,284,886,674.72**
Right-of-use assets	–	10,847,665,335.76	**10,847,665,335.76**
Deferred tax assets	4,458,451,001.33	169,776,384.27	**4,628,227,385.60**
Total non-current assets	97,170,902,236.80	2,848,256,147.02	**100,019,158,383.82**
Total assets	205,276,365,174.18	2,848,256,147.02	**208,124,621,321.20**
Non-current liabilities due within one year	6,898,699,368.61	666,638,424.89	**7,565,337,793.50**
Total current liabilities	88,417,148,977.49	666,638,424.89	**89,083,787,402.38**
Lease liabilities	–	11,889,548,623.68	**11,889,548,623.68**
Long-term payables	9,895,419,535.20	(9,534,504,532.92)	**360,915,002.28**
Deferred tax liabilities	5,772,705,450.50	120,744,835.64	**5,893,450,286.14**
Total non-current liabilities	54,599,888,423.00	2,475,788,926.40	**57,075,677,349.40**
Total liabilities	143,017,037,400.49	3,142,427,351.29	**146,159,464,751.78**
Other comprehensive income	(1,570,594,557.01)	(13,411,820.43)	**(1,584,006,377.44)**
Retained earnings	32,443,962,374.77	(118,987,182.48)	**32,324,975,192.29**
Total equity attributable to the owners of the parent	39,313,734,834.02	(132,399,002.91)	**39,181,335,831.11**
Minority interests	22,945,592,939.67	(161,772,201.36)	**22,783,820,738.31**
Total owners' equity	62,259,327,773.69	(294,171,204.27)	**61,965,156,569.42**
Total liabilities and owners' equity	205,276,365,174.18	2,848,256,147.02	**208,124,621,321.20**

The Company

New Standard on Lease does not have any impacts on the Company's financial statements as at 1 January 2019.

The reconciliation information of the lease liabilities recognized by the Group on 1 January 2019 and the major operating lease commitments disclosed in the 2018 annual financial statements are as follows:

RMB

Item	**1 January 2019**
I. Operating lease commitments as at 31 December 2018	3,595,922,598.51
Lease liabilities according to the present value discounted at the incremental borrowing rate on the date of first adoption	3,120,052,462.73
Less: Recognized exemption – short-term lease	98,369,947.08
Lease liabilities recognized for adopting the New Standard on Lease and relevant to the original operating leases	3,021,682,515.65
Add: Finance lease payable as at 31 December 2018	14,397,072,486.90
II. Lease liabilities as at 1 January 2019	17,418,755,002.55
Presented as:	
Non-current liabilities due within one year	5,529,206,378.87
Lease liabilities	11,889,548,623.68

The composition of the carrying amount of the right-of-use assets as at 1 January 2019 is as follows:

RMB

Item	*Note*	**1 January 2019**
Right-of-use assets:		
Right-of-use assets in respect of the operating leases recognized before the date of first adoption		**2,678,479,762.75**
Assets under financial lease recognized under the Original Standard on Lease	*Note*	**8,169,185,573.01**
Total:		**10,847,665,335.76**

Note: The Group recognized the carrying amounts of the assets which were previously classified as finance leases under the Original Standard on Lease and were still under lease as at 1 January 2019 amounting to RMB8,169,185,573.01 as right-of-use assets.

The Group as lessor

The Group did not make any transitional adjustment for leases in which the Group is a lessor and such leases were accounted for according to the New Standard on Lease since the date of first adoption.

After-sale leaseback transaction

For after-sale leaseback transactions that exist before the date of first adoption, the Group does not reassess whether the transfer of assets belongs to sales according to the Accounting Standards for Business Enterprises No. 14 – Revenue on the date of first adoption.

The Group as vendor and lessee

For after-sale leaseback transaction which was accounted for as sales and finance lease before the date of first adoption, the Group accounts for the leaseback in the same way as it accounts for any other finance lease that exists at the date of first adoption and continues to amortize any deferred gains or losses that relate to such leaseback during the lease term.

New standard on swap of non-monetary assets

On 9 May 2019, the MOF issued the amended Accounting Standards for Business Enterprises No.7 – Swap of Non-monetary Assets (Cai Kuai [2019] No.8, abbreviated hereinafter as the "New Standard on Swap of Non-monetary Assets"), which has become effective since 10 June 2019. Pursuant to the New Standard on Swap of Non-monetary Assets, revisions have been made to the definition of swap of non-monetary assets; scope of the application of the standard has been clarified; requirements about the points of time of recognition of assets transferred in and derecognition of assets transferred out, as well as the principle of accounting treatments in case of inconsistency in the point of time of the recognition of assets transferred in and the point of time of the derecognition of assets transferred out have been imposed; accounting treatment on the swap of non-monetary assets has been refined; and requirement about disclosure has been added.

As required by the New Standard on Swap of Non-monetary Assets, adjustments were made according to the New Standard on Swap of Non-monetary Assets for the swap of non-monetary assets occurred between 1 January 2019 and the effective date on 10 June 2019. No retrospective adjustment is required to make for the swap of non-monetary assets occurred before 1 January 2019. The adoption of the New Standard on Swap of Non-monetary Assets does not have any material impacts on the Group's financial statements for the year.

New standard on debt restructuring

On 16 May 2019, the MOF issued the Accounting Standards for Business Enterprises No.12 – Debt Restructuring (Cai Kuai [2019] No.9, abbreviated hereinafter as the "New Standard on Debt Restructuring"), which has become effective since 17 June 2019. Pursuant to the New Standard on Debt Restructuring, revision has been made to the definition of debt restructuring; scope of application of the standard has been clarified; revision on the accounting treatment of debt restructuring has been made; and the requirement on disclosure of debt restructuring has been simplified.

As required by the New Standard on Debt Restructuring, adjustments were made according to the New Standard on Debt Restructuring for the debt restructuring occurred between 1 January 2019 and the effective date on 17 June 2019. No retrospective adjustment is required to make for the debt restructuring occurred before 1 January 2019. The adoption of the New Standard on Debt Restructuring does not have any material impacts on the Group's financial statements for the year.

Format of presentation in financial statements

In the preparation of the financial statements for the year 2019, the Group has adopted the Notice on Revising and Circulating General Corporate Financial Statement Formats 2019 issued by the MOF on 30 April 2019 (Cai Kuai [2019] No.6, abbreviated hereinafter as "Cai Kuai Notice No. 6"). Pursuant to Cai Kuai Notice No. 6, revisions have been made to the presentation of items in balance sheet and income statement. "Notes and accounts receivable" is separated into two items namely "notes receivable" and "accounts receivable"; "notes and accounts payable" is separated into two items namely "notes payable" and "accounts payable"; presentation details of "non-current assets due within one year", "deferred income", "other equity instruments", "research and development expenses", "interest income" under "finance expenses", "other income", "gain on disposal of assets", "non-operating income" and "non-operating expenses" have been clarified or amended, the location in presentation of "impairment loss of assets" has been adjusted; the presentation details of "capital contribution from the holders of other equity instruments" has been clarified; and "net increase in financial assets held-for-trading" and "cash received from issue of bonds", etc. in the original consolidated cash flow statement have been deleted. In response to the change of the aforementioned presentation items, comparative data from the previous year have been retrospectively adjusted.

Major impacts of the retrospective adjustment arising from the changes in accounting policies stated above on the balance sheet as at 31 December 2018 are as follows:

The Group

RMB

Item	**Closing balance before changes in accounting policies**	**Adjustment arising from changes in accounting policies**	**Closing balance after changes in accounting policies**
Notes receivable	–	18,056,440,277.52	18,056,440,277.52
Accounts receivable	–	13,155,363,494.20	13,155,363,494.20
Notes receivable and accounts receivable	38,148,028,169.82	(38,148,028,169.82)	–
Receivable financing	–	6,936,224,398.10	6,936,224,398.10
Notes payable	–	15,925,016,265.08	15,925,016,265.08
Accounts payable	–	30,869,354,934.85	30,869,354,934.85
Notes payable and accounts payable	46,794,371,199.93	(46,794,371,199.93)	–
Other current liabilities	6,321,615,150.06	(199,815,799.90)	6,121,799,350.16
Deferred income	3,056,191,818.80	199,815,799.90	3,256,007,618.70

The Company

RMB

Item	**Closing balance before changes in accounting policies**	**Adjustment arising from changes in accounting policies**	**Closing balance after changes in accounting policies**
Notes receivable	–	21,026,407,121.15	21,026,407,121.15
Accounts receivable	–	1,069,759,568.00	1,069,759,568.00
Notes receivable and accounts receivable	22,096,166,689.15	(22,096,166,689.15)	–
Notes payable	–	11,756,416,668.11	11,756,416,668.11
Accounts payable	–	9,543,570,906.39	9,543,570,906.39
Notes payable and accounts payable	21,299,987,574.50	(21,299,987,574.50)	–

2. SEGMENT REPORTING

Operating segments

The Group organizes and manages its operating business in accordance with the nature of business and provision of products and services. Each operating segment of the Group is one operating group, providing products and services with risks and rewards different from those of other operating segments.

The details of operating segments are as follows:

(a) manufacturing and sale of engines and related parts ("Engines");

(b) manufacturing and sale of automobiles and automobile components other than Engines ("Automobiles and automobile components");

(c) Forklift trucks production, warehousing technology and supply chain solution services ("Intelligent logistics").

Management monitors the results of operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reported segment profit, which is a measure of adjusted total profits. The adjusted total profits are measured consistently with the Group's total profits, except that finance expenses, investment income, dividend income, gains from changes in fair value of financial instruments as well as head office expenses are excluded from such measurement.

Segment assets exclude equity investments at fair value through profit or loss, derivative instruments, dividends receivable, interests receivable, equity investments at fair value through other comprehensive income, long-term equity investments, deferred tax assets and other unallocated head office assets.

Segment liabilities exclude derivative instruments, borrowings, income tax payable, deferred tax liabilities and other unallocated head office liabilities.

Inter-segment transfers are transacted with reference to the prices used in the transactions carried out with third parties.

As the internal management requirements changed, the Group combined certain operating segments of products of similar nature. For the purpose of the comparative data, the operating segments have been restated for the purpose of information comparison.

