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北京汽车
BAIC MOTOR

北京汽車股份有限公司

BAIC MOTOR CORPORATION LIMITED*

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

(Stock Code: 1958)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2020

The board (the “**Board**”) of directors (the “**Directors**”) of BAIC Motor Corporation Limited (the “**Company**” or “**BAIC Motor**” or “**we**” or “**our Company**”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended June 30, 2020 (the “**Reporting Period**” or the “**first half of 2020**”) together with the comparative figures for the corresponding period in 2019. The results have been prepared in accordance with the International Accounting Standard 34, “Interim Financial Reporting” issued by the International Accounting Standards Board and the disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The audit committee under the Board (the “**Audit Committee**”) and PricewaterhouseCoopers, the external auditor of the Group, have reviewed the unaudited condensed consolidated interim financial information (the “**Condensed Financial Information**”)*

In April 2020, the Company purchased 100% equity interest in BAIC International Development Co., Ltd. (“**BAIC International**”) and 24.78% equity interest in BAIC Yunnan Ruili Motor Co., Ltd. (“**BAIC Ruili**”) from Beijing Automotive Group Co., Ltd. (“**BAIC Group**”, the controlling shareholder of the Company) respectively. Given the Company, BAIC International and BAIC Ruili are under common control of BAIC Group before the business combination, the acquisitions are business combinations under common control, thus the Company applies the merger accounting principle in preparing the Condensed Financial Information, and BAIC International and BAIC Ruili are deemed to have been included in the consolidated scope of the Company since they were under common control of BAIC Group together with the Company. The consolidated scope of the Condensed Financial Information for the first half of 2020 includes the balance sheets, statements of comprehensive income and cash flow statements of BAIC International and BAIC Ruili. Comparative figures at the end of 2019 and in the first half of 2019 are also restated following this principle.

BAIC International conducted a number of asset divestitures before the Company becoming its shareholder. After restatement, the changes in profit during the first half of 2019 were mainly caused by the above divested assets. For relevant profit data of BAIC International (excluding the divested assets), please refer to relevant announcement issued by the Company on March 13, 2020.

* *Those previously reported columns in the consolidated statement of comprehensive income for the six months ended June 30, 2019 and consolidated balance sheet as at December 31, 2019 in this announcement are extracted from the 2019 interim report and 2019 annual report, which are voluntarily added for reference only. The figures of these columns are not part of the Condensed Financial Information for the six months ended June 30, 2020.*

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2020

	<i>Note</i>	For the six months ended June 30, 2020 (Unaudited)	2019 (Unaudited)	For the six months ended June 30, 2019 (Unaudited)
			(Restated ^{Note 1}) (Per Condensed Financial Information)	(Extracted from 2019 Interim Report for reference only ^{Note 2})
		RMB'000	RMB'000	RMB'000
Revenue	3	77,854,370	88,101,327	87,764,002
Cost of sales		<u>(59,824,034)</u>	<u>(67,443,294)</u>	<u>(67,155,361)</u>
Gross profit		18,030,336	20,658,033	20,608,641
Selling and distribution expenses		(5,089,547)	(6,272,412)	(6,215,198)
General and administrative expenses		(2,655,873)	(3,022,451)	(2,894,046)
Net impairment losses on financial assets		(121,932)	(206,164)	(247,832)
Other gains/(losses), net		<u>69,800</u>	<u>981,289</u>	<u>(105,576)</u>
Operating profit	6	10,232,784	12,138,295	11,145,989
Finance income		485,374	416,339	409,950
Finance costs		<u>(465,405)</u>	<u>(525,149)</u>	<u>(456,907)</u>
Finance income/(costs), net		19,969	(108,810)	(46,957)
Share of loss of investments accounted for using equity method		<u>(1,164,871)</u>	<u>(373,450)</u>	<u>(364,877)</u>
Profit before income tax		9,087,882	11,656,035	10,734,155
Income tax expense	7	<u>(3,276,537)</u>	<u>(3,506,355)</u>	<u>(3,505,051)</u>
Profit for the period		<u>5,811,345</u>	<u>8,149,680</u>	<u>7,229,104</u>
Profit attributable to:				
Equity holders of the Company		1,046,945	3,053,553	2,090,173
Non-controlling interests		<u>4,764,400</u>	<u>5,096,127</u>	<u>5,138,931</u>
		<u>5,811,345</u>	<u>8,149,680</u>	<u>7,229,104</u>
Earnings per share for profit attributable to ordinary shareholders of the Company for the period (expressed in RMB)				
Basic and diluted	8	<u>0.12</u>	<u>0.37</u>	<u>0.25</u>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(CONTINUED)**

FOR THE SIX MONTHS ENDED JUNE 30, 2020

	For the six months ended June 30,		For the six months ended June 30,
	2020	2019	2019
	(Unaudited)	(Unaudited)	<i>(Unaudited)</i>
		(Restated ^{Note 1})	<i>(Extracted from 2019 Interim Report for reference only ^{Note 2})</i>
	(Per Condensed Financial Information)		
	RMB'000	RMB'000	RMB'000
Profit for the period	5,811,345	8,149,680	7,229,104
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Gain/(loss) on cash flow hedges, net of tax	41,098	(34,737)	(34,737)
Share of other comprehensive income of investments accounted for using the equity method	4,918	–	1,346
Currency translation differences	(198,180)	49,463	(13)
<i>Items that will not be reclassified to profit or loss</i>			
Changes in fair value of financial assets at fair value through other comprehensive income	128,876	(296,585)	65,530
Other comprehensive (loss)/income for the period	(23,288)	(281,859)	32,126
Total comprehensive income for the period	<u>5,788,057</u>	<u>7,867,821</u>	<u>7,261,230</u>
Attributable to:			
Equity holders of the Company	1,049,724	2,786,589	2,139,314
Non-controlling interests	4,738,333	5,081,232	5,121,916
	<u>5,788,057</u>	<u>7,867,821</u>	<u>7,261,230</u>

Note 1: The restated figures include the operating results of BAIC International and BAIC Ruili. See Note 2.1(b) for more information.

