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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: 305)

**CONNECTED TRANSACTION
IN RELATION TO
THE PROPOSED ISSUE OF CONVERTIBLE NOTES**

The Board is pleased to announce that after trading hours on 28 November 2008, the Company and the Subscriber (being a substantial Shareholder) entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the Convertible Notes in the aggregate principal amount of HK\$100,000,000 at the initial Conversion Price of HK\$0.74 per Conversion Share.

Completion is subject to the Conditions Precedent as set out in the paragraph headed “Conditions Precedent” below.

Assuming the exercise in full of the conversion rights attaching to the Convertible Notes (in the denomination of HK\$10,000,000 per certificate) at the initial Conversion Price of HK\$0.74 per Conversion Share, a total of 135,135,130 Conversion Shares will be allotted and issued, representing approximately 14.73% of the issued share capital of the Company as at the date of this announcement and approximately 12.84% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

The Company intends to apply the net proceeds from the issue of the Convertible Notes of approximately HK\$99,000,000 to finance the Outstanding Subscription Money payable by the Company to Wuling Industrial in respect of the Company’s investment in Wuling Industrial.

As the Subscriber is beneficially interested in approximately 29.93% of the issued share capital of the Company as at the date of this announcement and thus a substantial Shareholder, the Subscription constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules, and is subject to the approval of the Independent Shareholders by way of poll at the SGM. The Subscriber and its associates shall abstain from voting on the resolution in respect of the Subscription Agreement together with the transactions contemplated thereunder at the SGM.

The Board will appoint an independent financial adviser to the Independent Board Committee (which has been formed and will comprise three independent non-executive Directors, namely Mr. Zuo Duofu, Mr. Yu Xiumin and Mr. Ye Xiang) and the Independent Shareholders to give advice in relation to the terms and conditions of the Subscription Agreement and the transactions contemplated thereunder.

A circular of the Company containing, among other things, (i) details of the Subscription; (ii) the letter of recommendation from the Independent Board Committee; (iii) the letter of advice from the independent financial adviser; and (iv) a notice convening the SGM will be despatched to the Shareholders as soon as possible.

THE SUBSCRIPTION AGREEMENT

Time and date: After trading hours on 28 November 2008

Parties: (i) The Company (as issuer); and

(ii) the Subscriber (as subscriber), a company incorporated in Hong Kong with limited liability and a substantial Shareholder which is beneficially interested in approximately 29.93% of the issued share capital of the Company as at the date of this announcement.

THE CONVERTIBLE NOTES

Issue of the Convertible Notes

Pursuant to the Subscription Agreement, the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the Convertible Notes in the aggregate principal amount of HK\$100,000,000.

Conditions Precedent

Completion is conditional upon the satisfaction of the following Conditions Precedent:

- (a) the Independent Shareholders having passed an ordinary resolution at the SGM to approve the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Convertible Notes and the allotment and issue of the Conversion Shares;
- (b) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Conversion Shares;
- (c) (if required) the Bermuda Monetary Authority granting its consent to the issue of the Convertible Notes and the allotment and issue, as well as the free transferability of the Convertible Notes and the Conversion Shares; and
- (d) all necessary consents and approvals having been obtained by the Subscriber in relation to the transactions contemplated under the Subscription Agreement.

None of the Conditions Precedent can be waived. If the Conditions Precedent have not been fulfilled on or before 30 May 2009 or such other date as may be agreed in writing by the Subscriber, the Subscription Agreement will lapse and the parties to the Subscription Agreement will be released from all obligations thereunder save for any antecedent breaches of the terms of the Subscription Agreement.

Completion

Completion shall take place on the fifth Business Day after all Conditions Precedent have been satisfied, or such other date as the Subscriber may agree in writing.

Principal terms of the Convertible Notes

The principal terms of the Convertible Notes are summarised below:

Aggregate principal amount	HK\$100,000,000.
Maturity Date	The date falling on the fifth anniversary of the Issue Date, on which all outstanding principal amount, together with all outstanding accrued interests, shall become due and repayable by the Company to the holder(s) of the Convertible Notes.
Conversion rights	At any time during the Conversion Period (details of which are set out below), holder(s) of the Convertible Notes shall have the right to convert the principal amount of the Convertible Notes (in amounts of not less than a whole multiple of HK\$1,000,000 on each conversion) into Conversion Shares at the then prevailing Conversion Price.