RMB

Item	Engines	Automobiles and automobile components	Intelligent logistics	Total
Incurred during the year				
Segment revenue:				
Sale to external customers	**37,323,557,565.33**	**70,032,812,924.36**	**67,004,522,023.17**	**174,360,892,512.86**
Inter-segment sale	**12,652,512,995.61**	**1,442,194,470.72**	**172,546,591.88**	**14,267,254,058.21**
Total	**49,976,070,560.94**	**71,475,007,395.08**	**67,177,068,615.05**	**188,628,146,571.07**
Adjustment:				
Elimination of inter-segment sale	**–**	**–**	**–**	**(14,267,254,058.21)**
Revenue	**–**	**–**	**–**	**174,360,892,512.86**
Segment results	**7,573,079,248.05**	**2,175,607,427.83**	**3,992,293,153.14**	**13,740,979,829.02**
Adjustment:				
Elimination of inter-segment results	**–**	**–**	**–**	**(130,699,139.75)**
Interest income	**–**	**–**	**–**	**1,067,326,294.25**
Dividend income and unallocated income	**–**	**–**	**–**	**1,055,713,912.44**
Corporate and other unallocated expenses	**–**	**–**	**–**	**(94,010,683.92)**
Finance expenses	**–**	**–**	**–**	**(1,287,660,070.99)**
Profit before tax	**–**	**–**	**–**	**14,351,650,141.05**
31 December 2019				
Segment assets	**44,882,937,469.75**	**56,775,622,050.61**	**91,424,104,386.93**	**193,082,663,907.29**
Adjustment:				
Elimination of inter-segment assets	**–**	**–**	**–**	**(16,700,068,299.89)**
Corporate and other unallocated assets	**–**	**–**	**–**	**60,449,078,938.77**
Total assets	**–**	**–**	**–**	**236,831,674,546.17**
Segment liabilities	**38,985,866,513.29**	**37,633,986,684.29**	**55,142,312,447.21**	**131,762,165,644.79**
Adjustment:				
Elimination of inter-segment liabilities	**–**	**–**	**–**	**(9,161,739,879.50)**
Corporate and other unallocated liabilities	**–**	**–**	**–**	**44,456,523,350.40**
Total liabilities	**–**	**–**	**–**	**167,056,949,115.69**
Incurred during the year				
Other segment information:				
Share of profit and loss from:				
Gain/(loss) from associates and jointly controlled enterprises	**56,491,642.17**	**93,680,487.24**	**94,059,661.06**	**244,231,790.47**
Loss of impairment of inventories	**(43,772,068.91)**	**(60,570,129.62)**	**(137,905,950.20)**	**(242,248,148.73)**
Reversal/(loss) of impairment of accounts receivable and other receivables	**35,956,853.68**	**(229,658,165.92)**	**(73,193,593.30)**	**(266,894,905.54)**
Loss of impairment of non-current assets	**(5,011,096.21)**	**(168,957,448.35)**	**(52,975,440.00)**	**(226,943,984.56)**
Depreciation and amortization	**(920,528,691.49)**	**(1,273,374,652.72)**	**(5,877,054,669.87)**	**(8,070,958,014.08)**
Gain/(loss) from disposal of fixed assets	**(3,158,914.48)**	**42,261,320.10**	**27,677,482.18**	**66,779,887.80**
Investment in associates and jointly controlled enterprises	**3,205,233,822.31**	**788,263,117.41**	**717,647,593.29**	**4,711,144,533.01**
Capital expenditure	**2,522,737,021.20**	**2,804,647,836.43**	**11,106,904,354.27**	**16,434,289,211.90**

Item	Engines	Automobiles and automobile components	Intelligent logistics	Total
Incurred in the previous year				
Segment revenue:				
Sale to external customers	33,545,948,899.77	65,401,721,765.27	60,308,161,621.88	159,255,832,286.92
Inter-segment sale	11,397,063,456.27	1,199,410,643.09	231,945,587.12	12,828,419,686.48
Total	44,943,012,356.04	66,601,132,408.36	60,540,107,209.00	172,084,251,973.40
Adjustment:				
Elimination of inter-segment sale	–	–	–	(12,828,419,686.48)
Revenue	–	–	–	159,255,832,286.92
Segment results	7,322,876,722.03	1,950,457,023.80	3,635,653,852.58	12,908,987,598.41
Adjustment:				
Elimination of inter-segment results	–	–	–	128,206,630.81
Interest income	–	–	–	1,059,722,329.53
Dividend income and unallocated income	–	–	–	948,930,192.21
Corporate and other unallocated expenses	–	–	–	(52,496,406.05)
Finance expenses	–	–	–	(1,135,066,269.38)
Profit before tax	–	–	–	13,858,284,075.53
31 December 2018				
Segment assets	41,964,305,909.54	49,201,222,682.59	82,463,781,937.58	173,629,310,529.71
Adjustment:				
Elimination of inter-segment assets	–	–	–	(16,419,352,188.36)
Corporate and other unallocated assets	–	–	–	48,066,406,832.83
Total assets	–	–	–	205,276,365,174.18
Segment liabilities	36,996,369,234.07	28,612,142,210.33	41,655,028,050.89	107,263,539,495.29
Adjustment:				
Elimination of inter-segment liabilities	–	–	–	(8,070,999,766.63)
Corporate and other unallocated liabilities	–	–	–	43,824,497,671.83
Total liabilities	–	–	–	143,017,037,400.49
Incurred in the previous year				
Other segment information:				
Share of profit and loss from:				
Gain/(loss) from associates and jointly controlled enterprises	23,581,713.47	56,179,001.98	94,007,923.45	173,768,638.90
Loss of impairment of inventories	(51,847,585.08)	(251,355,156.62)	(148,252,283.20)	(451,455,024.90)
Reversal/(loss) of impairment of accounts receivable and other receivables	28,101,534.38	(175,266,958.09)	(63,134,613.46)	(210,300,037.17)
Loss of impairment of non-current assets	(6,865,120.49)	(132,270,614.64)	(42,928,561.26)	(182,064,296.39)
Depreciation and amortization	(800,408,718.33)	(1,128,366,129.32)	(5,475,140,914.63)	(7,403,915,762.28)
Gain/(loss) from disposal of fixed assets	4,675,823.01	(11,614,340.58)	8,439,701.33	1,501,183.76
Investment in associates and jointly controlled enterprises	2,989,465,926.74	742,409,927.11	731,715,459.28	4,463,591,313.13
Capital expenditure	1,353,162,721.99	1,946,407,674.54	9,818,639,217.53	13,118,209,614.06

Group information

Information about products and services

Revenue from external transactions

RMB

Item	**Incurred during the year**	Incurred in the previous year
Powertrain, complete vehicles and machines and key components	**90,623,147,422.15**	82,874,860,825.64
Other components	**10,741,557,726.92**	10,311,044,913.94
Intelligent logistics	**67,004,522,023.17**	60,308,161,621.88
Others	**5,991,665,340.62**	5,761,764,925.46
Total	**174,360,892,512.86**	159,255,832,286.92

Geographic information

Revenue from external transactions

RMB

Item	**Incurred during the year**	Incurred in the previous year
China	**103,158,125,786.34**	95,048,646,506.80
Other countries and regions	**71,202,766,726.52**	64,207,185,780.12
Total	**174,360,892,512.86**	159,255,832,286.92

Revenue from external transactions is attributable to the areas where customers are located.

Total non-current assets

RMB

Item	**31 December 2019**	31 December 2018
China	**21,580,951,912.91**	17,812,200,295.51
Other countries and regions	**72,844,041,606.24**	66,908,369,846.00
Total	**94,424,993,519.15**	84,720,570,141.51

Non-current assets are attributable to the areas where the assets are located, excluding financial assets and deferred tax assets.

3. NOTES RECEIVABLE

Classification of notes receivable

RMB

Item	**31 December 2019**	31 December 2018
Bank acceptance bills	**15,920,141,988.31**	18,056,440,277.52

Notes receivable pledged by the Group as at year end

RMB

Item	**31 December 2019**	31 December 2018
Bank acceptance bills	**12,147,538,825.61**	11,313,090,186.43

Notes receivable endorsed or discounted as at year end and not yet expired as at the balance sheet date

RMB

	31 December 2019		31 December 2018	
	Derecognized	**Not derecognized**	Derecognized	Not derecognized
Bank acceptance bills	**3,658,307,945.85**	**–**	113,844,542.82	51,739,351.00
Commercial acceptance bills	**–**	**–**	–	500,000.00
Total	**3,658,307,945.85**	**–**	113,844,542.82	52,239,351.00

As at 31 December 2019, the Group had not transferred any notes into accounts receivable due to issuers' failure in performance (31 December 2018: Nil).

The Group considered that the credit rating of the bank acceptance bills was relatively high and there was no significant credit risk. Therefore, no provision for losses was made.

4. ACCOUNTS RECEIVABLE

The Group trades with its customers primarily on credit terms, and generally requires prepayments or cash on delivery for new customers. Credit period for credit customers is generally one to twelve months. Accounts receivable is non-interest bearing.

An aging analysis based on invoice dates is presented as follows:

RMB

Age	**31 December 2019**	31 December 2018
Within 3 months	**10,974,722,374.58**	10,103,238,883.37
3 to 6 months	**1,550,787,816.88**	1,220,352,210.75
6 months to 1 year	**1,834,948,278.99**	1,506,786,694.46
1 to 2 years	**504,740,712.30**	369,976,898.67
2 to 3 years	**115,039,514.56**	298,548,409.40
Over 3 years	**965,456,525.01**	1,081,174,541.83
Total at original amount	**15,945,695,222.32**	14,580,077,638.48
Less: Provision for credit loss in respect of accounts receivable	**1,660,432,925.23**	1,424,714,144.28
Total at net amount	**14,285,262,297.09**	13,155,363,494.20

Disclosure by category of provision for credit losses:

RMB

Item	**31 December 2019**				31 December 2018			
	Gross carrying amount	**Proportion (%)**	**Provision for credit losses**	**Percentage (%)**	Gross carrying amount	Proportion (%)	Provision for credit losses	Percentage (%)
Items assessed for expected credit losses individually	**2,728,834,722.55**	**17.11**	**1,215,508,645.54**	**44.54**	3,101,867,667.31	21.27	959,850,396.54	30.94
Items assessed for expected credit losses by group with distinctive credit risk characteristics	**13,216,860,499.77**	**82.89**	**444,924,279.69**	**3.37**	11,478,209,971.17	78.73	464,863,747.74	4.05
Total	**15,945,695,222.32**	**100.00**	**1,660,432,925.23**	**10.41**	14,580,077,638.48	100.00	1,424,714,144.28	9.77

As at 31 December 2019, accounts receivable assessed for expected credit losses individually are presented as follows:

