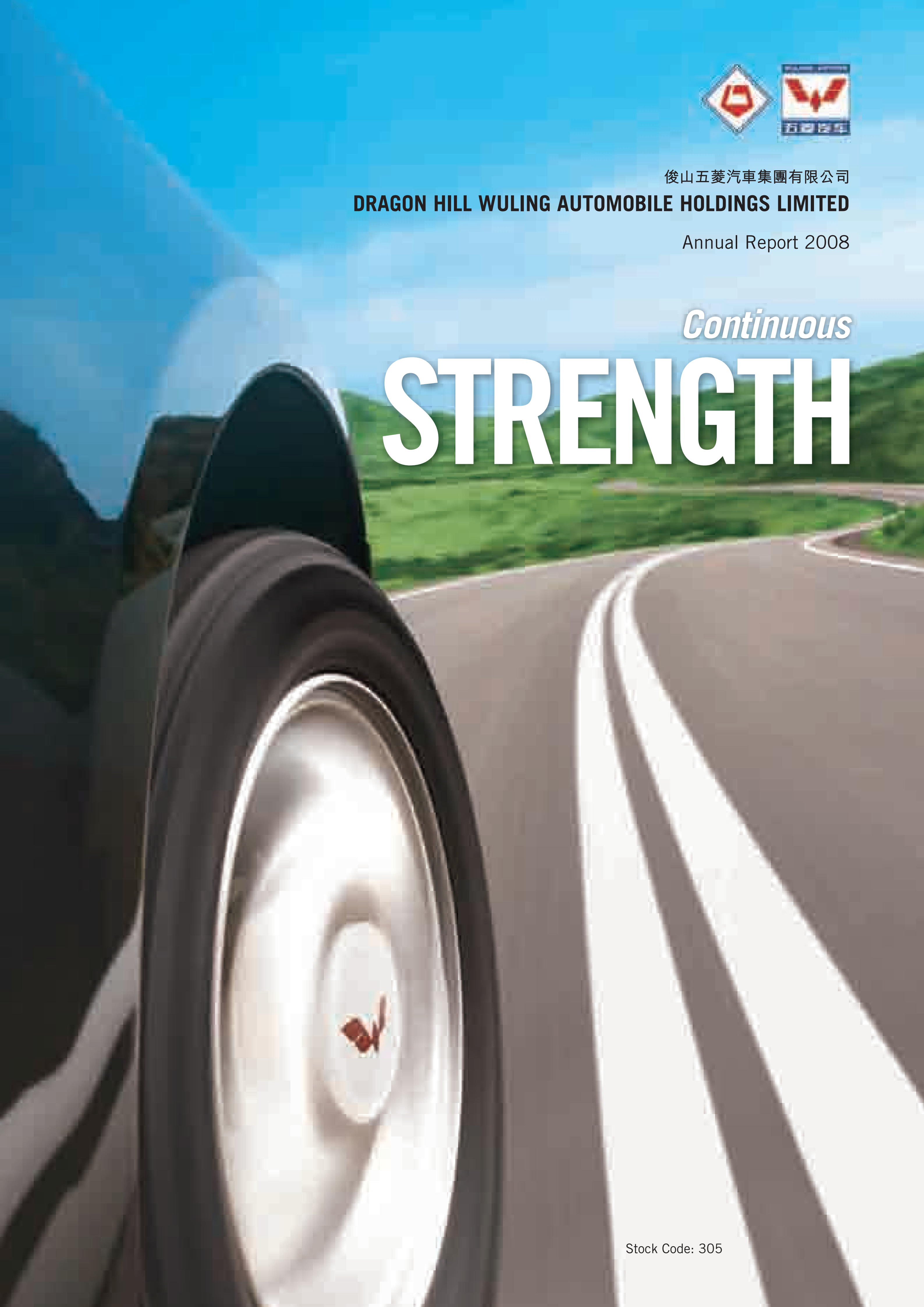
俊山五菱汽車集團有限公司

DRAGON HILL WULING AUTOMOBILE HOLDINGS LIMITED

Annual Report 2008

Continuous STRENGTH



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Corporate Information

Business at a Glance

Performance Highlights in 2008

RMB 7 billion+

Total Sales

RMB 770 million+

Gross Profits

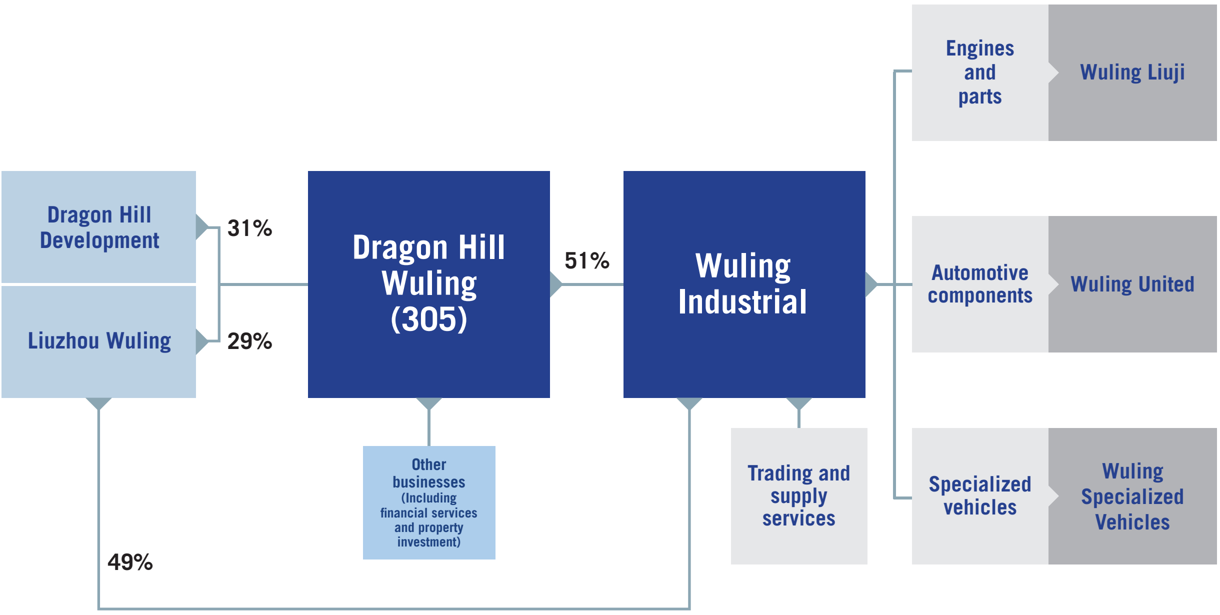
RMB 32 million+

Profit Attributable to Equity Holders

Core Businesses	Description	Segment Turnover (RMB Million) (note)
Engines and parts Liuzhou Wuling Liuji Motors Company Limited ("Wuling Liuji")	• Mainly produces engines and parts for use by mini-vehicles • Main stream products have qualified current National Emission Standard • Annual sale volume in 2008 reached 540,000 • No. 1 engine producer in China mini-vehicles market	2008: 2,679 2007: 1,101
Automotive components Liuzhou Wuling Motors United Development Company Limited ("Wuling United")	• Consists of six specialized facilities which 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 • Products cover eighteen main modules with hundreds of standard type of products • Annual sale volume in 2008 reached 600,000 units/sets • Production facilities located in Liuzhou and Qingdao	2008: 3,143 2007: 938
Specialized vehicles Liuzhou Wuling Specialized Vehicles Manufacturing Company Limited ("Wuling Specialized Vehicles")	• Production of over 100 different types of specialized vehicles, such as multi-purpose mini-van, sightseeing bus, golf cart, police car, mini fire engine, postal van, ambulance, mini-container wagon, refrigerator vehicle, heat preservation vehicle and garage truck, etc. • Products sold under "Wuling" brand • The fastest growing segment in the Group with sale volume increased by more than 20% in 2008 and reached 20,000.	2008: 616 2007: 288
Trading and supply services Liuzhou Wuling Motors Industrial Company Limited ("Wuling Industrial")	• Holding company of Wuling Liuji, Wuling United and Wuling Specialized Vehicles • Provision of centralized procurement services to the group companies, customers and suppliers for the supply of raw materials, water and power • Enhancement of efficiency and competitiveness of the group companies, especially the 3 main manufacturing divisions	2008: 671 2007: 524

Note: Results of Wuling Industrial Group were incorporated into the Group's results commencing from September 2007.

Group Structure



Corporate Profile

Dragon Hill Wuling Automobile Holdings Limited is principally engaged in the businesses of trading and manufacturing of automotive components, engines and specialized vehicles in China. Partnered with Liuzhou Wuling Motors Company Limited, a reputable state-owned enterprise with extensive industry experiences, our Group's corporate goal is to grasp the tremendous business opportunities arising from the rapidly growing automobile industry in China. The Group is the leading commercial-type mini-vehicle's engines and automotive components manufacturer in China with production facilities located in Liuzhou and Qingdao.

Events Review of 2008

In February 2008

Wuling Industrial and Liugong Machinery entered into a co-operative agreement to develop new products. Through the establishment of a strategic partnership with Liugong Machinery, Wuling Industrial started to explore the new business opportunities in the construction machinery industry.

In 2008

Wuling Industrial joined relief programmes for the snow storm and the WenChuan Earthquake organized by Liuzhou Wuling with an aim to develop the "harmony of society" in China.

In June 2008

Wuling Industrial participated in the programmes of Beijing Olympics with the vehicles manufactured by Wuling Specialized Vehicles being selected as the appointed vehicles for the torch delivery function held in Guangxi.

In October 2008

Phase I of Wuling United's automotive components plant in Qingdao completed and became fully operational with annual production capacity of 200,000 units/sets.

In October 2008

New production plant for car brake and axle of Wuling United in Liuzhou became fully operational and is expected to furthering the production efficiency of the automotive components division.

In September 2008

The production plant of Wuling Liuji for the nonferrous metallic parts for the engine's cylinder of the engines and parts division commenced operation.

In October 2008

Wuling Industrial participated in the "50 Years of Continuous Strength" ceremony to celebrate the 50th Anniversary of Wuling.

In November 2008

Wuling Specialized Vehicles' V2 Wuling public van and sight-seeing bus held the product launch ceremony and received immediate favourable responses from customers to become designated public transport vehicles used in the subsidiary routes of a number of cities.

In 2008

Based on the development strategy of "Two Cores Two Assists, Growth by Diversification", Wuling Liuji adopted the new business mission of "Core at engines and foundry. Assist by electrical generator and agricultural machinery. Pursuit of development and diversification" and stepped up the development scheme for LJ465QR1 petrol engines and L15 programme.

In December 2008

The three LJ model petrol electrical engines products newly designed by Wuling Liuji comprising 2KW, 5KW and 7.5KW were first launched in the market.

“We firmly believe our corporate aim to promote the continuous strength of the Company will be beneficial to the entire economy and ourselves.”

Lee Shing
Chairman and Chief Executive Officer

Chairman's Statement

I am pleased to present the annual results of Dragon Hill Automobile Holdings Limited for the year ended 31 December 2008.

2008 was a year of adversity and volatility. Whilst most of the enterprises' management might have correctly anticipated the year to be challenging, few of them could have boldly imagined that it was that rough and tough.

In the beginning, along with the continuous growth in our business, our principal attention was to actively deal with the pressure on the margin performance as affected by the escalating oil and raw materials prices. Thereafter, since the third quarter, when the cost of raw materials became a lesser concern, our focus had to shift to the risk of a slip in the market demand caused by perhaps the most severe economic crisis in the world for decades.

Despite this contrast volatility, I am delighted to announce the Company continues to deliver a set of solid results for the year 2008. During this year, the Company recorded total revenue of RMB 7,111,911,000. Net profits and profits attributable to equity holders of the Company for the year ended 31 December 2008 amounted to RMB 136,887,000 and RMB 32,647,000 respectively.

As a positive note, our specific business focus on the commercial-type mini-vehicles serving the local market has placed us in a better position in this tough time. In addition, a successive year of record turnover achieved by the Group in 2008 may also indicate that the adverse impact from the economic crisis may be relatively less detrimental to the basic needs products segment in the economy.

However, this sense of well being should not be taken for granted. And necessarily, we should keep ourselves alert on any possible adverse developments as well as those treasured business opportunities which may arise to ensure appropriate and effective strategies can be promptly implemented by our enterprises.

Overall, we are confident that with appropriate government policies and practical measures adopted by the enterprises and the general public, PRC will be the first country in the world to get out of this global economic doldrums. As a sizable and responsible enterprise which emphasizes in serving the basic needs of the general public in the PRC, we will definitely have our missions to deliver and role to play. We firmly believe our corporate aim to promote the continuous strength of the Company will be beneficial to the entire economy and ourselves.