Issue price	100% of the aggregate principal amount of the Convertible Notes.
Redemption price at maturity	100% of the outstanding principal amount of the Convertible Notes on the Maturity Date.
Early redemption	Save for the occurrence of any event of default as set out in the Subscription Agreement, holder(s) of the Convertible Notes shall not be entitled to demand for early repayment of the Convertible Notes.
Face value of the Convertible Note certificates	HK\$10,000,000 per Convertible Note certificate.
Interest	<p>The Convertible Notes shall bear interest on the outstanding principal amount thereof from the Issue Date at a rate of 6% per annum. Interest shall be payable yearly in arrears commencing 12 months after the Issue Date. In the event that the Company shall be in arrears of any payment under the Convertible Notes, a default interest at the rate of 10% per annum shall be payable by the Company.</p> <p>The interest rate was determined by the parties after arm's length negotiations and with reference to the prevailing market conditions (in particular, the recent turmoil in the financial market and the resulting credit crunch which has tightened the availability of funds provided by financial institutions and has resulted in increases in cost of capital of businesses) and the cost of finance currently available to the Group.</p>
Conversion Period	The Convertible Notes will be convertible during the period from the date falling on the first anniversary of the Issue Date up to and including the date falling on the fifth Business Day prior to the Maturity Date.
Conversion Price	<p>The holder(s) of the Convertible Notes may exercise the conversion rights attaching thereto to subscribe for the Conversion Shares at the Conversion Price then in effect during the Conversion Period.</p> <p>The initial Conversion Price is HK\$0.74 per Conversion Share, subject to such usual adjustments as may be made in the event of, including but not limited to share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and issuance of Shares or securities carrying rights of conversion into or subscription for Shares. The initial Conversion Price was determined by the parties after arm's length negotiations and with reference to the prevailing</p>

market prices of the Shares and the unaudited consolidated net asset value per Share of approximately RMB0.14 as at 30 June 2008 (based on the unaudited consolidated net asset value attributable to equity holders of the Group of approximately RMB127,886,000 as at 30 June 2008 and a total of 917,288,049 Shares in issue as at that date).

The initial Conversion Price represents:

- (i) a premium of approximately 12.12% over the closing price of HK\$0.66 per Share on 27 November 2008, being the last trading day before the date of the Subscription Agreement;
- (ii) a premium of approximately 14.91% over the average closing price per Share of HK\$0.644 for the five consecutive trading days up to and including 27 November 2008;
- (iii) a premium of approximately 16.72% over the average closing price per Share of HK\$0.634 for the ten consecutive trading days up to and including 27 November 2008; and
- (iv) a premium of approximately 2.78% over the average closing price per Share of HK\$0.720 for the 30 consecutive trading days up to and including 27 November 2008.

Ranking of the
Conversion Shares

The Conversion Shares, when allotted and issued upon exercise of the conversion rights attaching to the Convertible Notes, shall rank *pari passu* in all respects with all other then issued Shares at the date of the relevant conversion notice and shall be entitled to all dividends and other distributions the record date of which falls on a date on or after the date of the relevant conversion notice.

Transferability

No assignment or transfer (whether in whole or in part(s)) of the Convertible Notes may be made unless:

- (a) it is made to (i) the holding company; (ii) the subsidiaries; or (iii) associates of the holder(s) of the Convertible Notes; or
- (b) it is made to other person(s) who is(are) not connected person(s) of the Group.

Voting

A holder of the Convertible Notes will not be entitled to receive notice of, attend or vote at any meeting of the Company by reason only of its being a holder of the Convertible Notes.

- Others
- (a) No conversion shall be allowed in the event that such conversion would render the percentage of the total number of Shares held by the public falling below the percentage as prescribed by the Listing Rules from time to time.
 - (b) A holder of the Convertible Notes shall undertake not to exercise the conversion rights attaching to the Convertible Notes if it would result in the shareholding of the holder of the Convertible Notes, together with parties acting in concert (has the meaning ascribed thereto under the Takeovers Code) with it, in the Company being 30% or more unless the respective applicable rules under the Takeovers Code and the Listing Rules are complied with.

