



**Dragon Hill Wuling Automobile Holdings Limited**  
**(俊山五菱汽車集團有限公司\*)**

*(Incorporated in Bermuda with limited liability) (Stock Code 股份代號 : 305)*

**ANNOUNCEMENT OF FINAL RESULTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**RESULTS**

The Board of Directors (the “Board”) of Dragon Hill Wuling Automobile Holdings Limited (the “Company”) announce the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2007 together with the comparative figures for the previous year as follows:

**CONSOLIDATED INCOME STATEMENT**

	<i>NOTES</i>	<b>2007</b> <i>RMB'000</i>	2006 <i>RMB'000</i> (restated)
Revenue	4	<b>2,856,456</b>	16,616
Cost of sales		<b>(2,591,934)</b>	(11,256)
Gross profit		<b>264,522</b>	5,360
Other income	5	<b>36,488</b>	35,303
Distribution costs		<b>(28,784)</b>	–
Administrative expenses		<b>(172,139)</b>	(16,241)
Net gain in held-for-trading investments		<b>8,982</b>	961
Share of results of an associate		<b>220</b>	–
Increase in fair value on investment properties		<b>5,152</b>	141
Finance costs	6	<b>(17,221)</b>	(3,439)
Profit before taxation	7	<b>97,220</b>	22,085
Income tax expense	8	<b>(22,602)</b>	(19)
Profit for the year		<b><u>74,618</u></b>	<u>22,066</u>
Attributable to:			
Equity holders of the Company		<b>11,147</b>	22,066
Minority interests		<b>63,471</b>	–
		<b><u>74,618</u></b>	<u>22,066</u>
Dividends	9	<b><u>–</u></b>	<u>–</u>
Earnings per share	10		
Basic		<b>RMB1.26 cents</b>	RMB6.80 cents
Diluted		<b>RMB1.23 cents</b>	RMB6.77 cents

\* For identification purpose only

## CONSOLIDATED BALANCE SHEET

	<i>NOTES</i>	<b>2007</b> <i>RMB'000</i>	2006 <i>RMB'000</i> (restated)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		444,445	11,641
Prepaid lease payments		2,022	–
Premium on prepaid lease payments		1,072	–
Investment properties		19,737	15,814
Intangible assets		928	876
Interest in an associate		2,502	–
Available-for-sale investments		498	–
Deposits for trading rights		192	205
Deposits for acquisition of property, plant and equipment		59,094	193
		<u>530,490</u>	<u>28,729</u>
<b>CURRENT ASSETS</b>			
Inventories	<i>11</i>	432,603	–
Loans receivable	<i>12</i>	2,448	15,221
Trade and other receivables	<i>13</i>	2,586,718	10,514
Prepaid lease payments		49	–
Held-for-trading investments		1,038	2,907
Client trust bank accounts		5,987	6,093
Pledged bank deposits		302,034	–
Bank balances and cash		601,617	7,607
		<u>3,932,494</u>	<u>42,342</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	<i>14</i>	2,212,874	20,141
Amount due to a shareholder		1,405,695	–
Amount due to an associate		8,296	–
Provision for warranty	<i>15</i>	64,279	–
Tax liabilities		67,420	52
Bank borrowings – due within one year		90,005	808
Obligations under finance leases – due within one year		287	–
		<u>3,848,856</u>	<u>21,001</u>
<b>NET CURRENT ASSETS</b>		<u>83,638</u>	<u>21,341</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>614,128</u>	<u>50,070</u>
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings – due after one year		32,504	16,687
Obligations under finance leases – due after one year		725	–
Deferred tax liabilities		210	19
		<u>33,439</u>	<u>16,706</u>
		<u>580,689</u>	<u>33,364</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>16</i>	3,659	3,069
Reserves		104,917	30,295
Equity attributable to equity holders		108,576	33,364
Minority interests		472,113	–
		<u>580,689</u>	<u>33,364</u>

## 1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain properties and financial instruments, which have been measured at revalued amounts of fair value.

Prior to 2007, the Group was engaged in securities trading, dealing and brokerage and provision of margin financing, money lending and property investment.

During the year, the Company entered into a joint venture agreement with Liuzhou Wuling Motors Company Limited (柳州五菱汽車有限責任公司) (“Liuzhou Wuling”) to establish Liuzhou Wuling Motors Industrial Company Limited (柳州五菱汽車工業有限公司) (“Wuling Industrial”). Pursuant to the joint venture agreement, the Company subscribed for 50.98% of the registered capital of Wuling Industrial for a cash consideration of RMB391,000,000 while Liuzhou Wuling subscribed for 49.02% of the registered capital by transferring certain business, assets and liabilities thereto.

Following its establishment, Wuling Industrial and its subsidiaries are engaged in the manufacturing and trading of engines and parts, automotive components and accessories, specialized vehicles and the procurement services of raw materials, water and power supply.

Prior to 2007, the functional currency and presentation currency of the Company is both Hong Kong dollars for the purpose of preparing its consolidated financial statements. Because of the acquisition of Wuling Industrial, the Company has re-examined its functional currency and presentation currency in light of the change in the Group’s source of income, expenses and funding. As a result of this examination, the directors have determined that the functional currency and presentation currency of the Company should now be Renminbi (“RMB”). Accordingly, these financial statements are presented on this basis. The comparative figures for 2006 have also been re-stated accordingly.