Meanwhile, the Company will continue to seek opportunity to further strengthen the financial position. In January 2009, through the issue of convertible notes to our substantial shareholder, Liuzhou Wuling Motors Company Limited, the Company has successfully raised approximately HK$99,000,000, equivalent to approximately RMB 87,000,000. The net proceed has been injected into our principal subsidiary, Liuzhou Wuling Motors Industrial Company Limited ("Wuling Industrial") for providing additional working capital for its operations. Subsequent to this capital injection, the percentage of the paid up capital of the Group in Wuling Industrial has been increased from 17.2% to 30.5%.

On behalf of the Board, I wish to express my gratitude to our valued customers, bankers, business partners and shareholders, for their continued support to the Group. I would also like to thank my fellow directors, management and employees for their continued dedication and commitment.

Lee Shing
Chairman and Chief Executive Officer
22 April 2009

"Going forward, we believe with active co-operations among group companies, customers, suppliers and business partners, the conscientious efforts of the management and staff, coupled with our persistent operation principle of consolidation and innovation in dealing with the changing market conditions, impressive results will be achieved for the Group and the shareholders."

He Shiji
Vice Chairman

Vice Chairman's Statement

In September 2007, through the formation of Wuling Industrial joint venture in co-operation with Liuzhou Wuling, the Company took an important step in pursuit of the opportunities in the China automobile industry and established its core businesses of specialized vehicles, automotive components and engines.

Affected by the global financial crisis, there was a slowdown in the growth of the China automobile industry during the year 2008. Total number of vehicles sold for the year was approximately 9.3 million, which was lower than the 10 million benchmark forecasted in the beginning of the year. Due to a slip in the volume in the second half of the year, the annual growth rate of the China automobile industry was below 7%. Owing to this, most of the local automobile enterprises were not able to meet their yearly targets. The whole industry, including both the automobile markers and automotive components manufacturers were facing with tremendous pressure on survival and development.

In view of the highly volatile market situation and in accordance with the corporate virtues of keeping tough and strong under adversities as established by our long standing business history, we have actively sought ways for business growth in this difficult environment. On the back of the long and established experience in vehicles' design and manufacturing and a thorough understanding of the needs of the customers, we have adopted flexible strategies to further strengthen and expand our position in the market. For instances, by establishing strategic relationships with the suppliers and dealers to achieve goal of mutual development. Meanwhile, through a chain of continuous corporate measures involving improvements on technological research, ancillary services of supply, resources allocation and brand building, to enable the advantages of the scale operation of the Group can be exerted to a great extent.

On the other hand, "Wuling Motors" maintained the competitive strength originated from our recent strong growth in market. In 2008, Wuling Industrial and SGMW continued to work closely in furthering and enhancing the value and the influence of "Wuling" brand in the market. Externally, through the supply of approximately 80% of the key components required by SGMW, whereas internally, by implementing measures of corporate restructure as well as assets and enterprises improvement, new products serving the needs of the market were developed and launched. Wuling Industrial successfully overcame the unfavourable factors and satisfactorily achieved the target of a stable growth in 2008.

At present, in dealing with the risk of the spread of the global economic crisis towards the real economy, the Chinese government has announced a 4 trillion-yuan economic stimulus package to boost growth and domestic demand. The implementation of the favourable measures such as ten policies for boosting domestic demands, "Details of the Automobile Industry Rejuvenation Programme", "Programs for Bringing Automobiles to the Countryside" and the "Regulations on the Cancellation of the Restriction of Vehicle Purchase", etc, are expected to have positive impacts on the 8 percent growth target of China.

Resulting from the stimulations of the government policies, the performance of the China automobile industry has been improved in the beginning of 2009. Local mini-vehicles industry achieved a growth rate of approximately 20% in January. In February, both production and sale volume of domestically-produced vehicles exceeded eight hundred thousand which was accompanied with a sale production ratio of 102.43%. Corresponding growth rate of the passenger vehicles reached 24.23% in which mini passenger vehicles were the main driver for the growth of the passenger vehicles industry. Benefited from the government policies implemented for the China automobile industry, mini-vehicles become favourite products for local consumers. Overall, these changes will provide impressive development opportunities to Wuling Industrial's businesses of specialized vehicles, automotive components and engines.

Going forward, we believe with active co-operations among group companies, customers, suppliers and business partners, the conscientious efforts of the management and staff, coupled with our persistent operation principle of consolidation and innovation in dealing with the changing market conditions, impressive results will be achieved for the Group and the shareholders.

He Shiji
Vice Chairman
22 April 2009

High DEMAND

Innovation Inspires Future: Customer expectations and needs are increasing with the burgeoning market demand of specialized vehicles. The Group has devoted itself to providing a variety of innovative specialized vehicles to customers in order to meet these intensifying needs. On the back of its well-established foundation and professional experiences in specialized vehicles, the Group has become the benchmark of high-quality specialized vehicle producer in the PRC. The Group will continue to work for the local and overseas customers in supplying innovative and high quality products that satisfy the market demand and to build a future desirable for both parties.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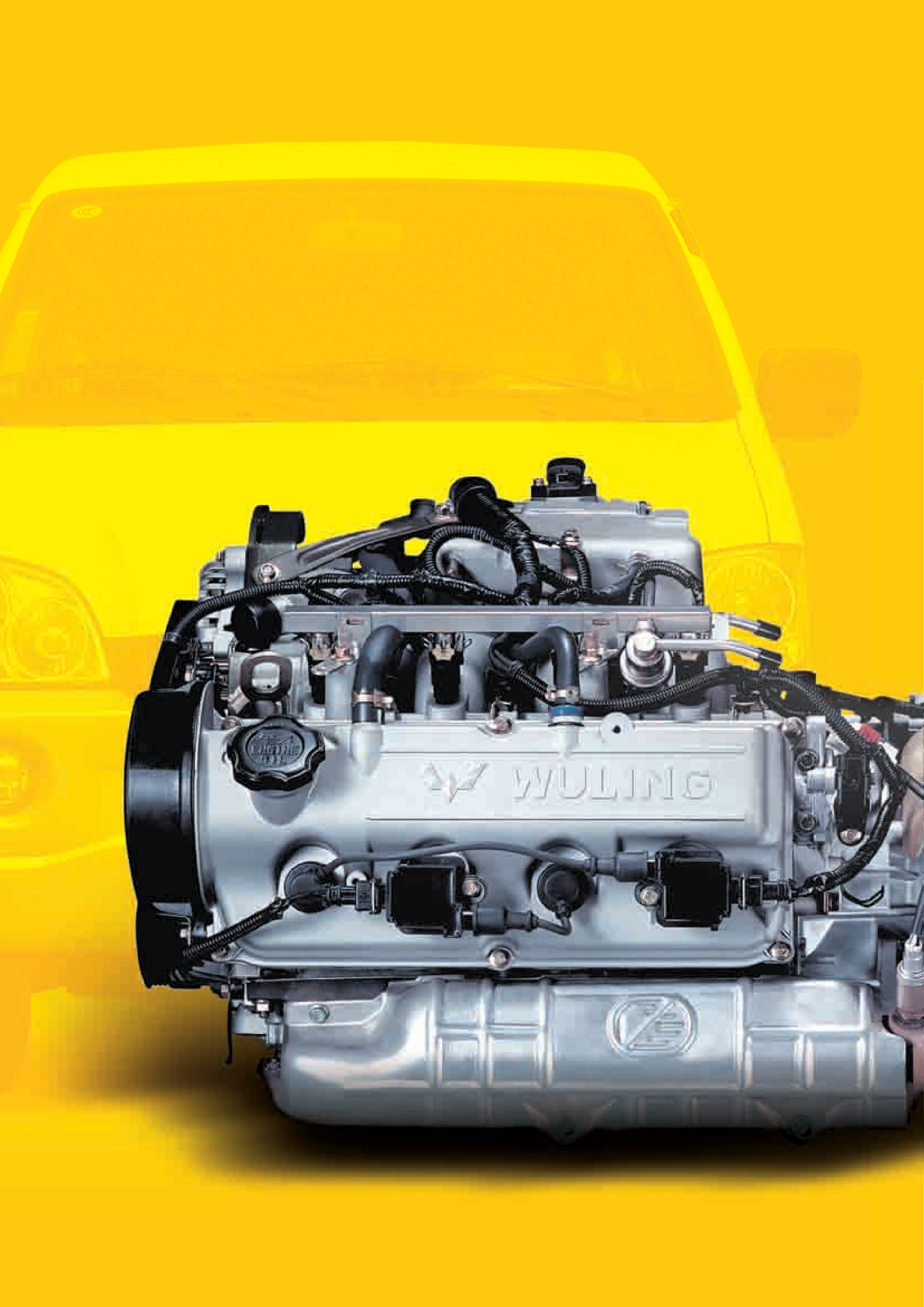
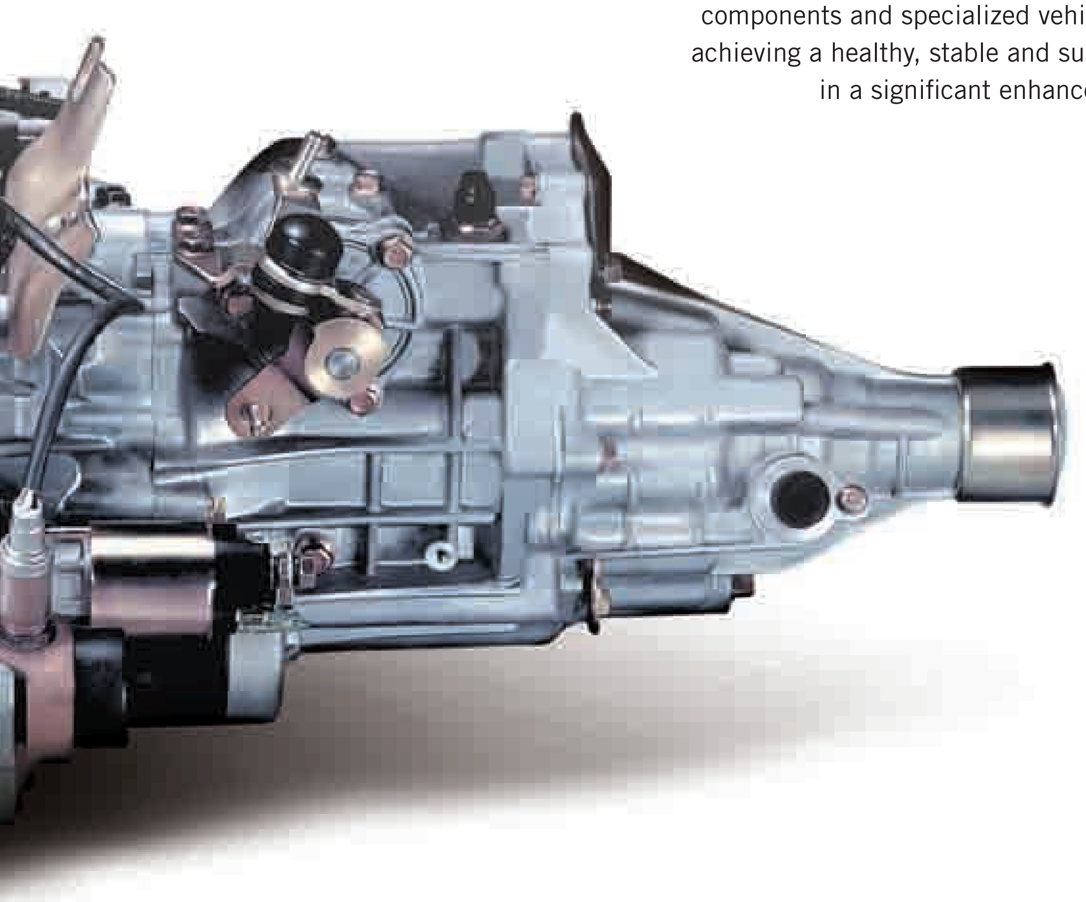

WULING

Market
LEADER

Synergy Enhances Values: The Group aims at becoming the market leader of the automobile industry in China. In 2008, the Group's key customer, SGMW, sold 650,000 mini vehicles in China with a market share of approximately 47%. With this in mind, the Group seeks to strengthen the effective relationship between production and service by continuous efforts of resource allocations and corporate restructure, combinations of industrial developments and services enhancement. With the benefit from the synergies from its three core businesses, – engines, automotive components and specialized vehicles, the Group is confident in achieving a healthy, stable and sustainable growth which results in a significant enhancement to the corporate values.



Key SUPPLIER

Cooperation Built On Trust: The Group is the key supplier of SGMW, and supplies approximately 80% of its automobile assembly components comprising various parts and engines. Being a strategic co-operative partner, the Group has spent tremendous efforts in proprietary research and development with the principles of improving product quality, supplying high standard products to the customers as well as to strengthen the co-operative relationships. Meanwhile, the Group is also actively seeking expansion opportunity of its customer base by maintaining close relationships with various car manufacturers with an aim to build up trust between the parties so as to achieve long-term goal of sustainable co-operative development.