Upon the exercise in full of the conversion rights attaching to the Convertible Notes (in the denomination of HK\$10,000,000 per certificate) at the initial Conversion Price of HK\$0.74 per Conversion Share, a total of 135,135,130 Conversion Shares will be allotted and issued, representing approximately 14.73% of the issued share capital of the Company as at the date of this announcement and approximately 12.84% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

No application will be made for the listing of the Convertible Notes on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Notes.

Further announcements in relation to conversion of the Convertible Notes

In view of the dilution effect on the existing Shareholders upon the exercise of the conversion rights attaching to the Convertible Notes, the Company will make subsequent disclosure of the relevant details of the conversion of the Convertible Notes in the manner described below to enable the Shareholders and the public to appraise the position of the Company from time to time:

- (i) the Company will make a monthly announcement (the “**Monthly Announcement**”) on the websites of the Stock Exchange and the Company for so long as any of the Convertible Notes are outstanding. Such announcement will be made on or before the fifth Business Day following the end of each calendar month and will include the following details in a table form:
 - (a) whether there is any conversion of the Convertible Notes during the relevant month. If there is a conversion, details thereof including the conversion date, number of Conversion Shares issued and Conversion Price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;
 - (b) the outstanding principal amount of Convertible Notes after the conversion, if any;

- (c) the total number of new Shares issued pursuant to other transactions during the relevant month, including Shares issued pursuant to the exercise of any options under any share option scheme(s) of the Company; and
 - (d) the total issued share capital of the Company as at the commencement and the last day of the relevant month;
- (ii) in addition to the Monthly Announcement, if the cumulative amount of Conversion Shares issued pursuant to the conversion of the Convertible Notes reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Notes (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the websites of the Stock Exchange and the Company including details as stated in (i) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Notes (as the case may be) up to the date on which the total amount of Shares issued pursuant to the conversion amounted to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Notes (as the case may be); and
- (iii) if the Company forms the view that any issue of Convertible Shares will trigger the disclosure requirements under Rule 13.09 of the Listing Rules, then the Company is obliged to make such disclosures regardless of the issue of any announcements in relation to the Convertible Notes as mentioned in (i) and (ii) above.

SHAREHOLDING STRUCTURE

The following table shows the shareholding structure of the Company (i) as at the date of this announcement; (ii) immediately upon the exercise of the conversion rights attaching to the Convertible Notes by the Subscriber at the initial Conversion Price which leads to the Subscriber holding a 29.99% interest in the Company; (iii) immediately upon the exercise in full of the conversion rights attaching to the Convertible Notes by the Subscriber at the initial Conversion Price; and (iv) immediately after

exercise in full of the conversion rights attaching to the Convertible Notes by the Subscriber at the initial Conversion Price and exercise of the subscription rights attached to the outstanding options of the Company:

	As at the date of this announcement		Immediately upon the exercise of the conversion rights attaching to the Convertible Notes by the Subscriber at the initial Conversion Price which leads to the Subscriber holding a 29.99% interest in the Company (Note 4)		Immediately upon the exercise in full of the conversion rights attaching to the Convertible Notes by the Subscriber at the initial Conversion Price (Note 4)		Immediately after (a) exercise in full of the conversion rights attaching to the Convertible Notes by the Subscriber at the initial Conversion Price and (b) exercise of the subscription rights attaching to the outstanding options of the Company (Note 4 & 5)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Dragon Hill Development Limited (Note 1)	278,259,613	30.34	278,259,613	30.31	278,259,613	26.44	278,259,613	26.07
The Subscriber (Note 2)	274,500,000	29.93	275,400,000	29.99	409,635,130	38.92	409,635,130	38.37
Mr. Zhou Sheji (Note 3)	44,770,000	4.88	44,770,000	4.88	44,770,000	4.25	44,770,000	4.19
Directors and employees under the Company's share option scheme (Note 5)	-	-	-	-	-	-	15,070,000	1.41
Public	319,758,436	34.85	319,758,436	34.82	319,758,436	30.39	319,758,436	29.96
Total	917,288,049	100.00	918,188,049	100.00	1,052,423,179	100.00	1,067,493,179	100.00

Notes:

1. The entire issued share capital of Dragon Hill Development Limited is beneficially owned by Mr. Lee Shing, an executive Director and the chairman of the Company.
2. The entire issued share capital of the Subscriber is held by Wuling HK, whereas the entire issued share capital of Wuling HK is held by Liuzhou Wuling.
3. Mr. Zhou Sheji, an executive Director of the Company, through his controlled corporation, Gao Bao Development Limited, is interested in 44,770,000 Shares.
4. The Subscriber has undertaken not to exercise the conversion rights attaching to the Convertible Notes if it would result in the shareholding of the Subscriber, together with parties acting in concert (has the meaning ascribed thereto under the Takeovers Code) with it, in the Company being 30% or more unless the respective applicable rules under the Takeovers Code and the Listing Rules are complied with.
5. The Company has outstanding options granted under the Company's share option scheme entitling the grantees to subscribe for a maximum of 15,070,000 Shares at an exercise price of HK\$2.318 per Share with expiry on 31 December 2009.

REASONS FOR THE ISSUE OF THE CONVERTIBLE NOTES AND USE OF PROCEEDS

The Group is principally engaged in the manufacturing and trading of engines, automotive components and specialised vehicles in the PRC, the provision of procurement services of raw materials, water and power supply as well as other businesses including provision of financial services and property investment.

The Subscriber is a company incorporated in Hong Kong with limited liability and a substantial Shareholder which is beneficially interested in approximately 29.93% of the issued share capital of the Company as at the date of this announcement. The Subscriber is an indirect wholly-owned subsidiary of Liuzhou Wuling. Liuzhou Wuling is a wholly stated-owned limited liability company established in the PRC with the State-owned Assets Supervisions and Administration Commission of the People's Government of Guangxi Zhuang Autonomous Region (廣西壯族自治區人民政府國有資產監督管理委員會) being its registered shareholder empowered by the People's Government of Guangxi Zhuang Autonomous Region (廣西壯族自治區人民政府). Liuzhou Wuling and its subsidiaries are principally engaged in the manufacturing of motor vehicle engines, parts and special mini-vehicles.

Wuling Industrial is currently a non-wholly owned subsidiary of the Company following the subscription of 51% of the enlarged registered capital thereof by the Company in 2007 (details of which were set out in the Company's circular dated 25 June 2007), for which 20% of the relevant subscription money was paid by the Company in 2007, while the Outstanding Subscription Money, being 80% of the relevant subscription money, is payable by the Company by 17 August 2009.

In view of the recent turmoil in the financial market and the resulting credit crunch, which has tightened the availability of fund and increased the cost of funding for the Company, the Directors consider that the issue of the Convertible Notes is an appropriate mean of raising additional capital for the Company. Given that (i) the issue of the Convertible Notes will not have an immediate dilution effect on the shareholding of the existing Shareholders; and (ii) the initial Conversion Price represents a premium of approximately 12.12% over the closing price of HK\$0.66 per Share on 27 November 2008, being the last trading day before the date of the Subscription Agreement, the Directors, other than the independent non-executive Directors who will express their opinion in a separate letter to be included in the Circular, consider that the terms of the Subscription Agreement, which were arrived at after arm's length negotiations between the Company and the Subscriber, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The Company intends to apply the net proceeds from the issue of the Convertible Notes of approximately HK\$99,000,000 to finance the Outstanding Subscription Money payable by the Company to Wuling Industrial in respect of the Company's investment in Wuling Industrial.

FUNDS RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not carried out any fund raising activities within the 12 months prior to the date of this announcement.

GENERAL

As at the date of this announcement, the Subscriber is beneficially interested in approximately 29.93% of the issued share capital of the Company and is a substantial Shareholder. Accordingly, the Subscription constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules, which requires approval of the Independent Shareholders by way of poll at the SGM. The Subscriber and its associates shall abstain from voting on the resolution in respect of the Subscription Agreement, together with the transactions contemplated thereunder, at the SGM.

The Independent Board Committee comprising three independent non-executive Directors, namely Mr. Zuo Duofu, Mr. Yu Xiumin and Mr. Ye Xiang, has been formed to advise the Independent Shareholders in relation to the terms and conditions of the Subscription Agreement and the transactions contemplated thereunder. The Board is of the view that, due to the health condition of Mr. Cheng Kin Wah, Thomas, the remaining independent non-executive Director who is currently hospitalised, Mr. Cheng Kin Wah, Thomas is not suitable to join the Independent Board Committee to give advice in relation to the terms and conditions of the Subscription Agreement and the transactions contemplated thereunder.