Note 2: The figures of this column are extracted from the interim report of the Company for the six months ended June 30, 2019, which are voluntarily added in this announcement for reference only. These figures are not part of the Condensed Financial Information for the six months ended June 30, 2020.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2020

	<i>Note</i>	As at June 30, 2020	December 31, 2019	As at December 31, 2019 <i>(Extracted from 2019 Annual Report for reference only ^{Note 2})</i>
		(Unaudited) <i>(Per Condensed Financial Information)</i> RMB'000	(Restated ^{Note 1}) <i>(Per Condensed Financial Information)</i> RMB'000	RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment		49,273,912	48,758,070	46,329,140
Land use rights		7,249,241	7,339,955	7,201,549
Intangible assets		12,924,596	13,047,095	13,039,160
Investments accounted for using equity method		15,083,193	15,938,613	16,104,148
Financial assets at fair value through other comprehensive income		1,407,526	1,278,650	1,278,650
Deferred income tax assets		9,739,674	10,540,458	10,540,458
Other non-current assets		1,030,608	662,081	659,261
		<u>96,708,750</u>	<u>97,564,922</u>	<u>95,152,366</u>
Current assets				
Inventories		18,843,363	20,192,070	19,924,603
Accounts receivable	4	22,559,294	21,094,943	21,586,635
Advances to suppliers		346,200	390,990	310,089
Other receivables and prepayments		5,450,223	5,040,559	5,037,690
Restricted cash		931,670	1,878,230	1,878,104
Cash and cash equivalents		51,721,352	50,231,353	49,322,499
		<u>99,852,102</u>	<u>98,828,145</u>	<u>98,059,620</u>
Total assets		<u><u>196,560,852</u></u>	<u><u>196,393,067</u></u>	<u><u>193,211,986</u></u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

AS AT JUNE 30, 2020

	Note	As at June 30, 2020 (Unaudited) <i>RMB'000</i>	As at December 31, 2019 (Restated <i>Note 1</i>) <i>(Per Condensed Financial Information)</i> <i>RMB'000</i>	As at December 31, 2019 (Extracted from 2019 Annual Report for reference only <i>Note 2</i>) <i>RMB'000</i>
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital		8,015,338	8,015,338	8,015,338
Perpetual bond		1,998,160	1,998,160	1,998,160
Other reserves		20,589,838	20,667,653	21,008,386
Retained earnings		18,898,259	19,325,921	19,381,328
		49,501,595	50,007,072	50,403,212
Non-controlling interests		17,770,431	22,367,709	22,223,988
Total equity		67,272,026	72,374,781	72,627,200
LIABILITIES				
Non-current liabilities				
Borrowings		8,229,620	9,815,277	9,542,718
Lease liabilities		108,080	77,045	18,034
Deferred income tax liabilities		721,151	731,315	731,315
Provisions		2,552,673	2,562,269	2,507,635
Deferred income		3,815,128	3,867,752	3,487,262
Other payables		154,016	174,676	-
		15,580,668	17,228,334	16,286,964
Current liabilities				
Accounts payable	5	45,657,033	45,443,866	44,707,450
Contract liabilities		1,071,409	1,007,754	950,986
Other payables and accruals		47,127,710	39,416,198	38,024,236
Current income tax liabilities		822,707	4,442,695	4,437,845
Borrowings		17,014,813	14,319,995	14,019,499
Lease liabilities		120,477	33,195	31,557
Provisions		1,894,009	2,126,249	2,126,249
		113,708,158	106,789,952	104,297,822
Total liabilities		129,288,826	124,018,286	120,584,786
Total equity and liabilities		196,560,852	196,393,067	193,211,986

Note 1: The restated figures include the financial positions of BAIC International and BAIC Ruili. See Note 2.1(b) for more information.

Note 2: The figures of this column are extracted from the annual report of the Company for the year ended December 31, 2019, which are voluntarily added for reference only. These figures are not part of the Condensed Financial Information for the six months ended June 30, 2020.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

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

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

This interim condensed consolidated financial information (“**Condensed Financial Information**”) is presented in thousands of Renminbi Yuan (“**RMB’000**”), unless otherwise stated, and is approved for issue by the Board of Directors on August 31, 2020.

This Condensed Financial Information has not been audited.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

This Condensed Financial Information has been prepared in accordance with International Accounting Standard (“**IAS**”) 34, “Interim Financial Reporting”. The Condensed Financial Information should be read in conjunction with the annual financial statements for the year ended December 31, 2019, which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”).

(a) As at June 30, 2020, the current liabilities of the Group exceeded its current assets by approximately RMB13,856 million. Given the debt obligations and working capital requirements, management has thoroughly considered the Group’s available sources of the funds as follows:

- the Group’s continuous net cash generated from operating and financing activities; and
- undrawn short-term and long-term banking facilities of approximately RMB23,433 million and RMB2,300 million respectively as at June 30, 2020.

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

(b) In April 2020, the Company acquired from BAIC Group its entire 100% equity interest in BAIC International Development Co., Ltd. (“**BAIC International**”) and 24.78% equity interest in BAIC Yunnan Ruili Motor Co., Ltd. (“**BAIC Ruili**”) at a total cash consideration of approximately RMB80 million.

The acquisitions were business combinations under common control given that the Company, BAIC International and BAIC Ruili are under common control of BAIC Group immediately before the business combinations, the Company applies the principles of merger accounting in preparing this Condensed Financial Information.

By applying the principle of merger accounting, this Condensed Financial Information of the Company also includes the financial positions, operating results and cash flows of BAIC International and BAIC Ruili as if they had been combined with the Group throughout the six months ended June 30, 2020. Comparative figures as at December 31, 2019 and for the six months ended June 30, 2019 have been restated as a result of such.

The followings are reconciliations of the effects arising from the abovementioned common control combinations on the consolidated balance sheet as at December 31, 2019, consolidated statement of comprehensive income for the six months ended June 30, 2019.

(i) The consolidated balance sheet as at December 31, 2019:

	Balances as previously reported <i>RMB'000</i>	Merger of BAIC International <i>RMB'000</i>	Merger of BAIC Ruili <i>RMB'000</i>	Adjustments <i>RMB'000</i>	Balance as restated <i>RMB'000</i>
Assets					
Non-current assets	95,152,366	1,006,342	1,571,749	(165,535)	97,564,922
Current assets	98,059,620	2,597,753	165,363	(1,994,591)	98,828,145
Equity					
Share capital	8,015,338	1,252,442	296,655	(1,549,097)	8,015,338
Perpetual bond	1,998,160	–	–	–	1,998,160
Other reserves	21,008,386	(1,673,330)	39,466	1,293,131	20,667,653
Retained earnings/ (accumulated losses)	19,381,328	51,544	(578,114)	471,163	19,325,921
Non-controlling interests	22,223,988	432,292	–	(288,571)	22,367,709
Liabilities					
Non-current liabilities	16,286,964	391,801	549,569	–	17,228,334
Current liabilities	104,297,822	3,149,346	1,429,536	(2,086,752)	106,789,952

(ii) The consolidated statement of comprehensive income for the six months ended June 30, 2019:

	Amounts as previously reported <i>RMB'000</i>	Merger of BAIC International <i>RMB'000</i>	Merger of BAIC Ruili <i>RMB'000</i>	Adjustments <i>RMB'000</i>	Amounts as restated <i>RMB'000</i>
Revenue	87,764,002	327,673	17,245	(7,593)	88,101,327
Profit/(loss) for the period	7,229,104	944,844	(72,366)	48,098	8,149,680

2.2 Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2019, as described in those annual financial statements except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of certain amended standards as set out below.