RMB

Customer	Gross carrying amount	Provision for credit losses	Percentage (%)	Reasons
Customer 1	**861,496,175.25**	**242,433,900.00**	**28.14**	Bad repayment ability
Customer 2	**111,878,808.83**	**111,878,808.83**	**100.00**	Long credit age
Customer 3	**75,871,191.17**	**75,871,191.17**	**100.00**	Long credit age
Customer 4	**56,927,140.00**	**56,927,140.00**	**100.00**	Long credit age
Customer 5	**49,159,575.31**	**49,159,575.31**	**100.00**	Bad repayment ability
Customer 6	**45,031,302.15**	**44,144,627.12**	**98.03**	Long credit age
Customer 7	**40,516,068.59**	**38,490,265.16**	**95.00**	Bad repayment ability
Customer 8	**37,449,568.86**	**35,577,090.42**	**95.00**	Liquidation
Customer 9	**33,808,426.00**	**33,808,426.00**	**100.00**	Long credit age
Customer 10	**32,989,886.43**	**32,989,886.43**	**100.00**	Assets have been preserved
Others	**1,383,706,579.96**	**494,227,735.10**	**–**	Long credit age, etc.
Total	**2,728,834,722.55**	**1,215,508,645,54**		

As at 31 December 2019 the Group's accounts receivable for which credit losses are provided for using aging analysis are presented as follows:

RMB

Age	31 December 2019		
	Carrying amount estimated to be in default	**Expected credit loss rate (%)**	**Expected credit loss during the entire subsistence**
Within 1 year	**3,935,347,856.55**	**3.08**	**121,024,489.19**
1 to 2 years	**222,271,057.77**	**18.22**	**40,502,562.64**
2 to 3 years	**53,577,948.07**	**33.13**	**17,752,321.11**
3 to 4 years	**27,065,621.62**	**51.90**	**14,046,741.16**
4 to 5 years	**23,397,461.68**	**83.05**	**19,431,413.41**
Over 5 years	**200,891,288.72**	**100.00**	**200,891,288.72**
Total	**4,462,551,234.41**	**9.27**	**413,648,816.23**

As at 31 December 2019, the Group's accounts receivable for which credit losses are provided for using overdue ages as credit risk characteristics are presented as follows:

RMB

Overdue age	**31 December 2019**		
	Carrying amount estimated to be in default	**Expected credit loss rate (%)**	**Expected credit loss during the entire subsistence**
Not yet overdue or overdue for less than 90 days	**8,039,295,759.58**	**0.16**	**12,879,358.02**
Overdue for more than 90 days but less than 180 days	**202,437,909.95**	**2.58**	**5,229,588.11**
Overdue for more than 180 days	**174,172,994.22**	**5.54**	**9,654,624.20**
Total	**8,415,906,663.75**	**0.33**	**27,763,570.33**

As at 31 December 2019, provisions for credit losses for the Group's accounts receivable with good credit history are presented as follows:

RMB

Item	**31 December 2019**		
	Carrying amount estimated to be in default	**Expected credit loss rate (%)**	**Expected credit loss during the entire subsistence**
Accounts receivable with good credit history	**338,402,601.61**	**1.04**	**3,511,893.13**

As at 31 December 2019, the top five balances in respect of accounts receivable had a sum of closing balance of RMB2,435,489,389.61 (31 December 2018: RMB1,179,592,972.06), accounting for 15.27% (31 December 2018: 8.09%) of the total of closing balance of accounts receivable. The closing balance in respect of credit losses provided for the top five amounted to RMB258,392,423.15 (31 December 2018: RMB148,165,056.20).

Movements in provision for credit losses:

Provision for credit losses	**Expected credit loss during the entire subsistence (without impairment of credit)**	**Expected credit loss during the entire subsistence (with impairment of credit)**	**Total**
Balance as at 31 December 2018	**948,755,206.62**	**475,958,937.66**	**1,424,714,144.28**
Balance as at 31 December 2018 in the current year			
– Transferred to receivables with impairment of credit	**(2,277,960.89)**	**2,277,960.89**	**–**
– Reversal of receivables without impairment of credit	**–**	**–**	**–**
Provision for the year	**180,579,795.04**	**216,702,527.04**	**397,282,322.08**
Reversal during the year	**(122,343,102.77)**	**(3,899,308.76)**	**(126,242,411.53)**
Written-off or transferred out during the year	**–**	**(36,222,854.98)**	**(36,222,854.98)**
Adjustment for exchange differences	**901,725.38**	**–**	**901,725.38**
Balance as at 31 December 2019	**1,005,615,663.38**	**654,817,261.85**	**1,660,432,925.23**

As at 31 December 2019, the carrying amount of the restricted accounts receivable of the Group amounted to RMB25,442,865.48 (31 December 2018: Nil).

5. NOTES PAYABLE

RMB

Item	**31 December 2019**	31 December 2018
Bank acceptance bills	**22,399,651,927.32**	15,861,193,413.57
Commercial acceptance bills	**46,752,609.26**	63,822,851.51
Total	**22,446,404,536.58**	15,925,016,265.08

As at 31 December 2019, the Group had no outstanding notes payable which were due (31 December 2018: Nil).

6. ACCOUNTS PAYABLE

RMB

Item	**31 December 2019**	31 December 2018
Within 3 months	**33,160,995,390.49**	25,790,622,056.71
3 to 6 months	**2,714,553,791.80**	3,587,333,365.53
6 to 12 months	**543,361,583.54**	832,856,320.45
Over 12 months	**329,592,917.02**	658,543,192.16
Total	**36,748,503,682.85**	30,869,354,934.85

Accounts payable are non-interest bearing, and are generally settled within three to six months.

As at 31 December 2019, there was no payable which was material and aged over one year (31 December 2018: Nil).

7. REVENUE AND COST OF SALES

(1) Revenue and cost of sales

RMB

Item	Incurred during the year		Incurred in the previous year	
	Revenue	**Cost**	Revenue	Cost
Revenue from principal operations	**171,001,213,380.16**	**133,392,320,982.75**	155,535,615,800.98	120,602,707,888.48
Other revenue	**3,359,679,132.70**	**2,960,914,451.57**	3,720,216,485.94	3,083,705,823.74
Total	**174,360,892,512.86**	**136,353,235,434.32**	159,255,832,286.92	123,686,413,712.22

(2) Details of revenue

RMB

Item	**Incurred during the year**	Incurred in the previous year
Revenue from principal operations		
Sales of goods and others	**103,996,691,356.99**	95,227,454,179.10
Revenue from forklift trucks production and sales and warehousing technology	**48,663,418,280.53**	44,280,686,274.02
Revenue from supply chain solution services	**18,341,103,742.64**	16,027,475,347.86
Sub-total	**171,001,213,380.16**	155,535,615,800.98
Other revenue		
Sales of materials	**2,767,638,600.39**	2,563,512,961.78
Lease income	**186,094,795.18**	82,402,134.42
Sales of power	**71,650,545.60**	104,074,150.72
Provision of non-industrial labour	**24,838,653.07**	13,137,855.41
Others	**309,456,538.46**	957,089,383.61
Sub-total	**3,359,679,132.70**	3,720,216,485.94
Total	**174,360,892,512.86**	159,255,832,286.92

(3) Reporting segment

RMB

Item	Engines	Automobiles and automobile components	Intelligent logistics	Total
Major regions of operation:				
Mainland China	**35,802,058,959.83**	**63,363,774,425.90**	**3,992,292,400.61**	**103,158,125,786.34**
Other countries and regions	**1,521,498,605.50**	**6,669,038,498.46**	**63,012,229,622.56**	**71,202,766,726.52**
Total	**37,323,557,565.33**	**70,032,812,924.36**	**67,004,522,023.17**	**174,360,892,512.86**
Time for recognition of revenue:				
Transferred at a certain point of time	**37,199,235,886.16**	**69,812,975,433.13**	**40,240,052,650.82**	**147,252,263,970.11**
Provided at a certain period of time	**5,562,061.58**	**176,474,106.17**	**20,422,337,374.51**	**20,604,373,542.26**
Leases	**118,759,617.59**	**43,363,385.06**	**6,342,131,997.84**	**6,504,255,000.49**
Total	**37,323,557,565.33**	**70,032,812,924.36**	**67,004,522,023.17**	**174,360,892,512.86**

Lease income of RMB6,504,255,000.49 recognised under the applicable standard on lease is included in the revenue in reporting segment for the year.

(4) Performance of obligations

The supply chain solution services provided by the Group belong to the performance obligation satisfied over a certain period of time. The performance costs actually incurred on a cumulative basis as a percentage of estimated total costs is used to ascertain progress of performance of supply chain solution services contracts. As at 31 December 2019, some of the Group's supply chain solution services contracts were still in the process of performance, the transaction price allocated to the outstanding (or partially unperformed) performance obligations is related to the performance progress of each supply chain solution services contract, and will be recognized as revenue in the future performance period of each supply chain solution services contracts based on the performance progress.

(5) Allocation to the outstanding performance obligations

The amount of revenue corresponding to the contract performance obligations for which the contracts had been entered into and which had not been performed or fully performed as at the end of the year was RMB25,307,018,852.50. Information related to revenue expected to be recognized in respect of outstanding performance obligations under contracts is set out below:

	RMB
Term	**31 December 2019**
Within 1 year	**15,657,940,028.50**
1 to 2 years	**4,937,856,346.50**
2 to 3 years	**1,837,322,448.50**
3 to 4 years	**1,343,328,140.00**
4 to 5 years	**907,707,801.00**
Over 5 years	**622,864,088.00**

8. TAXES AND SURCHARGES

		RMB
Item	**Incurred during the year**	Incurred in the previous year
City maintenance and construction tax	**183,106,864.29**	231,859,959.87
Educational surtax	**124,625,772.86**	167,314,736.11
Property tax	**141,860,296.88**	133,012,043.84
Others	**214,368,157.27**	191,029,289.31
Total	**663,961,091.30**	723,216,029.13

9. INCOME TAX EXPENSES

RMB

Item	**Incurred during the year**	Incurred in the previous year
Current tax expenses	**3,105,790,137.26**	2,989,527,974.04
Deferred tax expenses	**(661,147,088.70)**	(756,977,440.98)
Total	**2,444,643,048.56**	2,232,550,533.06

The relationship between income tax expenses and the total profit is listed as follows:

RMB

Item		**Incurred during the year**	Incurred in the previous year
Total profit		**14,351,650,141.05**	13,858,284,075.53
Tax at statutory tax rate	*Note 1*	**3,587,912,535.26**	3,464,571,018.88
Effect of different tax rates applicable to the Company and some subsidiaries	*Note 2*	**(914,894,238.69)**	(860,669,504.18)
Effect of tax rate change on opening balance of deferred income tax		**12,826,724.56**	(20,193,040.77)
Adjustments to current tax of previous periods		**(130,960,111.01)**	(267,072,930.00)
Profits and losses attributable to associates and joint ventures		**(45,654,248.89)**	(32,196,232.96)
Income not subject to tax		**(78,517,579.40)**	(74,565,976.52)
Expenses not deductible for tax		**204,927,112.97**	180,787,984.35
Tax incentives on eligible expenditures		**(490,935,012.52)**	(414,410,818.11)
Utilization of deductible losses from prior years		**(16,686,279.69)**	(13,978,986.92)
Unrecognized deductible losses		**218,651,228.82**	260,133,258.95
Effect of unrecognized deductible temporary difference		**99,235,242.53**	23,098,693.84
Others		**(1,262,325.38)**	(12,952,933.50)
Tax expense at the Group's effective tax rate		**2,444,643,048.56**	2,232,550,533.06

Note 1: The Company is subject to a statutory tax rate of 25%.