The change in presentation currency in 2006 has no material impact in exchange reserve.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions <sup>3</sup>
HK(IFRIC)-Int 12	Service Concession Arrangements <sup>4</sup>
HK(IFRIC) – Int 13	Customer loyalty programmes <sup>5</sup>
HK(IFRIC) – Int 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction <sup>4</sup>

<sup>1</sup> *Effective for annual periods beginning on or after 1 January 2009*

<sup>2</sup> *Effective for annual periods beginning on or after 1 July 2009*

<sup>3</sup> *Effective for annual periods beginning on or after 1 March 2007*

<sup>4</sup> *Effective for annual periods beginning on or after 1 January 2008*

<sup>5</sup> *Effective for annual periods beginning on or after 1 July 2008*

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

### **3. SEGMENT INFORMATION**

#### **(a) Business segments**

For management purposes, the Group is currently organised into the following five operating divisions. These divisions are the basis on which the Group reports its primary segment information. Following the acquisition of Wuling Industrial in 2007, the Company re-examined its segment reporting and combined all of its business segments in 2006 (which includes securities trading, dealing and brokerage and provision of margin financing, money lending and property investment) into one segment under “others” as all of these business segments are no longer separately reportable segments in 2007.

Accordingly, the business segments information for 2006 has not been presented as under the new business segment reporting basis, all of the businesses of the Group in 2006 are included in “others” segment.

- Manufacture and sale of automotive components and accessories
- Manufacture and sale of specialized vehicles
- Manufacture and sale of engines and parts
- Procurement services of raw materials, water and power supply
- Others

	Engines and parts <i>RMB'000</i>	Automotive components <i>RMB'000</i>	Specialized vehicles <i>RMB'000</i>	Procurement services <i>RMB'000</i>	Others <i>RMB'000</i>	Elimination <i>RMB'000</i>	Consolidated <i>RMB'000</i>
For the year ended 31 December 2007							
Turnover							
External sales	1,101,192	938,127	287,848	524,385	4,904	–	2,856,456
Inter-segment sales	–	123	–	504,580	–	(504,703)	–
Total	<u>1,101,192</u>	<u>938,250</u>	<u>287,848</u>	<u>1,028,965</u>	<u>4,904</u>	<u>(504,703)</u>	<u>2,856,456</u>

Inter-segment sales are charged at prevailing market prices.

Segment results	<u>77,143</u>	<u>12,111</u>	<u>2,548</u>	<u>17,189</u>	<u>(1,879)</u>		107,112
Unallocated income							20,315
Unallocated expense							(13,206)
Share of result of an associate							220
Finance costs							(17,221)
Profit before taxation							97,220
Taxation							(22,602)
Profit for the year							<u>74,618</u>

Other information							
Capital additions	208,399	196,046	22,292	28,974	4,013		459,724
Depreciation	12,166	5,455	984	494	1,055		20,154
Impairment on bad and doubtful debts	811	142	185	–	36		1,174
Release of prepaid lease payments	–	16	–	–	–		16
Loss(gain) on disposal of property, plant and equipment	696	(32)	–	137	31		832
Allowance for inventories	<u>8,787</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>		<u>8,787</u>

At 31 December 2007

Balance sheet

Assets							
Segment assets	1,323,531	1,699,860	180,542	292,133	62,264		3,558,330
Interest in an associate							2,502
Unallocated corporate assets							<u>902,152</u>
Consolidated assets							<u>4,462,984</u>
Liabilities							
Segment liabilities	940,610	837,026	32,040	451,332	39,940		2,300,948
Unallocated liabilities							<u>1,581,347</u>
Consolidated liabilities							<u>3,882,295</u>

**(b) Geographical segments**

The Group's operations are located in Hong Kong, Philippines and PRC. The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods and services.

	Revenue by geographical market	
	2007 RMB'000	2006 RMB'000
PRC (excluding Hong Kong)	2,851,552	–
Hong Kong	4,904	16,413
Philippines	–	203
Consolidated	<u>2,856,456</u>	<u>16,616</u>

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Hong Kong	57,384	59,870	4,013	27,576
Philippines	10,404	11,201	–	–
PRC	<u>3,490,542</u>	–	<u>455,711</u>	–
Consolidated	<u>3,558,330</u>	<u>71,071</u>	<u>459,724</u>	<u>27,576</u>

**4. REVENUE**

An analysis of the Group's revenue is as follows:

	2007 RMB'000	2006 RMB'000
Sales of goods	2,851,552	–
Commission and interest income from securities dealing and margin finance	4,054	3,070
Interest income from consumer finance	–	1,014
Gross property rental income	850	1,164
Others	–	11,368
	<u>2,856,456</u>	<u>16,616</u>

## 5. OTHER INCOME

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Gain on disposal of subsidiaries	–	12,408
Gain on the waiver of loan advances and related interest by former holding companies and a former fellow subsidiary	–	20,074
Sales of scrap materials and parts	<b>19,567</b>	–
Foreign exchange gains, net	–	199
Machinery rental income	<b>597</b>	–
Dividend income from equity investments	<b>120</b>	22
Dividend income from available-for-sale investments	<b>11</b>	–
Recovery of bad debts	<b>748</b>	977
Bank interest income	<b>12,604</b>	100
Reversal of impairment loss of loans and other receivables	–	1,500
Others	<b>2,841</b>	23
	<u><b>36,488</b></u>	<u>35,303</u>