Amended standards adopted by the Group

The following amended standards became applicable for the current reporting period:

- | | |
|---|--------------------------------|
| • Amendments to IAS 1 and IAS 8 | Definition of Material |
| • Amendments to IFRS 3 | Definition of a Business |
| • Amendments to IFRS 9, IAS 39 and IFRS 7 | Interest Rate Benchmark Reform |

These amended standards did not have any significant impact on the Group's accounting policies and did not require retrospective adjustments.

3 SEGMENT INFORMATION

The Group's segment information is presented on the basis of internal reports that are regularly reviewed by the Group's Executive Committee, in order to allocate resources to the segments and assess their performance. For each of the Group's reportable segments, the Group's Executive Committee reviews internal management reports on monthly basis, at a minimum. Management has determined the reporting segments based on these reports.

The Group considers the business from a product perspective and has the following reportable segments:

- Passenger vehicles of Beijing Brand: manufacturing and sales of passenger vehicles of BAIC brands, and providing other businesses and related services;
- Passenger vehicles of Beijing Benz Automotive Co., Ltd. ("**Beijing Benz**"): manufacturing and sales of passenger vehicles of Beijing Benz brand, and providing other related services.

Management defines segment results based on gross (loss)/profit. Information about reportable segments and reconciliations of reportable segment results are as follows:

	Passenger vehicles – Beijing Brand (Unaudited) RMB'000	Passenger vehicles – Beijing Benz (Unaudited) RMB'000	Eliminations (Unaudited) RMB'000	Total (Unaudited) RMB'000
For the six months ended June 30, 2020				
Total revenue	2,990,030	74,920,368	(56,028)	77,854,370
Inter-segment revenue	(56,028)	–	56,028	–
Revenue from external customers	<u>2,934,002</u>	<u>74,920,368</u>	<u>–</u>	<u>77,854,370</u>
Timing of revenue recognition				
– At a point in time	2,877,182	74,160,136	–	77,037,318
– Over time	56,820	760,232	–	817,052
	<u>2,934,002</u>	<u>74,920,368</u>	<u>–</u>	<u>77,854,370</u>
Segment gross (loss)/profit	<u>(1,834,637)</u>	<u>19,864,973</u>	<u>–</u>	<u>18,030,336</u>
Other profit & loss disclosure:				
Selling and distribution expenses				(5,089,547)
General and administrative expenses				(2,655,873)
Net impairment losses on financial assets				(121,932)
Other gains, net				69,800
Finance income, net				19,969
Share of loss of investments accounted for using equity method				<u>(1,164,871)</u>
Profit before income tax				9,087,882
Income tax expense				<u>(3,276,537)</u>
Profit for the period				<u>5,811,345</u>
Other Information:				
Significant non-cash expenses				
Depreciation and amortization	(1,638,692)	(2,195,484)	–	(3,834,176)
Provisions for impairments on assets	(22,765)	(135,195)	–	(157,960)
	<u>(1,661,457)</u>	<u>(2,330,679)</u>	<u>–</u>	<u>(3,992,136)</u>
As at June 30, 2020				
Total assets	90,723,981	128,243,945	(22,407,074)	196,560,852
Including:				
Investments accounted for using equity method	15,083,193	–	–	15,083,193
Total liabilities	<u>(47,734,186)</u>	<u>(91,784,824)</u>	<u>10,230,184</u>	<u>(129,288,826)</u>

	Passenger vehicles – Beijing Brand (Unaudited) (Restated) <i>RMB'000</i>	Passenger vehicles – Beijing Benz (Unaudited) <i>RMB'000</i>	Eliminations (Unaudited) <i>RMB'000</i>	Total (Unaudited) (Restated) <i>RMB'000</i>
For the six months ended June 30, 2019				
Total revenue	10,354,020	77,807,423	(60,116)	88,101,327
Inter-segment revenue	(60,116)	–	60,116	–
Revenue from external customers	<u>10,293,904</u>	<u>77,807,423</u>	<u>–</u>	<u>88,101,327</u>
Timing of revenue recognition				
– At a point in time	10,231,399	77,076,752	–	87,308,151
– Over time	62,505	730,671	–	793,176
	<u>10,293,904</u>	<u>77,807,423</u>	<u>–</u>	<u>88,101,327</u>
Segment gross (loss)/profit	<u>(1,365,521)</u>	<u>22,023,554</u>	<u>–</u>	<u>20,658,033</u>
Other profit & loss disclosure:				
Selling and distribution expenses				(6,272,412)
General and administrative expenses				(3,022,451)
Net impairment losses on financial assets				(206,164)
Other gains, net				981,289
Finance costs, net				(108,810)
Share of losses of investments accounted for using equity method				<u>(373,450)</u>
Profit before income tax				11,656,035
Income tax expense				<u>(3,506,355)</u>
Profit for the period				<u>8,149,680</u>
Other Information:				
Significant non-cash expenses				
Depreciation and amortization	(1,485,562)	(1,880,167)	–	(3,365,729)
Provisions for impairments on assets	(148,318)	(213,324)	–	(361,642)
	<u>(1,485,562)</u>	<u>(1,880,167)</u>	<u>–</u>	<u>(3,365,729)</u>
	<u>(148,318)</u>	<u>(213,324)</u>	<u>–</u>	<u>(361,642)</u>
As at December 31, 2019				
Total assets	86,490,516	122,639,923	(12,737,372)	196,393,067
Including:				
Investments accounted for using equity method	15,938,613	–	–	15,938,613
Total liabilities	<u>(47,493,661)</u>	<u>(77,050,212)</u>	<u>525,587</u>	<u>(124,018,286)</u>

There is no customer accounting for 10 percent or more of the Group's revenue for each of the six months ended June 30, 2020 and 2019.

The Group is domiciled in the PRC. The percentage of its revenue from external customers residing in the PRC is approximately 99.6% for the six months ended June 30, 2020 (six months ended June 30, 2019: 99.6% as restated).

As at June 30, 2020, the percentage of the Group's non-current assets, other than financial instruments and deferred income tax assets, located in the mainland of the PRC is approximately 97.4% (December 31, 2019: 97.4% as restated).