By Business Segments – Engines and parts

Liuzhou Wuling Liuji Motors Company Limited ("Wuling Liuji") (柳州五菱柳機動力有限公司)

Turnover (based on external sales) of the engines and parts division for the year ended 31 December 2008 was RMB 2,678,898,000 with a segmental share of 38%. Operating profits for the year was RMB 131,959,000 with a segmental share of 53%.

The engines and parts division undertaken by Wuling Liuji continued to be the major contributor to the Group's operating profits for the year of 2008.

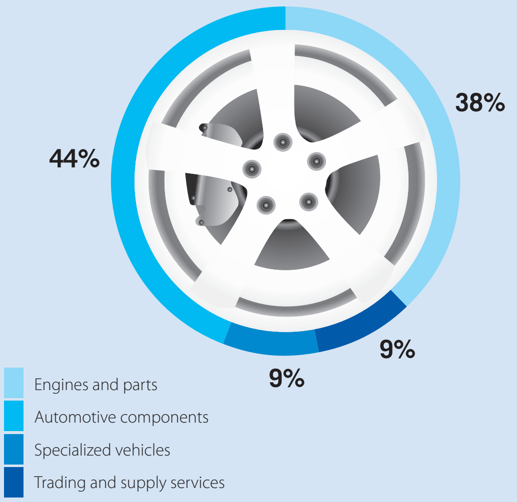
During the year, despite the significant increase in the raw material prices in the first half of the year, Wuling Liuji celebrated its 80th anniversary with a set of solid results which was mainly attributable to the continuous strong market demands for the main models.

The engines produced by Wuling Liuji are mainly for the commercial-type mini-vehicles. Its main stream products have qualified the National Emission Standard as required by the country. In addition, its LJ trademark series has also been recognized as a reputable trademark in the Guangxi Province during the year. Subsequent to the completion of the development project for the model LJ465QR in co-operation with an overseas research institute, Wuling Liuji has successfully extended its range of products with capacity from 0.65L to 2.4L. Sales for the year 2008 continued to grow steadily. Total sale volume was approximately 540,000 units. Total capacity at present is approximately 800,000 units a year.

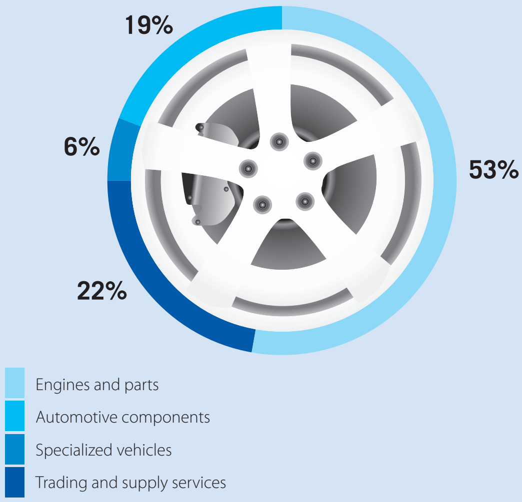
Wuling Liuji continued to be the No.1 engines producer in the PRC for the mini-vehicles market. By end of 2008, primarily through supplying to the models of SAIC-GM-Wuling Automobile Co. Limited ("SGMW"), the number of users of Wuling Liuji's engines in the PRC has reached approximately 2.5 million, who have been properly serviced and supported by approximately 280 after sale service centers across 8 main regions in China.

The factories of Wuling Liuji currently occupy a total floor area of nearly 1 million sqm., with a total workforce of approximately 1,600 as at the end of 2008, in which over 300 are technical and management staff.

Turnover



Operating Profit



The number of users of Wuling Liuji's engines in the PRC has reached approximately 2.5 million, who have been properly serviced and supported by approximately 280 after sale service centers across 8 main regions in China.

Going forward, the Group anticipates the general slowdown in the global economy and the price adjustments to the stock and property markets will continue to have a cooling effect on the local economy. However, the Group is not expecting significant adverse impacts due to these factors as the products of Wuling Liuji are mainly supplying for those vehicles, which demands are driven by the basic needs of the general public. On the contrary, it is expected this cooling effect will help to reduce the cost of production and benefit the margin performances of this division. In addition, the economic stimulus policies implemented in dealing with the global financial crisis will also provide positive effects on the business growth of the division.

During the year, Wuling Liuji established a new production plant for the nonferrous metallic parts of the engine's cylinder with an annual capacity of approximately 200,000 units a year. This new engines' components plant which started operation by end of 2008 will enhance the division's profitability by producing outsourced components in house. Besides, it can also be extended to serve the needs of our customers, including SGMW, and create future business opportunities to the Group.

Meanwhile, Wuling Liuji is also actively in liaison with several prominent car manufacturers in the PRC to explore new business opportunities. This strategic move, which aims at a healthy diversification of businesses, will further the long term business potential of the engines and parts division.

Management Discussion and Analysis

By Business Segments – Automotive components

Liuzhou Wuling Motors United Development Limited ("Wuling United")

(柳州五菱汽車聯合發展有限公司)

Turnover (based on external sales) of the automotive components and accessories division for the year ended 31 December 2008 was RMB 3,143,504,000 with a segmental share of 44%. Operating profits for the year was RMB 46,290,000 with a segmental share of 19%.

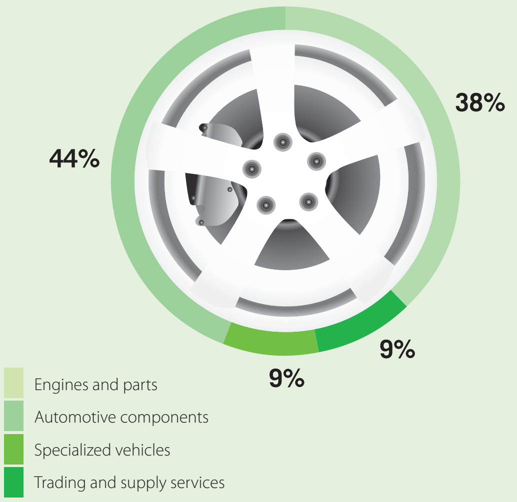
The automotive components and accessories division undertaken by Wuling United maintained a strong growth in revenue during the year.

During the year, Wuling United, being the key supplier supplying a majority portion of the key automotive components to SGMW, registered a record revenue figure. This remarkable result was mainly attributable to the continuous strong market demands of the vehicles produced by SGMW. Meanwhile, benefited from the lower material costs and certain price adjustments in the second half of the year, profitability performance had been improved. Operating margin was moderately increased to 1.5% for the whole year as compared to 1.1% recorded in the first half of the year.

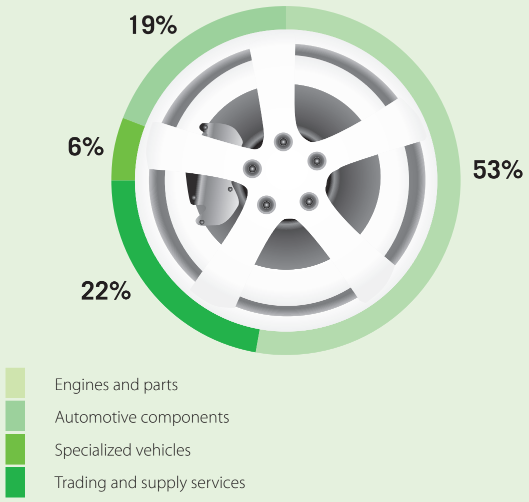
Wuling United operates six specialized facilities which cover the brake, the chassis assembly, automotive accessories, plastic components, welding parts and the seat sets. Apart from the main facilities in Liuzhou, the Qingdao factory was recently set up and began to supply automotive components to the customers in the northern part of the China. Wuling United supplies a wide range of products which comprises eighteen main modules with hundreds of standard type of products including 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 2008 was approximately 600,000 units/sets, representing an increase of over 15% as compared to last year. Total capacity at present has reached 800,000 units/sets 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.

Turnover



Operating Profit



The automotive components and accessories division undertaken by Wuling United maintained a strong growth in revenue during the year.

The factories of Wuling United currently occupy a total floor area of approximately 280,000 sqm., with a total workforce of 2,400 as at the end of 2008, in which about 600 are technical and management staff.

Going forward, the Group expects the growth of business of SGMW from the existing models and the launch of new models will continue to boost the revenue of the automotive components and accessories division. At the same time, an easing pressure on the material costs since the second half of 2008 will contribute positively to the margin performance of this business segment. In addition, same as the engines and parts division, the economic stimulus policies implemented in dealing with the global financial crisis is also anticipated to provide positive effects on the business growth of the division.

Coupled with the positive impact arising from the stepped up operations of the new integrated plant for car axle and brake systems and the new Qingdao factory in the second half of 2008, the Group is confident on further improvement in the profitability of this division in the coming years.

By Business Segments – Specialized vehicles

Liuzhou Wuling Specialized Vehicles Manufacturing Company Limited ("Wuling Specialized Vehicles")（柳州五菱專用汽車製造有限公司）

Turnover (based on external sales) of the specialized vehicles division for the year ended 31 December 2008 was RMB 615,919,000 with a segmental share of 9%. Operating profits for the year was RMB 14,113,000 with a segmental share of 6%.

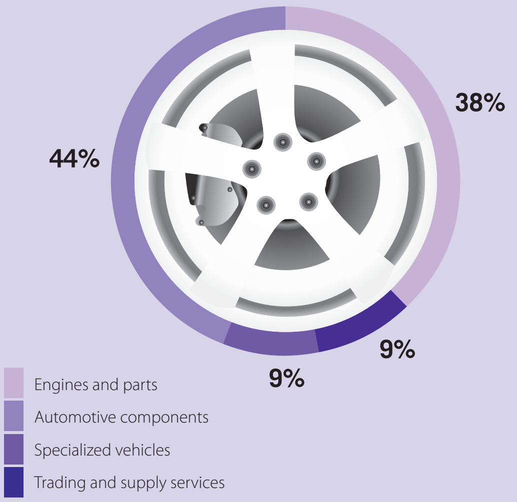
During of the year, successful launch of new models specialized vehicles including the proprietary T1 mini fire engine, V2 Wuling public van, C1 electrical community car, EP electrical truck, etc, began to benefit the operation of our specialized vehicles division undertaken by Wuling Specialized Vehicles.

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 multi-purpose mini-van, sightseeing bus, golf cart, police car, mini fire engine, postal van, ambulance, mini-container wagon, refrigerator vehicle, heat preservation vehicle, garbage truck and electrical vehicles, 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.

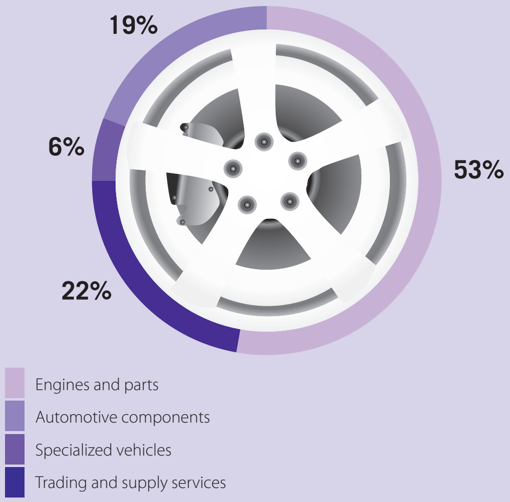
The capability of Wuling Specialized Vehicles in the car assembly industry is originated from the long-standing industry experiences of Wuling. In fact, the models designed and developed by Wuling Specialized Vehicles are branded as "Wuling", which is itself a benchmark of quality products and services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

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



Operating Profit



Wuling Specialized Vehicles sold more than 20,000 specialized vehicles during the year representing an increase of more than 20% as compared to last year.

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 2008, in which about 80 are technical and management staff.

Wuling Specialized Vehicles sold more than 20,000 specialized vehicles during the year representing an increase of more than 20% as compared to last year. Its main products comprised multi-purpose mini-van, redecorated vans and mini-container wagons, etc. Increasing sales of the multi-purpose mini-van such as the model “V2” mini vans had benefited the revenue performance of this division. Besides being used for recreation purpose, the “V2” model has also be used in some cities as a public transport vehicle.

The Group views the market growth of the multi-purpose mini-van is only undergoing an initial stage in the PRC and anticipates further growth in revenue in the coming years. This particular type of vehicles, which the Group has the specific knowhow and strength in the industry, will be the main driver of growth for the specialized vehicles division. It is also expected that the higher profit margins and the greater potential for the exporting businesses will eventually contribute significantly to the profitability of the Group.

By Business Segments – Trading and supply services

Liuzhou Wuling Motors Industrial Company Limited ("Wuling Industrial")
(柳州五菱汽車工業有限公司)

Turnover (based on external sales) of the trading and supply services division, which was formerly known as the procurement services division, for the year ended 31 December 2008 was RMB 671,288,000 with a segmental share of 9%. Operating profits for the year was RMB 54,127,000 with a segmental share of 22%.