Note 2: The PRC income tax of the Group is calculated based on the estimated taxable income gained in the PRC and applicable tax rate. Tax arising from the taxable income in other regions is calculated at applicable tax rate according to existing laws, interpretations and practices of the country in which the Group operates.

No provision for Hong Kong profit tax has been made as the Group had no taxable profits arising in Hong Kong for the year.

10. EARNINGS PER SHARE (EPS)

The basic EPS is calculated by dividing the net profit of the current period attributable to the ordinary shareholders of the Company by the weighted average number of outstanding ordinary shares.

The calculation of basic EPS is detailed as follows:

RMB

Item	**Incurred during the year**	Incurred in the previous year
Earnings		
Net profit of the current year attributable to ordinary shareholders of the Company	**9,104,955,354.35**	8,657,527,308.21
Shares		
Weighted average number of the ordinary shares outstanding of the Company	**7,933,873,895.00**	7,995,250,123.12
Basic EPS (RMB/share)	**1.15**	1.08

The Group holds no material potential shares that are dilutive.

11. OTHER COMPREHENSIVE INCOME

Other comprehensive income, on a cumulative basis, attributable to the parent as shown in the consolidated balance sheet is as follows:

RMB

				Incurred during the year					
Item	Balance as at 31 December 2018	Change in accounting policies	Balance as at 1 January 2019	Incurred before the income tax for the current year	Less: Amount recognized in other comprehensive income in previous period and recognized in profit or loss in current period	Less: Income tax expenses	Attributable to parent company after tax	Attributable to minority interests after tax	Balance as at 31 December 2019
I. Those other comprehensive income not to be reclassified into profit or loss									
Changes arising from re-measuring of defined benefit plan	(342,473,513.21)	–	(342,473,513.21)	(1,519,705,984.51)	–	(412,700,342.59)	(594,361,674.17)	(512,643,967.75)	(936,835,187.38)
Other comprehensive income not to be reclassified into profit or loss using the equity method	(159,166,390.30)	–	(159,166,390.30)	(232,506.00)	–	–	(132,262.02)	(100,243.98)	(159,298,652.32)
Change in fair value of investment in other equity instruments	(194,917,096.67)	–	(194,917,096.67)	700,529,448.92	–	89,026,010.10	619,944,039.01	(8,440,600.19)	425,026,942.34
II. Other comprehensive income to be reclassified into profit or loss									
Other comprehensive income to be reclassified into profit or loss using the equity method	37,679,928.57	–	37,679,928.57	(2,214,050.70)	–	–	(996,322.81)	(1,217,727.89)	36,683,605.76
Effective portion of cashflow hedging gains or losses	(105,916,360.81)	–	(105,916,360.81)	12,582,535.72	(400,542.20)	(12,098,394.00)	51,461,808.71	(26,380,336.79)	(54,454,552.10)
Exchange differences on foreign currency translation	(805,801,124.59)	(13,411,820.43)	(819,212,945.02)	561,159,623.65	70,339.50	–	230,060,152.14	331,029,132.01	(589,152,792.88)
Total of other comprehensive income	(1,570,594,557.01)	(13,411,820.43)	(1,584,006,377.44)	(247,880,932.92)	(330,202.70)	(335,772,726.49)	305,975,740.86	(217,753,744.59)	(1,278,030,636.58)

12. DIVIDEND

	2019	2018
	RMB'000	*RMB'000*
Proposed final dividends – RMB0.136 (2018: RMB0.28) per ordinary share	**1,079,007**	2,221,485

On 26 March 2020, the Company's 2019 profit distribution proposal was approved by the Company's fifth meeting of the fifth session of the Board. The Company proposed a distribution to all shareholders of a cash dividend of RMB1.36 (including tax) for every 10 shares held, based on the 7,933,873,895 shares available for distribution as at 31 December 2019, without any capitalisation of reserve. Completion of the proposal is subject to the consideration and approval by the 2019 Annual General Meeting.

13. COMPARATIVE FIGURES

In compliance with the requirement under the Notice on Revising and Circulating General Corporate Financial Statement Formats 2019 (Cai Kuai [2019] No.6), certain comparative data have been reclassified and restated to conform with the requirements on presentation and accounting treatment in the current year.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I would like to present the audited annual results of the Company for the year ended 31 December 2019.

I. REVIEW OF OPERATIONS

In 2019, the Chinese government insisted upon the general keynote of making progress while maintaining stability, with firm commitment to putting the philosophy of new development into practice and promoting high-quality development through strengthening the supply-side structural reform while ensuring stability in employment, finance, foreign trade, foreign investment, investment and expectations. As a result, the nationwide economic performance sustained a general trend of stability with steady improvement in development quality. In 2019, the national gross domestic product reached RMB99.1 trillion, representing a year-on-year growth of 6.1%. Driven by the national investment in infrastructure in the PRC, as well as benefiting from various factors such as the imposition of more stringent emission regulations and anti-overloading policies and structural adjustment in transportation industry, the commercial vehicles and the construction machinery markets maintained stable performance, while the heavy-duty trucks market delivered sales of 1,174,000 units in total, representing a year-on-year growth of 2.3%. The construction machinery industry (among which forklift truck engines use internal combustion engines) delivered sales of 741,000 units, representing a year-on-year growth of 5.3%, among which the sales volume of wheel loaders with a load capacity of 3 tonnes and above was 112,000 units, representing a year-on-year growth of 5.6%.

During the reporting period, the Company's revenue increased by 9.5% compared with that in the corresponding period of 2018 to approximately RMB174,361 million. The net profit attributable to shareholders of the Company was approximately RMB9,105 million, representing an increase of 5.2% compared with that in the corresponding period of 2018. The basic earnings per share was RMB1.15, representing an increase of 6.0% compared with that in the corresponding period of 2018.

During the reporting period, upholding a strategy driven by complete vehicles and machineries, the Company sped up its technological upgrade towards high-end product development to increase the competitiveness of its products in the market. Shaanxi Heavy-duty Motor Company Limited (陝西重型汽車有限公司), a controlling subsidiary of the Company focused on advantageous resources and speeded up marketing transformation to maintain its leading advantages in natural gas tankers, port tractors, economic coal trucks, urban construction muck trucks, oilfield trucks, and heavy duty trucks segment markets. Also, the company accelerated the improvement of its research and development capability and the application of cutting-edge and key technologies, and completed the design and development of more than 20 models of China VI vehicles and the announcement and reporting of the first batch of vehicles to be launched. In respect of smart driving, Shaanxi Heavy-duty Motor Company Limited was the first in the industry to complete the testing of the L2 lane keeping aid system and achieved its mass production. Shaanxi Fast Gear Co., Ltd. (陝西法士特齒輪有限責任公司), a controlling subsidiary of the Company, persisted to drive innovation and focused on strengthening product competitiveness with core technologies; its speed reducers are widely compatible with various types of vehicles including passenger vehicles, trucks and light-duty and medium-duty trucks while its S-series gear boxes are compatible with various China VI vehicles, becoming a dominant configuration in the optimization of high-end heavy duty trucks; its self-adjusting clutch has been put into mass production successfully and holds a leading position in the world, further increasing the influence of its brand. Given the advancement in smart manufacturing and information technology, high-efficient, swift and smart logistics services continued to facilitate industrial reform. KION Group AG, an overseas controlling subsidiary of the Company, is the world's No.2 and Europe's No.1 provider of forklift trucks and services, and the world's No.1 provider of supply chain solutions. Seizing the opportunities presented by the development of global electronic commerce and supply chain services, KION Group AG integrated automation and digitalization to provide holistic solutions of intra-logistics, which could constantly enable our customers to build up their competitive strengths.

During the reporting period, facing the complicated situation in the macro economy and in the automobile industry at home and abroad, the Company remained focused on developing its principal businesses. Driven by innovation, we have been heading towards high-end development and stably pushing ahead with various tasks, thereby sustaining growth and achieving a historical height in results despite the adversity. Firstly, we explored segment markets and optimized product structure. We seized market opportunities with full understanding of customers' needs and organized production in a scientific manner. Through engaging in a number of sales activities such as "Work hard for the first half of the year to achieve sales target", sales amount of products under M-series, N-series and H-series increased rapidly, achieving simultaneous growth in traditional products and emerging strategic products. With significant increase in production and sales volume, we solidified our leading position in the industry. Secondly, we integrated global research and development resources and fully expedited the pace of technological innovation. Leveraging the globally coordinated research and development platform, we expedited our efforts in achieving breakthroughs in core technologies. We have completed the development of the full China VI series of engines, which in turn will fully enhance our product competiveness of all series of high-end power equipment. Through precise positioning of future development directions of the industry and the market, we promoted new technological development and application of new technologies in areas such as new energy, electric control and smart network. To firmly press ahead with the major projects of the PRC regarding fuel cells, we completed the development of a number of engines powered by hydrogen-fueled electric cells, and made strenuous efforts in constructing hydrogen refueling station and promoting the application of vehicles powered by fuel cells, accumulating an aggregate operating mileage of more than 1 million kilometres and contributing to the launch of the first "green power for hydrogen energy city" project in Shandong. In addition, through the strategic restructure of ARADEX AG, a German company, we are able to master the core technology of motor controllers. Thirdly, leveraging the "Belt and Road" initiative, we achieved new breakthroughs with promising development prospects in all overseas business. Businesses under brands of KION, Dematic, Linde Hydraulics and Baudouin continued to grow and have strengthened the synergy effect between domestic and overseas development. Localized manufacturing projects of engines and gear boxes have been carried out, laying a solid foundation for overseas products and market. Fourthly, we strived to improve product quality in meeting the world-class standard. The full implementation of PPM quality indicators system together with all-staff innovation, technological breakthroughs and intelligent upgrade, we have been moving ahead towards zero defects. At the same time, we gradually introduced our quality management standards to the entire industry chain and promoted the implementation of WOS methodology, both enhancing product quality and maximizing values for customers.