The Board will appoint an independent financial adviser to the Independent Board Committee and the Independent Shareholders to give advice in relation to the terms and conditions of the Subscription Agreement and the transactions contemplated thereunder.

A circular of the Company containing, among other things, (i) details of the Subscription; (ii) the letter of recommendation from the Independent Board Committee; (iii) the letter of advice from the independent financial adviser; and (iv) a notice convening the SGM will be despatched to the Shareholders as soon as possible.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms and expressions have the following meanings:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of the Directors
“Business Day”	a day, other than a Saturday and a day on which a tropical cyclone warning no. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m., on which licensed banks in Hong Kong are open for general banking business throughout their normal business hours

“Company”	Dragon Hill Wuling Automobile Holdings Limited (俊山五菱汽車集團有限公司), a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Stock Exchange
“Completion”	completion of the Subscription
“Conditions Precedent”	the conditions precedent for Completion to take place as set out in paragraph headed “Conditions Precedent” of this announcement
“connected person(s)”	has the meaning ascribed to it in Chapter 1 of the Listing Rules and as extended by Chapter 14A of the Listing Rules
“Conversion Period”	the period during which the holder(s) of the Convertible Notes may exercise the conversion rights attaching to the Convertible Notes to subscribe for the Conversion Shares at the Conversion Price, details of which are set out in the paragraph headed “The Convertible Notes” in this announcement
“Conversion Price”	the conversion price for the exercise of the conversion rights attaching the Convertible Notes, which is initially set at HK\$0.74 per Conversion Share and subject to adjustments
“Conversion Shares(s)”	new Share(s) to be allotted and issued by the Company upon the exercise of the conversion rights attaching to the Convertible Notes
“Convertible Notes”	the convertible notes in an aggregate principal amount of HK\$100,000,000 to be issued by the Company to the Subscriber pursuant to the Subscription Agreement
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board formed to consider the terms of the Subscription Agreement, and the transactions contemplated thereunder

“Independent Shareholders”	Shareholders other than (i) the Subscriber and its associates; and (ii) persons who are prohibited to vote in respect of the Subscription Agreement, and the transactions contemplated thereunder under the Listing Rules
“Issue Date”	the date of issue of the Convertible Notes
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Liuzhou Wuling”	柳州五菱汽車有限責任公司 (Liuzhou Wuling Motors Company Limited), a wholly state-owned limited liability enterprise established in the PRC
“Maturity Date”	the maturity date of the Convertible Notes, being the date falling on the fifth anniversary of the Issue Date
“Outstanding Subscription Money”	being 80% of the relevant subscription money payable by the Company to Wuling Industrial in respect of the Company’s investment in Wuling Industrial, details of which are set out in the Company’s circular dated 25 June 2007
“PRC”	the People’s Republic of China, which for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“SGM”	the special general meeting of the Company to be convened and held to consider and, if thought fit, to approve the Subscription Agreement and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.004 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	五菱 (香港) 控股有限公司 (Wuling (Hong Kong) Holdings Limited), a company incorporated in Hong Kong with limited liability and a substantial Shareholder which is beneficially interested in approximately 29.93% of the issued share capital of the Company as at the date of this announcement. It is an indirect wholly-owned subsidiary of Liuzhou Wuling

“Subscription”	subscription of the Convertible Notes by the Subscriber pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 28 November 2008 entered into between the Company and the Subscriber in relation to the Subscription
“substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Wuling HK”	五菱汽車(香港)有限公司 (Wuling Motors (Hong Kong) Company Limited), a company incorporated in Hong Kong with limited liability and is a direct wholly-owned subsidiary of Liuzhou Wuling
“Wuling Industrial”	柳州五菱汽車工業有限公司 (Liuzhou Wuling Motors Industrial Company Limited), a company established in the PRC and a subsidiary of the Company
“%”	per cent

By order of the Board

Lee Shing

Chairman and Chief Executive Officer

Hong Kong, 28 November 2008

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

* *For identification purpose only*