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SINOTRUK (HONG KONG) LIMITED

中國重汽(香港)有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 3808)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

RESULTS

The Board is pleased to announce the consolidated results of Sinotruk (Hong Kong) Limited and its subsidiaries for the year ended 31 December 2017 together with the comparative figures for the previous year as follows:

Consolidated statement of profit or loss

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

	Note	2017 Audited	2016 Audited
Revenue	3	55,457,928	32,958,901
Cost of sales	4	(45,429,858)	(27,140,913)
Gross profit		10,028,070	5,817,988
Distribution costs	4	(3,228,577)	(2,394,761)
Administrative expenses	4	(2,951,790)	(2,585,871)
Other gains – net	5	423,879	275,493
Operating profit		4,271,582	1,112,849
Finance income		81,335	65,412
Finance costs		(342,928)	(316,287)
Finance costs – net		(261,593)	(250,875)
Share of profits less losses of investments accounted for using the equity method		45,444	59,608
Profit before income tax		4,055,433	921,582
Income tax expense	6	(719,538)	(258,750)
Profit for the year		3,335,895	662,832

Consolidated statement of profit or loss (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

	Note	2017 Audited	2016 Audited
Profit attributable to:			
– Owners of the Company		3,023,023	532,105
– Non-controlling interests		312,872	130,727
		<u>3,335,895</u>	<u>662,832</u>
Earnings per share for profit attributable to owners of the Company for the year (expressed in RMB per share)			
– basic and diluted	7	<u>1.09</u>	<u>0.19</u>

Consolidated statement of comprehensive income

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

	Note	2017 Audited	2016 Audited
Profit for the year		3,335,895	662,832
Other comprehensive income:			
<i>Item that will not be reclassified subsequently to profit or loss</i>			
Remeasurements of post-employment benefit obligations		(1,654)	(180)
Revaluation gains arising from transfer of property, plant and equipment and land use rights to investment properties		11,666	29,487
<i>Items that may be reclassified to profit or loss</i>			
Change in value of available-for-sale financial assets		5,120	19,770
Share of other comprehensive income/(loss) of investments accounted for using the equity method		16	(7,948)
Currency translation differences		200	62,951
Other comprehensive income for the year, net of tax		<u>15,348</u>	<u>104,080</u>
Total comprehensive income for the year		<u>3,351,243</u>	<u>766,912</u>
Attributable to:			
– Owners of the Company		3,038,002	634,891
– Non-controlling interests		313,241	132,021
Total comprehensive income for the year		<u>3,351,243</u>	<u>766,912</u>

Consolidated statement of financial position

As at 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

	Note	31 December 2017 Audited	31 December 2016 Audited
ASSETS			
Non-current assets			
Land use rights		1,650,123	1,651,677
Property, plant and equipment		9,937,766	10,165,398
Investment properties		709,576	642,561
Intangible assets		356,827	350,216
Goodwill		3,868	3,868
Deferred income tax assets		1,484,254	1,249,218
Investments accounted for using the equity method		477,827	466,427
Available-for-sale financial assets		205,533	353,135
Trade receivables and other receivables	8	1,946,712	795,105
		16,772,486	15,677,605
Current assets			
Inventories		13,246,027	8,371,852
Trade receivables, other receivables and other current assets	8	15,150,697	14,030,393
Financial assets at fair value through profit or loss		781,981	125,692
Available-for-sale financial assets		2,340,073	1,676,090
Amounts due from related parties	9	352,768	415,301
Cash and bank balances		12,417,389	9,188,410
		44,288,935	33,807,738
Assets classified as held for sale		121,595	—
		44,410,530	33,807,738
Total assets		61,183,016	49,485,343

Consolidated statement of financial position (Continued)

As at 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

	Note	31 December 2017 Audited	31 December 2016 Audited
EQUITY and LIABILITIES			
Equity attributable to owners of the Company			
Share capital		16,717,024	16,717,024
Other reserves		(576,483)	(888,242)
Retained earnings		6,616,922	4,083,027
		<u>22,757,463</u>	<u>19,911,809</u>
Non-controlling interests		<u>2,673,248</u>	<u>2,427,288</u>
Total equity		<u>25,430,711</u>	<u>22,339,097</u>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		51,398	40,912
Termination and post-employment benefit obligations		14,233	10,530
Deferred income		361,200	323,549
		<u>426,831</u>	<u>374,991</u>
Current liabilities			
Trade payables, other payables and other current liabilities	10	28,545,935	20,810,567
Current income tax liabilities		395,068	132,998
Borrowings		3,990,000	4,511,787
Amounts due to related parties	11	1,416,385	727,346
Provisions for other liabilities		978,086	588,557
		<u>35,325,474</u>	<u>26,771,255</u>
Total liabilities		<u>35,752,305</u>	<u>27,146,246</u>
Total equity and liabilities		<u>61,183,016</u>	<u>49,485,343</u>

Notes to financial information

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

1. General information

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

The Group is principally engaged in the research, development and manufacturing of heavy duty trucks, medium-heavy duty trucks, light duty trucks and related key parts and components including engines, cabins, axles, steel frames and gearbox and the provision of financial services.

Section 436 of the Companies Ordinance

The financial information relating to the years ended 31 December 2017 and 2016 included in this preliminary announcement of 2017 annual results do not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2017 in due course.

The Company's auditor has reported on the financial statements of the Group for the years ended 31 December 2017 and 2016. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

2. Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRS**”) and requirements of the Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets (including derivative instruments) at fair value through profit or loss, assets classified as held for sale and investment properties which are carried at fair value.

These consolidated financial statements comply with the applicable requirements of the Companies Ordinance, with the exception of section 381 of the Companies Ordinance which requires a company to include all its subsidiary undertakings (within the meaning of Schedule 1 to the Companies Ordinance) in the Company’s annual consolidated financial statements. Section 381 of the Companies Ordinance is inconsistent with the requirements of HKFRS 10 Consolidated Financial Statements so far as section 381 of the Companies Ordinance applies to subsidiary undertakings which are not controlled by the Group in accordance with HKFRS 10. For this reason, under the provisions of section 380(6) of the Companies Ordinance, the Company has departed from section 381 of the Companies Ordinance and has not treated such company as subsidiary but it is accounted for as a joint venture of the Company in accordance with its accounting policies.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

2. Basis of preparation (Continued)

Changes in accounting policy and disclosures

(1) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2017:

Amendments to HKAS 12 “Income taxes” clarify how to account for deferred tax assets related to debt instruments measured at fair value.

Amendments to HKAS 7 “Statement of cash flows” introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendment to HKFRS 12 “Disclosure of interest in other entities” clarify that the disclosure requirement of HKFRS 12 is applicable to interest in entities classified as held for sale except for summarised financial information.

The adoption of the above new and amended standards did not give rise to any significant impact on the Group’s results of operations and financial position for the year ended 31 December 2017.

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

2. Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

- (2) New and amended standards that have been issued and are effective for annual periods commencing on or after 1 January 2018 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKFRS 15	“Revenue from contracts with customers”	1 January 2018
HKFRS 9	“Financial instruments”	1 January 2018
Amendments to HKFRS 2	“Classification and measurement of share-based payment transactions”	1 January 2018
Amendments to HKFRS 4	Insurance Contracts “Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts”	1 January 2018
Amendment to HKFRS 1	“First time adoption of HKFRS”	1 January 2018
Amendment to HKAS 28	“Investments in associates and joint ventures”	1 January 2018
Amendment to HKAS 40	“Transfers of investment property”	1 January 2018
HK (IFRIC) 22	“Foreign Currency Transactions and Advance Consideration”	1 January 2018
HKFRS 16	“Leases”	1 January 2019
HK (IFRIC) 23	“Uncertainty over income tax treatments”	1 January 2019
Amendments to HKFRS 10 and HKAS 28	“Sale or contribution of assets between an investor and its associate or joint venture”	To be determined
HKFRS 17	“Insurance contracts”	1 January 2021 or when apply HKFRS 15 and HKFRS 9

The Group will apply the new standards and amendments described above when they become effective.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting period and have not been early adopted by the Group. The Group’s assessment of the impact of these new standards and interpretations is set out below.

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

2. Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

- (i) HKFRS 15, Revenue from Contracts with Customers

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers revenue arising from the sale of goods and the rendering of services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

Identifying performance obligations – HKFRS 15 requires assessment of the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to the customer. The performance obligations include those explicitly stated in the contract and also include those promises that are implied by an entity's customary business practices, published policies or specific statements if, at the time of entering into the contract, those promises create a valid expectation of the customer that the entity will transfer a good or service.

Mandatory application date / Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as at 1 January 2018 and that comparatives will not be restated.

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

2. Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(ii) HKFRS 9, Financial Instruments

Nature of change

HKFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group expects that, under the new guidance, wealth management products with non-guaranteed interest rates that are currently classified as available-for-sale financial assets through other comprehensive income appear to satisfy the conditions for classification as financial assets at fair value through profit or loss. In this case, approximately RMB2,507,681,000 will have to be reclassified as financial asset at fair value through profit or loss upon the implement of HKFRS 9 and continues to be measured at fair value. Cumulative gain of approximately RMB35,681,000 will have to be transferred from the available for sale financial assets reserve to retained earnings on 1 January 2018.

The other financial assets held by the Group include:

- equity instruments currently classified as available for sale for which a fair value through other comprehensive income election is available, and
- equity investments currently measured at fair value through profit or loss which will continue to be measured on the same basis under HKFRS 9.

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

2. Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(ii) HKFRS 9, Financial Instruments (Continued)

Impact (Continued)

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The changes in the fair value due to changes in the liability's own credit risk are recognised in other comprehensive income, unless such changes in fair value would create an accounting mismatch in profit or loss. There is no subsequent recycling of the amounts in other comprehensive income to profit or loss. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not have any hedge instruments. Therefore, the Group does not expect any impact on the new hedge accounting rules.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect material change to the loss allowance for trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Mandatory application date / Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

2. Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(iii) HKFRS 16, Leases

Nature of Change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB20,902,000. The Group estimates that approximately 89% of these relate to payments for short-term and low-value leases which will be recognised on a straight-line basis as an expense in profit or loss.