## 6. FINANCE COSTS

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Interests on:		
– borrowings wholly repayable within five years	<b>894</b>	1
– borrowings repayable over five years	<b>1,167</b>	193
– discounted bills	<b>15,157</b>	–
– obligations under finance leases	<b>3</b>	–
– amounts due to former holding companies	–	3,245
	<u><b>17,221</b></u>	<u>3,439</u>

## 7. PROFIT BEFORE TAXATION

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Profit before taxation has been arrived at after charging/(crediting):		
Directors' emoluments	2,234	1,526
Other staff costs	80,524	3,388
Retirement benefit scheme contributions, excluding directors	<u>16,292</u>	<u>73</u>
Total staff costs	<u>99,050</u>	<u>4,987</u>
Gross property rental income	850	1,164
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	<u>(62)</u>	<u>(65)</u>
Net rental income	<u>788</u>	<u>1,099</u>
Allowance for inventories	8,787	–
Auditors' remuneration	1,951	768
Cost of inventories recognised as an expense	2,583,147	–
Depreciation of property, plant and equipment	20,154	215
Impairment of bad and doubtful debts	1,174	–
Loss on disposal of property, plant and equipment	832	–
Release of prepaid lease payments	16	–
Research and development expenses	<u>48,548</u>	<u>–</u>

## 8. INCOME TAX EXPENSE

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Tax charge represents:		
PRC income tax for current year	22,401	–
Deferred tax		
Current year	<u>201</u>	<u>19</u>
	<u>22,602</u>	<u>19</u>

No provision for Hong Kong Profits Tax has been made for both years as the Group has available tax losses brought forward from prior years to offset the estimated assessable profits arising in Hong Kong.

Pursuant to the tax notice, Caishui [2001] No. 202, other than Wuling Industrial which is subject to PRC income tax rate of 33%, all the major operating subsidiaries of the Group in the PRC are entitled to a preferential income tax rate of 15% because (i) they are located in the western areas of China; (ii) their main business falls into the National Key Encouraged Industry and Technology Catalogue; and (iii) their sale revenue generated from their main business totaled more than 70% of their total income.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the “New Law”) by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. All the major operating subsidiaries except for Wuling Industrial of the Group in the PRC will continue to enjoy the preferential tax rate at 15% until 2010, while Wuling Industrial will be subject to tax rate at 25% since 1 January 2008.

## 9. DIVIDENDS

No interim dividend was declared or paid during the year. The directors do not recommend the payment of a final dividend.

## 10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
<b>Earnings</b>		
Earnings for the purpose of basic and diluted earnings per share	<u>11,147</u>	<u>22,066</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	887,288	324,679
Effect of dilutive potential ordinary shares:		
Warrants	<u>21,123</u>	<u>1,233</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>908,411</u>	<u>325,912</u>

## 11. INVENTORIES

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Raw materials	206,821	–
Work in progress	47,086	–
Finished goods	<u>178,696</u>	–
	<u>432,603</u>	<u>–</u>

## 12. LOANS RECEIVABLE

Loans receivable comprise margin clients accounts receivable and a consumer finance loan receivable of RMB2,448,000 (2006: RMB8,206,000) and RMB Nil (2006: RMB7,015,000), respectively.

## 13. TRADE AND OTHER RECEIVABLES

	2007 RMB'000	2006 RMB'000
Trade receivables		
– related party ( <i>note i</i> )	1,863,844	–
– Liuzhou Wuling Group ( <i>note ii</i> )	12,711	–
– third parties	553,982	24,530
	<u>2,430,537</u>	24,530
Less: allowance for doubtful debts	<u>(6,204)</u>	<u>(15,232)</u>
	<u>2,424,333</u>	9,298
Other receivables:		
Prepayments	67,205	360
Deposits paid	32,741	683
VAT receivables	10,690	–
Others	51,749	173
	<u>162,385</u>	1,216
	<u><u>2,586,718</u></u>	<u><u>10,514</u></u>

*Notes:*

- (i) The related party is SAIC-GM-Wuling Automobile Co., Ltd. (上汽通用五菱汽車股份有限公司) (“SGMW”) in which Liuzhou Wuling holds 15% equity interest.
- (ii) Being Liuzhou Wuling and its affiliates (collectively referred to as the “Liuzhou Wuling Group”).