4 ACCOUNTS RECEIVABLE

	June 30, 2020 (Unaudited) RMB'000	December 31, 2019 (Restated) RMB'000
Trade receivables, gross (<i>note (a)</i>)	21,485,119	19,148,048
Less: provision for impairment	<u>(362,359)</u>	<u>(261,565)</u>
	21,122,760	18,886,483
Notes receivable (<i>note (b)</i>) measured at		
– FVOCI	1,226,934	1,947,357
– amortized cost	<u>209,600</u>	<u>261,103</u>
	<u>22,559,294</u>	<u>21,094,943</u>

Notes:

- (a) The majority of the Group's sales are on credit. A credit period may be granted in respect of sales to customers with good credit history and long-established relationship with the Group. The ageing analysis of trade receivables based on invoice date is as follows:

	June 30, 2020 (Unaudited) RMB'000	December 31, 2019 (Restated) RMB'000
Current to 1 year	11,394,516	11,896,085
1 to 2 years	6,621,840	3,789,377
2 to 3 years	837,240	1,362,293
Over 3 years	<u>2,631,523</u>	<u>2,100,293</u>
	<u>21,485,119</u>	<u>19,148,048</u>

- (b) The amounts of notes receivable pledged as collateral for notes payable issued by banks as at respective balance sheet dates are as follows:

	June 30, 2020 (Unaudited) RMB'000	December 31, 2019 (Restated) RMB'000
Pledged notes receivable	<u>586,033</u>	<u>1,655,008</u>

5 ACCOUNTS PAYABLE

	June 30, 2020 (Unaudited) <i>RMB'000</i>	December 31, 2019 (Restated) <i>RMB'000</i>
Trade payables	39,507,318	37,954,869
Notes payable	6,149,715	7,488,997
	<u>45,657,033</u>	<u>45,443,866</u>

Ageing analysis of trade payables is as follows:

	June 30, 2020 (Unaudited) <i>RMB'000</i>	December 31, 2019 (Restated) <i>RMB'000</i>
Current to 1 year	38,585,752	37,059,486
1 to 2 years	437,821	841,132
2 to 3 years	472,948	44,812
Over 3 years	10,797	9,439
	<u>39,507,318</u>	<u>37,954,869</u>

6 OPERATING PROFIT

Operating profit is arrived at after charging/(crediting) the following:

	For the six months ended June 30, 2020 (Unaudited) <i>RMB'000</i>	2019 (Unaudited) (Restated) <i>RMB'000</i>
Depreciation and amortization	3,834,176	3,365,729
Employee benefit costs	2,455,198	2,585,209
Warranty expenses	79,817	777,600
Provisions for impairment on non-financial assets	36,028	155,478
Foreign exchange gains	(46,767)	(146,440)
Loss on forward foreign exchange contracts with fair value through profit or loss	194,470	343,339
Gain from sales of scrap materials	(49,538)	(62,179)
Loss on disposals of property, plant and equipment and intangible assets	3,946	91,004
Government grants	(166,215)	(186,139)

7 INCOME TAX EXPENSE

	For the six months ended June 30, 2020 (Unaudited) <i>RMB'000</i>	2019 (Unaudited) (Restated) <i>RMB'000</i>
Current income tax	2,499,616	3,824,576
Deferred income tax expense/(credit)	776,921	(318,221)
	<u>3,276,537</u>	<u>3,506,355</u>

8 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

	For the six months ended June 30,	
	2020	2019
	(Unaudited)	(Unaudited) (Restated)
Profit attributable to ordinary shareholders of the Company (RMB' 000) (note (a))	934,945	2,941,553
Weighted average number of ordinary shares issued (thousands)	8,015,338	8,015,338
Earnings per share for profit attributable to ordinary shareholders of the Company for the period (RMB)	0.12	0.37

Notes:

- (a) For the six months ended June 30, 2020, the profit attributable to equity holders of the Company amounted to RMB1,046,945,000 (six months ended June 30, 2019: RMB3,053,553,000 as restated), including the profit attributable to ordinary shareholders and perpetual bondholders of approximately RMB934,945,000 and RMB112,000,000 (six months ended June 30, 2019: RMB2,941,553,000 as restated and RMB112,000,000), respectively.
- (b) During the six months ended June 30, 2020 and 2019, there were no potential dilutive ordinary shares and diluted earnings per share was equal to basic earnings per share.

9 DIVIDENDS

The Board of Directors of the Company does not recommend the payment of any interim dividend for the six months ended June 30, 2020 (six months ended June 30, 2019: Nil).

The final dividend of approximately RMB1,362,607,000 (RMB0.17 per share) relating to the year ended December 31, 2019 was approved by the shareholders meeting held in June 2020.

10 EVENT OCCURRING AFTER THE BALANCE SHEET DATE

On 3 August 2020, BAIC Guangzhou Automotive Co., Ltd. (“**BAIC Guangzhou**”), a wholly-owned subsidiary of the Company, and BAIC BluePark New Energy Technology Co., Ltd. (“**BAIC BluePark**”), an A-share listed subsidiary of BAIC Group, entered into a share subscription agreement, pursuant to which BAIC BluePark agrees to issue to BAIC Guangzhou, and BAIC Guangzhou agrees to subscribe for, not less than 6.25% of the total number of new A shares to be issued by BAIC BluePark, up to a maximum subscription amount of approximately RMB344 million.

In accordance with the share subscription agreement, the minimum shareholding of BAIC Guangzhou in BAIC BluePark will remain at 6.25% and the maximum shareholding will not exceed 7.32% upon completion of the subscription (if the actual subscription price is determined according to the audited net asset value per share of BAIC BluePark as at 31 December 2019, namely RMB5.06).

BUSINESS OVERVIEW

I. Major Business Operations

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

Passenger vehicles

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

1. *Beijing Brand*

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

Traditional oil-powered models under Beijing Brand are targeted at consumers who value both vehicle performance and high-quality life, with the “metropolitan beauty” design philosophy and continual quality improvement. In 2019, the new “BEIJING” brand was launched, with the features of Beijing culture, namely confidence, grandness, refinement and leading, and the brand philosophy of “becoming the leader of the new four automobile modernizations and guarding the beautiful travel dream of mankind”. In June 2020, the BEIJING-X7 middle class SUV, which inherited the “metropolitan beauty” and DNA of confident aesthetics, was launched and became a vital member of the new “BEIJING” brand series. At present, “BEIJING” brand has BEIJING-X3 compact SUV, BEIJING-X7 middle class SUV, BEIJING-U5 compact sedan, and BEIJING-U7 middle class sedan and other best-selling vehicle models. In the future, it will enrich its product lineup.

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

2. Beijing Benz

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

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

Beijing Benz has become a joint venture company of Daimler AG, owning the platforms of three main vehicle models, namely front-wheel drive vehicle, rear-wheel drive vehicle and electric vehicle, as well as an engine factory and a power battery factory in the world. It has exported core engine parts and engines and become an important part of the global production network of Mercedes-Benz. In recent years, it has won the honorary titles of “Global Excellent Operating Factory”, “Green Model Factory”, “Beijing Intelligent Manufacturing Benchmarking Enterprise” and “Sino-German Intelligent Manufacturing Cooperation Pilot Model Project”, etc.

3. Beijing Hyundai

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

At present, Beijing Hyundai has capacities in Beijing, Hebei and Chongqing, which form a nationwide production and marketing system. Beijing Hyundai manufactures and sells over ten types of vehicles, covering a full range of major sedan models including middle class, compact and A0-Class models, as well as SUV models, with vehicle models for sale mainly including fourth-generation Santa Fe, fourth-generation TUCSON, LA FESTA EV, ENCINO EV, etc., to fully meet the needs of different consumers.

4. Fujian Benz

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

At present, Fujian Benz stays on the leading edge in the field of joint venture premium business purpose vehicles, with production and sale of Mercedes-Benz V-Class vehicles and New Vito products.