II. DIVIDENDS AND CAPITALISATION OF RESERVE

On 26 March 2020, the Company's 2019 profit distribution proposal was approved by the Company's fifth meeting of the fifth session of the Board. The Company proposed a distribution to all shareholders of a cash dividend of RMB1.36 (including tax) for every 10 shares held, based on the 7,933,873,895 shares available for distribution as at 31 December 2019, without any capitalisation of reserve. Completion of the proposal is subject to the consideration and approval by the 2019 Annual General Meeting.

III. ACQUISITION AND CONSOLIDATION

We consolidated the high-quality resources of new energy and expedited the replacement of "Old-power" with "New-power". The completion of the strategic acquisition of ARADEX AG, a German company, represents another international strategic layout in the new energy sector, which enabled us to master the core technology of electric control units ("ECU"), and successfully developed a new energy power system integrating "cell+ motor+ ECU" providing a market advantage.

IV. OUTLOOK AND PROSPECTS

2020 will be the final year of the 13th Five-Year Plan for achieving the central government's goal of doubling the GDP and per capita income as well as building a moderately prosperous society in all respects. Given the complicated and volatile global environment, coupled with arduous and challenging domestic tasks of reform and stable development, macroeconomic conditions in China will be more difficult. From the perspective of the international environment, there remains uncertainties in the prospects of the global economy. Firstly, the international financial market experienced significant fluctuations due to the spread of COVID-19 and plunge in oil prices. Secondly, despite the temporary relief of US-China trade tensions, material influence will still exist due to the prevailing trade protectionism, resulting in impacts on market expectation, export, and business production and operation. Thirdly, uncertainties brought by the Brexit and conflicts among certain regions have caused impacts on the global economy. From the perspective of domestic environment, firstly while enterprises started to resume operation and production as the COVID-19 was progressively brought under control in the PRC, there will be a certain degree of rebound in the economy. Secondly, China has to deal simultaneously with the slowdown in economic growth, make difficult structural adjustments, and absorb the effects of the previous economic stimulus policies, which has caused downward pressure on its economy. Nevertheless, its economy remains stable with moderate growth, and the basic long-term positive trend remains unchanged. Thirdly, the possibility of reducing tax and charges is low and marginal effects of the policy benefits will fade out. In view of the international and domestic situations, we believe that generally, China's economy will face relatively high downward pressure in 2020.

The Company remains cautiously optimistic about the development of the industry in which the Company operates. In 2020, it is estimated that the heavy-duty truck market will remain steady, which will be primarily driven by the following factors: as 2020 is the final year of the Three-Year Action Plan for Winning the Blue Sky Defense Battle (《打贏藍天保衛戰三年行動計劃》), the policy requiring elimination of one million China III trucks must be implemented which, together with the elimination of overloaded mixer trucks, dump trucks and large flatbed trucks from the market by virtue of the stringent regulations on overload and over-limit control, will bring forth replacement demand. Under the impacts of the "5.21" incident, and the measures such as charging highway tolls by axle and restrictions on overloaded vehicles, it is expected that there will be demand in the replacement of certain amount of light trucks by heavy trucks in the future. As the "Belt and Road" initiative gains momentum, there will be greater room for the overseas export business to grow.

In 2020, investment in domestic infrastructure will be stable with moderate growth, which will drive an increase in demand of construction machineries. Projects like urbanization and construction of new villages according to the policy of "making up for shortfalls" will drive the demand for compact excavators at a relatively large market scale. The Ministry of Ecological Environment has issued the Notice on Speeding up the Investigation and Coding Registration of Non-road Mobile Machinery (《關於加快推進非道路移動機械摸底調查和編碼登記工作的通知》) outlining emission control area in key districts. With strict inspection on environmental protection, high emission products will be eliminated gradually while the construction machinery industry will operate on a high level. Demand for special vehicles for use in logistics, urban delivery and sanitization will increase significantly. Leveraging the synergy presented by its global research and development, the Company strives to establish a high-end and cutting-edge platform for technology, to seize and proactively respond to opportunities. At present, the Company is the first in the industry to have completed the development and marketing of road-going China VI engines, and has finished preparatory works for non-road-going China Stage IV engines, in full endorsement of the Blue Sky Defense Plan. The Board has full confidence in the Company's future development prospects.

2020 will be a critical year for the Company to achieve breakthroughs and take lead in traditional businesses, as well as to expedite the implementation of the "dual-million" strategy for engines. The Company will focus on various key aspects such as market breakthroughs, product innovation, replacement of "Old-power" with "New-power", digital transformation and enhancement of management and implement the following:

Firstly, focusing on the sales target of million units, we will formulate precise marketing plans. On the basis of customers' needs, we will innovate our marketing strategies and push ahead with the enhancement of marketing capability and creation of value for customers during all processes, along the entire value chain and throughout the lifecycle. We will strengthen marketing policy analysis and market expansion, aiming at developing key customers and products and achieving major breakthroughs in segment markets. Secondly, driven by innovation, we strive to make breakthroughs and master a set of core technologies. Leveraging the globally coordinated research and development platform and a new "four-in-one" technological innovation system consisting of "self-developed innovation+ open innovation+ professional innovation+ basic-research innovation", we will speed up the technological advancement to master critical and core technologies in creating high-end products in full series and range, striving to reach first-class in the world in terms of technology and innovation. Thirdly, we will expand new industries and business formats, and create and develop new engines. Fully capitalising on our strengths in complete vehicles and machines industrial chain, we will push ahead to implement and to promote the industrialization of major strategic and innovative projects of new energy, hydraulics, smart driving and AMT, in order to form advantages in technologies and scale and to take lead in the high-quality transition from "Old-power" to "New-power". Fourthly, we will speed up the pace of digital transformation to develop into an intelligent enterprise. With Concentric Cloud as a carrier, we will establish an industrial internet platform supporting our outstanding operation and digital innovation, and a flexible customer-centred operational structure. We will also build an IT governance system in support of our digital capabilities, and enhance all-round digital governance of human, financial and material resources, as well as of production, supply and sales. Fifthly, we will innovate systems and mechanisms, creating the most excellent eco-system for innovation. Based on the Company's strategic goals, we will strengthen innovation in the management of strategies, human resources and operation, implement measures like pre-project and equity incentives, and open up promotion pathways, with an aim to build the most competitive and innovative eco-system in the industry, and to realize mutual growth and benefit-sharing with our employees.

V. APPRECIATION

Last but not least, I would like to express my sincere appreciation to all our shareholders, the general public and our customers for their care and support, as well as to all of our staff for their hard work and dedication in the past year!

MANAGEMENT DISCUSSION AND ANALYSIS

The Directors are pleased to present a management discussion and analysis of the results of operations of the Group for the year ended 31 December 2019 ("the Year") as follows:

I. Industry Analysis

The Company is one of the vehicle and equipment manufacturing conglomerates in the PRC with the best comprehensive strengths. It is a leading company in the markets of powertrain, complete vehicles and machines, hydraulic controlling parts and automotive electronics and parts and components and is equipped with the most comprehensive supply chain of engines, gear boxes and axles and offers related aftersales market services. Meanwhile, with the Group's leading advantages in intelligent logistics, it could provide the most comprehensive logistics solutions to its customers.

1. Commercial Vehicles and Construction Machinery Industries

In 2019, the Chinese government insisted upon high-quality development with a general keynote of making stable progress, and successfully achieved six stabilities in terms of employment, finance, foreign trade, foreign investment, investment and expectations. China's economic performance sustained a general trend of stability. In the past year, the gross domestic product of the PRC reached RMB99.1 trillion, representing a year-on-year growth of approximately 6.1%.

Benefitting from the favourable factors such as government's infrastructure and investment, upgrade of emission standards and more stringent control over overload and over-limit trucks, as well as the rapid development of the domestic logistics industry, commercial vehicles and construction machinery industries operated on a high level. The heavy-duty truck market achieved annual sales of approximately 1.174 million units, representing a year-on-year growth of nearly 2.3%, whereas the construction machinery industry, including internal combustion forklift trucks, achieved annual sales of approximately 741,000 units, representing a year-on-year growth of nearly 5.3%.

2. Forklift Truck and Supply Chain Solutions Industry

During the Year, trade disputes among certain countries continued and the economic growth momentum of China and India slowed down, coupled with the adverse factors such as the uncertainty brought by the Brexit and the reduction of U.S. tax benefits, the global economic growth dropped to 2.9% from 3.6% in 2018. With weakened demand in the global trade, orders for industrial forklift trucks also slightly decreased to approximately 1,509,000 units from approximately 1,541,000 units in the previous year, representing a year-on-year decrease of approximately 2.1%. In particular, North America, West Europe and East Europe saw a relatively significant drop of 7.6%, 6.7% and 5.6%, respectively, as compared with the corresponding period last year, while Asia Pacific was the only region which recorded a positive growth. The supply chain solutions industry has benefited from the continuous development of e-commerce, boosting the demand for warehouse automation with an annual growth of approximately 10%.

II. The Group's Business

An analysis of the Group's business segments is set out in Note 2 to the consolidated financial statements. The following is an overview of the operating conditions of the major products of the Group:

1. Powertrain, Complete Vehicles and Machines and Key Components

The Group has the most comprehensive powertrain system covering engines, gear boxes and axles. With its continuous efforts in research and development, the Company capitalized on the synergy and advantages of the industry supply chain and enhanced its core competitiveness on an ongoing basis. In 2019, the Company sold a total of approximately 742,000 units of engines and approximately 1,002,000 units of gear boxes, representing a year-on-year increase of 10.1% and 10.2% as compared with approximately 674,000 units and approximately 909,000 units, respectively, in the corresponding period of 2018. The engines segment contributed RMB37,324 million to the Group's sales revenue during the Year, representing a year-on-year growth of 11.3%.

During the Year, the Group sold 161,000 units of trucks, representing a growth of approximately 5.2% as compared with approximately 153,000 units for the same period in 2018. Shaanxi Heavy-duty Motor Company Limited (陝西重型汽車有限公司), a controlling subsidiary of the Group, fully took a leading role in complete vehicles by constantly enhancing its research and development capability and the application of cutting-edge key technologies, thereby sustaining a leading position in a number of product segment markets.

2. Intelligent Logistics

Due to the impacts of the demand for industrial forklift trucks, global sales order for forklift trucks decreased slightly from approximately 217,000 units in the corresponding period last year to approximately 214,000 units during the Year, representing a year-on-year decrease of approximately 1.4%. Driven by the increase in forklift truck orders with a higher value and the related services, the total order amount increased by approximately 1.9% from EUR6,211 million in the corresponding period last year to EUR6,331 million, and the total order amount of supply chain solutions recorded a year-on-year increase of approximately 14.3% to EUR2,771 million. Intelligent logistics services contributed approximately RMB67,005 million to the Group's sales revenue during the Year, representing a year-on-year increase of approximately 11.1% from approximately RMB60,308 million in the corresponding period last year.