However, the Group has not yet assessed what other adjustments, if any, are necessary, for example, because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Mandatory application date/ Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

3. Revenue and Segment information

The segment results for the year ended 31 December 2017 are as follows:

	Audited					
	Year ended 31 December 2017					
	Heavy duty trucks	Light duty trucks	Engines	Finance	Elimination	Total
External segment revenue						
Sales of goods	44,455,157	8,500,823	1,068,917	—	—	54,024,897
Provision of financing services	—	—	—	669,264	—	669,264
Rendering of services	731,289	4,692	27,786	—	—	763,767
Total	45,186,446	8,505,515	1,096,703	669,264	—	55,457,928
Inter-segment revenue	378,698	420,590	13,609,053	462,743	(14,871,084)	—
Segment revenue	<u>45,565,144</u>	<u>8,926,105</u>	<u>14,705,756</u>	<u>1,132,007</u>	<u>(14,871,084)</u>	<u>55,457,928</u>
Operating profit/(loss) before unallocated expenses	<u>1,507,123</u>	<u>231,737</u>	<u>2,351,064</u>	<u>546,266</u>	<u>(351,568)</u>	4,284,622
Unallocated expenses						(13,040)
Operating profit						4,271,582
Finance costs – net						(261,593)
Share of profit less loss of investments accounted for using the equity method						45,444
Profit before income tax						4,055,433
Income tax expense						(719,538)
Profit for the year						<u>3,335,895</u>

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

3. Revenue and Segment information (Continued)

The segment results for the year ended 31 December 2016 are as follows:

	Audited					
	Year ended 31 December 2016					
	Heavy duty trucks	Light duty trucks	Engines	Finance	Elimination	Total
External segment revenue						
Sales of goods	24,489,753	7,264,928	630,510	—	—	32,385,191
Provision of financing services	—	—	—	285,234	—	285,234
Rendering of services	<u>254,588</u>	<u>3,518</u>	<u>30,370</u>	<u>—</u>	<u>—</u>	<u>288,476</u>
Total	24,744,341	7,268,446	660,880	285,234	—	32,958,901
Inter-segment revenue	<u>506,180</u>	<u>154,277</u>	<u>7,466,875</u>	<u>241,239</u>	<u>(8,368,571)</u>	<u>—</u>
Segment revenue	<u>25,250,521</u>	<u>7,422,723</u>	<u>8,127,755</u>	<u>526,473</u>	<u>(8,368,571)</u>	<u>32,958,901</u>
Operating profit/(loss) before unallocated expenses	<u>613,009</u>	<u>40,284</u>	<u>529,791</u>	<u>208,483</u>	<u>(263,021)</u>	1,128,546
Unallocated expenses						<u>(15,697)</u>
Operating profit						1,112,849
Finance costs – net						(250,875)
Share of profit less loss of investments accounted for using the equity method						<u>59,608</u>
Profit before income tax						921,582
Income tax expense						<u>(258,750)</u>
Profit for the year						<u>662,832</u>

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

3. Revenue and Segment information (Continued)

Other segment items included in profit or loss for the year ended 31 December 2017 are as follows:

	Audited					
	Year ended 31 December 2017					
	Heavy duty trucks	Light duty trucks	Engines	Finance	Unallocated	Total
Depreciation	427,534	153,240	570,604	1,065	45	1,152,488
Amortisation of intangible assets and land use rights	<u>37,667</u>	<u>9,645</u>	<u>47,966</u>	<u>415</u>	<u>19</u>	<u>95,712</u>

Other segment items included in profit or loss for the year ended 31 December 2016 are as follows:

	Audited					
	Year ended 31 December 2016					
	Heavy duty trucks	Light duty trucks	Engines	Finance	Unallocated	Total
Depreciation	427,785	167,661	594,465	1,125	46	1,191,082
Amortisation of intangible assets and land use rights	<u>60,018</u>	<u>9,082</u>	<u>124,558</u>	<u>305</u>	<u>19</u>	<u>193,982</u>

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

3. Revenue and Segment information (Continued)

The segment assets and liabilities as at 31 December 2017 and capital expenditure for the year then ended are as follows:

	Audited					
	As at 31 December 2017					
	Heavy duty trucks	Light duty trucks	Engines	Finance	Unallocated	Total
Segment assets	48,994,733	5,278,752	17,332,626	15,258,637	1,621,239	88,485,987
Elimination						<u>(27,302,971)</u>
Total assets						<u><u>61,183,016</u></u>
Segment liabilities	32,817,847	3,349,943	7,117,232	10,196,819	3,644,201	57,126,042
Elimination						<u>(21,373,737)</u>
Total liabilities						<u><u>35,752,305</u></u>
Segment capital						
Expenditure	<u>451,412</u>	<u>95,428</u>	<u>694,520</u>	<u>3,448</u>	—	<u><u>1,244,808</u></u>

Reconciled to entity assets and liabilities as follows:

	Audited	
	As at 31 December 2017	
	Assets	Liabilities
Segment assets/liabilities after elimination	59,561,777	32,108,104
Unallocated:		
Deferred tax assets/liabilities	1,484,254	51,398
Current tax assets/liabilities	3,428	395,068
Current borrowings	—	3,190,000
Other assets/liabilities of the Company	<u>133,557</u>	<u>7,735</u>
Total	<u><u>61,183,016</u></u>	<u><u>35,752,305</u></u>

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

3. Revenue and Segment information (Continued)

The segment assets and liabilities as at 31 December 2016 and capital expenditure for the year then ended are as follows:

	Audited					Total
	As at 31 December 2016					
	Heavy duty trucks	Light duty trucks	Engines	Finance	Unallocated	
Segment assets	38,493,183	5,938,896	12,777,506	22,491,339	1,737,295	81,438,219
Elimination						(31,952,876)
Total assets						<u>49,485,343</u>
Segment liabilities	21,711,841	4,286,589	3,658,470	19,251,391	4,712,138	53,620,429
Elimination						(26,474,183)
Total liabilities						<u>27,146,246</u>
Segment capital						
Expenditure	<u>345,145</u>	<u>46,503</u>	<u>246,282</u>	<u>3,286</u>	<u>—</u>	<u>641,216</u>

Reconciled to entity assets and liabilities as follows:

	Audited	
	As at 31 December 2016	
	Assets	Liabilities
Segment assets/liabilities after elimination	47,748,048	22,434,108
Unallocated:		
Deferred tax assets/liabilities	1,249,218	40,912
Current tax assets/liabilities	42,797	132,998
Current borrowings	—	4,511,787
Other assets/liabilities of the Company	<u>445,280</u>	<u>26,441</u>
Total	<u>49,485,343</u>	<u>27,146,246</u>

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

3. Revenue and Segment information (Continued)

Revenue is allocated based on the countries in which the customers are located.

	2017	2016
	Audited	Audited
Revenue		
Mainland China	48,462,394	27,739,383
Overseas	6,995,534	5,219,518
	<u>55,457,928</u>	<u>32,958,901</u>

Total assets are allocated based on where the assets are located.

	2017	2016
	Audited	Audited
Total assets		
Mainland China	59,632,527	47,677,766
Overseas	1,550,489	1,807,577
	<u>61,183,016</u>	<u>49,485,343</u>

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

3. Revenue and Segment information (Continued)

Non-current assets excluding deferred income tax assets are allocated based on where the assets are located.

	2017	2016
	Audited	Audited
Non-current assets other than deferred income tax assets		
Mainland China	14,494,677	13,664,241
Overseas	793,555	764,146
	<u>15,288,232</u>	<u>14,428,387</u>

Capital expenditure is allocated based on where the assets are located.

	2017	2016
	Audited	Audited
Capital expenditure		
Mainland China	1,244,151	640,892
Overseas	657	324
	<u>1,244,808</u>	<u>641,216</u>

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

4. Expenses by nature

	2017	2016
	Audited	Audited
Materials cost	40,307,297	23,751,654
Employee benefit expenses	3,718,599	2,931,023
Transportation expenses	1,362,327	873,698
Depreciation of property, plant and equipment	1,152,488	1,191,082
Warranty expenses	1,082,619	785,950
Utilities expenses	863,451	566,452
Subcontracting costs	783,440	326,911
Maintenance costs	521,914	309,777
Travel and office expenses	325,520	246,030
Provision for impairment of trade and other receivables	234,392	286,854
Write-down of inventories to net realisable value	222,646	33,319
Transaction taxes	203,483	166,084
Exhibition expenses	59,487	44,685
Amortisation of intangible assets	57,105	152,198
Rental expenses	56,400	74,525
Advertising costs	56,252	95,513
Amortisation of land use rights	38,607	41,784
Auditors' remuneration		
– Financial audit services	13,562	11,566
– Internal control audit services	755	755
– Taxation professional services	388	544
– Environmental, social and governance report services	300	283
– Financial information reporting	10	—
Other charges	549,183	230,858
Total	<u>51,610,225</u>	<u>32,121,545</u>
Representing:		
Cost of sales	45,429,858	27,140,913
Distribution costs	3,228,577	2,394,761
Administrative expenses	2,951,790	2,585,871
Total	<u>51,610,225</u>	<u>32,121,545</u>

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

5. Other gains – net

	2017	2016
	Audited	Audited
Fair value gains on financial assets at fair value through profit or loss	22,138	6,819
Disposal of scraps	15,909	10,410
Government grants	93,961	122,216
Fair value gains on investment properties	18,972	18,031
Gains/(Losses) on disposal of property, plant and equipment	8,269	(19,856)
Losses on disposal of land use rights	—	(5,227)
Rental income	29,287	26,791
Foreign exchange (losses)/gains – net	(57,593)	59,063
Gains on disposal of financial assets at fair value through profit or loss	27,546	9,825
Gains on disposal of wealth management products with principal and interests guaranteed	21,670	17,298
Dividends received from financial assets at fair value through profit or loss	2,313	—
Interests received from available-for-sale financial assets	8,721	—
Gains on disposal of available-for-sale financial assets	109,102	19,535
Gains on disposal of a subsidiary	51,553	—
Gains on disposal of an associate	1,016	—
Others	71,015	10,588
Total	<u>423,879</u>	<u>275,493</u>

Government grants were contributed from various government organisations to the Group in respect of relocation compensations, subsidies for research and development, overseas promotion activities and other incentives.

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

6. Taxation

The Company, Sinotruk (Hong Kong) International Investment Limited and Sinotruk (Hong Kong) Capital Holding Limited are subject to Hong Kong profits tax at the rate of 16.5% (2016: 16.5%) on their estimated assessable profit for the year. The Company is determined as a Chinese resident enterprise and, accordingly, is subject to corporate income tax of the PRC, which has been calculated based on the corporate income tax rate of 25% (2016: 25%).