Core parts and components for passenger vehicles

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

In respect of Beijing Brand, we manufacture engines, transmissions, new energy reducers and other core automobile parts and components through entities including BAIC Motor Powertrain Co., Ltd. mainly for use in our whole vehicles as well as for sale to other automobile manufacturers. Beijing Benz commenced to manufacture engines in 2013. At present, it owns two engine factories and the first power battery factory outside Germany. Its products include M270, M274, M264 and M282 engines and the first new energy power battery product. It has exported core engine parts and engines. Beijing Hyundai commenced to manufacture engines in 2004, and currently has several engine factories. Its products are mainly for use in Hyundai branded passenger vehicles manufactured by Beijing Hyundai, while certain products are sold to overseas factories of Hyundai Motor.

Car financing

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

Sales and service business

In April 2020, the Company and BAIC BluePark New Energy Technology Co., Ltd. (“**BAIC BluePark**”) jointly established BAIC BluePark Marketing Services Co., Ltd. (北京汽車藍穀營銷服務有限公司) (“**BAIC BluePark Marketing Services**”). BAIC BluePark Marketing Services is committed to providing the Company and BAIC BluePark with marketing business consultation, signing service agreements, promoting the sharing of channels, service resources and sales resources, etc., and enhancing the marketing competitiveness of the “BEIJING” brand as a whole.

International business

We promote the rapid development of international business through the production and operation businesses of the South African production base and the marketing business in South African and Southern African Development Community (SADC) markets which are in the charge of BAIC Automobile SA Proprietary Limited, a joint venture of the Company, through international marketing business in markets outside China and South Africa which are in the charge of BAIC International, a wholly-owned subsidiary of the Company, and through overseas sales companies, KD technology¹ cooperation, vehicle distribution, etc. International business focuses on exporting passenger vehicle products of Beijing Brand.

Other related businesses

In the first half of 2020, we continued to conduct research and development of light materials, new energy technology changes, information big data and used car businesses through relevant joint ventures.

¹ means Knocked-down

II. Business Development in the First Half of 2020

Industry Development in the First Half of 2020

According to the National Bureau of Statistics, due to the impact of the COVID-19, in the first half of 2020, China's GDP fell by 1.6% on a year-on-year basis, economic performance data first fell and then rose, and the overall economy showed a steady recovery trend.

Affected by multiple factors including COVID-19, industrial policy changes and weak consumer demand, the domestic passenger vehicle market continued its downward trend in the first half of 2020. The data of China Association of Automobile Manufacturers ("CAAM") shows that, the overall wholesale sales volume of passenger vehicles in the PRC in the first half of 2020 was 7.873 million units, representing a year-on-year decrease of 22.4%, with sales volumes of all passenger vehicle models including sedan, SUV, MPV and CUV declining to varying degrees.

Affected by the influence of policies such as subsidy reduction, the competitiveness of products has declined in terms of new energy passenger vehicles, and the market decline is greater than the overall passenger vehicle market. In the first half of 2020, the wholesale sales volume was 0.352 million units, representing a year-on-year decrease of 38.5%, including sales of 0.267 million units of pure electric passenger vehicles, representing a year-on-year decrease of 40.8%, and 0.086 million units of plug-in hybrid passenger vehicles, representing a year-on-year decrease of 30.3%.

In addition, the outbreak of COVID-19 has an impact on the high-end vehicle market. The data of Automotive Data of China Co., Ltd. show that, in the first half of 2020, the retail sales volume of premium vehicles reached 1.467 million units, representing a year-on-year decrease of 4.5%. However, since April, there has been a strong recovery and rebound, with continuous improvement in the market demand. In the first half of the year, the market share of premium vehicles increased by 4.3 percentage points to 18.5%, compared with the same period of last year.

In terms of industry policies, with a focus on large areas of stabilizing and expanding the purchase of vehicles, key policies include the Notice on Several Measures to Stabilize and Expand the Purchase of Vehicles and the Notice on Adjustment and Improvement of Subsidy Policies for New Energy Vehicles published by the state in the first half of 2020, specifying the measures to promote the purchase of vehicles and extension of the term of new energy vehicle subsidies to the end of 2022, which have a positive impact on the automobile industry.

Operational Performance of the Group in the First Half of 2020

1. Operational performance by brands

Beijing Brand

The Company actively responded to the pressure from the outbreak of COVID-19 and the intensified industry competition and continuously promoted the product strategy driven by “new energy + intelligentization” to enhance the brand strength and the intelligentization level. During the Reporting Period, the sales volume of Beijing Brand reached 35 thousand units.

In the first half of 2020, affected by the outbreak of COVID-19 and the delay in the resumption of work, the production and marketing capabilities of vehicle enterprises have declined. Beijing Brand has fully resumed work and production despite the outbreak of COVID-19 and launched two key vehicle models (i.e. BEIJING-X7 and BEIJING-X7PHEV) as planned, thus promoting a steady increase in the sales volume of SUV vehicle models and achieving a year-on-year increase against the adverse market environment.

Beijing Benz

In the first half of 2020, Beijing Benz actively promoted the resumption of work and production under the premise of normalizing the prevention and control of COVID-19, rushed to catch up with the sales gap caused by COVID-19, and achieved sales of 270 thousand units, representing a year-on-year decrease of 4.2%, and sales volume remained at the forefront of domestic luxury brands.

In terms of sales of product segment, in the first half of 2020, Beijing Benz saw a strong sales performance, with the average monthly sales volumes of three major vehicle models, namely E-Class sedan, C-Class sedan and GLC SUV, exceeding ten thousand units, outperforming the market.

Meanwhile, Beijing Benz made every effort to promote the implementation of key project plans. With the construction philosophy of “digitalized, flexible and green”, the overall renovation and construction work of the factory of Beijing Benz in Shunyi District went on smoothly.

Beijing Hyundai

In the first half of 2020, under the background of the outbreak of COVID-19 and intensified market competition, Beijing Hyundai adjusted its marketing progress in a timely manner and took “change, breakthrough, regeneration” as its management principle. The wholesale sales volume of vehicles of Beijing Hyundai for the first half of 2020 was 184 thousand units, and under the guidance of the target of reducing inventories, it reported the retail sales volume of 235 thousand units during the Reporting Period, which mitigates the operation pressure of dealers to the maximum and lays a good foundation for greater achievement in subsequent production and sale.

In terms of specific products, in the first half of 2020, LA FESTA EV, a pure electric sedan of Beijing Hyundai, was successfully launched, thus further enriching the product lines of new energy vehicle models, and continuously improving the product strength and market competitiveness.

Fujian Benz

Affected by macroeconomic downturn and the outbreak of COVID-19, the operation of the overall automobile industry stayed at a low level. The vehicle sales volume of Fujian Benz was 14 thousand units in the first half of 2020, representing a year-on-year increase of 6.9%, achieving growth against the trend, and highlighting a good development trend. In the second half of 2020, Fujian Benz will continue to optimize and upgrade its main sales products, further tap market potential, and stabilize its development momentum to lay a foundation for achieving annual results and sustainable development.