Last year, the Company predicted that the sales revenue for 2019 would reach approximately RMB175.0 billion, representing a growth of approximately 10%. The actual sales revenue amounted to approximately RMB174.4 billion, representing a year-on-year growth of approximately 9.5%. Facing the complicated situation in the macro economy and in the automobile industry at home and abroad during the Year, the Company remained its focus on developing its principal businesses. Driven by innovation, the Company has been heading towards high-end development, exploring segment markets and optimizing product structure. The Company also integrated global research and development resources and strived to improve product quality in meeting the world-class standard. All of these tasks have been stably pushed ahead with, thereby sustaining growth and achieving a historical height in results despite the adversity.

Looking ahead into 2020, given the complicated and volatile global environment, there remains uncertainties in the prospects of the global economy. The rising global trade protectionism, the conflicts between the U.S. and Iran, the Brexit and the outbreak of COVID-19 will bring impacts to the global economy and further slow down its development. It is expected that the domestic economy will face greater downward pressure. 2020 will be a critical year for the Company to achieve breakthroughs and take lead in traditional businesses, as well as to expedite the implementation of the "dual-million" strategy for engines. The Company will seek breakthroughs in segment markets, consolidate its development strengths, and speed up the pace of digital transformation by innovation to develop into an intelligent enterprise, enabling the Company to achieve its goal towards high-quality, stable and progressive growth. As at 31 December 2019, the Company's order on hand amounted to approximately RMB38.4 billion. The Company expects that its sales revenue in 2020 would increase by approximately 8% to approximately RMB188.5 billion.

III. FINANCIAL REVIEW

1. The Group's Results of Operations

a. Revenue

In 2019, benefitting from the high-level operation of the commercial vehicles and construction machinery industries and the continuous development of the global e-commerce, demand for warehouse automation increased rapidly. Driven by innovation, the Company's continually enhanced its core competitiveness in terms of costs, technologies and quality with strong operating performance. During the Year, all business segments recorded growth in revenue. The revenue increased by approximately RMB15,105 million or approximately 9.5%, from approximately RMB159,256 million in 2018 to approximately RMB174,361 million for the Year. In particular, revenue from principal operations increased by approximately RMB15,465 million or approximately 9.9%, from approximately RMB155,536 million in the previous year to approximately RMB171,001 million for the Year.

b. Profit from Principal Operations

During the Year, the Group generated profit from principal operations in the amount of approximately RMB37,609 million, an increase of 7.7% from approximately RMB34,933 million recorded in the corresponding period in 2018. Profit from principal operations maintained at a high level of 22.0%, primarily attributable to the increase in revenue from principal operations and the leading advantages of the Company's products. The Group has completed the development and certification for the full China VI series of engines. Its controlling subsidiary, Shaanxi Heavy-duty Motor Company Limited, has completed the application for the design and development of more than 20 models of China VI vehicles and the launch the first batch of vehicle models, gradually implementing precise breakthroughs in various segment markets.

c. Distribution and Selling Expenses

Distribution and selling expenses increased by approximately 6.0% to approximately RMB11,254 million in the Year from approximately RMB10,619 million in the corresponding period of 2018. The increase of distribution and selling expenses was primarily attributable to the increase in staff costs, freight and packaging costs and marketing expenses due to the increase in sales amount. However, the strict cost control brought down the distribution and selling expenses as a percentage of revenue slightly to approximately 6.5% in the Year.

d. General and Administrative Expenses

General and administrative expenses increased by approximately RMB640 million or approximately 10.2% from approximately RMB6,260 million in the corresponding period of 2018 to approximately RMB6,900 million in the Year, which was mainly due to the increase in staff costs and external support fees as KION Group AG ("**KION**") actively promoted the "KION's 2027 Strategy", including the establishment of two new plants in Pune, India and Xiamen, China and modernisation of the existing production facilities in Hamburg, Germany. The general and administrative expenses as a percentage of revenue was approximately 4.0% in the Year.

e. Earnings Before Interest and Tax (EBIT)

During the Year, the Group's EBIT increased by approximately RMB576 million or 3.8% to approximately RMB15,585 million from approximately RMB15,009 million in the corresponding period in 2018. The increase was primarily attributable to the improvement in economies of scale which increased as sales increased, while the Company increased its investment in research and development, bringing down EBIT margin from approximately 9.4% in the corresponding period of the previous year to approximately 8.9% this Year.

f. Finance Expenses

Finance expenses increased by approximately 192.4% to approximately RMB220 million in the Year from approximately RMB75 million in the corresponding period of 2018. This was mainly attributable to the exchange losses and the increase in interest expense recognised for lease liabilities due to the adoption of the New Standard for Lease.

g. Income Tax Expenses

The Group's income tax expenses increased by approximately 9.5% from approximately RMB2,233 million in the corresponding period in 2018 to approximately RMB2,445 million in the Year. The Group's average effective tax rate remained at a stable level of approximately 17.0%.

h. Net Profit and Net Profit Margin

The Group's net profit increased by approximately 2.4% from approximately RMB11,626 million in the corresponding period of 2018 to approximately RMB11,907 million in the Year. During the Year, the net profit margin of the Group was approximately 6.8%, representing a slight decrease of approximately 0.5 percentage points. This was primarily attributable to the increased investment in research and development by the Company and the expansion of production capacity and upgrade of production facilities by KION, which resulted in an increase in upfront cost.

i. Liquidity and Cash Flow

During the Year, the Group generated operating cashflows of approximately RMB23,835 million. A portion of such proceeds was applied to acquiring 55% equity interest of Tianjin Tsintel Technology Company Limited* (天津清智科技有限公司) (at a total consideration of approximately RMB660 million) and 80% equity interest of ARADEX AG (at a total consideration of approximately EUR28 million), repaying borrowings, paying interest and acquiring property, plant and equipment for the expansion of the Group's business. As of 31 December 2019, the Group's gearing ratio (Net interest-bearing debts/(Shareholders' equity + net interest-bearing debts)) was 29.9% (31 December 2018: 32.9%).

2. Financial Position

a. Assets and Liabilities

As at 31 December 2019, the Group had total assets of approximately RMB236,832 million, of which approximately RMB126,185 million were current assets. As at 31 December 2019, the Group had cash and cash equivalents of approximately RMB48,818 million (as at 31 December 2018: approximately RMB38,210 million). On the same date, the Group's total liabilities was approximately RMB167,057 million, of which approximately RMB105,877 million were current liabilities. The current ratio was approximately 1.19x (as at 31 December 2018: approximately 1.22x).

b. Capital Structure

As at 31 December 2019, the Group had total equity of approximately RMB69,775 million, of which approximately RMB45,224 million was attributable to equity holders of the Company and the remaining balance was minority interests. Interest attributable to minority interest holders includes the perpetual capital securities in the principal amount of US$775 million issued in September 2017. The borrowings of the Group as at 31 December 2019 amounted to approximately RMB29,770 million, which included bonds of approximately RMB13,082 million and bank borrowings of approximately RMB16,688 million. Borrowings repayable on demand or within a period not exceeding one year were approximately RMB5,315 million, borrowings repayable within a period of more than one year but not exceeding two years were approximately RMB2,091 million; borrowings repayable within a period of more than two years but not exceeding five years were approximately RMB8,888 million; and borrowings repayable within a period of more than 5 years were approximately RMB394 million. The bank borrowings included approximately RMB3,008 million of fixed interest rate bank borrowings and approximately RMB13,680 million of floating interest rate bank borrowings. Other than Euro-denominated borrowings equivalent to approximately RMB12,877 million, USD-denominated borrowings equivalent to approximately RMB685 million and GBP-denominated borrowings equivalent to approximately RMB254 million, the borrowings are primarily Renminbi-denominated borrowings. The revenue of the Group is mainly in Renminbi and Euro. Contracts have been entered into with financial institutions to swap the USD400 million USD-denominated bonds issued in September 2015 and the USD775 million USD-denominated perpetual capital securities issued in September 2017 to Euro, and foreign-currency forward contracts were employed by subsidiaries to hedge the currency risk against US dollars and Pound sterlings, therefore the Group does not consider the currency risk facing its future general cash outflow significant. As a policy, the Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debts and equity balance. The Group's overall strategy remains unchanged from prior years.

c. Pledge of Assets

As at 31 December 2019, bank deposits, notes receivable, accounts receivable and receivable financing of approximately RMB22,897 million (as at 31 December 2018: approximately RMB15,863 million) were pledged to banks to secure the Group's notes payable, letter of guarantee, acceptance bills and letter of credit, etc. issued by banks. The pledged bank deposits carry prevailing bank interest rates. The pledge will be released upon the settlement of the relevant bank borrowings. The fair value of the bank deposits as at the balance sheet date was approximately the same as the carrying amount. Certain other assets were also pledged by the Group to secure the Group's borrowings.

d. Contingencies

As at December 2019, the Group provided certain distributors and agents bank guarantee amounting to approximately RMB2,643 million (as at 31 December 2018: approximately RMB2,482 million) to secure their obtaining and use of banking facilities.

As at 31 December 2019, the Group provided guarantee for joint liabilities in respect of failure of the lessee under finance lease to settle instalment payments plus interest. Risk exposure in respect of possible guarantee for joint liabilities amounted to approximately RMB2,734 million (as at 31 December 2018: approximately RMB2,303million).

e. Commitments

As at 31 December 2019, the Group had capital commitments of approximately RMB3,088 million (as at 31 December 2018: approximately RMB3,584 million), principally for the capital expenditure for the acquisition of property, plant and equipment. The capital expenditure will be financed by internal resources.

As at 31 December 2019, the Group had no other investment commitments (as at 31 December 2018: Nil).

3. Other Financial Information

a. Employees

As at 31 December 2019, the Group had approximately 80,200 employees (including approximately 34,600 employees of KION). During the Year, the Group paid remuneration of approximately RMB25,758 million. The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merits, qualifications and competence.

During the Year, upholding a strategic and problem-oriented approach, the Group provided 1.479 million training hours to 150,000 participants for the full year, which translated to an average of 107.2 training hours per person, incurring training expenses of approximately RMB51 million in total.

b. Material Investment, Major Acquisition and Disposal

During the Year, the Group did not have any material investment, major acquisition or disposal.

c. Subsequent Events

On 26 March 2020, the Company's 2019 profit distribution proposal was approved by the Company's fifth meeting of the fifth session of the Board. The Company proposed a distribution to all shareholders of a cash dividend of RMB1.36 (including tax) for every 10 shares held, based on the 7,933,873,895 shares available for distribution after deducting treasury shares as at 31 December 2019, without any capitalisation of reserve. Completion of the proposal is subject to the consideration and approval by the 2019 Annual General Meeting.