The trading and supply services undertaken by Wuling Industrial provided a steady income stream to the Group and recorded a decent segmental share in the Group's operating profits.

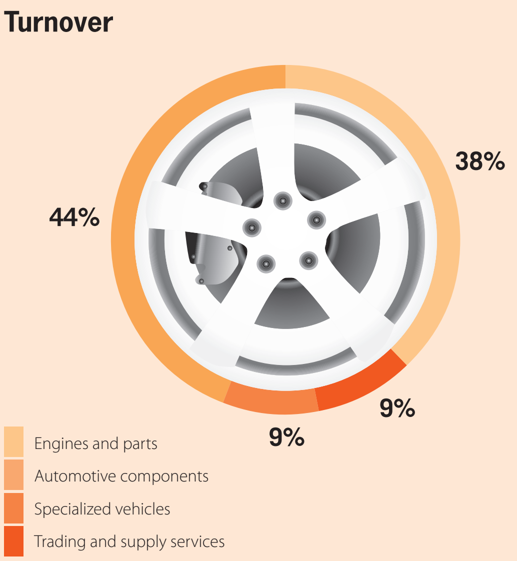
Besides acting as the holding company, Wuling Industrial itself maintains a technical centre, a training centre and two operating arms which provide centralized procurement services to the group companies, customers and suppliers for the supply of raw materials, water and power. This centralized procurement model guaranteed benefits from bulk purchases and scale operations to the participated entities and enhanced competitiveness in the industry.

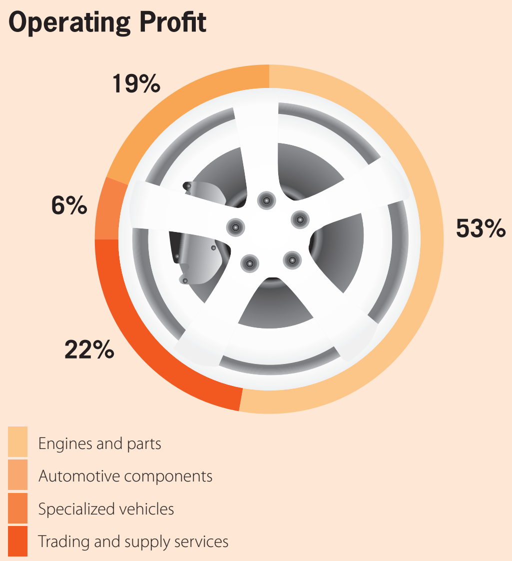
Headquartered in Liuzhou in the Guangxi Province and supported by a total number of approximately 5,000 staff members (inclusive of the staff members of the three aforementioned subsidiaries), Wuling Industrial enjoys the close proximity advantage to the key customer and perform a core and effective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





Strategically, Wuling Industrial will conscientiously implement suitable policies of diversification and integration to promote the long term growth potential of the Group in the automobile industry.

(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.

The Group considers the procurement functions of Wuling Industrial to be an effective operation measure which is conducive to the business growth of the customers, which in turn, allows the Group to enjoy a steady income stream and a guaranteed operating profit from the investments in the infrastructural projects in Liuzhou. In view of the increasing volume of production of the customers due to the strong market demands for their products, the Group is confident that the effective cost savings contribution from the trading and supply services division will continue to bring positive impact to the Group's profitability for coming years.

Meanwhile, Wuling Industrial also entered into a co-operation agreement with a prominent enterprise in Liuzhou for a new business project relating to the construction vehicles during the year. Strategically, Wuling Industrial will conscientiously implement suitable policies of diversification and integration to promote the long term growth potential of the Group in the automobile industry.

Financial Review

INCOME STATEMENT

In consequence of the formal setup of Wuling Industrial as a sino-foreign joint venture company by the Company and Liuzhou Wuling Motors Company Limited ("Liuzhou Wuling"), operating results of Wuling Industrial was consolidated into the Group's accounts commencing from 1 September 2007. Accordingly, the reporting results for the year ended 31 December 2008 reflected the full year's operating results of Wuling Industrial, whereas, reporting results for prior year covered the last four months' results of 2007. 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.

Group's turnover and net profits for the year ended 31 December 2008 were RMB 7,111,911,000 and RMB 136,887,000 respectively which were mainly attributable to the four business segments namely (1) engines and parts; (2) automotive components and accessories; (3) specialized vehicles; and (4) trading of raw materials, water and power supply services. Profits attributable to equity holders for the year were RMB 32,647,000.

Gross margin of the Group was 10.9%, reflecting the keen competition environment in the automobile industry in the PRC. Continuous pricing pressures from the customers and increasing costs in the first half of the year had kept the gross margin in a highly competitive level. However, due to lower material costs and certain selling price adjustments in the second half of the year, our two major business segments namely (1) engines and parts; and (2) automotive components and accessories divisions enjoyed some positive impacts such that our full year's gross margin had been satisfactorily improved as compared to last year's number of 9.3%

Other income comprised primarily sales of scrap materials and parts, bank interest income and service income on repairs and maintenance was RMB 85,057,000 for the year ended 31 December 2008. The increase was a result of the full year's consolidation of Wuling Industrial as aforementioned. Amongst which, sales of scrap materials and parts was the major component of such increase.

Distribution costs of the Group comprised primarily transportation costs, warranty expenses and various marketing expenses were RMB 187,163,000 for the year ended 31 December 2008. The increase was also a result of the full year's consolidation of Wuling Industrial as aforementioned. Amongst which, the increase in transportation costs and warranty expenses accounted for the major component of such increase.

General and administrative expenses of the Group comprised primarily salary and allowances, various insurance expenses, warranty expenses and research and development expenditures were RMB 463,066,000 for the year ended 31 December 2008. Again, it reflected the consolidated results of Wuling Industrial for the full year. Amongst which, increases in salary and allowances and warranty expenses were the major components of the increase.

Finance costs for the year ended 31 December 2008 amounted to RMB 45,014,000. 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.

Effective tax rate of the Group for the year ended 31 December 2008 was 16.9%, 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 ended 31 December 2008 was RMB 3.56 cents, represented an increase of 182.5% as compared to the earnings per share of RMB 1.26 cents recorded in last year.

BALANCE SHEET

As at 31 December 2008, the total assets and liabilities of the Group stood at RMB 5,674,052,000 and RMB 4,966,822,000 respectively.

Non-current assets amounted to RMB 647,273,000 which comprised mainly property, plant and equipment and prepaid lease payment, etc.

Current assets amounted to RMB 5,026,779,000 comprised mainly inventories of RMB 600,273,000, trade and other receivables and bills receivables discounted with recourse of RMB 3,203,217,000, bank and cash balances (inclusive of pledged bank deposits) of RMB 1,220,667,000. Amount due from SGMW, a related company and a key customer in the engines and automotive components businesses of the Group amounted to RMB 2,062,678,000 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 RMB 1,220,667,000, in which RMB 624,601,000 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 RMB 378,750,000 as at 31 December 2008.

Current liabilities amounted to RMB 4,943,964,000 comprised mainly trade and other payables and advances drawn on bills receivables discounted with recourse of RMB 3,621,606,000, amount due to related companies of RMB 1,010,047,000, provision for warranty of RMB 83,226,000 and bank borrowings – due within one year of RMB 197,028,000. Amount due to Liuzhou Wuling, a substantial shareholder of the Company and the joint venture partner of Wuling Industrial which amounted to RMB 989,580,000 was recorded under current liabilities.

Non-current liabilities amounted to RMB 22,858,000 comprised mainly bank borrowings.

Group's bank borrowings increased to RMB 217,316,000 as at 31 December 2008 as a result of the additional borrowings drawn down for the operation of the Wuling Industrial Group.

As at 31 December 2008, the Group had a gearing ratio of 30.7% calculated based on the Group's total bank borrowings and the Group's net assets, representing an increase of 15.6 percentage points as compared prior year.

Issued capital was RMB 3,659,000 as at 31 December 2008 which was the same as the amount recorded on 31 December 2007.

Total equity attributable to equity holders increased from RMB 108,576,000 as at 31 December 2007 to RMB 146,744,000 as at 31 December 2008, representing an increase of approximately 35.6%.

PLEDGE OF ASSETS

As at 31 December 2008, certain properties held by the Group with an aggregate value of RMB 15,907,000 were pledged to secure certain bank loans granted to Group. Besides, bank deposits amounting to RMB 624,601,000 were pledged to the banks to secure certain banking facilities offered to the member companies of the Wuling Industrial Group.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

The majority parts of the Group's assets, liabilities and transactions were denominated in RMB which is also the presentation currency used for the Company's financial statements.

As at 31 December 2008, the Group maintained foreign currency and Hong Kong dollar bank loans of an aggregate amount of RMB 36,211,000, Hong Kong dollar bank deposits of an aggregate amount of RMB 5,998,000, Hong Kong dollar loan and trade receivable of RMB 4,368,000 and Hong Kong dollar trade payable of RMB 10,651,000. In comparison with the relative size of the Group's assets, liabilities and main transactions which are denominated in RMB, the Group regarded its exposure to fluctuations in exchange rates and currencies to be minimal.

COMMITMENTS

As at 31 December 2008, the Group has outstanding commitments, contracted but not provided for in the financial statements, in respect of the acquisitions of construction in progress and property, plant and equipment amounting to RMB 138,783,000.

ISSUE OF CONVERTIBLE NOTES SUBSEQUENT TO YEAR END

On 12 January 2009, the Company issued convertible notes with principal amount of HK$100,000,000, equivalent to approximately RMB 88,000,000, to a substantial shareholder, Liuzhou Wuling which bears interest at 6% per annum. Net proceeds amounting to approximately HK$99,000,000, equivalent to approximately RMB 87,000,000 from the issue had been injected into Wuling Industrial subsequently for providing additional working capital for its operations. Subsequent to this capital injection, the percentage of the paid up capital of the Company in Wuling Industrial has been increased from 17.2% to 30.5%.

REMUNERATION OF EMPLOYEES

At 31 December 2008, the Group had approximately 5,000 employees, including directors. Total staff costs for the year ended 31 December 2008 were approximately RMB 372,888,000. The remuneration policy was reviewed in line with the current applicable legislation, market conditions as well as the performance of the Company and the individual.

SUPPLEMENTARY NOTES ON THE SINO-FOREIGN JOINT VENTURE ENTERPRISE WITH LIUZHOU WULING

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 People's Republic of China ("PRC"):

(a) an agreement in relation to the increase in the registered capital of Liuzhou Wuling Motors Industrial Company Limited ("Wuling Industrial") and the subscription of 51% of the enlarged registered capital of Wuling Industrial by the Company at the total amount of RMB 391,000,000 ("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 RMB 78,200,000 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 RMB 312,800,000 will be payable within 2 years from the set up date of Wuling Industrial as a sino-foreign joint venture enterprise.

The proposed formation of the sino-foreign joint venture with Liuzhou Wuling have been fully stated in the Company's circular dated 25 June 2007 and was subsequently 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.

On 14 January 2009, by the funds raised from the issue of convertible notes as aforementioned, the Company further injected approximately RMB 87,000,000 million into Wuling Industrial. Subsequent to this capital injection, the percentage of the paid up capital of the Company in Wuling Industrial was increased from 17.2% to 30.5%.

Directors' and Senior Management's Biographies

EXECUTIVE DIRECTORS

Mr. LEE Shing

Mr. Lee, aged 51, our Chief Executive Officer and Chairman of the board of director, was appointed as executive director of the Company on 22 June 2006. Mr. Lee has extensive experience in the trading and manufacturing businesses in Hong Kong and the PRC. He is currently a member of the Committee of The Chinese People's Political Consultative Conference of Liuzhou, Guangxi Province, the PRC. Mr. Lee is the sole shareholder and sole director of Dragon Hill Development Limited, the controlling shareholder of the Company.

Mr. HE Shiji

Mr. He Shiji, aged 60, Vice Chairman of the board of director, was appointed as executive director of the Company on 10 September 2007. Mr. He obtained a master degree in business administration from the University of Western Sydney in 1999 and is a senior engineer. Mr. He has more than 31 years of experience in the engineering and automobile manufacturing industry. He is currently the chairman of Wuling Industrial, our principal subsidiary engages in the production of motor vehicles' engines, automotive components and specialized vehicles. Mr. He also serves as the vice chairman of SGMW（上汽通用五菱）, a joint venture formed by Shanghai Automobile Industry (Group) Company, General Motors China and Liuzhou Wuling, and our major customer in the automotive engines and components business, in which Liuzhou Wuling has a 15% shareholding interest. Besides, Mr. He is currently the chairman of Liuzhou Wuling, a director of Wuling (Hong Kong) Holdings Limited ("Wuling HK Holdings") and Wuling Motors (Hong Kong) Company Limited ("Wuling HK"), all of them substantial shareholders of the Company.