Impact of the COVID-19

In the first half of 2020, the decrease in the results of the Group was mainly due to the impact of the COVID-19, which resulted in a significant decrease in sales volume of whole vehicles, especially in the first quarter, as compared with the corresponding period last year. Since the second quarter of 2020, the Group actively responded to the COVID-19 in various business segments and achieved full resumption of work and production. The sales volume remained at the same level to that for the same period last year, which had effectively slowed the downturn in profits in the first half of 2020.

2. Sales network

The Group always attaches great importance to the interests of customers, strives to optimize its product-service system, and is devoted to enabling product distributors and customers to receive timely, efficient, accurate and service guarantee with high-quality. All brands have independent marketing channels. In the first half of 2020, the Group followed the “customer first” principle, continued to optimize and upgrade the dealer network, comprehensively improved customer experience, and enhanced overall competitiveness; Beijing Benz and Beijing Hyundai always paid attention to network efficiency and quality, and committed to improving the profitability of dealers and OEMs and realizing mutual trust and win-win results.

3. Research and development

The Group believes that the research and development capability is crucial to future development. In the first half of 2020, it continuously made efforts to promote the construction of research and development systems and capacity, for all of its brand businesses.

Beijing Brand has continuously made research and development investment and has made achievements in the construction of research and development systems and the research and development of new vehicle models: BEIJING-X7 and its PHEV models incorporate the research achievements of Beijing Brand in intelligent networking, new energy product development, vehicle platform and vehicle safety, etc. Meanwhile, it continues to carry out in-depth strategic cooperation with intelligent technology companies including Beidou Zhilian, Microsoft, Huawei and ByteDance, so as to continuously promote the process of research and development of new energy products including 48V hybrid electric vehicle and so on.

Beijing Benz has the largest research and development center among all joint venture enterprises of Daimler AG, and introduces the Mercedes-Benz development system (MDS), continuously shortens the development cycle and strengthens the digital verification capability. The center has international advanced laboratories respectively for climate corrosion, vehicle emissions, engines, vibration noise and the special purpose of new energy which are established and operated in strict accordance with standards of Daimler AG, providing major technical support for research and development and manufacturing of Mercedes-Benz's domestic traditional vehicle models and new energy vehicle models.

In the first half of 2020, Beijing Hyundai simultaneously promoted the development of two local vehicle models and six imported vehicle models, and the overall development was good. The CNG China VI compliant vehicle models², which are developed under its leadership, were put into mass production in May, with the gas consumption better than similar products in the market. It steadily promoted WLTC re-certification for 13 mass-produced vehicles, so as to ensure compliance with the requirements of China V fuel consumption regulations.

² means natural gas taxis

4. *Production facilities*

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

Beijing Benz continuously builds Mercedes-Benz's most comprehensive production base in the world to meet the requirements of Made in China 2025 and green manufacturing system construction: The factory in Shunyi District will be constructed as a high-end production base based on the standard of a digitalized, flexible and green intelligent factory.

All factories of Beijing Hyundai are equipped with state-of-the art production equipment, with the equipment automation rate exceeding 90%, so as to ensure the precision and production of products with high quality. Meanwhile, Beijing Hyundai is capable of effectively and flexibly arranging factory production plans and mixed-model production to further reduce the manufacturing cost reasonably.

5. *Industry chain extension and cooperation*

In the first half of 2020, the Group made breakthroughs in capital operation and industrial cooperation, further enhancing its overall business strength:

On February 13, 2020, BAIC Investment, a non wholly-owned subsidiary of the Company, entered into a capital increase agreement with BAIC Finance, pursuant to which, BAIC Investment agreed to further contribute RMB500 million to the newly increased registered capital of BAIC Finance (RMB2.5 billion in aggregate) based on its proportion in the registered capital of BAIC Finance for the time being (i.e. 20%). Upon the completion of the capital increase, the proportion of capital contribution by BAIC Investment to the registered capital (as increased) of BAIC Finance will remain unchanged (i.e. 20%), representing a total capital contribution of RMB1 billion.

On March 13, 2020, the Company and BAIC Group entered into an equity transfer agreement, pursuant to which the Company agreed to purchase, and BAIC Group agreed to dispose of 100% equity interest in BAIC International and 24.78% equity interest in BAIC Ruili held by BAIC Group respectively, at a total consideration of approximately RMB80 million. Upon the completion of the transaction under the equity transfer agreement, BAIC International will become a wholly-owned subsidiary of the Company, and BAIC Ruili will become a non wholly-owned subsidiary of the Company.

III. Outlook for the Second Half of 2020

In terms of the whole industry, according to the forecast by CAAM, in the second half of 2020, the automobile market in China will be generally stable with improvement, and there will be a continued downward trend with a smaller decline in the industry. The mid to high-end market of passenger vehicles is expected to perform better, while the markets of low-end vehicles and new energy vehicles will see a turnaround after sales slump, due to relevant favorable policies issued by the state, but still face the impact of shrinking industry and intensified competitive pressure.

Under pressure, in the second half of 2020, the Group will continue to actively respond to industry change and formulate and determine an operation policy for steady development:

In terms of Beijing Brand, under the guidance of the overall management principle of “brand upgrade, three strengths, and breakthrough through reform”, efforts will be made to continue to promote the improvement in the brand strength of “BEIJING” and product upgrades. With focus on key vehicle models including BEIJING-X3, BEIJING-X7, efforts will be made to promote the increase in sales volume. Beijing Benz focuses on ensuring the completion of new factories and the launch of new vehicle models, so as to consolidate its leading position in the high-end premium vehicle market. Beijing Hyundai will launch a number of products, including tenth-generation Sonata and seventh-generation Elantra, and will increase the brand strength and sales volume through the management innovation of the launch of new vehicles and sales network.

MANAGEMENT DISCUSSION AND ANALYSIS

Note: Due to the acquisition of 100% equity interest in BAIC International and 24.78% equity interest in BAIC Ruili, the Condensed Financial Information of the Company as at the end of 2019 and the first half of 2019 has been restated in accordance with the principles of business combinations under common control. The financial figures for the first half of 2019 and the end of 2019 quoted in this section are restated figures.

Revenue and Net Profit Attributable to Equity Holders of the Company

The Group’s main business operations are the research and development, manufacturing, sales and after-sale services of passenger vehicles. The above business has brought sustained and stable revenue to the Group. The Group’s revenue decreased from RMB88,101.3 million for the six months ended June 30, 2019 (the “**first half of 2019**”) to RMB77,854.4 million for the first half of 2020, representing a year-on-year decrease of 11.6%, mainly due to the decrease in the revenue of Beijing Benz and Beijing Brand.