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

Sinotruk Ji'nan Fuqiang Power Co., Ltd. has been recognised as the High New Tech Enterprises in 2015. Sinotruk Hubei Huawei Special Vehicles Co., Ltd. has been recognised as the High New Tech Enterprises in 2016. Sinotruk Ji'nan Power Co., Ltd. and Sinotruk Hangzhou Engines Co., Ltd. have been recognised as the High New Tech Enterprises in 2017. According to the tax incentives of the Corporate Income Tax Law of the PRC (the "CIT Law") for High New Tech Enterprises, these companies are subject to a reduced corporate income tax rate of 15% in 2017 (2016: 15%).

Sinotruk Chongqing Fuel System Co., Ltd., Sinotruk Liuzhou Yunli Special Vehicles Co., Ltd., Sinotruk Chengdu Wangpai Commercial Vehicles Co., Ltd. and Sinotruk Mianyang Special Vehicles Co., Ltd. are subject to a corporate income tax rate of 15% according to the Western Development tax incentives of the CIT Law (2016: 15%).

SINOTRUK RUS Limited Liability Company is subject to a corporate income tax rate of 20% according to Tax Code of the Russian Federation (2016: 20%).

Sinotruk South Africa (Pty) Ltd. is subject to a corporate income tax rate of 28% according to South Africa Tax Law (2016: 28%).

Sinotruk Kazakhstan Limited Liability Partnership is subject to a corporate income tax rate of 20% according to Kazakhstan Tax Law (2016: 20%).

The remaining subsidiaries are subject to the PRC corporate income tax, which have been calculated based on the corporate income tax rate of 25% (2016: 25%).

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

6. Taxation (Continued)

The amount of income tax expense charged to profit or loss represents:

	2017	2016
Current tax:		
– Hong Kong profits tax	8,756	6,380
– PRC corporate income tax	1,015,958	340,078
– Income tax in other jurisdictions	326	—
	<u>1,025,040</u>	<u>346,458</u>
Total current tax	1,025,040	346,458
Deferred tax	(305,502)	(87,708)
	<u>719,538</u>	<u>258,750</u>
Income tax expense	<u>719,538</u>	<u>258,750</u>

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

7. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company.

	2017	2016
Profit attributable to owners of the Company	<u><u>3,023,023</u></u>	<u><u>532,105</u></u>
Weighted average number of ordinary shares in issue (thousands)	<u><u>2,760,993</u></u>	<u><u>2,760,993</u></u>
Basic earnings per share (RMB per share)	<u><u>1.09</u></u>	<u><u>0.19</u></u>

Diluted earnings per share equals to basic earnings per share for the years ended 31 December 2017 and 2016 as there are no dilutive potential shares existed during the years.

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

8. Trade receivables, other receivables and other current assets

	2017 Audited	2016 Audited
Non-current		
Accounts receivable	—	42,835
Loans and receivables from financing services	1,976,359	760,040
Less: Provision for impairment of loans and receivables from financing services	<u>(29,647)</u>	<u>(7,770)</u>
Loans and receivables from financing services- net	<u>1,946,712</u>	<u>752,270</u>
Trade receivables and other receivables	<u>1,946,712</u>	<u>795,105</u>
Current		
Accounts receivable	5,588,123	8,931,414
Less: Provision for impairment of accounts receivable	<u>(803,354)</u>	<u>(768,624)</u>
Accounts receivable - net	4,784,769	8,162,790
Notes receivable	<u>2,685,325</u>	<u>1,732,628</u>
Trade receivables - net	7,470,094	9,895,418
Loans and receivables from financing services	5,228,935	2,691,596
Less: Provision for impairment of loans and receivables from financing services	<u>(90,649)</u>	<u>(69,281)</u>
Loans and receivables from financing services - net	5,138,286	2,622,315
Other receivables	1,099,044	319,127
Less: Provision for impairment of other receivables	<u>(63,588)</u>	<u>(30,119)</u>
Other receivables - net	1,035,456	289,008
Interest receivables	<u>51,504</u>	<u>36,444</u>
Receivables and other current assets before prepaid items	13,695,340	12,843,185
Prepayments	442,393	397,732
Prepaid taxes other than income tax	1,009,536	746,679
Prepaid income taxes	<u>3,428</u>	<u>42,797</u>
Trade receivables, other receivables and other current assets - net	<u>15,150,697</u>	<u>14,030,393</u>

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

8. Trade receivables, other receivables and other current assets (Continued)

As at 31 December 2017 and 2016, the carrying amounts of the Group's receivables and other current assets before prepaid items approximated their fair values.

The ageing analysis of accounts and notes receivables – net based on invoice date at respective dates of statement of financial position are as follows:

	2017	2016
	Audited	Audited
Less than 3 months	5,069,670	5,616,007
3 months to 6 months	1,554,192	1,505,553
6 months to 12 months	667,152	1,052,869
1 year to 2 years	117,657	1,467,173
2 years to 3 years	51,684	164,322
Over 3 years	9,739	132,329
	<u>7,470,094</u>	<u>9,938,253</u>

The credit policy of the Group generally requires customers to pay a certain amount of deposits when orders are made and settle purchase price either in cash or acceptance notes with a tenure of usually 3 to 6 months, which represents the credit terms granted to the customers who pay by acceptance notes. A credit period from 3 to 12 months is granted to selected customers based on credit assessment.

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

8. Trade receivables, other receivables and other current assets (Continued)

The ageing analysis of loans and receivables from financing services – net at respective dates of statement of financial position are as follows:

	2017	2016
	Audited	Audited
Less than 3 months	2,321,760	1,534,708
3 months to 6 months	1,818,342	577,804
6 months to 12 months	2,249,046	921,002
1 year to 2 years	695,361	315,473
2 years to 3 years	—	20,744
Over 3 years	489	4,854
	<u>7,084,998</u>	<u>3,374,585</u>

Loans and receivables from financing services represented loans granted by Sinotruk Finance Co. Ltd. and ShanDong HOWO Auto Finance Co., Ltd. which are involved in the provision of financing services, to individuals and entities when they purchased commercial vehicles of the Group from dealers at an interest rate of 4.86% to 9.3% per annum, and to suppliers of the Group at an interest rate of 4.35% to 7.8% per annum. These loans and receivables from financing services to those who purchased commercial vehicles of the Group from dealers were mainly secured by the vehicles purchased together with guarantees provided by these dealers and its relevant parties.

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

9. Amounts due from related parties

Trade receivables included in the amounts due from related parties as at 31 December 2017 is approximately RMB341,348,000 (31 December 2016: approximately RMB114,900,000) and its ageing analysis of trade receivables from related parties based on invoice date at respective dates of statement of financial position are as follows:

	2017	2016
	Audited	Audited
Less than 3 months	325,056	89,254
3 months to 6 months	16,281	24,866
6 months to 12 months	—	140
1 year to 2 years	11	—
2 years to 3 years	—	640
	<u>341,348</u>	<u>114,900</u>

10. Trade payables, other payables and other current liabilities

	2017	2016
	Audited	Audited
Trade and bills payables	22,413,165	16,348,199
Advances from customers	2,744,023	1,472,841
Accrued expenses	848,793	574,982
Staff welfare and salaries payable	563,861	316,245
Taxes liabilities other than income tax	142,856	161,721
Other payables	1,833,237	1,936,579
	<u>28,545,935</u>	<u>20,810,567</u>

Notes to financial information (Continued)

For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

10. Trade payables, other payables and other current liabilities (Continued)

The ageing analysis of the trade and bills payables based on invoice date at respective dates of statement of financial position are as follows:

	2017	2016
	Audited	Audited
Less than 3 months	20,038,522	14,442,715
3 months to 6 months	2,125,755	1,799,155
6 months to 12 months	162,225	76,650
1 year to 2 years	66,581	17,309
2 years to 3 years	10,624	5,748
Over 3 years	9,458	6,622
	<u>22,413,165</u>	<u>16,348,199</u>

11. Accounts due to related parties

Trade payables included in the amounts due to related parties as at 31 December 2017 is approximately RMB23,359,000 (31 December 2016: approximately RMB25,905,000) and its ageing analysis of trade payables from related parties based on invoice date at respective dates of statement of financial position are as follows:

	2017	2016
	Audited	Audited
Less than 3 months	22,709	25,566
3 months to 6 months	—	339
6 months to 12 months	650	—
	<u>23,359</u>	<u>25,905</u>

Proposed Final Dividends and Withholding Tax

The Board recommends the payment of a final dividend of HKD0.70 per Share for the year ended 31 December 2017 (the “**2017 Final Dividend**”) with a sum of approximately HKD1,932,695,000 which is subject to Shareholders’ approval at the forthcoming annual general meeting of the Company to be held on Wednesday, 27 June 2018. The 2017 Final Dividend, if approved, will be distributed on or about Friday, 27 July 2018 to Shareholders whose names appear on the register of members of the Company on Friday, 6 July 2018.

The Company has been determined as a Chinese resident enterprise. Pursuant to the “Enterprise Income Tax Law of the People’s Republic of China” 《中華人民共和國企業所得稅法》 and the “Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People’s Republic of China” 《中華人民共和國企業所得稅法實施條例》, a Chinese-controlled offshore incorporated enterprise shall withhold and pay enterprise income tax for its non-PRC resident enterprise shareholders. As the withholding and payment obligation lies with the Company, the Company will withhold and pay enterprise income tax for its non-PRC resident enterprise Shareholders to whom the Company pays the 2017 Final Dividend.

In respect of all the Shareholders whose names are not registered as natural persons (including HKSCC Nominees Limited, corporate nominees or trustees such as securities companies and banks, and other entities or organisations, which are all considered as non-PRC resident enterprise Shareholders), the Company will distribute the 2017 Final Dividend after deducting an enterprise income tax of 10% or other appropriate rates. The Company will not withhold and pay the income tax in respect of the 2017 Final Dividend payable to its PRC resident enterprise Shareholders, exempted entities or any natural person Shareholders.

Closure of Register of Members

The annual general meeting of the Company will be held on Wednesday, 27 June 2018 and the register of members of the Company will be closed from Friday, 22 June 2018 to Wednesday, 27 June 2018 (both days inclusive), during which period no transfer of Shares will be registered. In order to qualify to attend and vote in the annual general meeting, holders of the Shares must lodge their Share certificates together with the relevant Share transfer documents with Computershare Hong Kong Investor Services Limited, the share registrar of the Company, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 21 June 2018.