The aged analysis of the Group’s trade receivables as at the balance sheet date are as follows:

	2007 RMB'000	2006 RMB'000
0 – 90 days	2,405,827	9,298
91 – 180 days	13,102	–
181 – 365 days	4,320	–
Over 365 days	1,084	–
	<u>2,424,333</u>	<u>9,298</u>

#### 14. TRADE AND OTHER PAYABLES

The aged analysis of the Group's trade payables at the balance sheet date are as follows:

	<b>2007</b> <i>RMB'000</i>	2006 <i>RMB'000</i>
Trade payables:		
– third parties	<u>1,862,498</u>	<u>14,826</u>
Trade payables:		
0 – 90 days	1,817,635	14,826
91 – 180 days	29,012	–
181 – 365 days	12,761	–
Over 365 days	<u>3,090</u>	<u>–</u>
	1,862,498	14,826
Other payable and accruals	<u>350,376</u>	<u>5,315</u>
	<u><b>2,212,874</b></u>	<u><b>20,141</b></u>

#### 15. PROVISION FOR WARRANTY

	<i>RMB'000</i>
At 1 January 2006 and 31 December 2006	–
Acquisition of subsidiaries	59,178
Additional provision in the year	11,982
Utilisation of provision	<u>(6,881)</u>
At 31 December 2007	<u><b>64,279</b></u>

The warranty provision represents management's best estimate, with reference to prior experience and industry averages for defective products, of the Group's liabilities under its 2-year product warranty granted to its engines and automotive components customers.

## 16. SHARE CAPITAL

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Authorised:		
25,000,000,000 (2006: 25,000,000,000) ordinary shares of HK\$0.004 (2006: HK\$0.004) each	<b>100,000</b>	100,000
1,521,400,000 convertible preference shares of HK\$0.001 each (2006: HK\$0.001)	<u><b>1,521</b></u>	<u>1,521</u>
	<u><b>101,521</b></u>	<u>101,521</u>
Issued and fully paid:		
917,288,049 (2006: 767,288,049) ordinary shares of HK\$0.004 (2006: HK\$0.004) each	<u><b>3,659</b></u>	<u>3,069</u>

On 14 May 2007, 150,000,000 new shares were issued pursuant to the exercise of 150,000,000 warrants by the warrant holders at an exercise price of HK\$0.332 per share.

### POST BALANCE SHEET EVENT

Subsequent to the year end date, on 2 January 2008, a total of 15,320,000 share options were granted to and subsequently accepted by the directors and employees of the Group entitling them to subscribe for shares in the Company from the date of acceptance to 31 December 2009 at an exercise price of HK\$2.318 per share.

### DIVIDEND

At the balance sheet date, the Company did not have any reserves available for cash/in specie dividend distributions (2006: Nil).

### BUSINESS REVIEW AND OUTLOOK

#### REVIEW

2007 was undoubtedly a memorable year of the Company. The successful acquisition of a controlling stake in Liuzhou Wuling Motors Industrial Company Limited (柳州五菱汽車工業有限公司) (“Wuling Industrial”) in August this year inaugurated the Group’s re-positioned strategy in pursuing the business opportunities arising from the fast-growing automobile industry in the People’s Republic of China (“PRC”).

At the same time, the acquisition of a 29% shareholding interests of the Company by Liuzhou Wuling Motors Company Limited (柳州五菱汽車有限責任公司) (“Liuzhou Wuling”) along with the setup of Wuling Industrial enabled the Group to have a two-dimension strategic partnership with a reputable state-owned enterprise in the automobile industry in the PRC.

Operating results of Wuling Industrial was consolidated into the Group's accounts commencing from 1 September 2007 subsequent to the formal setup of Wuling Industrial as a sino-foreign joint venture company controlled by the Company. As a result, the principal businesses of the Group had been substantially changed as compared to prior years. Due to this reason, newly-defined business segments were adopted for the segment analyses and the Reminbi ("RMB") was used as the presentation currency in the Company's financial statements.

During the year, the Group recorded total revenue of RMB2,856,456,000 attributable mainly to the four new business segments namely (1) engines and parts; (2) automotive components and accessories; (3) specialized vehicles; and (4) procurement services for raw materials, water and power supply.

Net profits and profits attributable to equity holders for the year amounted to RMB74,618,000 and RMB11,147,000 respectively, in which engines and parts, automotive components and accessories and procurement services were the three main contributing segments

## **OUTLOOK**

The Company envisages the year ahead to be challenging.

The weakening global economic situation led by the Subprime Mortgage Crisis in the United States will continue to affect the world economy and unnerve the market sentiment. Being the world fourth largest economic entity with increasing exposures to international trades and businesses, it is unlikely for the PRC to be impervious to this negative factor.

Meanwhile, inflationary pressures generated from the rapid economic growth will continue to make the on-going domestic regulatory measures imperative in the near future.

However, the Company is full of confidence in the long term growth potential in the PRC and believes the existing challenges will eventually convert into business opportunities for enterprises with determined goals and effective strategies.

Despite uncertainties under the current market environment, the Company expects the PRC economy will continue to grow in a considerable pace. The implementation of appropriate regulatory measures will also help to stabilize short term market volatility and create long term benefits for the country.

Whilst motor vehicle is now becoming more and more important in the daily life of the general public in the PRC, our current business focus on the economical mini-vehicles will continue to serve the basic needs of the people. With the continuous supports from Liuzhou Wuling and our customers, we firmly believe the business prospect of the Group is promising and will bring in rewards to our shareholders.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **SET UP OF THE SINO-FOREIGN JOINT VENTURE ENTERPRISE WITH LIUZHOU WULING AND CHANGE OF THE NAME OF THE COMPANY**

On 15 May 2007, the Company entered into the following agreements with Liuzhou Wuling in relation to the proposed formation of a sino-foreign joint venture enterprise for the development of the manufacturing and trading businesses of automotive engines, components and specialized vehicles in the PRC:

- a) an agreement in relation to the increase in the registered capital of Wuling Industrial and the subscription of 50.98% of the enlarged registered capital of Wuling Industrial by the Company at the total amount of RMB391,000,000 (“Subscription Money”); and
- b) a joint venture agreement in relation to the establishment of Wuling Industrial as a sino-foreign joint venture enterprise in the PRC.