Mr. SUN Shaoli

Mr. Sun Shaoli, aged 53, was appointed as executive director of the Company on 10 September 2007. Mr. Sun obtained a master degree in business administration from Harbin Industrial University（哈爾濱工業大學）in 1988 and is a senior economist. Mr. Sun has about 26 years of experience in the automobile manufacturing industry. He is currently a director of Wuling Industrial, our principal subsidiary. Mr. Sun also serves as the deputy general manager of SGMW（上汽通用五菱）, our major customer in the automotive engines and components business. Besides, Mr. Sun is currently the vice chairman of Liuzhou Wuling, a substantial shareholder of the Company.

Mr. WEI Hongwen

Mr. Wei Hongwen, aged 46, was appointed as executive director of the Company on 10 September 2007. Mr. Wei obtained a master degree in economics from Sun Yat-Sen University（中山大學）in 1995 and is a professor level senior engineer. Mr. Wei has about 26 years of experience in the automobile manufacturing industry. He is currently a director and the general manager of Wuling Industrial, our principal subsidiary. Mr. Wei is in charge of the daily operations of our specialized vehicles, automotive engines and components manufacturing business. Mr. Wei is currently a director of Liuzhou Wuling, Wuling HK Holdings and Wuling HK, all of them substantial shareholders of the Company.

Ms. LIU Yaling

Ms. Liu, aged 33, was appointed as executive director of the Company on 22 June 2006. Ms. Liu graduated from 長春光學精密機械學院 (Changchun Institute of Optics and Fine Mechanics) (currently known as "長春理工大學 (Changchun University of Science and Technology)") and is a qualified accountant in the PRC. Ms. Liu gains her working experience in the automobile manufacturing industry and has approximately 10 years of experience in the finance and accounting profession in the PRC. Ms. Liu is a member of the International Association of Registered Financial Planners.

Mr. WANG Shaohua

Mr. Wang, aged 72, was appointed as executive director of the Company on 3 August 2006. Mr. Wang has extensive experience in the automobile manufacturing industry in the PRC. Prior to his joining to the Group, Mr. Wang worked for a number of motor vehicle and components manufacturers in the PRC as senior management for many years.

Mr. PEI Qingrong

Mr. Pei, aged 72, was appointed as executive director of the Company on 3 August 2006. Mr. Pei is an engineer and has extensive experience in the automobile manufacturing industry in the PRC. Prior to his joining to the Group, Mr. Pei worked for a number of machinery and equipment manufacturers in the PRC as senior engineer for many years.

Mr. ZHOU Sheji

Mr. Zhou, aged 51, was appointed as executive director of the Company on 10 October 2008. Mr. Zhou holds a bachelor degree in mechanical engineering and a master degree in business administration. Mr. Zhou has more than 20 years of experience in the management of various large scale projects in China ranging from transportation systems, hotel and information technology projects. He is currently the assistant general manager of Wuling Industrial, our principal subsidiary, and is in charge of the management, budgeting and finance of the investment projects. Mr. Zhou is the sole shareholder and sole director of Gao Bao Development Limited which has beneficial interests in the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. YU Xiumin

Mr. Yu, aged 48, was appointed as independent non-executive director of the Company on 22 June 2006. Mr. Yu holds a doctorate degree in engineering and has extensive experiences in the research and teaching aspects of the automobile engineering. Mr. Yu is currently a member of the Audit Committee and the Remuneration Committee.

Mr. ZUO Duofu

Mr. Zuo, aged 65, was appointed as independent non-executive director of the Company on 22 June 2006. Mr. Zuo graduated from Department of Journalism of 暨南大學 (Jinan University). Mr. Zuo has over 26 years of experience in the media industry in the PRC. He is currently a representative of 廣東作家代表大會 (Congress of Writers' Representatives in Guangdong) and a member of president group of 廣東省作家協會 (Guangdong Writer Association). Mr. Zuo is currently the chairman of the Remuneration Committee and a member of the Audit Committee.

Mr. YE Xiang

Mr. Ye, aged 45, was appointed as independent non-executive director of the Company on 10 October 2008. Mr. Ye is the founder and managing director of VisionGain Capital Limited ("VisionGain"), a company engages in the fund management and investment advisory business. Mr. Ye is a chartered financial analyst and holds a doctorate degree in finance. He has more than 14 years of experience in the monetary and finance industry and has extensive exposures in the banking and regulatory aspects. Prior to his founding of VisionGain, Mr. Ye was the Director of China Affairs of the Securities and Futures Commission of Hong Kong. Mr. Ye is currently the chairman of the Audit Committee and a member of the Remuneration Committee.

SENIOR MANAGEMENT

Mr. LAI Shi Hong Edward

Mr. Lai, aged 44, our Chief Financial Officer, was appointed as company secretary of the Company on 31 January 2007. Mr. Lai is responsible for overseeing our finance, accounting and company secretarial functions. Mr. Lai has more than 21 years of experience in finance, accounting and business management. Mr. Lai graduated from the University of Hong Kong. He is currently a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales and a fellow member of the Association of Chartered Certified Accountants.

Mr. ZHONG Xianhua

Mr. Zhong, aged 50, currently deputy general manager of Wuling Industrial and a director and the general manager of Liuzhou Wuling Motors United Development Company Limited ("Wuling United"), both of them principal subsidiaries of the Company. Mr. Zhong graduated from Hunan University majoring in mesoporphyrin protection. His profession is senior engineer. Mr. Zhong has engaged in automobile manufacturing industry in PRC since he joined Liuzhou Wuling in 1997. He has over 21 years of extensive experience in the production, marketing and corporate management of the automotive components industry.

Mr. WEN Daizhi

Mr. Wen, aged 45, currently deputy general manager of Wuling Industrial and a diretcor and the general manager of Liuzhou Wuling Liuji Motors Company Limited ("Wuling Liuji"), both of them principal subsidiaries of the Company. Mr. Wen graduated from the Engineering Thermophysics Department of Tianjin University majoring in combustion engine – internal. His profession is senior engineer. Mr. Wen has engaged in automobile manufacturing industry in PRC since he joined Liuzhou Wuling in 1985. He has over 21 years of extensive experience in the production, marketing and corporate management of the automotive engines industry.

Mr. LIU Dexiang

Mr. Liu, aged 46, currently deputy general manager in charge of the human resources function of Wuling Industrial, our principal subsidiary. Mr. Liu is a master degree graduate of the Faculty of Industrial Engineering in the Huazhong University of Science and Technology. His profession is senior engineer. Mr. Liu has engaged in automobile manufacturing industry in PRC since he joined Liuzhou Wuling in 1993. He has about 16 years of extensive experience in human resources and corporate management.

Mr. ZHANG Zhengxiang

Mr. Zhang, aged 59, currently chief engineer of Wuling Industrial, our principal subsidiary. Mr. Zhang is also a director of Liuzhou Wuling Specialized Vehicles Manufacturing Company Limited ("Wuling Specialized Vehicles"), Wuling United and Wuling Liuji. Mr. Zhang graduated from the Faculty of Mechanics in the Guangxi Radio and TV University. His profession is senior engineer. Mr. Zhang has engaged in automobile manufacturing industry in PRC since he joined Liuzhou Wuling in 1982. He has about 27 years of extensive experience in the aspects of automobile research and technology development.

Mr. LI Ying

Mr. Li, aged 56, currently the deputy chief accountant of Wuling Industrial, our principal subsidiary, and is in charge of the financial management function of Wuling Industrial. Mr. Li graduated from the Faculty of Accounting in the Guangxi Radio and TV University. His profession is senior accountant. Mr. Li has been working in the accounting profession for about 32 years, and has extensive experience in financial management aspects including capital management and cost control. Mr. Li is currently a standing committee member of 廣西會計學會 (the Accounting Society of Guangxi).

Mr. CHEUNG Chi Ming

Mr. Cheung, aged 30, currently the Assistant Financial Controller of the Company. Mr. Cheung is responsible for preparing the financial reports and assists the Chief Financial Officer in supervising our finance, accounting and company secretarial functions. Prior to his joining to the Company in October 2008, Mr. Cheung worked for an international accounting firm. Mr. Cheung graduated from the Hong Kong Polytechnic University and is a member of the Association of Chartered Certified Accountants.

Corporate Governance Report

The board of directors ("Board") of the Company is pleased to present this corporate governance report in the Company's annual report for the year ended 31 December 2008.

The key corporate governance principles and practices of the Company are summarized as follows:

CORPORATE GOVERNANCE PRACTICES

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

The Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules"), which has been revised with relevant amendments becoming effective on 1 January 2009, sets out the principles of good corporate governance ("Principles") and two levels of corporate governance practices:

(a) code provisions ("Code Provisions") which listed issuers are expected to comply with and to give considered reasons for any deviation; and

(b) recommended best practices ("Recommended Best Practices") for guidance only, which listed issuers are encouraged to comply with or give considered reasons for deviation.

The Company has applied the Principles and the Code Provisions as set out in the CG Code and complied with most of the Code Provisions save for certain deviation from the Code Provisions in respect of A.2.1, details of which are explained below.

During the year, the Company reviewed regularly its corporate governance practices to ensure compliance with the CG Code.

The Company acknowledges the important role of its Board in providing effective leadership and direction to its businesses, and ensuring transparency and accountability of its operations.

THE BOARD

Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board takes responsibility for all major decisions of the Company including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those which may involve conflict of interests), financial information, appointment of directors and other significant financial and operational decisions.

The Company has arranged appropriate liability insurance coverage for the directors, which is reviewed by the Board on a regular basis.

All directors have full and timely access to all relevant information, with a view to ensure that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the senior management, and the delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of senior management to discharge its responsibilities.

Composition

The composition of the Board ensures a balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgement.

The Board of the Company currently comprises eight executive directors namely 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, and three independent non-executive directors namely Mr. Yu Xiumin, Mr. Zuo Duofu and Mr. Ye Xiang. The biographical details of these directors are set out in the section headed "Directors' & Senior Management's Biographies" in this annual report.

Mr. He Shiji, Mr. Sun Shaoli and Mr. Wei Hongwen were appointed on 10 September 2007. They were nominated by Liuzhou Wuling, a substantial shareholder of the Company, following the completion of the acquisition of a substantial shareholding interests in the Company by Liuzhou Wuling and the formation of the sino-foreign joint venture company, Wuling Industrial, between the Company and Liuzhou Wuling in year 2007.

Save as abovementioned, none of the members of the Board is related to one another.

The list of directors (by category) is also disclosed in this annual report and all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive directors bring a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors make various contributions to the effective direction of the Company. One of the independent non-executive directors possesses appropriate professional qualifications, or accounting or related financial management expertise.

Appointment, Re-election and Resignation of Directors

The Company has established formal, considered and transparent procedures and criteria for the appointment and re-election of directors.

During the year, Mr. Zhou Sheji and Mr. Ye Xiang were nominated and appointed respectively as executive director and independent non-executive director on 10 October 2008. The Board processed their nominations by making reference to their respective skills, experience, professional knowledge, personal integrity and time commitments, the Company's needs and other relevant statutory requirements and regulations. The relevant resolutions relating to the appointment of the two new directors were approved in a Board meeting during the year. Pursuant to the Company's Bye-laws, Mr. Zhou Sheji and Mr. Ye Xiang retired in the first general meeting following their appointments on 21 November 2008. By resolutions passed by the shareholders of the Company in the general meeting on 21 November 2008, Mr. Zhou Sheji and Mr. Ye Xiang were re-elected as Directors.

Mr. Cheng Kin Wah Thomas, who was an independent non-executive director since 22 June 2006 resigned on 31 March 2009 due to health reason.

The Company has entered into service contracts with all the independent non-executive directors for a specific term of three years who are also required to retire by rotation in accordance with the Company's Bye-laws.

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

The Board reviews its own structure, size and composition regularly to ensure that it has balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

In accordance with the Company's Bye-laws, Messrs. Wang Shaohua, Pei Qingrong, Yu Xiumin and Zuo Duofu shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming 2009 annual general meeting.

The Board recommended the re-appointment of all retiring directors standing for re-election at the forthcoming 2009 annual general meeting of the Company.

The Company's circular dated 29 April 2009 contains detailed information of all retiring directors standing for re-election.

Training for Directors

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

BOARD MEETINGS

Number of Meetings and Directors' Attendance

Regular Board meetings are held at least four times a year at approximate quarterly interval for reviewing and approving financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the year ended 31 December 2008, a total number of 4 regular Board meetings, 2 Audit Committee meetings and 1 Remuneration Committee meeting were held by the Company.