For the distribution of the 2017 Final Dividend, the register of members of the Company will be closed from Thursday, 5 July 2018 to Friday, 6 July 2018 (both days inclusive), during which period no transfer of Shares will be registered. In order to qualify to receive the proposed 2017 Final Dividend, holders of the Shares must lodge their Share certificates together with the relevant Share transfer documents with Computershare Hong Kong Investor Services Limited, the share registrar of the Company, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 4 July 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

Trucks Market

China's heavy duty truck market has experienced growth since the fourth quarter of 2016. According to statistics from CAAM, the annual total sales volume of heavy duty trucks in 2017 increased by approximately 52.4% YOY to approximately 1,116,900 units, as a record high. Annual sales of light duty trucks in the PRC in 2017 also increased. According to statistics from CAAM, the annual total sales volume of light duty trucks in 2017 increased by approximately 11.6% YOY to approximately 1,718,900 units.

Loans Market

In 2017, the Chinese government continued to implement its prudent and neutral monetary policy. The base interest rates for RMB denominated loan with a term of not more one year and RMB denominated loan with a term of over one year but not more than five years maintained at 4.35% and 4.75%, respectively, during the Period.

REVIEW OF OPERATIONS

During the Period, the Group's trucks sales volume was 263,903 units, representing an increase of 55.7% YOY; revenue was RMB55,458 million, representing an increase of 68.3% YOY; net profit attributable to shareholders was RMB3,023 million, representing an increase of 468.2% YOY. For the HDTs segment, sales of trucks equipped with MAN technology continued to rise, becoming one of the key products and trucks equipped with MAN technology, which has established a high-end brand image of the Group. Additionally, product mix optimizations and adjustments were noticeable as the market share of tractors further increased. HDTs exports achieved growth on a YOY basis as well as the Group continued to dominate in exports of HDTs. The LDTs segment achieved healthy development and substantial breakthroughs, with further improvements in market share and brand influence, which expands gradually to become a stable profit growth driver for the Group.

HEAVY DUTY TRUCKS SEGMENT

During the Period, HDT sales volume of the Group was 156,243 units, representing an increase of 70.7% YOY. Revenue from the HDTs segment increased to RMB45,565 million, representing an increase of 80.4% YOY. The segment profit margin was 3.3%, representing an increase of 0.9 percentage points compared with 2016 because the average fixed costs per unit was diluted by the significant increase in sales volume.

The Group's product mix was further balanced and optimized during the Period. Tractor sales continued to grow rapidly, and sales volume increased by 74.9% YOY. Products equipped with MAN technology were well received in the market. Sales volume of T/C series HDTs equipped with MAN technology increased by 93.9% YOY and the Group was able to form and grow its high-end brand influence. The Group continued to maintain its leading edge in the construction vehicle industry. Sales volume of tipper trucks and mixer trucks increased by 62.7% and 166.1% YOY, respectively. Natural gas HDTs were well received in the market due to their superior performance and achieved substantial growth in sales, representing an increase of 518.3% YOY.

Domestic Business

During the Period, the Group sold 125,627 HDTs in the PRC, representing an increase of 88.9% YOY.

During the Period, the Group enhanced its precision marketing capabilities by utilizing the advantages of its 「智慧重汽」 (“Intelligent Sinotruk E-commerce Platform”). In addition, the Group launched a new service 「不停車」 (“Non-stop Services”). “Non-stop Services” is provided to the Group’s tractors equipped with MAN technology when such kind of tractors have mechanical breakdown during delivery of goods and cannot continue to drive. If emergency repair services of 「親人」 (“Qinren”, after sales service) preliminarily determine such breakdown cannot be repaired within 24 hours, in order to ensure the effectiveness and efficiency of the delivery of goods, the Group will coordinate third parties to deliver such goods to the destination and bear third parties delivery costs. It further improved the quality and enriched the content of its “Qinren” services leading to the upgrade of aftersales service of HDTs in the PRC. The Group also initiated comprehensive lean operation improvements and pushed this forward throughout the complete value chain and the whole business process, and carried out a series of activities including lean marketing, lean research and development, lean production and lean management to further raise its overall enterprise management capabilities.

As at 31 December 2017, the Group had a total of 992 HDT dealerships (including 161 4S centers and 93 SINOTRUK branded dealerships), 1,379 service centers providing high quality after-sales service, and 142 refitting companies to provide truck refitting services to HDTs in the PRC.

International Business

During the Period, the Group's export volume of HDTs (including affiliated exports) was 30,616 units, representing an increase of 22.4% YOY. Export revenue (including affiliated exports) was RMB8,732 million, representing an increase of 20.6% YOY. During the Period, the Group accomplished new achievements in its international business development. The Group kept its export to key export regions, improved its export in less developed markets. The Group recorded a new high export volume in product exports, with vehicle exports to Africa and Southeast Asia, both exceeding 10,000 units. The Group also steadily pushed forward the construction of overseas production plants, and more KD assembly projects were put into operation or are now under construction. The assembly line of the Group's joint venture – Sinotruk (Hong Kong) Hongye Co., Ltd. in Nigeria rolled out its first thousand sets of locally assembled HOWO tractors. According to internal non GAAP measures, the Group has held a market-leading position in the exports of HDTs in China for 13 consecutive years.

As at 31 December 2017, the Group had 184 primary distributor sales centers in over 90 countries and regions. Through cooperation with overseas distributors, the Group established 275 service outlets and 246 spare parts and accessory stores.

LIGHT DUTY TRUCKS SEGMENT

During the Period, the Group's LDTs recorded a break through. The Group's light duty trucks sales volume increased by 38.1% YOY to 107,660 units, far exceeding the industry average of 11.6% YOY. The Group's LDTs business has become one of the Group's stable growth drivers and a major participant in the domestic light duty truck industry. During the Period, revenue from the LDTs segment increased to RMB8,926 million, representing an increase of 20.2% YOY. The segment profit margin was 2.6%, representing an increase of 2.1 percentage points. The increase was due to the significant increase in sales volume which diluted the average production costs and the disposal of low profit margin buses business during the Period which improved its profit margin.

The Ji'nan LDT division continued to implement a marketing strategy of product differentiation based on customer characteristics and demand in different niche markets to improve its "HOWO Classic Series" under which customers themselves can find required truck model and equipped with different accessories. The Ji'nan LDT division promoted complete value chain marketing and services to enhance network operation quality and achieve development in its distribution and service network. The Ji'nan LDT division also strengthened its lean management capabilities and continued to carry out quality improvement work. Adhering to the user-centered and market-oriented strategy, the Ji'nan LDT division closely analyzed development trends and dynamically adjusted its marketing strategy correspondingly. The Ji'nan LDT division accurately set its product introduction pace to match the deployment of National Emission Standards V. The division's sales volume achieved substantial growth and made breakthroughs during the transitional period of the deployment of National Emission Standards V.

Sinotruk Chengdu Wangpai Commercial Vehicles Co., Ltd ("**Chengdu Wangpai**") implemented a market-oriented strategy to meet customer needs, strengthened adjustment of marketing organization and market positioning, gradually transformed its marketing model in combination with the market, and carried out key customers and key project marketing. Centered on the "Quality Trucks Project", Chengdu Wangpai focused on superior resources to develop key models and promoted the "quality" marketing model. Leveraging opportunities of the One Belt One Road initiative, Chengdu Wangpai strove to increase its overseas market share and continuously strengthened development and construction in the Southeast Asian market.

Sinotruk Fujian Haixi Vehicles Co., Ltd ("**Fujian Haixi**") focused on classic models and implemented its "Innovation Upgrade Action Plan" to optimize product mix and distribution network. Fujian Haixi innovated its enterprise production and operation model, and consistently improved product quality and efficiency.

As at 31 December 2017, the Group had a total of 1,510 LDT dealerships (including 157 4S centers and 262 SINOTRUK-branded dealerships), 1,962 service centers providing high quality after-sales service, and 30 refitting companies to provide truck refitting services to LDTs in the PRC.

The Group had disposed of its wholly-owned subsidiary 中國重汽集團濟南豪沃客車有限公司 (Sinotruk Ji'nan HOWO Bus Co., Ltd.) to CNHTC and, thereafter, the Group ceased to carry on any business in the sales of own-branded bus. Details of the disposal were disclosed in the Company's announcement dated 29 March 2017. Hence, the segment was renamed from "Light Duty Trucks and Buses" to "Light Duty Trucks".

ENGINES SEGMENT

During the Period, the sales volume of the engine segment increased by 73.5% YOY to 184,540 units. Segment revenue increased by 80.9% YOY to RMB14,706 million. External sales accounted for 7.5% of the segment revenue of engines, representing a decrease of 0.6 percentage points YOY. The segment margin accounted for 16.0%, representing an increase of 9.5 percentage points YOY. The increase was due to large demand of engines resulting from significant increase in sales of the Group's HDTs, the increase of MAN engines produced and the effective cost control initiatives used to enhance gross contribution. During the Period, the Group made new achievements in research and development and ran pilot sales of MC09 series engines, which further enhanced the Group's competitive edge.

The Group is committed to research and development of engine technologies. The Group benchmarked its engine development with international standards, implemented strict quality controls, improved its product technology and quality, expanded the application of MAN engines and provided customers with high-tech products that are reliable and fuel-efficient. The Group continued to gain customer recognition on its advanced and high-quality MAN engines. Aside from supplying engines for the Group's own production, the Group also sold engines to other heavy-duty truck, buses and construction machinery manufacturers.

RESEARCH AND DEVELOPMENT

The Group remained committed to its technology-focused strategy. With the launch of a national heavy duty truck engineering technology research center, the Group further enhanced its capacity for product research and development, product examination, and testing. The Group took full advantage of its research platforms and increased investment in the research and development of technology to strengthen its technological development and innovation capacity. By strengthening its cooperation with the MAN Group and other reputable international enterprises, the Group developed high quality engines, parts and components as well as whole truck designs to further grow its industrial competitive edge.

During the Period, the Group's research and development included development and application of 「歐VI 重型柴油機」 (the Euro-VI Heavy Duty Diesel Engine) supported by the “National Technology Support Plan”, and projects related to the national key project, 「道路應急搶通關鍵技術研究與應用規範」 (Emergency Road Rescue Technology Research and Application Specification). During the Period, the Group's technology center completed a total of 94 research and development projects in respect of trucks, key parts and components.