The revenue associated with Beijing Benz decreased from RMB77,807.4 million in the first half of 2019 to RMB74,920.4 million in the first half of 2020, representing a year-on-year decrease of 3.7%, mainly due to a year-on-year decrease of 4.2% in sales volume affected by the outbreak of COVID-19.

The revenue associated with Beijing Brand decreased from RMB10,293.9 million in the first half of 2019 to RMB2,934.0 million in the first half of 2020, representing a year-on-year decrease of 71.5%, mainly due to (i) a year-on-year decrease in the sales volume affected by the outbreak of COVID-19; and (ii) the decline in new energy subsidies.

The Group's net profit attributable to equity holders of the Company decreased from RMB3,053.6 million in the first half of 2019 to RMB1,046.9 million in the first half of 2020, representing a year-on-year decrease of 65.7%; the basic earnings per share decreased from RMB0.37 in the first half of 2019 to RMB0.12 in the first half of 2020, representing a year-on-year decrease of 67.6%, mainly due to the decline in profits of Beijing Brand and certain investment enterprises affected by the outbreak of COVID-19, the increased competition in the domestic passenger vehicle industry and the overall downturn of the market.

Gross Profit

The Group's gross profit decreased to RMB18,030.3 million in the first half of 2020 from RMB20,658.0 million in the first half of 2019, representing a year-on-year decrease of 12.7%, mainly due to the decrease in the gross profit of Beijing Benz and Beijing Brand.

The gross profit of Beijing Benz decreased from RMB22,023.6 million in the first half of 2019 to RMB19,865.0 million in the first half of 2020, representing a year-on-year decrease of 9.8%; the gross profit margin decreased from 28.3% in the first half of 2019 to 26.5% in the first half of 2020, mainly due to an increase in the proportion of the sales volume of vehicle models with relatively lower gross profit.

The gross profit of Beijing Brand decreased from RMB-1,365.5 million in the first half of 2019 to RMB-1,834.6 million in the first half of 2020, and the gross profit margin decreased from -13.3% in the first half of 2019 to -62.5% in the first half of 2020, mainly due to (i) the increased efforts for vehicle sales promotion; and (ii) the decline in new energy subsidies.

Working Capital and Financial Resources

The Group usually satisfied its daily working capital requirements through self-owned cash and borrowings. The Group's net cash generated from operating activities decreased from RMB11,187.2 million in the first half of 2019 to RMB5,265.5 million in the first half of 2020, representing a year-on-year decrease of 52.9%, mainly due to a decrease in the net cash inflow generated from operating activities of Beijing Benz.

On June 30, 2020 (the “**end of June 2020**”), the Group had cash and cash equivalents of RMB51,721.4 million, notes receivable of RMB1,436.5 million, notes payable of RMB6,149.7 million, outstanding borrowings of RMB25,244.4 million, unused bank credit lines of RMB25,732.6 million and commitments for capital expenditure of RMB15,429.0 million.

Capital Structure

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

The Group’s asset-liability ratio (total liabilities/total assets) increased from 63.1% on December 31, 2019 (the “**end of 2019**”) to 65.8% at the end of June 2020, representing a year-on-year increase of 2.7 percentage points, mainly attributable to a greater increase in liabilities than in assets.

The Group’s net gearing ratio ((total borrowings less cash and cash equivalents)/(total equity plus the total borrowings less cash and cash equivalents)) decreased from -56.4% at the end of 2019 to -64.9% at the end of June 2020, representing a year-on-year decrease of 8.5 percentage points, mainly attributable to (i) an increase in cash and cash equivalents; and (ii) the decrease in total equity was greater than the increase in cash and cash equivalents.

On January 8, 2020, the Company issued corporate bonds in an amount of RMB600 million with the term of three years and the annual coupon rate of 3.39%, and all proceeds were used for repaying interest-bearing debts.

On March 10, 2020, the Company issued ultra short-term commercial paper in an amount of RMB1,500 million with the term of 269 days and the annual coupon rate of 2.39%, and all proceeds were used for repaying bank borrowings and replenishing the working capital.

On April 17, 2020, the Company issued ultra short-term commercial paper in an amount of RMB1,500 million with the term of 252 days and the annual coupon rate of 1.82%, and all proceeds were used for repaying bank borrowings and replenishing the working capital.

As at the end of June 2020, the total outstanding borrowings was RMB25,244.4 million, including short term borrowings of RMB17,014.8 million in aggregate and long-term borrowings of RMB8,229.6 million in aggregate. The Group will repay the aforesaid borrowings in a timely manner at maturity.

As at the end of June 2020, none of the Group’s debt covenants in effect includes any agreement on the obligations to be performed by controlling shareholders. In the meantime, the Group has also strictly followed all the terms and conditions in its debt covenants, and no default has taken place.

Significant Investments

Total capital expenditures of the Group increased to RMB3,347.7 million in the first half of 2020 from RMB2,542.2 million in the first half of 2019, representing a year-on-year increase of 31.7%. Among which, capital expenditures of Beijing Benz increased to RMB3,028.2 million in the first half of 2020 from RMB2,107.4 million in the first half of 2019, and capital expenditures of Beijing Brand decreased to RMB319.5 million in the first half of 2020 from RMB434.8 million in the first half of 2019.

Total research and development expenses of the Group decreased slightly to RMB1,131.6 million in the first half of 2020 from RMB1,215.7 million in the first half of 2019, the majority of which were incurred by the Group for its product research and development activities. Based on the accounting standards and the Group's accounting policy, the amounts of the aforesaid total research and development expenses which complied with capitalization conditions had been capitalized accordingly.

Material Acquisitions and Disposals

On February 13, 2020, BAIC Investment, a non wholly-owned subsidiary of the Company, entered into a capital increase agreement with BAIC Finance, pursuant to which, BAIC Investment agreed to further contribute RMB500 million to the newly increased registered capital of BAIC Finance (RMB2.5 billion in aggregate) based on its proportion in the registered capital of BAIC Finance for the time being (i.e. 20%). Upon the completion of the capital increase, the proportion of capital contribution by BAIC Investment to the registered capital (as increased) of BAIC Finance will remain unchanged (i.e. 20%), representing a total capital contribution of RMB1 billion.

On March 13, 2020, the Company and BAIC Group entered into an equity transfer agreement, pursuant to which the Company agreed to purchase, and BAIC Group agreed to dispose of 100% equity interest in BAIC International and 24.78% equity interest in BAIC Ruili held by BAIC Group respectively, at a total consideration of RMB80 million. Upon the completion of the transaction under the equity transfer agreement, BAIC International will become a wholly-owned subsidiary of the Company, while BAIC Ruili will become a non wholly-owned subsidiary of the Company.

For details of the aforesaid cooperation matters, please refer to relevant announcements of the Company dated February 13, 2020 and March 13, 2020 respectively.