According to the aforementioned agreements, the Subscription Money shall be payable by the Company in cash in two stages as follows:

- i) 20% of the Subscription Money which amounts to RMB78,200,000 will be payable within 30 days from the set up date of Wuling Industrial as a sino-foreign joint venture enterprise (“First Subscription Money”); and
- ii) the remaining 80% of the Subscription Money which amounts to RMB312,800,000 will be payable within 2 years from the set up date of Wuling Industrial as a sino-foreign joint venture enterprise.

Details of the proposed formation of the sino-foreign joint venture with Liuzhou Wuling have been fully described in the Company’s circular dated 25 June 2007.

The proposed investment in Wuling Industrial, which constituted a very substantial acquisition and a connected transaction for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), was approved by the independent shareholders in the special general meeting of the Company held on 12 July 2007. On 28 August 2007, the Company further announced that the sino-foreign joint venture enterprise had been formally set up. On 31 August 2007, the Company remitted the First Subscription Money to the designated bank account of Wuling Industrial in accordance with the aforementioned agreements, representing approximately 17.2% of the current total paid up capital of Wuling Industrial.

Pursuant to the share sale agreement entered into between the controlling shareholder, Dragon Hill Development Limited and Liuzhou Wuling on 15 May 2007, and after the establishment of Wuling Industrial as a sino-foreign joint venture enterprise, Wuling (Hong Kong) Holdings Limited, a wholly-owned subsidiary of Liuzhou Wuling, acquired approximately 29% issued share capital from Dragon Hill Development Limited on 28 August 2007 and became the second largest shareholder of the Company.

To signify these significant developments to the Group, the name of the Company has been changed to Dragon Hill Wuling Automobile Holdings Limited.

## **OPERATION REVIEW – BY BUSINESS SEGMENTS**

Subsequent to the formal setup of Wuling Industrial as a sino-foreign joint venture company controlled by the Company, the principal business activities of the Group have been changed to the following five business segments namely:

- Engines and parts;
- Automotive components and accessories;
- Specialised vehicles;
- Procurement services of raw materials, water and power supply; and
- Others

The information of the five business segments and their respective performance and evaluation for the year 2007 are detailed below:

### **Engines and Parts – Liuzhou Wuling Liuji Motors Company Limited (柳州五菱柳機動力有限公司) (“Wuling Liuji”)**

The manufacturing business of engines and parts is undertaken by Wuling Liuji which history can be traced back to 1928, at that time when Wuling Liuji was originally known as Liuzhou Machinery Factory.

The factories of Wuling Liuji occupy a total floor area of nearly 1 million sqm., with a total workforce of approximately 2,000 as at the end of 2007, in which over 400 are technical and management staff.

Wuling Liuji produces diesel and petrol engines for motorbikes and automobiles with capacity ranges from 0.65L to 2.4L. The main stream products have already qualified the National III standard. Annual production for the year 2007 was approximately 500,000 units. Total capacity at present is nearly 800,000 units a year.

Wuling Liuji is currently the No.1 engines producer in the PRC for the mini-vehicles market. The market share achieved for the year 2007 is close to 40%. The number of users of Wuling Liuji’s engines in the PRC has accumulated to more than 2 million by end of 2007, who have been properly serviced and supported by more than 280 after sale service centers across 8 main regions in China.

Wuling Liuji's commitment to the standard service of "Reply within 2 hours and Arrive within 24 hours" has earned a renowned reputation in the market. Other industry recognitions earned in recent years include Top 500 Industrial Machinery Enterprises, Top 100 Automobile Components Industrial Enterprises and the Best Supplier of SAIC-GM-Wuling Automobile Co., Ltd. (上汽通用五菱汽車股份有限公司) ("SGMW").

Turnover of the engines and parts division for the four months ended 31 December 2007 was RMB1,101,192,000 with a segmental share of 38.6%. Operating profits for the respective period was RMB77,143,000 with a segmental share of 70.8%.

Wuling Liuji was the major contributor to the Group's turnover and operating profits for the year 2007. However, yearly performance was affected by the pricing pressure from the customers and increasing costs. Besides, the expenses incurred for the research and development project of a new engine model had also reduced the operating profits of this division in the respective period.

Main development in the year ahead will be the start-up operation of the production plant for the nonferrous metallic parts for the engine's cylinder. The project is established with the objective to enhance profitability by producing the outsourced components in house as well as to provide an extension of services to customers. This production plant will have an annual capacity of approximately 200,000 units.

At the same time, Wuling Liuji is currently undertaken several research and development projects to improve the quality standard of the products and to pursue future business opportunities. The main models under the research and development project are of capacity range from 1.3L to 1.5L. This product range is determined in consideration of our existing customer base as well as the increasing demands which will arise in the market during the course of economic growth cycle in China.