Finance Segment

During the Period, finance segment revenue was RMB1,132 million, representing an increase of 115.2% YOY, and segment external revenue was RMB669 million, representing an increase of 134.7% YOY. The segment profit margin was 48.2%, representing an increase of 8.7 percentage points YOY. The increase was due to vigorous development of automobile financing and supply chain financing as well as more income from management of liquid funds.

The Group continued to develop its innovative business model by boosting sales with financing services, and by taking full advantage of national policies and its experienced automobile financing platform. The Group promoted consumer credit to meet demand for truck financing, which helped to boost the Group's truck sales. During the Period, the Group sold 22,569 trucks through its financing services, representing an increase of 124.1% YOY. The Group also actively expanded its profit growth areas, and provided supply chain financing which helped to further enhance its profitability.

As at 31 December 2017, the Group has established 19 regional offices and extended its consumer credit business coverage to over 30 provinces, covering most parts of China, and further improved its automobile consumer credit network.

SIGNIFICANT INVESTMENTS

Internal Equity Investments

In February 2017, the Company had acquired 0.3012% equity interest in Sinotruk Finance Company from third parties at the consideration of RMB7,442,000.

In March 2017, the Group had committed to make a capital contribution in Sinotruk Finance Company for approximately RMB1,389 million. After the capital contribution, the equity interest of the Group in Sinotruk Finance Company increased from approximately 91.60% to approximately 94.49%. Details of the capital contribution were disclosed in the Company's announcement dated 29 March 2017.

In May 2017, the Group had completed the disposal of its wholly-owned subsidiary, Sinotruk Ji'nan HOWO Bus Co., Ltd. Details of such disposal were disclosed in the Company's announcement dated 29 March 2017.

External Securities Investments

The Group's securities investments are classified into long-term equity investments for the Group's business operations and short-term securities investment for trading purposes.

As at 31 December 2017, the long-term equity investments and short-term equity investments amounted to RMB516 million and RMB782 million respectively, representing 0.8% and 1.3% of the total assets respectively. Long-term equity investments are investments accounted for using the equity method and equity investment in non-current available-for-sale financial assets. Equity investment in non-current available-for-sale financial assets are mainly unlisted equity investment and the amount involved was not material to the Group's assets. Short-term equity investments are used by the Group to manage liquidity and increase income, and mainly consists of listed securities investment in Hong Kong, Shanghai and New York and their fair values kept changing from time to time depending on but not limit to their operation results, economic situations and stock markets sentiments.

PRINCIPAL RISK AND SOLUTIONS

The Group defines significant principal risks through risk assessment mechanisms and develops corresponding plans to manage principal risks. As the internal and external environment changes, the risks faced by the Group will change. The Group enhances its risk management control ability by monitoring the changes in these principal risks and timely adjusting the relevant risk management plans.

The principal risks the Group faced and the mitigation measures adopted during the Period are:

1. Quality

Risks:

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

Mitigation Measures:

- Implement a quality improvement system focusing on quality responsibilities, strictly implement the quality performance assessments, define key leaders of the business units being the first person responsible for the quality issues
- Strengthen quality checking in the manufacturing progress of products and provision for services, and improve the level of online testing
- Improve the alert system of the quality of the products and services, establish a practical and operable after-sales service quality feedback system and contingency plans for quality issues
- Strengthen the quality of procurement of spare parts and components, and regularly communicate with suppliers
- For quality issues that had significant impact on the Group, or that caused significant economic losses to the Group or its customers, immediately report to the relevant person in charge, formulate quality issues solutions with the relevant business units or customers and thus minimize the loss of the Group and the customers brought by the quality issues; clarify the facts through a press conference, announcement or other forms in a timely manner to minimize negative impact on the Group's reputation

- Prepare reports for any quality issues according to the time, place, causes, loss and results, penalize the units causing the quality issues and educate them to avoid the re-occurrence
- Implement 「質量回頭看」 (Follow up of quality issues) policy to review past quality issues, analyze the causes from two different aspects - technical and management level, develop correction and prevention actions plans, and have a third party to carry out supervision and review the follow up of quality issues

2. Foreign exchange

Risks:

Currently, the Group's international trades are transacted in USD or Euro. If there are any significant exchange rate fluctuations of RMB against these currencies, the Group may face the uncertainty not existed under fixed exchange rates manner. The Group could be exposed to foreign exchange losses leading to a decline in investment income. During the Period, the Group suffered exchange loss of approximately RMB153 million.

Mitigation Measures:

- Select a favorable invoicing currency, such as RMB as the settlement currency if conditions permit amid the internationalization process of RMB
- For high foreign exchange risk business, provide a foreign exchange fluctuation protection mechanism in the sales contracts to safeguard the interests of the customers and the Group
- Arrange for advance or delayed foreign exchange settlement through reasonable settlement methods

- Utilize foreign currency-denominated financing to hedge foreign exchange risks associated with foreign currency income receipts
- Use financial derivatives to lock in applicable exchange rates and hedge against foreign exchange risks

3. Overseas Market

Risk:

The Group is at risk of uncontrollable events of overseas markets, such as changes in government, wars and riots, which can cause devaluation of local currencies of these markets, unregulated market chaos and deteriorated social security brought by domestic political instability. These events can cause debtors to refuse or to be unable to pay their debts, thus causing the Group to suffer economic losses from trading with such countries.

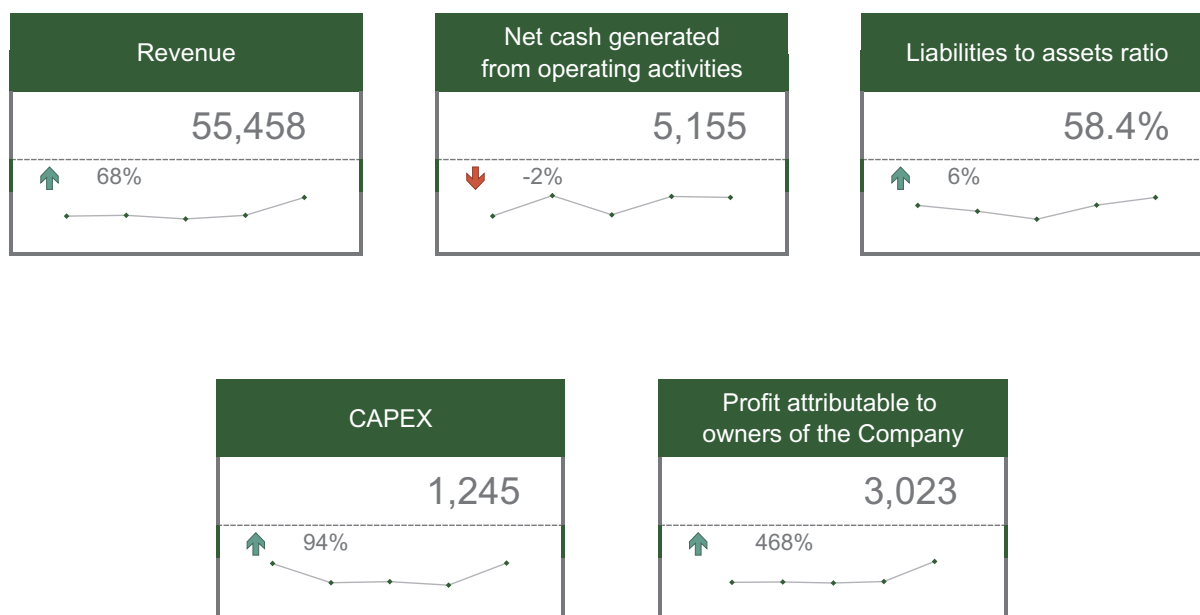
Mitigation Measures:

- Keep in touch with embassies and consulates in relevant countries where the Group exports products to, collect relevant information through their official channels and collect information on political situations, social stability and other relevant news for countries where the Group exports through various means, such as newspapers, television, and the Internet
- Make full use of publications such as “The Handbook of Country Risk” and other risk reports issued by authoritative institutions to improve the Group’s political and economic sensitivity and evaluate product demand
- For importing countries experiencing political turmoil, ask for large international banks with high credibility to endorse letters of credit and export credit insurance will also be required

Key Financial Indicators

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

Directors focus on the sustainability and continuing development of the Group and interests of the Shareholders. They consider key financial indicators from various aspects including revenue, ability of cash generating from operating activities, borrowing levels, capital expenditure (“**CAPEX**”) and return to the Shareholders. The following charts and table present these key financial indicators for the five years ended 31 December 2017:



Financial Indicators	2017	2016	2015	2014	2013
Revenue	55,458	32,959	28,305	32,809	30,410
Net cash generated from operating activities	5,155	5,238	1,040	5,681	646
Liabilities to assets ratio	58.4%	54.9%	48.7%	52.0%	54.5%
CAPEX	1,245	641	724	707	1,266
Profit attributable to owners of the Company	3,023	532	206	408	271

Key Relationships with Customers, Suppliers and Employees and Others

The Group adhered to 「用人品打造精品，用精品奉獻社會」 (Producing Quality Products with Integrity and Selling Quality Products to Market) as the core values of the Group. The Group values relationships, and maintains good relationships with business partners (including suppliers and distributors), customers and employees of the Group. The Group believes that building long-term beneficial relationships is of paramount importance to establish mutual trust, loyalty and business development, of which the Company's success and sustainability depend.

The Group strived to provide its customers with comprehensive services and formulated a service manual 「親人服務手冊」 to establish a service brand 「親人」. The Group established a three-level service system consisting of customer service centers, regional dealers and special service stations, set up a 24-hour 400 service hotline and launched the Smart Sinotruk app to manage customer complaints and feedback. The Group also established the Customer Satisfaction Survey and Analysis Procedure 「顧客滿意度調查分析程序」 to conduct annual customer satisfaction surveys and get an in-depth understanding of customer feedback, and ultimately prepared the satisfaction survey research and analysis evaluation report. From September to October 2017, the Group carried out a customer satisfaction survey in an electronic questionnaire in Smart Sinotruk App in three dimensions including product, assembly and parts and service regarding MAN products. It showed that the customers' satisfaction, both on a single dimension and on an overall basis, reached "satisfied" level or above.