The individual attendance records of each director at the meetings of the Board, the Audit Committee and the Remuneration Committee during the year ended 31 December 2008 are set out below:

	Attendance/Number of Meetings		
Name of Directors	Board Meeting	Audit Committee	Remuneration Committee
Executive directors			
Lee Shing	4/4	N/A	N/A
He Shiji	4/4	N/A	N/A
Sun Shaoli	4/4	N/A	N/A
Wei Hongwen	4/4	N/A	N/A
Liu Yaling	4/4	N/A	N/A
Wang Shaohua	4/4	N/A	N/A
Pei Qingrong	4/4	N/A	N/A
Zhou Sheji *(Appointed on 10 October 2008)*	1/1	N/A	N/A
Independent non-executive directors			
Yu Xiumin	4/4	2/2	1/1
Zuo Duofu	4/4	2/2	1/1
Ye Xiang *(Appointed on 10 October 2008)*	1/1	N/A	N/A
Cheng Kin Wah Thomas *(Resigned on 31 March 2009)*	3/4	2/2	1/1

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meeting, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The responsible senior management attend Board meetings and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The responsible senior management or company secretary of the Company take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interest for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Bye-laws also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the role of chairman and chief executive officer should be separated 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 will not impair the balance of power and authority between the Board and the management of the Company.

BOARD COMMITTEES

The Board has established 2 committees, namely, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are disclosed in the website of the Company (www.dhwuling.com) and are available to shareholders upon request.

The members of each Board committees at present are all independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" in this annual report.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at Company's expenses.

Remuneration Committee

The Remuneration Committee currently comprises three independent non-executive directors including Mr. Zuo Duofu (Chairman of the Remuneration Committee), Mr. Yu Xiumin and Mr. Ye Xiang. The biographical details of these directors are set out in the section headed "Directors' & Senior Management's Biographies" in this annual report.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, whose remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets at least once a year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the directors and the senior management and other related matters. The Human Resources Department is responsible for the collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the chairman of the Company about these recommendations on remuneration policy and structure as well as the remuneration packages.

The Remuneration Committee held a meeting during the year ended 31 December 2008 for reviewing the performance and remuneration packages of the existing directors. The attendance records of the Remuneration Committee are set out under "Board Meetings" on page 32.

Audit Committee

The Audit Committee currently comprises three independent non-executive directors including Mr Ye Xiang (Chairman of the Audit Committee), Mr Yu Xiumin and Mr Zuo Duofu, among them one independent non-executive director possesses the appropriate professional qualifications or accounting or related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors. The biographical details of these members are set out in the section headed "Directors' & Senior Management's Biographies" in this annual report.

The main duties of the Audit Committee include the following:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the responsible staff of the accounting and financial report function, compliance officer (if any), internal auditor or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held two meetings during the year ended 31 December 2008 to review the financial results and reports, financial reporting and compliance procedures, the Company's internal control and risk management review and processes and the resignation and appointment of the external auditors. The attendance records of the Audit Committee are set out under "Board Meetings" on page 32.

The Audit Committee acknowledged the new amendments to the terms of reference of the audit committee under the Listing Rules in relation to, inter alia, abolishment of the requirement of appointment of qualified accountant and appropriate actions have been taken by the Board and the Audit Committee accordingly.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

In consideration of the new amendments to the Model Code (the "Amendments"), which became effective on the first quarter of 2009, the Board has revised the Own Code corresponding to the Amendments.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 December 2008.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by relevant employees of the Company who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guideline by the employees was noted by the Company.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2008.

The Board received from the senior management the management accounts, explanation and relevant information which enable the Board to make an informed assessment for approving the financial statements.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 49 and 50.

Apart from the provision of annual audit services, Deloitte Touche Tohmatsu, the Company's external auditors, also carried out interim review of the Group's results and provided other financial services in compliance with the requirements under the Listing Rules.

For the year ended 31 December 2008, Deloitte Touche Tohmatsu, the external auditors received the following remuneration from the Group in connection with the provision of audit and non-audit services to the Group:

	2008 RMB'000
Annual audit services	1,604
Interim review services	453
Other services	89

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets, and reviewing the effectiveness of such on an annual basis with the participation of the Audit Committee. The review covers all material controls, including financial, operational and compliance controls and risk management functions as well as the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The Group has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management.

The Group which engages in the businesses of the trading and manufacturing of engines, automotive components, and the specialized vehicles, has established budgetary and internal control systems which are designed and structured in accordance with its specific business and operation functions. An internal audit department is also maintained to carry out the internal audit functions to ensure proper compliance with the internal control systems and to identify the potential risks which may arise in the operation for implementation of appropriate measures and policies. The internal audit department executes its functions based on a year plan and prepares reports of their assignments. These reports are submitted to the senior management, the Board and the Audit Committee for review on a regular basis.

During the year under review, the Board and the Audit Committee, has conducted a review of the effectiveness of the internal control systems and the internal audit functions of Group and confirms that the required procedures and human resources are in place to ensure adequate internal controls within the Group.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company acknowledges the importance of maintaining effective communication with the shareholders and the investment community.

The general meetings of the Company provide a forum for communication between the Board and the shareholders. Code provision E.1.2 stipulates that the chairman of the Board should attend the annual general meeting and arrange for the chairman of the Remuneration Committee and the Audit Committee, or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting. The chairman of the independent board committee should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

Mr Lee Shing, the present CEO and Chairman of the Board attended all the shareholders' meetings of the Company during the year. He will use his endeavours to attend all future shareholders' meetings of the Company.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors.

The Company's website (www.dhwuling.com) is maintained for the dissemination of the Company's announcements, press releases and other relevant financial and non-financial information on a timely basis.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

Report of The Directors

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 46 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 51.

The directors do not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: Nil).

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified/restated as appropriate, is set out below. The amounts for each year in the five years' financial summary have been adjusted for: (1) the effects of retrospective changes in accounting policy upon adoption of several new and revised accounting standards as disclosed in note 2 to the financial statements; and (2) the adoption of RMB as the presentation currency as described in note 1 to the financial statements. This summary does not form part of the audited consolidated financial statements.

	2008 **RMB'000**	2007 RMB'000	2006 RMB'000 (Restated)	2005 RMB'000 (Restated)	2004 RMB'000 (Restated)
Revenue	**7,111,911**	2,856,456	16,616	12,971	23,286
Profit/(loss) before tax	**164,769**	97,220	22,085	(8,883)	(6,622)
Income tax expense	**(27,882)**	(22,602)	(19)	(342)	(120)
Profit/(loss) for the year	**136,887**	74,618	22,066	(9,225)	(6,742)
Attributable to:					
Equity holders of the Company	**32,647**	11,147	22,066	(9,225)	(6,742)
Minority interests	**104,240**	63,471	–	–	–
	136,887	74,618	22,066	(9,225)	(6,742)
Total assets	**5,674,052**	4,462,984	71,071	78,859	85,707
Total liabilities	**(4,966,822)**	(3,882,295)	(37,707)	(134,888)	(133,702)
Net assets/(liabilities)	**707,230**	580,689	33,364	(56,029)	(47,995)

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

The Group revalued its investment properties at the year end date. The net increase in fair value of the investment properties, which has been credited directly to consolidated income statement, amounted to RMB2,153,000.

Details of these and other movements during the year in the property, plant and equipment and investment properties of the Group are set out in notes 16 and 19 to the financial statements, respectively.

SHARE CAPITAL

Details of movements during the year in the share capital are set out in note 35 to the financial statements.

PRE-EMPTIVE RIGHTS

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 44 to the financial statements and in the consolidated statement of changes in equity on page 54 respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company did not have any reserves available for distribution to shareholders of the Company for both years.

BORROWINGS

Details of the bank borrowings of the Group are set out in note 32 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's largest customer and five largest customers taken together accounted for 79.8% and 84.5% of the Group's total turnover for the year.

The aggregate purchases attributable to the Group's largest supplier and the five largest suppliers taken together accounted for 21.2% and 34.7% of the Group's total purchases for the year.

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, a substantial shareholder of the Company, holds a 15% interests, is the Group's largest customer and largest supplier.

Other than as disclosed above, none of the directors, their respective associates or, so far as the directors are aware, any shareholder who owns more than 5% of the issued share capital of the Company has any interests in any of the aforesaid top five customers and suppliers of the Group for the year.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Lee Shing *(Chairman & Chief Executive Officer)*
Mr. He Shiji *(Vice-Chairman)*
Mr. Sun Shaoli
Mr. Wei Hongwen
Ms. Liu Yaling
Mr. Pei Qingrong
Mr. Wang Shaohua
Mr. Zhou Sheji (appointed on 10 October 2008)

Independent non-executive directors:

Mr. Yu Xiumin
Mr. Zuo Duofu
Mr. Ye Xiang (appointed on 10 October 2008)
Mr. Cheung Kin Wah, Thomas (resigned on 31 March 2009)

The biographical details of the directors of the Company are set out on pages 25 and 26 of this report.

Every directors of the Company, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with Bye-law 91 of the Company, Messrs. Zhou Sheji and Ye Xiang who were appointed as executive director and independent non-executive director of the Company respectively during the year, retired and were re-elected simultaneously at the special general meeting of the Company held on 21 November 2008.

In accordance with Bye-law 99(B) of the Company, Messrs. Pei Qingrong, Wang Shaohua, Yu Xiumin and Zuo Duofu shall retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

Mr. Cheng Kin Wah Thomas has tendered his resignation as independent non-executive director of the Company due to health reason on 31 March 2009.

The Company has received from each of its independent non-executive directors of the Company, the respective annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“Listing Rules”). The Company considers these directors independent.

The terms of appointment of all independent non-executive directors of the Company have been fixed for a term of three years but will expire when they are required to retire by rotation in accordance with the Company’s Bye-laws.

The Company will enter into service contracts with Messrs. Yu Xiumin and Zuo Duofu, independent non-executive director of the Company, for a specific term of three years following their re-election in the forthcoming annual general meeting of the Company.

DIRECTORS’ EMOLUMENTS

Details of the directors’ emoluments disclosed on a named basis are set out in note 11 to the financial statements.

DIRECTORS’ SERVICE CONTRACTS

The Company has entered into service contracts with all the three independent non-executive directors of the Company for a specific term of three years who are also required to retire by rotation in accordance with the Company’s Bye-laws.

No directors of the Company being proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

At 31 December 2008, the interests of the directors of the Company and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), contained in the Listing Rules were as follows:

Long positions in the shares of the Company

Name of director	Capacity	Number of shares held	Approximate % of the issued share capital
Mr. Lee Shing ("Mr Lee")	Held by controlled corporation (Note 1)	278,259,613	30.34%
Mr. Zhou Sheji ("Mr Zhou")	Held by controlled corporation (Note 2)	44,770,000	4.88%

(1) The 278,259,613 Shares are owned by Dragon Hill Development Limited (俊山發展有限公司) ("Dragon Hill"), a company wholly-owned by Mr. Lee. Reference is made to the circular of the Company issued on 25 June 2007 (the "Circular") and unless the context herewith otherwise requires, terms used in this note shall have the same meanings as in the Circular. A share charge has been created on 280,959,613 Shares held by Dragon Hill in favour of 柳州五菱汽車有限責任公司 (Liuzhou Wuling Motors Company Limited, "Liuzhou Wuling") pursuant to the execution of the Share Charge Documents on 28 August 2007 in which Dragon Hill has agreed to guarantee and undertake to procure (i) the due performance of the Company under the JV Agreements, and (ii) the Company not to allot and issue any of the new shares of the Company without the prior written consent of Liuzhou Wuling during the Guarantee Period (i.e., the 36 month-period from the date of the Share Charge). According to the Share Sale Agreement, the Share Charge Documents should be executed simultaneously with the completion of the Share Sale Agreement and that if the Company fails to duly perform its obligations pursuant to any of the JV Agreements or if the Company issues any of the new shares in breach of its undertaking, Liuzhou Wuling (or its wholly-owned subsidiary(ies)) shall have the right to acquire the Charged Shares (i.e., the 280,959,613 Shares held by Dragon Hill, being all of the shares of the Company held by Dragon Hill upon completion of the Share Sale Agreement which are agreed to be charged to Liuzhou Wuling (or its wholly-owned subsidiary(ies)), by Dragon Hill under the Share Charge) from Dragon Hill at the price of HK$0.29 per Charged Shares during the Guaranteed Period. Pursuant to a consent letter issued by Liuzhou Wuling, the number of Charged Shares has been reduced to 272,959,613 Shares with effect from 28 October 2008.

(2) Mr. Zhou is beneficially interested in 44,770,000 Shares, which interests are held by his controlled corporation, Gao Bao Development Limited.