OTHER INFORMATION

Directors' and Supervisors' Interests in Shares and Underlying Shares

As at 31 December 2019, the interests and short position (if any) of the directors, the chief executives and the supervisors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Name of director	Capacity	Number of "A" shares held	Number of "H" shares held	Percentage of the issued share capital of the Company
Tan Xuguang	Beneficial owner	58,842,596 *(Note 1)*	–	0.74%
Zhang Quan	Beneficial owner	13,684,324 *(Note 1)*	–	0.17%
Xu Xinyu	Beneficial owner	13,684,324 *(Note 1)*	–	0.17%
Sun Shaojun	Beneficial owner	13,684,324 *(Note 1)*	–	0.17%
Yuan Hongming	Beneficial owner	1,000,440	–	0.013%
	Interest held by spouse	444	–	0.000006%
		1,000,884		0.013%
Yan Jianbo	Beneficial owner	1,097,904	–	0.014%
Wen Daocai	Beneficial owner	21,940	–	0.0003%

Name of supervisor	Capacity	Number of "A" shares held	Number of "H" shares held	Percentage of the issued share capital of the Company
Lu Wenwu	Beneficial owner	600,000	–	0.0076%
Wu Hongwei	Beneficial owner	4,789,516	–	0.06%

Notes:

1. These shares were derived from the previous domestic shares of the Company. The domestic shares were ordinary shares issued by the Company, with a Renminbi denominated par value of RMB1.00 each, which were subscribed for and paid up in Renminbi or credited as fully paid up. These shares became A Shares of the Company upon the A Share listing of the Company on the Shenzhen Stock Exchange.

2. All the shareholding interests listed in the above table are "long" position.

3. The percentages disclosed in the above table were calculated based on the total number of issued Shares of the Company as at 31 December 2019, i.e. 7,933,873,895 shares (comprised of 5,990,833,895 A shares and 1,943,040,000 H shares).

Interests in the shares of associated corporations of the Company

Name of director	**Name of associated corporation**	**Nature of interest**	**Class and number of securities interested or deemed to be interested**	**Approximate percentage interest in the entire issued share capital of associated corporation**
Gordon Riske *(Note)*	KION Group AG ("KION")	Beneficial owner	144,060 ordinary shares	0.12%
		Interest held by spouse	93,940 ordinary shares	0.08%
			238,000 ordinary shares	0.20%

Note: Gordon Riske, a non-executive Director, was the beneficial owner of 144,060 shares in KION and he was also deemed to be interested in 93,940 shares in KION which were beneficially held by his wife, Ms. Benita Riske.

Save as disclosed above, as at 31 December 2019, none of the Directors, the chief executives nor the supervisors had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was recorded in the register required to be kept pursuant to Section 352 of the SFO, or as otherwise notified to the Company pursuant to the Model Code.

Details of Changes in Share Capital and Substantial Shareholders' Shareholdings

(I) Changes in share capital

1. Changes in share capital (as at 31 December 2019)

	Before the movement		Increase/decrease in the movement (+, –)					After the movement	
	No. of shares	Percentage (%)	New shares issued	Bonus Issue	Transfer of surplus to capital	Others	Sub-total	No. of shares	Percentage (%)
I. Restricted circulating shares	1,746,994,773	21.84%	–	–	–	(1,162,503)	(1,162,503)	1,745,832,270	22.00%
1. State-owned shares	–	–	–	–	–	–	–	–	–
2. State-owned legal person shares	1,642,531,008	20.54%	–	–	–	–	–	1,642,531,008	20.70%
3. Shares held by other domestic entities	104,463,765	1.30%	–	–	–	(1,162,503)	(1,162,503)	103,301,262	1.30%
including: Shares held by domestic non-state-owned legal persons	–	–	–	–	–	–	–	–	–
Shares held by domestic natural persons	104,463,765	1.30%	–	–	–	(1,162,503)	(1,162,503)	103,301,262	1.30%
4. Shares held by foreign entities	–	–	–	–	–	–	–	–	–
including: Shares held by overseas legal persons	–	–	–	–	–	–	–	–	–
Shares held by overseas natural persons	–	–	–	–	–	–	–	–	–
II. Non-restricted circulating shares	6,250,243,783	78.16%	–	–	–	(62,202,158)	(62,202,158)	6,188,041,625	78.00%
1. RMB ordinary shares	4,307,203,783	53.86%	–	–	–	(62,202,158)	(62,202,158)	4,245,001,625	53.51%
2. Domestic listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas listed foreign shares	1,943,040,000	24.30%	–	–	–	–	–	1,943,040,000	24.49%
4. Others	–	–	–	–	–	–	–	–	–
III. Total number of shares	7,997,238,556	100%	–	–	–	(63,364,661)	(63,364,661)	7,933,873,895	100%

(II) Shareholdings of the Substantial Shareholders (as at 31 December 2019)

Total number of Shareholders The number of shareholders is 160,959 among which 160,705 are shareholders of "A" shares and 254 are shareholders of "H" shares.

Shareholdings of the top ten shareholders

Name of shareholder	Type of Shareholder	Approximate percentage of shares held (%)	Total number of shares held as at the end of the reporting period	Number of restricted shares held	Number of shares pledged or frozen
HKSCC Nominees Limited	Foreign shareholder	24.43%	1,938,400,396	–	–
Weichai Group Holdings Limited	State-owned legal person	17.72%	1,406,100,000	1,345,905,600	–
Hong Kong Securities Clearing Company Limited *(Note)*	Overseas legal person	5.09%	403,601,246	–	–
Weifang Investment Group Company Limited	State-owned legal person	3.74%	296,625,408	296,625,408	–
China Securities Finance Corporation Limited	Domestic non-state-owned legal person	2.06%	163,608,906	–	–
IVM Technical Consultants Wien Gesellschaft m.b.H.	Overseas legal person	1.53%	121,208,700	–	–
Central Huijin Assets Management Company Limited	State-owned legal person	1.37%	108,492,800	–	–
Shandong Enterprise Trust Operation Company Limited	Domestic non-state-owned legal person	0.85%	67,282,960	–	–
Tan Xuguang	Domestic natural person	0.74%	58,842,596	44,131,947	
Hu Zhongxiang	Domestic natural person	0.72%	57,307,825	–	–

Note: Hong Kong Securities Clearing Company Limited holds 403,601,246 A Shares on behalf of shareholders under the Shenzhen - Hong Kong Stock Connect mechanism.

Shareholdings of the top ten non-restricted shareholders

Name of shareholder	Number of the non-restricted shares held as at the end of the reporting period	Types of shares
HKSCC Nominees Limited	1,938,400,396	Overseas listed foreign shares
Hong Kong Securities Clearing Company Limited	403,601,246	RMB ordinary shares
China Securities Finance Corporation Limited	163,608,906	RMB ordinary shares
IVM Technical Consultants Wien Gesellschaft m.b.H.	121,208,700	RMB ordinary shares
Central Huijin Assets Management Company Limited	108,492,800	RMB ordinary shares
Shandong Enterprise Trust Operation Company Limited	67,282,960	RMB ordinary shares
Weichai Group Holdings Limited	60,194,400	RMB ordinary shares
Hu Zhongxiang	57,307,825	RMB ordinary shares
Macao Monetary Authority – Internal Funds	34,549,907	RMB ordinary shares
China Asset Fund – Agricultural Bank of China – China Asset CSI Financial Asset Management Plan	33,002,800	RMB ordinary shares

Note:

1. Among the aforesaid shareholders, Mr. Tan Xuguang is the chairman of Weichai Group Holdings Limited. It is not certain whether there is any connected relationship among other top ten shareholders and the other top ten non-restricted shareholders, or whether there is any acting in concert relationship among them.

2. Among the top ten shareholders of the Company, Mr. Hu Zhongxiang holds 57,307,825 shares through the client credit trading guarantee securities account of China Galaxy Securities Co., Ltd.

Substantial Shareholders

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO (including interests filed with the Hong Kong Stock Exchange) shows that as at 31 December 2019, the following persons (other than directors, chief executives and supervisors) had the following interests and short positions (if any) in the shares and underlying shares of the Company:

Name	Capacity	Long/ Short position	Number of A shares	Percentage of share capital comprising only A shares	Number of H shares	Percentage of share capital comprising only H shares	Percentage of total issued share capital
Weichai Group Holdings Limited	Beneficial owner	Long	1,406,100,000	23.47%	–	–	17.72%
Shandong Heavy Industry Group Co., Ltd. *(Note 1)*	Held by controlled corporation	Long	1,406,100,000	23.47%	–	–	17.72%
Brandes Investment Partners, LP *(Note 3)*	Investment manager	Long	–	–	78,578,612	16.18%	3.96%
Lazard Emerging Markets Equity Portfolio *(Note 4)*	Investment manager	Long	–	–	23,707,500	5.86%	1.43%
Barclays PLC *(Note 3)*	Person having a security interest in shares	Long	–	–	525,552	0.11%	0.03%
	Interest of corporation controlled by you	Long	–	–	25,453,050	5.24%	1.28%
					25,978,602	5.35%	1.31%
	Interest of corporation controlled by you	Short	–	–	24,102,475	4.96%	1.22%
Morgan Stanley *(Note 2)*	Interest of corporation controlled by you	Long	–	–	49,335,508	5.08%	1.24%
	Interest of corporation controlled by you	Short	–	–	42,078,545	4.33%	1.06%
BlackRock, Inc.	Interest of corporation controlled by you	Long	–	–	174,437,170	8.98%	2.20%
	Interest of corporation controlled by you	Short	–	–	7,471,000	0.38%	0.09%
Lazard Asset Management LLC	Investment manager	Long	–	–	328,810,940	16.92%	4.14%

Name	Capacity	Long/ Short position	Number of A shares	Percentage of share capital comprising only A shares	Number of H shares	Percentage of share capital comprising only H shares	Percentage of total issued share capital
Citigroup Inc.	Interest of corporation controlled by you	Long	–	–	5,326,277	0.27%	0.07%
	Approved lending agent	Long	–	–	134,453,711	6.92%	1.69%
					139,779,988	7.19%	1.76%
	Interest of corporation controlled by you	Short	–	–	3,091,000	0.16%	0.04%
The Bank of New York Mellon Corporation	Interest of corporation controlled by you	Long	–	–	69,361,256	3.57%	0.88%
	Approved lending agent	Long	–	–	62,834,080	3.23%	0.79%
					132,195,336	6.80%	1.67%
	Interest of corporation controlled by you	Short	–	–	66,671,656	3.43%	0.84%
State Street Bank and Trust Company	Approved lending agent	Long	–	–	98,867,348	5.09%	1.25%

Notes:

1. Shandong Heavy Industry Group Co., Ltd., a subsidiary of State-owned Assets Supervision and Administration Commission of Shandong Province, held the entire share capital of Weichai Group Holdings Limited (formerly known as Weifang Diesel Engine Works).