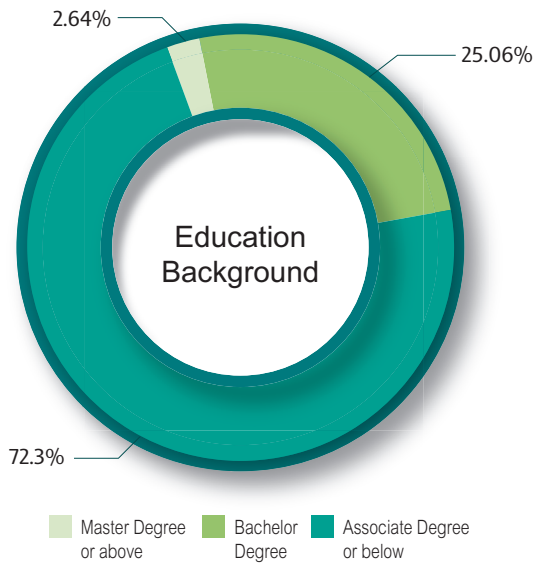
Supply chain is a critical part of our operations. Our suppliers must meet our selection criteria, which include security, safety, cost and delivery. Our selection criteria of suppliers are also based on their reliability and quality of products, and with whom we can build long-term relationships. Three out of the five largest suppliers are the members of the CNHTC Group which mainly supply gearbox, chassis and refitting services. The other two provides electronically controlled diesel discharge system and light duty trucks engines while one is an international enterprise.

The Group considers its employees as the most valuable asset of the enterprise. The Group provides a complete career path, ensures the safety of employees, and provides trainings to help intertwine employees' personal growth with enterprise development. The Group insists on rewarding based on efforts, and focuses on efficiency and fairness in formulating the 「崗位績效工資制度」 (Positions, Performances and Wages System), which performs as a comprehensive staff remuneration system, providing competitive wages and remuneration to our staff members. Also, the Group adopted the 《主管級人員聘任管理辦法》 (“Recruitment and management methods of personnel of the supervisor-grades”) and nominated supervisor-grade personnel through methods including public recruitment and appointment. The Group also adopted 《非領導職務八崗及以上崗位晉升管理實施辦法》 (“The implementation of promotion management of non-leadership positions at level 8 and above”), which provided another promotion path for staff who are not in leadership positions. In addition, the Group furthered the building of a team of international talents, and set out guidelines for managing overseas employee recruitment as well as stationing employees at overseas production units, which actively promotes internationalization strategies and safeguards international talent building efforts.

The Group attaches great importance to its staff's professional competence. The Group formulated 《員工培訓實施辦法》 (The implementation of staff training), relying on the Group's internal education centers and its subsidiaries and departments to provide training to employees and establish staff training files to improve the overall quality of the workforce. The Group has established a three-level training system and conducted a series of training programs, including training for senior and middle management personnel, training for senior professional personnel, training for engineering, marketing and management personnel, higher-skilled training for skilled workers, and training for on-site division heads and team leaders. The Group maintains cooperation with major universities and makes full use of their advantages of research resources and teaching staff to train our high-level technical personnel. The Group also accelerated the construction of network training institutes, and made full use of network technology to innovate its long-distance training model.

As at 31 December 2017, the Group had a total of 24,819 employees which are classified by function and by education as follows:

	Number of employees	%
Management team	225	0.9
Technical staff	2,500	10.07
Research and development staff	910	3.67
Production staff	15,343	61.82
Sales staff	1,628	6.56
Marketing staff	210	0.85
Administrative staff	4,003	16.13
Total	<u>24,819</u>	<u>100.00</u>



Environmental Policy, Performance and Compliance

In compliance with various applicable national, provincial and local laws and regulations including the Law of Environmental Protection of the People's Republic of China, the Group formulated the Environmental Protection Management Policy and conducts unified governance over pollutants, pollution sources, treatment facilities and environmental equipment of construction projects, etc., which lays a solid foundation for environmental protection and pollution prevention and control and leads to better performance in both economic and environmental terms. In addition, the Group complies with the requirements of ISO14001 and conducts real-time environmental monitoring, performs regular environmental assessments, provides relevant training and carries out internal environmental audit on regular basis, so as to enhance its environmental performance.

All production entities of the Group comply with national, provincial and local laws and regulations in treating and discharging pollutants from industrial activities such as effluent, waste gases, solid waste, etc. Such pollutants will be discharged when they are met discharge standards. The Group pays pollutants fee pursuant to the laws and executes the task of reducing emissions.

Based on the "Energy Performance Parameters, Benchmarks, Targets, Indicators of Control Procedures", the Group determines energy targets, indicators and implementation programs and makes them consistent with the energy policy. The Group assesses and monitors these energy targets and implementation performances through the energy internal audit. If there are problems in achieving these energy goals and indicators in the implementation, the relevant business units are responsible for analyzing the reasons, put forward corrective measures and preventive measures. Once the representatives of the energy manager approve, the relevant business units execute such measures to ensure that the objectives are met.

The Group has to be complied with various laws and regulations in daily operation.

As far as the Board is aware, the Group has complied in material respects with all the applicable laws and regulations.

In addition, Ji'nan Truck Company, a non-wholly owned subsidiary of the Company, has to be complied with the listing rules of the Shenzhen Stock Exchange. It was found that Ji'nan Truck Company had certain prior business transactions with Sinotruk Ji'nan Power Co., Ltd. (“**Ji'nan Power**”) and Sinotruk International, both are wholly-owned subsidiaries of the Company. Certain these transactions constituted related party transactions on the part of Ji'nan Truck Company which were unapproved and not disclosed in accordance with the Administrative Measures for the Disclosure of Information of Listed Companies* (《上市公司信息披露管理办法》). The Group, including Ji'nan Truck Company, has adopted a series of remedial measures to prevent future re-occurrence of such breach. Details of the breach by Ji'nan Truck Company were disclosed in the Company's announcement dated 20 December 2017.

Business Strategies and Prospects

Looking forward to 2018, the global economy is expected to continue its gradual recovery. However, uncertainties such as intensified protectionism and increased geopolitical risks still exist. In terms of the domestic economy, the Chinese government will continue to promote infrastructure investments and regional upgrades. With pollution intensification and consumption upgrades, the manufacturing industry is accelerating toward high-end, intelligent and green sectors, which will bring favorable opportunities. The Chinese economy will run well in long term. For the HDT industry, the national three-year rolling investment plan for major projects will continue to generate opportunities. The launch and construction of large-scale infrastructure projects will continue to push up construction vehicles sales. Under more stringent environmental protection, more provinces and cities will upgrade from China III emission standards to conduct traffic control on unqualified vehicles and encourage measures to accelerate their phasing-out. They will also control oversized and overloaded trucks, tighten investigations and punishments on non-standard vehicles, further promoting the replacements of vehicles. The restrictions on

traditional energy vehicles will lead to a demand increase for clean energy vehicles and new energy vehicles. Urbanization will also promote demand growth for special purpose vehicles such as cold chain trucks, hazardous chemical trucks, sanitation trucks, and fire trucks. The high record sales volume of the HDT industry in 2017 had already expanded the HDT market. With abundant volume of running HDTs, the market demand of HDTs will be limited. In 2018 both opportunities and challenges will coexist in the HDT industry. In this situation, the Group will focus on the following tasks:

- 1. The Group will strengthen marketing measures to ensure new growth of domestic marketing capabilities.** The Group will continue to be market-oriented, focus on key models, and explore the key segment markets and key users. The Group will also strengthen the promotion of gas vehicles, smart safety trucks, and large horsepower dump trucks. In addition, the Group will strengthen marketing and vigorously promote the development and maintenance of key customers, improve its after-sales service level, and enrich and expand its “Non-stop Service”. The Group will actively cooperate with solid distribution network enterprises and explore a new model of cooperative marketing. The Group will explore the potential of light and medium duty trucks, and focus on developing market segments to create new competitive advantages.
- 2. The Group will seize the opportunities created by One Belt One Road Initiative, and promote its brand images.** The Group will create a regional key model series trucks to expand regional sales, strengthen its international marketing and distribution network, explore various cooperation modes, and build a high loyal and high-quality distribution dealers network. The Group will also improve its international after-sales service model, build an overseas spare parts center so as to guarantee the provision of after-sales service on time. The Group will look to build a global research and development system, attract high level of overseas talent, and promote the internationalization of its talents.

- 3. The Group will accelerate technological innovation to maintain industry leadership.** The Group will expedite research and development of China VI Emission Standards products, increase the amount of experiment equipment, and meet all requirements to ensure sustainable development. The Group will develop new energy products by cooperating with scientific research institutes and recruit high-end talents to promote research and development of electric and hybrid vehicles, while also improving and developing new models of natural gas vehicles to satisfy market needs. The Group will focus on lowering truck weight, reducing costs, and conserving energy of key trucks series while improving reliability to create sales advantages. The Group will implement industrialization of smart vehicles, ensure the reliability and stability of the first series of smart trucks after mass production, actively promote research of the second series of smart trucks, and strive to lead industrial technology development.

- 4. The Group will aim to improve the quality of its products and upgrade its production and manufacturing capacity by strict implementation of the T18 quality improvement plan and continue to build high-quality vehicles and premium parts.** Based on the special audit and quality improvement plan on product development, manufacturing and after-sales services, the Group will continue to improve customer satisfaction initiatives. The Group will speed up the implementation of its manufacturing execution system (HMES), improve standardization, automation and intelligent management of the production process, and improve delivery capacity and production efficiency, while also laying a solid foundation for the implementation of intelligent manufacturing. The Group will actively maintain its social responsibilities and accelerate the move towards cleaner production, reduce pollution emissions, and explore and utilize social resources to promote new progress in energy savings.

- 5. The Group will adhere to efficiency as a key focus, and strive to improve profitability.** The Group will continue to increase sales as a fundamental way to realize efficient operations, enhancing the proportion of T/C series truck products, and improving the profitability of its LDT segment. In the face of the increase in raw material prices and transportation costs, the Group will actively exert its centralized purchasing function and fully control its purchase costs.

FINANCIAL REVIEW

Revenue, gross profit and gross profit margin

The Group's revenue for the Period recorded RMB55,458 million, representing an increase of RMB22,499 million or 68.3% YOY. The increase in the revenue is primarily attributable to the respective increase of sales volume of heavy duty trucks and light duty trucks by 70.7% and 38.1% and the optimization of sales mix.