Foreign Exchange Gains or Losses³

The Group's foreign exchange gains or losses (mainly from the businesses of Beijing Benz) decreased from foreign exchange losses of RMB196.9 million in the first half of 2019 to foreign exchange losses of RMB147.7 million in the first half of 2020, mainly due to (i) the effective control on the foreign exchange rate risks due to the judgment in foreign exchange forward contracts; and (ii) the decrease in exchange gains from Euro-denominated payments as a result of the fall in the exchange rate of RMB against Euro.

³ Foreign exchange gains or losses include foreign exchange forward contracts at fair value through profit or loss

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

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

Employee and Remuneration Policies

The number of Group's staffs decreased from 21,712 at the end of 2019 to 20,715 at the end of June 2020. The staff costs incurred by the Group decreased from RMB3,033.2 million in the first half of 2019 to RMB2,859.7 million in the first half of 2020, representing a year-on-year decrease of 5.7%, mainly due to a decrease in the number of staffs.

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

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

Pledge of Assets

As at the end of June 2020, the Group had pledged notes receivable of RMB586 million.

Contingent Liabilities

As at the end of June 2020, the Group had no material contingent liabilities.

MATERIAL LITIGATION AND ARBITRATION

As at the end of June 2020, the Company had no material litigation or arbitration. The Directors were also not aware of any material litigations or claims which were pending or had significant adverse effect on the Company.

MATTERS AFTER THE REPORTING PERIOD

Please refer to note 10 to the financial statements of this announcement for details of matters after the Reporting Period.

INTERIM DIVIDEND

The Board has not made any recommendation on the payment of an interim dividend for the first half of 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed securities during the Reporting Period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has been building and maintaining a high level of corporate governance so as to protect the rights and interests of shareholders and enhance the Company's corporate value and sense of responsibility. With reference to the Code on Corporate Governance as set forth in Appendix 14 to the Listing Rules (the "**Corporate Governance Code**"), the Company has established a modern and balanced corporate governance structure which comprises a number of independently operated bodies including the shareholders' general meeting, the Board, the board of supervisors (the "**Board of Supervisors**") and senior management. The Company had complied with the Corporate Governance Code throughout the Reporting Period.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code for Securities Transactions**") in Appendix 10 to the Listing Rules as the code of conduct for dealing in securities of the Company by all our Directors and supervisors of the Company (the "**Supervisors**"). In response to the Company's enquiries, all Directors and Supervisors have confirmed that they strictly complied with the Model Code for Securities Transactions during the Reporting Period.

THE BOARD, THE BOARD OF SUPERVISORS AND THE COMMITTEES

The three-year term of the third session of the Board of the Company was expired on April 20, 2020. In order to implement corresponding measures in response to the outbreak of the COVID-19, the re-election and appointment of the third session of the Board of the Company has been postponed until a new session of the Board is approved by the shareholders of the Company at a general meeting in accordance with the requirements of the Articles of Association of the Company, in order to maintain the continuity of the work of the Board. Meanwhile, the terms of the special committees under the third session of the Board of the Company will be correspondingly extended. The PRC legal adviser of the Company, JunHe LLP, is of the view that the postponed re-election and appointment of the third session of the Board, and the continuation by the existing Directors to execute their duties until the general meeting approving the new session of the Board do not contravene the requirements under the Company Law of the PRC and the Articles of Association of the Company. For details, please refer to the relevant announcement of the Company dated April 24, 2020.

On July 24, 2020, Mr. Yan Xiaolei has resigned as the non-executive Director, the member of the strategy committee under the Board (the “**Strategy Committee**”) and the Audit Committee due to job reassignment. The Board resolved to propose to appoint Mr. Liao Zhenbo as the non-executive Director for a term commencing from the date of approval at the shareholders’ general meeting until the expiration of the term of the third session of the Board. Pursuant to Rule 3.21 of the Listing Rules, the audit committee under the board must comprise a minimum of three members. Upon the resignation of Mr. Yan Xiaolei, the number of members of the Audit Committee decreased from three to two, falling below the minimum number required under Rule 3.21 of the Listing Rules. For details, please refer to the relevant announcement of the Company dated July 24, 2020.

On July 31, 2020, the Board resolved to appoint Mr. Liao Zhenbo as a member of the Strategy Committee (Mr. Liao Zhenbo has not become a Director of the Company, and the nomination of him as a Director is subject to the approval by the shareholders’ general meeting) and appoint Ms. Shang Yuanxian as a member of the Audit Committee, whose tenures both commence from July 31, 2020. Upon the appointment of Ms. Shang Yuanxian as a member of the Audit Committee, the Company has re-complied with the minimum number of members of the audit committee required under Rule 3.21 of the Listing Rules. For details, please refer to the relevant announcement of the Company dated July 31, 2020.

On June 18, 2020, the Company convened the 2019 annual general meeting, at which Mr. Qi Chunyu was appointed as the shareholder representative Supervisor for a term commencing from June 18, 2020 until the expiration of the term of the third session of the Board of Supervisors. Due to other job assignment, from the effective date of the above appointment of Mr. Qi Chunyu as the shareholder representative Supervisor, Mr. Yao Shun has ceased to serve as the shareholder representative Supervisor. For details, please refer to the relevant announcement of the Company dated June 18, 2020.

Save as disclosed above, during the Reporting Period and as at the date of this announcement, there was no change in the composition of the Board, the Strategy Committee, the Audit Committee, the nomination committee under the Board, the remuneration committee under the Board and the Board of Supervisors.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference. As at the date of this announcement, the Audit Committee comprises Mr. Wong Lung Tak Patrick (Chairman), Ms. Shang Yuanxian and Mr. Liu Kaixiang, among which two are independent non-executive Directors. The Audit Committee has reviewed with the management the accounting standards and practices adopted by the Group and reviewed the unaudited interim financial statements for the first half of 2020, the 2020 interim results and the 2020 interim report of the Group.

PUBLICATION OF UNAUDITED INTERIM RESULTS AND 2020 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement will be published on the website of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (www.hkexnews.hk) and the Company’s website (www.baicmotor.com) respectively. The Company will dispatch to the shareholders in due course the 2020 interim report of the Company containing all the information required by the Listing Rules, which will also be published on the websites of the Company and the Stock Exchange.

By order of the board of directors
BAIC Motor Corporation Limited
WANG Jianhui
Secretary to the Board and Company Secretary

Beijing, the PRC, August 31, 2020

As at the date of this announcement, the Board comprises Mr. Xu Heyi, as Chairman of the Board and non-executive Director; Ms. Shang Yuanxian, as non-executive Director; Mr. Chen Hongliang, as executive Director; Mr. Xie Wei, Mr. Qiu Yinfu, Mr. Hubertus Troska, Mr. Harald Emil Wilhelm, Mr. Jin Wei and Mr. Lei Hai, as non-executive Directors; and Mr. Ge Songlin, Mr. Wong Lung Tak Patrick, Mr. Bao Robert Xiaochen, Mr. Zhao Fuquan and Mr. Liu Kaixiang, as independent non-executive Directors.

* *For identification purpose only*