Looking ahead, pricing pressure from customers and increasing costs are expected to affect the industry continuously. However, Wuling Liuji is confident to keep its profitability through a strategy of vertical integration by lowering the cost of production. In addition, Wuling Liuji will also step up suitable new product development projects in order to capture future business opportunities.

**Automotive Components and Accessories – Liuzhou Wuling Motors United Development Limited**  
(柳州五菱汽車聯合發展有限公司) ("Wuling United")

The manufacturing business of automotive components and accessories is undertaken by Wuling United which was formed in 2001.

The factories of Wuling United occupy a total floor area of approximately 280,000 sqm., with a total workforce of 2,400 as at the end of 2007, in which about 670 are technical and management staff.

There are six main factories operated under Wuling United. They include the car axle factory, the brake factory, the plastic injection factory, the welding parts factory, the car seat factory and the automotive accessories factory. Their products cover six main modules with more than a hundred different varieties which includes the main assembly parts of the chassis such as the front suspension, the rear brake swing arm and the brake system, the plastic injection molded parts, other metal stamping and welded parts, seat sets and other automotive accessories, etc. Annual production for the year 2007 was approximately 520,000 units. Total capacity at present is approximately 800,000 units a year.

With its long and established industry experiences, Wuling United is particularly strong in product design and development. Their capability in supplying a wide range of products provides a one-stop shop services to the customers, whereas, the scalability of its production facilities ensures the particular needs of our key customer can be properly taken care of.

Wuling United is qualified with the required industrial standard such as ISO9002, QS-9000 and OHSMS. It also earns a number of recognitions in the industry which includes the Top 100 Automobile Components Industrial Enterprises and the Best Supplier of SGMW.

Turnover of the automotive components and accessories division for the four months ended 31 December 2007 was RMB938,127,000 with a segmental share of 32.9%. Operating profits for the respective period was RMB12,111,000 with a segmental share of 11.1%.

Overall, same as the engines and parts division, yearly performance was affected by the negative factors of pricing pressure from the customers and increasing costs. These negative impacts were partly offset by a larger scale of operation resulting from business expansion and the upstream transfer of the pricing and cost pressures.

Main developments in the year ahead will be the commencement of operation of the new Tsingtao factory which is established to serve the customers' demands in the northern part of the PRC and the new integrated production facilities for the car axle and brake factories which is established with the ultimate aim to upgrade product quality and enhance efficiency.

Looking ahead, the continuous growth of business of our key customer will benefit our revenue. Though pricing pressure from customers is expected to continue, Wuling United is optimistic to maintain profitability due to larger scale operations and the corresponding policy of upstream transfer of the pricing and cost pressures. Besides, regulatory measures implemented by the government to cool down the economy are also anticipated to cause the cost pressures to be less severe in the coming year.

Strategically, Wuling United will focus on new models development for business expansion and to promote efficiency through further integration for improvement of margin performances.

## **Specialized Vehicles – Liuzhou Wuling Specialized Vehicles Manufacturing Company Limited (柳州五菱專用汽車製造有限公司) (“Wuling Specialized Vehicles”)**

The manufacturing business of specialized vehicles is undertaken by Wuling Specialised Vehicles which was established in 2003.

The factories of Wuling Specialized Vehicles occupy a total floor area of approximately 35,000 sqm., with a total workforce of approximately 300 as at the end of 2007, in which about 70 are technical and management staff.

Wuling Specialized Vehicles operates a comprehensive car assembly line which covers the production processes of welding, painting and assembly. Wuling Specialized Vehicles produces more than a hundred different types of specially-designed vehicles which serves the particular needs of customers, such as sightseeing bus, golf cart, police car, postal van, ambulance, container wagon, refrigerator vehicle, heat preservation vehicle, garbage truck, etc. The customers range from government departments, public institutes, private enterprises with different size of operation to private individuals. Total capacity at present is about 25,000 vehicles a year.

The capability of Wuling Specialized Vehicles in the car assembly industry is originated from the long-standing industry experiences of Wuling. In fact, the models designed and developed by Wuling Specialized Vehicles are branded as “Wuling”, which is itself a benchmark of quality products and services in China.

With the continuous support from other fellow subsidiaries, Wuling Specialized Vehicles can provide a state of the art solution for the specially-designed vehicles market in the PRC. In addition, the strong after sale services support further enhances its competitiveness and its distinctive market position.

Turnover of the specialized vehicles division for the four months ended 31 December 2007 was RMB287,848,000 with a segmental share of 10.1%. Operating profits for the respective period was RMB2,548,000 with a segmental share of 2.3%.

Wuling Specialized Vehicles sold approximately 16,000 specialised vehicles in 2007 which comprised mainly redecorated vans and lorries. Being the youngest member in the Wuling Industrial Group which has been in business for less than four years, the development of Wuling Specialised Vehicles has been regarded as satisfactory.

Main development in the year ahead will be on capacity expansion and the launch of new models. Despite a share of approximately 10% in the total revenue of the Group, the growth in the sight-seeing type vehicles was encouraging in 2007. This particular type of products, which have better profit margins and great exporting business potential, will be the main focus in our business development strategy.

Currently, resources have been allocated to Wuling Specialized Vehicles, which will work together with the technical center of Wuling Industrial, to roll out a number of new product development projects to pursue business opportunities in this high profitability market segment.