The Group's gross profit for the Period was RMB10,028 million, representing an increase of RMB4,210 million or 72.4% YOY. Gross profit margin for the Period increased by 0.4 percentage point to 18.1% (gross profit divided by revenue). The increase in gross profit margin for the Period was mainly due to the optimization of sales mix and the increase in sales of volume of trucks lowering the fixed costs absorbed per truck.

Distribution costs

Distribution costs for the Period was RMB3,229 million, representing an increase of RMB834 million or 34.8% YOY. The increase primarily resulted from the increase in warranty expenses and transportation expenses due to the increase in sales volume. During the Period, distribution costs to sales and service income of trucks and engines ratio was 5.9%, representing a decrease of 1.4 percentage points. The decrease in the ratio is mainly due to the increase of warranty expenses and transportation expenses being 37.8% and 57.0% YOY respectively which is lower than the increase of sales and services income of trucks and engines at 67.7% YOY.

Administrative expenses

Administrative expenses for the Period was RMB2,952 million, representing an increase of RMB366 million or 14.2% YOY. The increase was mainly due to increase in research and development costs and employee remuneration. During the Period, administrative expenses to revenue ratio was 5.3%, representing a decrease of 2.5 percentage points. The decrease in the ratio is mainly due to the stringent controls over administrative expenses which resulted in the growth of administrative expense slower when compared to the growth of sale revenue.

Other gains - net

The other net gains for the Period was RMB424 million, representing an increase of RMB149 million or 54.2% YOY. The increase was mainly due to the increase in various types of income from financial products, gains on disposal of a subsidiary and gains on disposal of property, plant and equipment.

Finance costs – net

Net finance cost for the Period was RMB262 million, representing an increase of RMB11 million or 4.4% YOY. The increase was mainly due to the loss of foreign exchange. During the Period, the cut of borrowing scale resulted the deduction of interest expenses at RMB83 million. However, such savings were not sufficient to cover the increase in the loss of foreign exchange at RMB125 million.

Share of profits less losses of investments accounted for using the equity method

The net profit of investments accounted for using the equity method for the Period was RMB45 million, representing a decrease of profit of RMB15 million. The decrease was mainly due to the decrease of profits resulted by an associate offsetting the increase of profits attributed by joint venture Prinx (Cayman) Holdings Limited.

Income tax expense

Income tax expense for the Period was RMB720 million, representing an increase of RMB461 million or 178.0% YOY. The increase was due to the significant increase in profit before income tax but certain increase was offset by the recognition of tax losses in deferred income tax.

Profit for the Period and basic earnings per share

Profit for the Period was RMB3,336 million, representing an increase of RMB2,673 million or 403.2% YOY. During the Period, operating profit ratio (operating profit divided by revenue) was 7.7 % (2016: 3.4%) while net profit ratio (profit divided by revenue) was 6.0% (2016: 2.0%). Profit attributable to owners of the Company for the Period was RMB3,023 million, representing an increase of RMB2,491 million or 468.2% YOY. The basic earnings per share attributable to owners of the Company for the Period was RMB1.09, representing an increase of RMB0.90 or 473.7% YOY.

Trade and net financial services receivables

As at 31 December 2017, the trade receivables including related parties trade receivables were RMB7,811 million, compared to the balance as at 31 December 2016, representing a decrease of RMB2,242 million or 22.3% YOY. The trade receivables turnover (average trade receivables including related parties trade receivables divided by revenue multiplied by 365 days) for the Period was 59.5 days (2016:115.5 days), representing a decrease of 48.5% YOY and was still within the Group's credit policies which are from three to twelve months to the customers. As at 31 December 2017, the trade receivables including related parties trade receivables aged not more than twelve months were RMB7,632 million or 97.7% of all trade receivables including related parties trade receivables.

As at 31 December 2017, the auto financing services receivables and suppliers financing receivables was RMB7,085 million, compared to the balance as at 31 December 2016, representing an increase of RMB3,710 million or 109.9% YOY. The finance segment of the Group has granted credit period generally from one year to three years. In addition, the auto financing services receivables are secured by the vehicles together with guarantees provided by the dealers and relevant parties while suppliers financing receivables are mainly secured by the beneficial owners of these applicants of financing services. The Group reviews the repayment progress of key customers or customers with higher risk of default in repayment on a monthly basis and assesses impairment loss by reference to their business, actual repayment information and other assessments.

Cash flow

Net cash inflow from operating activities for the Period was RMB5,155 million, compared with net cash inflow in last year same period, representing a decrease of cash inflow by RMB83 million or 1.6% YOY. The net cash inflow from operating activities for the Period decreased because of the increase in payment of income tax.

Net cash outflow used in investing activities for the Period was RMB2,677 million, compared with cash outflow in last year same period, representing an increase of cash outflow of RMB949 million YOY. The increase was mainly due to the increase in the payment of capital expenditure.

Cash inflow from financing activities for the Period was RMB286 million, compared with the cash outflow in last year same period, representing an increase of cash inflow of RMB1,602 million YOY which was mainly due to the increase in net borrowing instead of net repayment of borrowings in 2016, but the increase was partly offset by the dividend payment. Before the disposal, Sinotruk Ji'nan HOWO Bus Co., Ltd. had borrowed from bank at RMB1,870 million in order to repay the loans from and amounts due to the Group.

Liquidity, financial resources and capital structure

As at 31 December 2017, the Group had cash and cash equivalents of RMB9,840 million and unrestricted bank acceptance notes of RMB2,682 million. Cash and cash equivalents increased by RMB2,669 million and unrestricted bank acceptance notes increased by RMB1,206 million as compared with the beginning of 2017. The Group's total borrowings (including long-term and short-term borrowings and borrowings from the related parties) were about RMB4,026 million as at 31 December 2017. Its gearing ratio (total borrowings divided by total assets) was 6.6% (31 December 2016: 9.2%). As at 31 December 2017, current ratio (total current assets divided by total current liabilities) was 1.3 (31 December 2016: 1.3).

As at 31 December 2017, all borrowings were denominated in RMB (31 December 2016: all in RMB) and not made at fixed interest rates. Most of the borrowings are charged with reference to bank's preferential floating rates and were due within one year. The maturity profile of all borrowings were:

	As at 31 December 2017	As at 31 December 2016
Repayable within one year	RMB4,026 million	RMB4,548 million

As at 31 December 2017, owner's consolidated equity of the Company was RMB25,431 million, representing an increase of RMB3,092 million or 13.8% when compared the balance as at 31 December 2016.

As at 31 December 2017, the Company's market capitalisation was RMB20,310 million (calculated based on the issued share capital of the Company: 2,760,993,339 Shares, closing price: HKD8.80 per Share and at the exchange rate of 1: 0.83591 between HKD and RMB).

As at 31 December 2017, total available credit facilities of the Group from the banks amounted to RMB28,773 million, of which RMB5,400 million had been utilised; an aggregate amount of RMB467 million of security deposits and restricted bank deposits (31 December 2016: RMB835 million) was pledged to secure various credit facilities. In addition, Sinotruk Finance Company and HOWO Auto Finance Company have made mandatory deposits of RMB2,101 million to PBOC for their financial operations. The Group meets its daily liquidity needs by matching operating cash flow patterns with funds on hand and enhances its liquidity by way of application for longer credit periods from suppliers, utilization of banking facilities and issuance of bills such as short-term commercial acceptance notes and bank acceptance notes.

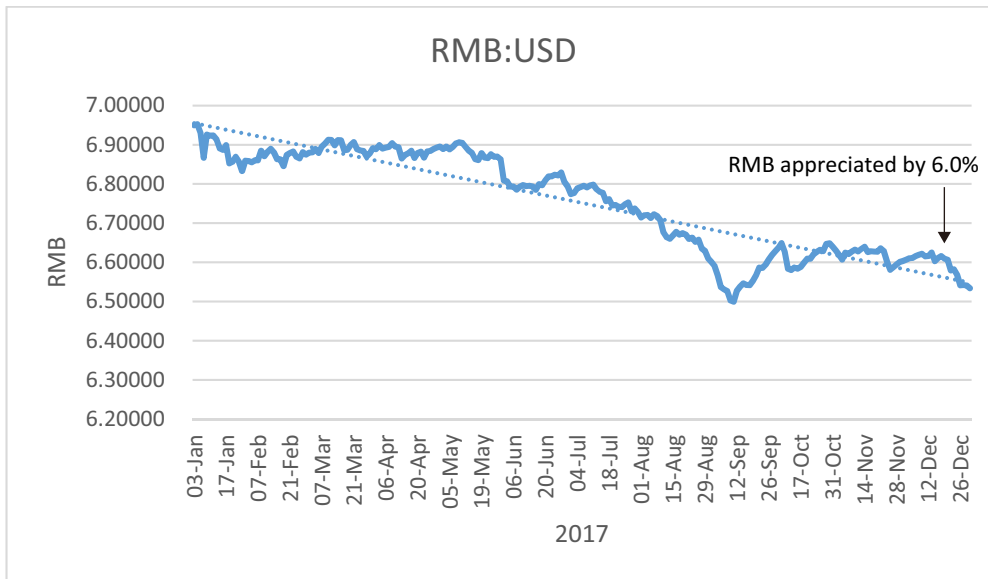
Charges on Group Assets

Save as disclosed, as at 31 December 2017, there were no assets of the Group being pledged to secure credit facilities (31 December 2016: RMB237 million of bank acceptance notes pledged).