Save as disclosed above and the interests as disclosed under the section headed "Directors' Rights to Acquire Shares below, none of the directors of the Company nor their associates had any interests or short positions in any shares, underlying shares of the Company or any of its associated corporations as at 31 December 2008 which had been entered in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

As at 31 December 2008, the number of outstanding option shares granted by the Company under the option scheme adopted on 11 June 2002 (the "Scheme") for the directors of the Company to subscribe the shares of the Company, as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code are set out below:

Name of Director	Capacity	Number of options granted	Exercise period	Price of grant	Subscription price per share
Ms. Liu Yaling	Beneficial owner	350,000	From 21 January 2008 to 31 December 2009	HK$1.00	HK$2.318
Mr. Wang Shaohua	Beneficial owner	350,000	From 21 January 2008 to 31 December 2009	HK$1.00	HK$2.318
Mr. Pei Qingrong	Beneficial owner	350,000	From 21 January 2008 to 31 December 2009	HK$1.00	HK$2.318
Mr. Yu Xiumin	Beneficial owner	180,000	From 21 January 2008 to 31 December 2009	HK$1.00	HK$2.318
Mr. Zuo Duofu	Beneficial owner	180,000	From 21 January 2008 to 31 December 2009	HK$1.00	HK$2.318
Mr. Cheng Kin Wah Thomas (Note)	Beneficial owner	180,000	From 21 January 2008 to 31 December 2009	HK$1.00	HK$2.318

Note: Mr. Cheng Kin Wah Thomas resigned on 31 March 2009 and the exercise period of his share options remained effective until 31 December 2009.

Save as disclosed herein, at no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, or any of its subsidiaries was a party, and in which a director of the Company had a material interest whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SHARE OPTIONS

Particulars of the Company's share option scheme and the movements in the share options therein are set out in note 36 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at 31 December 2008, other than the interests disclosed above in respect of the directors of the Company, the following shareholders of the Company had notified the Company of their relevant interests in the issued share capital of the Company:

Long positions in the shares of the Company

Substantial Shareholders	Capacity	Nature of Interest	Number of shares held	Approximate % of the issued share capital
Dragon Hill (Notes 1 and 2)	Beneficial owner	Corporate	278,259,613	30.34%
五菱（香港）控股有限公司 (Wuling (Hong Kong) Holdings Limited) ("Wuling HK Holdings") (Notes 2, 3 and 4)	Beneficial owner	Corporate	682,594,743	74.41%
五菱汽車（香港）有限公司 Wuling Motors (Hong Kong) Company Limited ("Wuling HK") (Notes 2, 3 and 4)	Interested in controlled corporation	Corporate	682,594,743	74.41%
柳州五菱汽車有限責任公司 (Liuzhou Wuling Motors Company Limited) ("Liuzhou Wuling") (Notes 2, 3 and 4)	Interested in controlled corporation	Corporate	682,594,743	74.41%

Notes:

(1) The entire issued share capital of Dragon Hill is legally and beneficially owned by Mr. Lee Shing, a director and the controlling shareholder. Accordingly, this parcel of shares of the Company has also been disclosed as long positions of Mr. Lee Shing under the above section of "Directors' Interests and Short Positions in Shares and Underlying Shares of the Company and any Associated Corporations".

(2) Reference is made to the circular of the Company issued on 25 June 2007 (the "Circular") and unless the context herewith otherwise requires, terms used in this note shall have the same meanings as in the Circular. A share charge has been created on 280,959,613 Shares held by Dragon Hill in favour of Liuzhou Wuling pursuant to the execution of the Share Charge Documents on 28 August 2007 in which Dragon Hill has agreed to guarantee and undertake to procure (i) the due performance of the Company under the JV Agreements, and (ii) the Company not to allot and issue any of the new shares of the Company without the prior written consent of Liuzhou Wuling during the Guarantee Period (i.e., the 36 month-period from the date of the Share Charge). According to the Share Sale Agreement, the Share Charge Documents should be executed simultaneously with the completion of the Share Sale Agreement and that if the Company fails to duly perform its obligations pursuant to any of the JV Agreements or if the Company issues any of the new shares in breach of its undertaking, Liuzhou Wuling (or its wholly-owned subsidiary(ies)) shall have the right to acquire the Charged Shares (i.e., the 280,959,613 Shares held by Dragon Hill, being all of the shares of the Company held by Dragon Hill upon completion of the Share Sale Agreement which are agreed to be charged to Liuzhou Wuling (or its wholly-owned subsidiary(ies)), by Dragon Hill under the Share Charge) from Dragon Hill at the price of HK$0.29 per Charged Shares during the Guaranteed Period. Pursuant to a consent letter issued by Liuzhou Wuling, the number of Charged Shares has been reduced to 272,959,613 Shares with effect from 28 October 2008.

(3) The entire issued share capital of Wuling HK Holdings is held by Wuling HK, whereas the entire issued share capital of Wuling HK is held by Liuzhou Wuling. Accordingly, Wuling HK and Liuzhou Wuling are deemed to be interested in the shares in which Wuling HK Holdings is interested under the SFO.

(4) The long positions held by the substantial shareholders include: (i) the 274,500,000 Shares beneficially owned by Wuling HK Holdings as at 31 December 2008; (ii) the 272,959,613 Shares held as security interest pursuant to Note 2 above; and (iii) the 135,135,130 Shares issuable to Wuling HK Holdings upon exercise in full of the conversion rights attaching to a convertible notes issued by the Company to Wuling HK Holdings on 12 January 2009 according to a subscription agreement dated 28 November 2008, details of which have been fully disclosed in the circular of the Company dated 16 December 2008.

Other than as disclosed above as at 31 December 2008, the Company has not been notified of any other relevant interests and short position in the shares capital of the Company or any of its associated corporation, which had been recorded in the register required to be kept under section 336 of the SFO.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

Connected transaction

On 28 November 2008, the Company and Wuling (Hong Kong) Holdings Limited, ("Wuling HK Holdings") entered into a subscription agreement, pursuant to which the Company has conditionally agreed to issue and Wuling HK Holdings has conditionally agreed to subscribe for a 6% convertible notes (the "Convertible Notes") in the aggregate principal amount of HK$100,000,000 (equivalent to approximately RMB88,000,000) at the initial conversion price of HK$0.74 per conversion shares (the "Conversion Price"), subject to adjustment, which will be convertible from the date falling on the first anniversary of the date of issue of the Convertible Notes up to and including the date falling on the fifth business day prior to the date of maturity of the Convertible Notes.

Upon the exercise in full of the conversion rights attaching to the Convertible Notes at the initial Conversion Price, a total of 135,135,130 shares of the Company will be allotted and issued.

It was planned that the net proceeds from the issue of the Convertible Notes of approximately HK$99,000,000 (equivalent to approximately RMB87,000,000) will be applied to finance the outstanding subscription money payable by the Company to 柳州五菱汽車工業有限公司 (Liuzhou Wuling Motors Industrial Company Limited, "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.

As Wuling HK Holdings is a substantial shareholder, which is beneficially interested in approximately 29.93% of the total issued share capital of the Company, this transaction constituted a connected transaction under Chapter 14A of the Listing Rules and was approved by the independent shareholders in the special general meeting of the Company held on 5 January 2009.

The Convertible Notes was subsequently issued on 12 January 2009.

Continuing connected transactions

On 2 July 2008, Wuling Industrial and 柳州五菱汽車有限責任公司 (Liuzhou Wuling Motors Industrial Company Limited, "Liuzhou Wuling") entered into an undertaking agreement (the "Undertaking Agreement") regarding the proposed execution of a guarantee agreement to be entered into between Wuling Industrial and China Construction Bank (the "Guarantee Agreement") in relation to the provision of certain revolving banking facilities, including bank loans, bills payable, letters of credit, corporate guarantees and any other indemnities, granted by China Construction Bank to Liuzhou Wuling in a maximum amount of RMB200,000,000 with a maximum term of not more than 3 years from the date of execution of the Guarantee Agreement.

As Liuzhou Wuling is a substantial shareholder, which by virtue of its interests in Wuling HK Holdings, is interested in approximately 29.93% of the total issued share capital of the Company, this transaction constituted a continuing connected transaction under Chapter 14A of the Listing Rules and was approved by the independent shareholders in the special general meeting of the Company held on 7 August 2008.

During the year ended 31 December 2008 and up to the date of this report, Wuling Industrial has not yet executed the Guarantee Agreement.

To facilitate the business and operation of Wuling Industrial and its subsidiaries (the "Wuling Industrial Group"), Wuling Industrial entered into the following agreements with the respective parties which are in effect during the year:

(1) a tenancy agreement dated 28 August 2007 with Liuzhou Wuling in relation to the leasing of 11 parcels of land and 82 buildings to the Wuling Industrial Group ("Leasing of Properties") for its operation at a monthly rental of RMB2,346,000 for the period from the date of the formal set up of Wuling Industrial ("JV Setup Date") to 31 December 2009;

(2) a patent agreement dated 28 August 2007 with Liuzhou Wuling in relation to the licensing of a total of 158 types of patent rights and know how to the Wuling Industrial Group ("Use of Patent") for its operation at an annual fee of RMB1,300,000 for the period from the JV Setup Date to 31 December 2009;

(3) a trademark agreement dated 28 August 2007 with Liuzhou Wuling in relation to the licensing of certain registered trademarks to the Wuling Industrial Group ("Use of Trademark") for its operation at an annual fee of RMB2,000,000 for the period from the JV Setup Date to 31 December 2009;

(4) an agreement dated 2 July 2008 with Liuzhou Guangling Moulds & Tools Technology Limited 柳州廣菱模具技術有限公司 ("Guangling") in relation to the sales of raw materials by the Wuling Industrial Group to Guangling ("GL Sale Transactions"), the maximum aggregate values of the GL Sale Transactions shall be RMB33,000,000, RMB54,000,000 and RMB70,000,000 respectively, for the three years ending 31 December 2008, 2009 and 2010;

(5) an agreement dated 2 July 2008 with Guangling in relation to the purchases of automotive components and other accessories by the Wuling Industrial Group from Guangling ("GL Purchase Transactions"), the maximum aggregate values of the GL Purchase Transactions shall be RMB33,000,000, RMB57,000,000 and RMB76,000,000 respectively, for three years ending 31 December 2008, 2009 and 2010;

(6) an agreement dated 2 July 2008 with Guilin Bus Development Co., Ltd 桂林客車發展有限責任公司 ("Guilin Bus") in relation to the sales of parts and raw materials to Guilin Bus by the Wuling Industrial Group ("GB Sale Transactions"), the maximum aggregate value of the GB Sale Transactions shall be RMB22,000,000 for the year ended 31 December 2008. On 15 October 2008, a revised agreement was entered with Guilin Bus in relation to the GB Sale Transactions for the three years ending 31 December 2008, 2009 and 2010, in which the maximum aggregate values of the GB Sale Transactions shall be RMB30,000,000, RMB77,000,000 and RMB110,000,000 respectively;

(7) an agreement dated 2 July 2008 with Guilin Bus in relation to the purchases of passenger mini-buses from Guilin Bus by the Wuling Industrial Group ("GB Purchase Transactions"), the maximum aggregate value of the GB Purchase Transactions shall be RMB22,000,000 for the year ended 31 December 2008. On 15 October 2008, a revised agreement was entered with Guilin Bus in relation to the GB Purchase Transactions for the three years ending 31 December 2008, 2009 and 2010, in which the maximum aggregate values of the GB Purchase Transactions shall be RMB22,000,000, RMB35,000,000 and RMB70,000,000 respectively;

(8) an agreement dated 15 October 2008 with Liuzhou Wuling Import and Export Company Limited 柳州五菱進出口有限公司 ("Wuling Export") in relation to the sales of cars, engines and parts by the Wuling Industrial Group to Wuling Export ("WE Sale Transactions"), the maximum aggregate value for the transactions shall be RMB10,000,000 for the year ending 31 December 2008;

(9) an agreement dated 15 October 2008 with Guangling in relation to the provision of water and power supply services by the Wuling Industrial Group to Guangling ("GL Water and Power Supply Services"), the maximum aggregate value of the transaction shall be RMB1,300,000 for the year ending 31 December 2008; and

(10) an agreement dated 18 December 2008 with Liuzhou Keer Digital Manufacturing Co., Limited 柳州市科爾數字化製造技術有限公司 ("KE Digital") in relation to the purchase of certain electronic devices and components by the Wuling Industrial Group from KE Digital ("KE Purchase Transactions"), the maximum aggregate value of the transactions shall be RMB1,800,000 for the year ending 31 December 2008.

Liuzhou Wuling, a substantial shareholder of the Company, which by virtue of its interests in Wuling HK Holdings, is interested in approximately 29.93% of the total issued share capital of the Company, is regarded as connected person of the Company pursuant to the Listing Rules.

Guangling, Guilin Bus and KE Digital, as associates of Liuzhou Wuling, are regarded as connected persons to the Company pursuant to the Listing Rules.

Wuling Export, as a wholly owned subsidiary of Liuzhou Wuling, is regarded as a connected person to the Company pursuant to the Listing Rules.