**Procurement Services for Raw Materials, Water and Power Supply – Liuzhou Wuling Motors Industrial Company Limited (柳州五菱汽車工業有限公司) (“Wuling Industrial”)**

Besides acting as the holding company, Wuling Industrial itself maintains a technical centre, a training centre and two operating arms which provide centralized procurement services to the group companies, customers and suppliers for the supply of raw materials, water and power.

Headquartered in Liuzhou in the Guangxi Province and supported by a total number of over 5,000 staff members (inclusive of the staff members of the three aforementioned subsidiaries), Wuling Industrial enjoys the close proximity advantage to the key customer and perform a core and effective functions to the key customer and to its subsidiaries.

The primary corporate objectives of Wuling Industrial can be separated into the following three main areas:

- (1) to expedite the growth of the three main businesses in the automobile industry with the market principles of supplying good quality vehicles at competitive price to the customers and with the ultimate targets to secure and reinforce the leading position in the market;
- (2) to promote a coherent working environment among different entities which include the group companies, its customers, suppliers and other services providers to ensure common corporate goals and to determine appropriate operational policies; and
- (3) to design and carry out effective procurement and resources allocation programmes to enhance efficiency and competitiveness of the group companies as well as the entities serviced by the Group in the industry.

These corporate objectives are closely monitored and effectively carried out by management team of Wuling Industrial who has tremendous industry experiences and extensive business networks.

Turnover of the procurement services division for the four months ended 31 December 2007 was RMB524,385,000 with a segmental share of 18.4%. Operating profits for the respective period was RMB17,189,000 with a segmental share of 15.8%.

The operating profit from these procurement services was primarily generated from the key customer and suppliers. Wuling Industrial expects this business model will continue to benefit the related entities and will ensure its remarkable core team member position in the business programmes of the key customer and the suppliers.

Main projects in the year ahead will be the extension works of an infra-structural project for electricity supply and several new business development projects, including one of which is in co-operation with another prominent enterprise in Liuzhou.

Looking ahead, the continuous business expansion of our key customer will continue to be the momentum of our growth. However, the management is also conscious of a relatively high concentration of business and is pursuing other business opportunities which can promote a balanced development to the Group.

With this in mind, besides acting as the Group's teamwork leader in furthering the existing business activities in co-operation with the key customer, Wuling Industrial will conscientiously to implement suitable strategies of diversification and integration to achieve the long term growth targets in the automobile industry.

### **Others – The Financial Services Division and the Property Division**

The Group maintained the existing financial services and property investment businesses during the year, which under the newly-defined business segments, were grouped together as others. These two divisions in aggregate registered a turnover of RMB4,904,000 and an operating loss of RMB1,879,000 for the year.

## **FINANCIAL REVIEW**

### **Income Statement**

During the year, in consequence of the formal setup of Wuling Industrial as a sino-foreign joint venture company controlled by the Company, operating results of Wuling Industrial was consolidated into the Group's accounts commencing from 1 September 2007, in which the respective profits attributable to the equity holders were calculated based on the percentage of the total paid up capital of Wuling Industrial contributed by the Company, which accounted for approximately 17.2% of the operating results of Wuling Industrial for the respective period.

The consolidation of the operating results of Wuling Industrial had led to a significant change in the Group's principal business activities as compared to prior years. Due to this reason, newly-defined business segments were adopted for the segment analyses and the Reminbi was used as the presentation currency in the Company's financial statements.

Group's turnover and net profits for the year were RMB2,856,456,000 and RMB74,618,000 respectively which were mainly attributable to the four new business segments namely (1) engines and parts; (2) automotive components and accessories; (3) specialized vehicles; and (4) procurement services of raw materials, water and energy supply. Profits attributable to equity holders for the year were RMB11,147,000, in which the profits contributed from the operating results Wuling Industrial amounting to approximately RMB12.2 million were recorded in accordance with the basis as abovementioned.

Gross margin of the Group was 9.3%, reflecting the keen competition environment in the automobile industry in the PRC. Continuous pricing pressures from the customers and increasing costs had kept the gross margin in a highly competitive level over the years.

Other income comprised primarily sales of scrap materials of RMB19,567,000 and bank interest income of RMB12,604,000 was in aggregate RMB36,488,000 for the year. The increase was a result of the consolidation of Wuling Industrial as aforementioned.

In addition, the Group also recorded a net gain on held-for-trading investments of RMB8,982,000 and an appreciation in the value of investment properties amounting to RMB5,152,000 taking the advantages of a better market condition in the year.

Distribution costs of the Group comprised primarily transportation costs and various marketing expenses were in aggregate RMB28,784,000 for the year. The increase was a result of the consolidation of Wuling Industrial as aforementioned.

Administrative expenses of the Group comprised primarily salary and allowances, various insurance expenses, warranty expenses and research and development expenses were in aggregate RMB172,139,000 for the year. Again, it reflected the consolidated results of Wuling Industrial.

Finance costs for the year amounted to RMB17,221,000. The increase was attributable to the inclusion of the interest expenses incurred by the members companies of the Wuling Industrial Group for their daily operations as well as the new bank loans drawn down by the Group for the first tranche capital injection to Wuling Industrial.