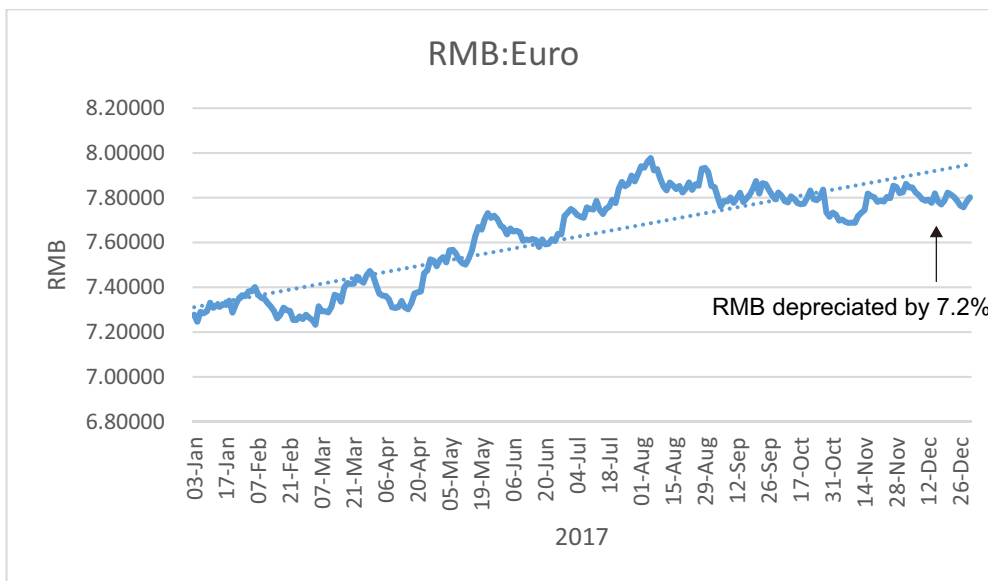
Financial Management and Policy

The finance department is responsible for the financial risk management of the Group. One of the primary objectives of our financial policies is to manage exchange rate risk. The major foreign exchange risk exposure arises from its exporting and importing activities, business operations outside the PRC as well as the financing activities in Hong Kong. The treasury policy of the Group is to prohibit the Group from participating in any speculative activities but the Group uses forward contracts to manage the foreign exchange risk.

RMB was appreciated against USD by 6.0% and depreciated against Euro by 7.2% in the PRC when compared these exchanges rates as at 3 January 2017 and 29 December 2017. During the Period, RMB trended appreciated against USD while trended depreciated against Euro. During the Period, the net exchange losses was RMB153 million because of the appreciation of RMB against USD.



Central parity rates of RMB against USD during the Period[△].



Central parity rates of RMB against Euro during the Period[△].

[△] Source: State Administration of Foreign Exchange, the PRC.

As at 31 December 2017, most of the Group's assets and liabilities were denominated in RMB, except for cash and bank deposits which in total were equivalent to approximately RMB2,849 million, financial assets at fair value through profit or loss of approximately RMB127 million, accounts receivable and other receivable of approximately RMB1,635 million, accounts payable and other payables of approximately RMB169 million, all of which were denominated in currencies other than RMB.

Going Concern

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

Contingent Liabilities, Legal Proceedings and Potential Litigation

During the Period, the Group was not involved in any litigation, arbitration or administrative proceedings that could have a material adverse effect on the Group's financial condition and results of operations.

The Group estimates that the total amount of claims of all lawsuits is approximately RMB65 million. There was no provision for legal claims as at 31 December 2017.

Subsequent Events

On 1 March 2018, the Company's non-wholly owned subsidiary, HOWO Auto Finance Company had entered a capital increase agreement with the Company and Ji'nan Power under which they agreed to inject approximately RMB638.2 million and approximately RMB319.1 million respectively into HOWO Auto Finance Company. Of the aforesaid capital contributions, RMB600 million and RMB300 million, respectively, will be contributed to the increase in the registered capital of HOWO Auto Finance Company, and the remaining amount will be contributed to its capital reserve. Upon completion of the Capital Increase, the equity interest of the Group in HOWO Auto Finance Company will increase from 50% to approximately 82.15%. Details of the capital contribution were disclosed in the Company's announcement dated 1 March 2018.

Disclaimer:

Non-GAAP measures

Certain non-GAAP (generally accepted accounting principles) measures, such as export revenue (including affiliated exports), are used for assessing the Group's performance.

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

Corporate Governance

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

During the Period, the Company has been in compliance with the CG Code, save for the Company did not establish a nomination committee as the Board takes up all functions of nomination committee as required under the Listing Rules.

The Board is responsible for reviewing its structure, size, composition (including the skills, knowledge and experience) and diversity regularly and making any changes to complement the Company’s corporate strategy, including the selection of individuals nominated for directorships, the appointment or re-appointment of Directors, succession planning for Directors and accessing the independence of independent non-executive Director.

Constitutional Documents

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

Purchase, Sale or Redemption of Securities

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

Directors' Securities Transactions

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

Review of Financial Statements

The Company's consolidated financial statements for the year ended 31 December 2017 have been reviewed by the Audit Committee.

Scope of Work of PricewaterhouseCoopers

The financial figures in this announcement of the Group's results for the year ended 31 December 2017 have been agreed by the Group's external auditor, PricewaterhouseCoopers (“**PwC**”), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and consequently no assurance has been expressed by PwC on this announcement.

Past Performance and Forward-Looking Statements

The performance and the results of operations of the Group contained in this announcement are historical in nature, and past performance is no guarantee of the future results of the Group. Any forward-looking statements and opinions contained in this announcement are based on current plans, estimates and projections, and therefore involve risks and uncertainties. Actual results may differ materially from expectations discussed in such forward-looking statements and opinions. The Group, the Directors, employees and agents of the Group assume (a) no obligation to correct or update the forward-looking statements or opinions contained in this announcement; and (b) no liability in the event that any of the forward-looking statements or opinions do not materialise or turn out to be incorrect.

Communications with Shareholders

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

The securities department of the Company is responsible for promoting investor relations actively for increased communications and ensuring that the investors are able to obtain information about the Group on a fair and timely basis to assist them in making the best investment decisions. For cultivating good relationship with Shareholders and potential investors, the Company had participated in a number of one-on-one meetings, investors' conferences, road shows and production plants visits during the Period. Analysts and fund managers may enrich their knowledge on the production operations of the Group through these activities. Investors and

the public may also browse the website of the Company at www.sinotruk.com for the latest information available in respect of the Group including information on the financial conditions and the business developments.

Specific performance by the Controlling Shareholder

On 21 February 2014, the Company had entered into a facility agreement (the “**Facility Agreement**”) with Bank of China (Hong Kong) Limited and other financial institutions for the borrowing of RMB1,000,000,000 for 36 months (the “**Facility**”).

Pursuant to the Facility Agreement, it will be an event of default if CNHTC is no longer the beneficial owner (directly or indirectly) of more than 50% of the entire issued share capital of the Company. In case of an occurrence of an event of default which is continuing, the agent of the Facility may by notice to the Company (a) cancel the Facilities whereupon such Facility shall be immediately cancelled; (b) declare that all or part of the loans made or to be made under the Facility or the principal amount outstanding for the time being of this loan (the “**Loan**”), together with accrued interest, and all other amounts accrued or outstanding under the Facility Agreement and other documents designated as finance documents under the Facility Agreement by the agent and the Company be immediately due and payable, whereupon such Loan and other amounts shall immediately become due and payable; and/or (c) declare that all or part of the Loan be payable on demand, whereupon such Loan shall immediately become payable on demand by the agent.

The Loan had been fully repaid in February 2017.

Publication of the 2017 Annual Results and the Annual Report

The annual results announcement for the year ended 31 December 2017 is published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.sinotruk.com). The annual report of the Company for the year ended 31 December 2017 will be despatched to Shareholders and published on the above websites in due course.

DEFINITIONS

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

“Articles”	the articles of association of the Company, as amended, supplemented, modified or otherwise adopted from time to time
“Audit Committee”	the audit committee of the Company
“Board”	the board of Directors
“CAAM”	China Association of Automobile Manufacturers
“China” or “PRC”	the People’s Republic of China, and for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“CNHTC” or “Parent Company”	中國重型汽車集團有限公司 (China National Heavy Duty Truck Group Company Limited), a state-owned enterprise organized under the laws of the PRC with limited liability, being the ultimate holding company of the Company and the controlling shareholder (as defined in the Listing Rules) of the Company
“CNHTC Group”	CNHTC and its subsidiaries other than the Group
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)

“Company” or “Sinotruk”	Sinotruk (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, and the securities of which are listed on the Main Board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“ED(s)”	the executive Director(s)
“Euro”	the lawful currency of the European Union
“Group”	the Company and its subsidiaries
“HDT(s)”	heavy duty truck(s) and medium-heavy duty truck(s)
“HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HOWO Auto Finance Company”	山東豪沃汽車金融有限公司 (ShanDong HOWO Auto Finance Co., Ltd., formerly known as Shandong HOWO Auto Finance Co., Ltd.), a company incorporated under the laws of the PRC with limited liability, being a non-wholly owned subsidiary of the Company
“INED(s)”	the independent non-executive Director(s)

“Ji’nan Truck Company”	中國重汽集團濟南卡車股份有限公司 (Sinotruk Ji’nan Truck Co., Ltd.), a joint stock company incorporated under the laws of the PRC with limited liability, being a non-wholly owned subsidiary of the Company and the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000951)
“LDT(s)”	light duty truck(s)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MAN Group”	MAN SE and its subsidiaries
“MAN SE”	MAN SE, a company incorporated under the laws of Germany, being a non-wholly owned subsidiary of Ferdinand Porsche and the shares of which are listed on the German Stock Exchange in Germany (stock code: ISIN DE 0005937007, WKN 593700)
“NED(s)”	the non-executive Director(s)
“PBOC”	The Peoples’ Bank of China
“Period”	the year ended 31 December 2017
“RMB”	Renminbi, the lawful currency of PRC
“SFO”	Securities and Futures Ordinance (Chapter 511 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) in the capital of the Company

“Shareholder(s)”	holder(s) of the Share(s) from time to time
“Sinotruk Finance Company”	Sinotruk Finance Co., Ltd., a non wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary”	a subsidiary for the time being of the Company within the meaning of the Companies Ordinance whether incorporated in Hong Kong or elsewhere and “Subsidiaries” shall be construed accordingly
“USD”	United States dollars, the lawful currency of the United States of America
“YOY”	year-over-year
“%”	per cent

By order of the Board
Sinotruk (Hong Kong) Limited
Wang Bozhi
Chairman

Beijing, PRC, 23 March 2018

As at the date of this announcement, the eight executive Directors are Mr. Wang Bozhi, Mr. Cai Dong, Mr. Tong Jingen, Mr. Wang Shanpo, Mr. Kong Xiangquan, Mr. Liu Wei, Mr. Liu Peimin and Mr. Franz Neundlinger; the three non-executive Directors are Mr. Andreas Hermann Renschler, Mr. Joachim Gerhard Drees and Mr. Matthias Gründler; and the six independent non-executive Directors are Dr. Lin Zhijun, Mr. Chen Zheng, Mr. Yang Weicheng, Dr. Wang Dengfeng, Mr. Zhao Hang and Mr. Liang Qing.

* *for identification purpose only*