2. The number of H shares reported above held by the relevant substantial shareholder does not take into consideration the Company's bonus share issuance on 21 July 2017 as there is no disclosure of interest obligation under the SFO where there is no change in percentage of shareholdings for a substantial shareholder.

3. The number of H shares reported above held by the relevant substantial shareholder does not take into consideration the Company's bonus share issuance on 20 August 2015 and 21 July 2017 as there is no disclosure of interest obligation under the SFO where there is no change in percentage of shareholdings for a substantial shareholder.

4. The number of H shares reported above held by the relevant substantial shareholder does not take into consideration the Company's bonus share issuance on 17 August 2012, 20 August 2015 and 21 July 2017 as there is no disclosure of interest obligation under the SFO where there is no change in percentage of shareholdings for a substantial shareholder.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2019.

DETAILS OF THE APPOINTMENT OR RESIGNATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. At the Board meeting convened on 5 November 2019, the Board considered and approved the resignation of Mr. Hao Qinggui as the secretary to the Board and approved the appointment of Ms. Wang Li as the secretary to the Board of the Company.

2. At the Board meeting convened on 6 January 2020, the Board considered and approved the appointment of Mr. Cheng Guangxu as a vice president of the Company and Ms. Wu Di as a securities affair representative of the Company.

3. At the Board meeting convened on 17 February 2020, the Board considered and approved the resignation of Mr. Hu Haoran as a vice president of the Company and approved the appointment of Mr. Chen Wenmiao, Mr. Wang Zhijian, Mr. Sun Jian and Mr. Hu Haihua as vice presidents of the Company.

4. At the Board Meeting convened on 26 March 2020, the Board considered and approved the resignation of Mr. Wang Yuepu as a non-executive Director and a member of the strategic development and investment committee of the Company with effect from 26 March 2020 and the nomination of Mr. Zhang Liangfu as a non-executive director of the Company, with effect from the date of approval by the shareholders of the Company at the 2019 Annual General Meeting and until the conclusion of the annual general meeting of the Company for the year ending 31 December 2020, which is the expiration of the term of the current session of the Board.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the remuneration committee of the Company (the "Remuneration Committee") on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the Year was the Company or any of its subsidiaries a party to any arrangements that enabled the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

A total number of 63,364,661 A shares were repurchased by the Company on the Shenzhen Stock Exchange from 8 October 2018 to 28 December 2018 at an aggregate consideration of RMB499,911,217.21. All of these repurchased A shares were subsequently cancelled by the Company on 7 January 2019.

During the Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the PRC, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

INCOME TAX FOR H SHAREHOLDERS

According to the regulations in the Enterprise Income Tax Law of the People's Republic of China, Implementation Regulations on Enterprise Income Tax Law of People's Republic of China which came into effect in 2008 and the Notice of the State Administration of Taxation on Issues Relating to the Withholding and Remittance of Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to Overseas Non-resident Enterprises which hold H Shares (Guo Shui Han [2008] No. 897) (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得税有關問題的通知》(國税函[2008]897號)) issued by China's State Administration of Taxation on 6 November 2008 (collectively, the "Tax Law"), any domestic enterprise of the PRC which pays dividends to non-resident enterprise shareholders (as defined in the Tax Law) for the year of 2008 and thereafter shall withhold and remit enterprise income tax with the payer as withholding agent. After receiving dividends, non-resident enterprise shareholders may, where applicable, apply for tax refund pursuant to relevant requirements under tax treaty (arrangement).

In accordance with the Tax Law, the Company is obliged to withhold and remit enterprise income tax at the rate of 10% on behalf of the non-resident enterprise holders of H Shares whose names appear on the register of members for H Shares of the Company on the Record Date when distributing dividends to them. For holders of H Shares who are registered in the name of non-natural person registered shareholders (including HKSCC (Nominees) Limited, other corporate nominees, trustees, or other organisations or groups which are all treated as "non-resident enterprise" shareholders) on the register of members for H Shares of the Company on the Record Date, the Company will distribute the cash dividends, after withholding for payment of 10% enterprise income tax.

Pursuant to the Notice on the Tax Policies Concerning the Pilot Program of the Shenzhen-Hong Kong Stock Connect (《關於深港股票市場交易互聯互通機制試點有關税收政策的通知》, for mainland corporate investors that invest in a company via the Shenzhen-Hong Kong Stock Connect, corporate income tax will be levied according to the law. In particular, for any dividend to be distributed to resident enterprises in the mainland China which hold H shares for more than 12 consecutive months, corporate income tax may be exempted according to the law. Such mainland enterprises shall declare and pay taxes by themselves in respect of such dividends, which will not be withheld by such H share company.

According to the Notice of the Ministry of Finance and the State Administration of Taxation on Certain Policies Regarding Individual Income Tax (Cai Shui Zi [1994] No. 20)(《財政部、國家稅務總局關於個人所得稅若干政策問題的通知》(財稅字 [1994]第20號)), foreign individual resident shareholders are exempt from personal income tax in respect of the dividends or bonus received from domestic foreign invested enterprises for now. As the Company is a foreign invested enterprise, for all natural person shareholders whose names are registered on the register of members for H Shares of the Company on the Record Date, the Company does not need to withhold personal income tax. The Company shall obtain latest updates by consulting relevant tax authorities in the PRC in due course.

In respect of dividends for the H shares of a company invested in by mainland individual investors and listed on the Hong Kong Stock Exchange through the Shenzhen-Hong Kong Stock Connect, the H share company shall apply to China Securities Depository and Clearing Co., Ltd., which will then provide the H share company with the register of mainland individual investors. The H share company shall withhold an individual income tax at the rate of 20% on such dividends.

For dividends received by investors (including enterprise and individual investors) in the Hong Kong market from investing in A shares listed on the Shenzhen Stock Exchange, and before Hong Kong Securities Clearing Company Limited is able to furnish China Securities Depository and Clearing Co., Ltd. with the identity, holding period and other detailed data of the investors in the Hong Kong market , the differentiated tax treatment based on the holding period of shares will not be implemented temporarily. Listed companies shall withhold income tax at the rate of 10% and make withholding filings with the relevant tax authorities. For those investors who are tax residents of other countries and the tax rate applicable to dividends is lower than 10% under the tax treaty between China and the relevant countries, such investors may, by themselves or request the withholding agent to act on their behalf to, apply to the relevant tax authorities in respect of the listed company for the preferential relevant treatment under the relevant treaties. Upon the verification of the relevant tax authorities, the amount being the difference between the tax withheld and the tax calculated at the rate as prescribed under the corresponding tax treaty shall be refunded.

If anyone would like to change the identity of the holders in the register of members, please enquire about the relevant procedures with the nominees or trustees. The Company will withhold for payment of the enterprise income tax for its non-resident enterprise shareholders strictly in accordance with the relevant laws and requirements of the relevant government departments and adhere strictly to the information set out in the Company's register of members on the Record Date.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total sales.

During the Year, the aggregate purchase attributable to the Group's five largest suppliers were less than 30% of the Group's total purchases.

Save as disclosed above, at no time during the Year did a director, a supervisor, an associate of a director or a shareholder of the Company, which to the knowledge of the directors, own more than 5% of the Company's share capital, have an interest in any of the Group's five largest suppliers or customers.

SUBSEQUENT EVENTS

On 26 March 2020, the Company's 2019 profit distribution proposal was approved by the Company's fifth meeting of the fifth session of the Board. The Company proposed a distribution to all shareholders of a cash dividend of RMB1.36 (including tax) for every 10 shares held, based on the 7,933,873,895 shares available for distribution as at 31 December 2019, without any capitalisation of reserve. Completion of the proposal is subject to the consideration and approval by the 2019 Annual General Meeting.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprises all independent non-executive directors of the Company. The chairman of the Audit Committee is Mr. Wang Gongyong, an independent non-executive director. Mr. Wang has appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules, for the purpose of this appointment. Throughout the Year, the Audit Committee discharged its responsibilities, reviewed and discussed the financial results and internal control matters of the Company. In accordance with the requirements of Appendix 16 to the Listing Rules, the Audit Committee has reviewed the audited consolidated financial statements for the Year.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE IN APPENDIX 14 TO THE LISTING RULES

During the Year, other than the roles of the Chairman and the Chief Executive Officer being performed by Mr. Tan Xuguang ("Mr. Tan") and directors not being able to attend all annual general meeting and extraordinary general meetings due to other important work-related affairs, the Company has complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

Mr. Tan is in charge of the overall management of the Company. The Company considers that the combination of the roles of the Chairman and the Chief Executive Officer can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to grasp business opportunities efficiently and promptly. The Company considers that through the supervision of its board and its independent non-executive directors, there is adequate balance of power and authority in place.

COMPLIANCE WITH THE MODEL CODE

During the Year, the Company adopted a code of conduct regarding securities transactions by directors on terms no less than the required standard set out in the Model Code. Having made specific enquiry of all directors, the directors have confirmed that they have complied with the required standard set out in the Model Code during the Year.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, the Company has maintained the prescribed public float under the Listing Rules as at the date of this announcement.

AUDITORS

The Company appointed Deloitte Touche Tohmatsu Certified Public Accountants LLP (德勤華永會計師事務所(特殊普通合伙)) as the Company's auditors on 20 June 2019. Deloitte Touche Tohmatsu Certified Public Accountants LLP will retire and a resolution for the their reappointment as auditors of the Company for the year of 2020 will be proposed at the forthcoming annual general meeting.

APPROVAL OF THE FINANCIAL STATEMENTS

The audited consolidated financial statements for the Year were approved by the Board on 26 March 2020.

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

The 2019 annual report of the Company will be despatched to the shareholders as well as made available on the Hong Kong Stock Exchange's website at www.hkexnews.hk and the Company's website at www.weichaipower.com in due course.

Tan Xuguang
Chairman and Chief Executive Officer

Hong Kong, 26 March 2020

As at the date of this announcement, the executive Directors of the Company are Mr. Tan Xuguang, Mr. Zhang Quan, Mr. Xu Xinyu, Mr. Sun Shaojun, Mr. Yuan Hongming and Mr. Yan Jianbo; the non-executive Directors of the Company are Mr. Jiang Kui, Mr. Gordon Riske and Mr. Michael Martin Macht; and the independent non-executive Directors of the Company are Mr. Zhang Zhong, Mr. Wang Gongyong, Mr. Ning Xiangdong, Mr. Li Hongwu and Mr. Wen Daocai.