Effective tax rate of the Group for the year was 23.2% , representing primarily the corporate income tax applicable to the members companies of the Wuling Industrial Group, in which some of them are entitled to the preferential tax scheme offered by the government to the manufacturing enterprises located in specific regions in the western part of the PRC.

Earnings per share for the year, taking into account of the dilution effect of the issue of the 150,000,000 new shares from the conversion of warrants in May 2007, was RMB1.23 cents.

## **Balance sheet**

As at 31 December 2007, the total assets and liabilities of the Group stood at RMB4,462,984,000 and RMB3,882,295,000 respectively.

Non-current assets amounted to RMB530,490,000 which comprised mainly property, plant and equipment.

Current assets amounted to RMB3,932,494,000 comprised mainly inventories of RMB432,603,000, trade and other receivables of RMB2,586,718,000, bank and cash balances (inclusive of pledged bank deposits) of RMB903,651,000. Amount due from SGMW, a related company and a key customer in the engines and automotive components businesses of the Group amounted to RMB1,863,844,000 was recorded as trade and other receivables in the balance sheet. These receivable balances were subject to normal and commercial settlement terms. Total cash and bank balances amounted to RMB903,651,000, in which RMB302,034,000 were pledged bank deposits to secure the banking facilities offered to the Group. Overall, the Group had cash (excluding pledged bank deposits) net of borrowings amounting to RMB478,096,000 as at 31 December 2007.

Current liabilities amounted to RMB3,848,856,000 comprised mainly trade and other payables of RMB2,212,874,000, Amount due to related companies of RMB1,413,991,000, provision for warranty of RMB64,279,000, tax liabilities of RMB67,420,000 and bank borrowings – due within one year of RMB90,005,000. Amount due to Liuzhou Wuling, the former holding company and the joint venture partner of Wuling Industrial which amounted to RMB1,405,695,000 was recorded under current liabilities. These amounts were mainly arisen from the dividend declared by Wuling Industrial before the set up of the sino-foreign joint venture.

Non-current liabilities amounted to RMB33,439,000 comprised mainly bank borrowings.

Group borrowings increased to RMB123,521,000 as at 31 December 2007 from RMB17,495,000 as at 31 December 2006 as a result of the inclusion of the bank borrowings of the Wuling Industrial Group in consequence of the consolidation and the new bank loans drawn down by the Group for the first tranche capital injection to Wuling Industrial.

At 31 December 2007, the Group had a gearing ratio of 21.3% calculated based on the Group's total bank borrowings and the Group's net assets.

Issued capital increased from RMB3,069,000 as at 31 December 2006 to RMB3,659,000 as at 31 December 2007 reflecting the issue of 150,000,000 new shares from the conversion of warrants in May 2007.

Total shareholders' equity increased to RMB108,576,000 as at 31 December 2007 compared to RMB33,364,000 in the previous year. Net asset value per share also rose by approximately 172% to RMB11.8 cents as at 31 December 2007 from RMB4.3 cents as at 31 December 2006.

## **PURCHASE, REDEMPTION AND SALE OF LISTED SECURITIES OF THE COMPANY**

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

## **ANNUAL GENERAL MEETING**

The annual general meeting of the Company (“AGM”) will be held at Function Rooms I & II, Ground Floor, City Garden Hotel, 9 City Garden Road, North Point, Hong Kong on 23 May 2008, Friday, at 11:00 a.m.

## **CLOSURE OF REGISTER OF MEMBERS**

For the purpose of determining the identity of the shareholders of the Company to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 21 May 2008 to Friday, 23 May 2008 (both days inclusive), during which period no transfer of the shares will be registered and no shares will be allotted and issued on the exercise of the subscription rights attaching to the outstanding share options granted by the Company. In order to qualify for attending the AGM, all transfers of the shares accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Branch Share Registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong, for registration not later than 4:00 p.m. on Tuesday, 20 May 2008.

## **CORPORATE GOVERNANCE**

During the year, the Company has applied the principles and the code provisions as set out in the Code on Corporate Governance Practices (“CG Code”) as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and complied with most of the CG Code save for the deviation as detailed below:

CG Code A.2.1 stipulates that the role of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

The present Chairman of the Company, Mr Lee Shing also acts as the Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The Board also considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person do not impair the balance of power and authority between the Board and the management of the Company.

## **AUDIT COMMITTEE**

The Company has an audit committee which was established for the purposes of, inter alia, reviewing and providing supervision over the Group’s financial reporting process and internal controls.

The Audit Committee currently comprises three independent non-executive directors, including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise.

The financial statements for the year ended 31 December 2007 have been reviewed by the Audit Committee.

## **BOARD OF DIRECTORS**

As at the date of this announcement, the Board comprises Mr Lee Shing (Chairman and Chief Executive Officer), Mr Ho Shiji (Vice Chairman), Mr Sun Shaoli, Mr Wei Hongwen, Ms Liu Yaling, Mr Wang Shaohua and Mr Pei Qingrong as executive directors and Mr Yu Xiumin, Mr Zuo Duofu and Mr Cheng Kin Wah, Thomas as independent non-executive directors.

By Order of the Board

**Lee Shing**

*Chairman and Chief Executive Officer*

Hong Kong, 17 April 2008