The transactions listed above constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules, in which independent shareholders' approval for items No. 1 to 7 above were obtained in the following special general meetings of the Company:

Item	Particulars	Date of special general meeting
1	Leasing of Properties	12 July 2007
2	Use of Patent	12 July 2007
3	Use of Trademark	12 July 2007
4	GL Sale Transactions	7 August 2008
5	GL Purchase Transactions	7 August 2008
6	GB Sale Transactions	21 November 2008
7	GB Purchase Transactions	21 November 2008

As for items No. 8 to 10 above, approval from independent shareholders of the Company were exempted under the Listing Rules.

Pursuant to rule 14A.38 of the Listing Rules, the board of directors engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor of the Company has provided a letter to the board of directors confirming that the continuing connected transactions:

(i) have received the approval of the board of directors of the Company;

(ii) have been conducted in accordance with the pricing policies of the Company with reference to similar transactions with independent third parties;

(iii) have been conducted on terms in accordance with the terms of the relevant agreements governing the transactions; and

(iv) have not exceeded the relevant annual cap as disclosed in the relevant announcements issued by the Company.

The independent non-executive directors have reviewed the above connected and continuing connected transactions and confirm that these transactions entered into by the Group were:

(a) in the ordinary and usual course of business of the Group;

(b) on arm's length basis, on normal commercial terms and on terms that are fair and reasonable as far as the shareholders of the Company are concerned; and

(c) in accordance with the terms of the agreements governing such transactions.

Save as disclosed herein, there were no transactions which need to be disclosed as connected transactions or continuing connected transactions in accordance with the requirements of the Listing Rules.

REMUNERATION COMMITTEE

The Remuneration Committee currently comprises three independent non-executive directors of the Company including Mr. Zuo Duofu (Chairman of the Remuneration Committee), Mr. Yu Xiumin and Mr. Ye Xiang.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management of the Company. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director of the Company or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets at least once a year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior management of the Company and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the chairman of the Company about these recommendations on remuneration policy and structure and remuneration packages.

PURCHASE, REDEMPTION AND SALE OF LISTED SECURITIES OF THE COMPANY

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

PENSION SCHEMES

The pension schemes of the Company and its subsidiaries are primarily in form of contributions to the China statutory public welfare fund and Hong Kong's Mandatory Provident Funds.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the Model Code, which has been revised pursuant to recent amendments to the Listing Rules. The directors have confirmed they have complied with the Own Code and the Model Code throughout the year ended 31 December 2008.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with the Rule 3.2.1 of the Listing Rules, 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 of the Company, one of them possesses the appropriate professional qualifications or accounting or related financial management expertise.

The summary of duties and works of the Audit Committee is set out in "Corporate Governance Report" in this annual report.

The consolidated financial statements for the year ended 31 December 2008 have been reviewed by the Audit Committee.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this annual report, based on information that is publicly available to the Company and to the best knowledge of the directors of the Company, the Company maintained sufficient float being 25% of the Company's total issued share capital as required under the Listing Rules.

POST BALANCE SHEET EVENT

Details of a significant event occurring after the balance sheet date are set out in note 45 to the financial statements.

AUDITOR

On 10 September 2007, Deloitte Touche Tohmatsu ("Deloitte") were appointed as the auditor of the Company to fill the causal vacancy occasioned by the resignation of Ernst & Young to hold office until the conclusion of the 2008 annual general meeting of the Company.

A shareholder of the Company, pursuant to section 89(3) of the Companies Act 1981 of Bermuda, has given the Company a notice of intention to nominate Deloitte as the auditor of the Company in the 2008 annual general meeting. Accordingly, an ordinary resolution in respect of the appointment of Deloitte as the auditor of the Company was proposed and was duly passed in the 2008 annual general meeting of the Company.

In the forthcoming annual general meeting of the Company, Deloitte will retire and, being eligible, offer themselves for re-appointment. A resolution for re-appointment of Deloitte as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

Lee Shing
Chairman

22 April 2009

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF
DRAGON HILL WULING AUTOMOBILE HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the financial statements of Dragon Hill Wuling Automobile Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 51 to 111, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year ended 31 December 2008, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of The Companies Act of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year ended 31 December 2008 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 April 2009

Consolidated Income Statement

For the year ended 31 Decemeber 2008

	Notes	2008 RMB'000	2007 RMB'000
Revenue	8	**7,111,911**	2,856,456
Cost of sales		**(6,339,666)**	(2,591,934)
Gross profit		**772,245**	264,522
Other income	8	**85,057**	36,488
Distribution costs		**(187,163)**	(51,736)
General and administrative expenses		**(463,066)**	(149,187)
Net (loss) gain on held-for-trading investments		**(245)**	8,982
Share of results of an associate	21	**802**	220
Increase in fair value of investment properties	19	**2,153**	5,152
Finance costs	9	**(45,014)**	(17,221)
Profit before tax	10	**164,769**	97,220
Income tax expense	13	**(27,882)**	(22,602)
Profit for the year		**136,887**	74,618
Attributable to:			
Equity holders of the Company		**32,647**	11,147
Minority interests		**104,240**	63,471
		136,887	74,618
Dividends	14	**–**	–
Earnings per share	15		
Basic		**RMB3.56 cents**	RMB1.26 cents
Diluted		**N/A**	RMB1.23 cents

Consolidated Balance Sheet

As at 31 Decemeber 2008

	Notes	2008 RMB'000	2007 RMB'000
Non-Current Assets			
Property, plant and equipment	16	**570,065**	444,445
Prepaid lease payments	17	**13,912**	2,022
Premium on prepaid lease payments	18	**1,047**	1,072
Investment properties	19	**6,172**	19,737
Intangible assets	20	**928**	928
Interest in an associate	21	**3,304**	2,502
Available-for-sale investments	22	**495**	498
Deposits for trading rights		**180**	192
Deposits for acquisition of property, plant and equipment		**51,170**	59,094
		647,273	530,490
Current Assets			
Inventories	23	**600,273**	432,603
Loans receivable	24	**68**	2,448
Trade and other receivables	25(i)	**2,861,209**	2,551,519
Bills receivables discounted with recourse	25(ii)	**342,008**	35,199
Prepaid lease payments	17	**201**	49
Held-for-trading investments	26	**3**	1,038
Client trust bank accounts	27	**2,350**	5,987
Pledged bank deposits	28	**624,601**	302,034
Bank balances and cash	28	**596,066**	601,617
		5,026,779	3,932,494
Current Liabilities			
Trade and other payables	29(i)	**3,279,598**	2,212,874
Advances drawn on bills receivables discounted with recourse	29(ii)	**342,008**	35,199
Amount due to a shareholder	30	**989,580**	1,405,695
Amount due to an associate	30	**20,467**	8,296
Provision for warranty	31	**83,226**	64,279
Tax payable		**31,787**	67,420
Bank borrowings – due within one year	32	**197,028**	54,806
Obligations under finance leases – due within one year	33	**270**	287
		4,943,964	3,848,856
Net Current Assets		**82,815**	83,638
Total Assets Less Current Liabilities		**730,088**	614,128

	Notes	2008 RMB'000	2007 RMB'000
Non-Current Liabilities			
Bank borrowings – due after one year	32	**20,288**	32,504
Obligations under finance leases – due after one year	33	**412**	725
Deferred tax liabilities	34	**2,158**	210
		22,858	33,439
		707,230	580,689
Capital and Reserves			
Share capital	35	**3,659**	3,659
Reserves		**143,085**	104,917
Equity attributable to equity holders		**146,744**	108,576
Minority interests		**560,486**	472,113
		707,230	580,689

The financial statements on pages 51 to 111 were approved and authorized for issue by the Board of Directors on 22 April 2009 and are signed on its behalf by:

Lee Shing
Chairman

He Shiji
Vice Chairman

Consolidated Statement of Changes in Equity

For the year ended 31 Decemeber 2008

	Attributable to equity holders of the Company											
	Issued capital RMB'000	Share premium RMB'000	Exchange reserve RMB'000	Contributed surplus RMB'000 (note i)	Share option reserve RMB'000	PRC general reserve RMB'000 (note ii)	Capital reserve RMB'000 (note iii)	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2007	3,069	228,586	–	97,435	–	–	–	2,400	(298,126)	33,364	–	33,364
Exchange difference arising from translation of foreign operation and total expense recognised directly in equity	–	–	(3,349)	–	–	–	–	–	–	(3,349)	–	(3,349)
Profit for the year	–	–	–	–	–	–	–	–	11,147	11,147	63,471	74,618
Total recognised income and expense for the year	–	–	(3,349)	–	–	–	–	–	11,147	7,798	63,471	71,269
Deemed capital contribution	–	–	–	–	–	–	18,505	–	–	18,505	408,642	427,147
Share issue expenses	–	(20)	–	–	–	–	–	–	–	(20)	–	(20)
Exercise of warrants (Note 35)	590	50,739	–	–	–	–	–	(2,400)	–	48,929	–	48,929
Transfers	–	–	–	–	–	9,085	–	–	(9,085)	–	–	–
Subtotal	590	50,719	–	–	–	9,085	18,505	(2,400)	(9,085)	67,414	408,642	476,056
At 31 December 2007 and 1 January 2008	3,659	279,305	(3,349)	97,435	–	9,085	18,505	–	(296,064)	108,576	472,113	580,689
Exchange difference arising from translation of foreign operation and total expense recognised directly in equity	–	–	140	–	–	–	–	–	–	140	–	140
Profit for the year	–	–	–	–	–	–	–	–	32,647	32,647	104,240	136,887
Total recognised income for the year	–	–	140	–	–	–	–	–	32,647	32,787	104,240	137,027
Deregistration of subsidiaries (note iv)	–	–	–	–	–	–	–	–	–	–	(5,292)	(5,292)
Recognition of equity share-based payments	–	–	–	–	5,381	–	–	–	–	5,381	–	5,381
Transfer to accumulated losses on lapse of share options	–	–	–	–	(88)	–	–	–	88	–	–	–
Dividend paid to minority interests	–	–	–	–	–	–	–	–	–	–	(10,575)	(10,575)
Transfers	–	–	–	–	–	29,900	–	–	(29,900)	–	–	–
Subtotal	–	–	–	–	5,293	29,900	–	–	(29,812)	5,381	(15,867)	(10,486)
At 31 December 2008	3,659	279,305	(3,209)	97,435	5,293	38,985	18,505	–	(293,229)	146,744	560,486	707,230

notes:

(i) The Group's contributed surplus represents (i) the difference between the nominal value of the shares of the subsidiaries acquired pursuant to a group reorganisation on 30 October 1992, over the nominal value of the Company's shares issued in exchange therefore; and (ii) the transfer of the credit arose from the cancellation of the paid-up capital in the reduction of the par value of each issued ordinary share on 19 June 2006.

(ii) According to the relevant requirement in the memorandum of association of the PRC subsidiaries, a portion of their profits after taxation, as determined by the board of directors of those subsidiaries, is transferred to PRC general reserve. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The general reserve fund can be used to offset the losses of the previous years, if any.

(iii) The capital reserve represents the deemed capital contribution arising on acquisition of a subsidiary, Liuzhou Wuling Motors Industrial Company Limited ("Wuling Industrial"), from Liuzhou Wuling Motors Company Limited ("Liuzhou Wuling"), a substantial shareholder of the Company, in August 2007.

(iv) During the year, 北京北汽發動機有限公司 and 柳州五菱汽車有限責任公司柳州機械廠無錫分公司, being 51% owned subsidiary and a branch respectively, were deregistered. No gain or loss was resulted from the deregistration.

Consolidated Cash Flow Statement

For the year ended 31 Decemeber 2008

	2008 RMB'000	2007 RMB'000
Operating Activities		
Profit before tax	**164,769**	97,220
Adjustments for:		
Write-down on inventories	**16,104**	8,787
Release of prepaid lease payments	**226**	16
Depreciation of property, plant and equipment	**58,309**	20,154
Dividend received from held-for-trading investments	**(16)**	(120)
Dividend received from available-for-sale investments	**–**	(11)
Finance costs	**45,014**	17,221
Net loss (gain) on held-for-trading investments	**245**	(8,982)
Equity settled share-based payments	**5,381**	–
Impairment of trade receivables	**3,233**	1,174
Increase in fair value of investment properties	**(2,153)**	(5,152)
Interest income	**(13,249)**	(12,604)
(Gain) loss on disposal of property, plant and equipment	**(565)**	832
Share of results of an associate	**(802)**	(220)
Operating cash flows before movements in working capital	**276,496**	118,315
Increase in inventories	**(183,774)**	(105,492)
Decrease in loans receivable	**2,371**	11,790
(Increase) decrease in trade and other receivables	**(318,509)**	555,923
Decrease in held-for-trading investments	**758**	9,663
Decrease (increase) in client trust bank accounts	**3,315**	(301)
Increase (decrease) in trade and other payables	**1,066,877**	(567,445)
Increase in amount due to an associate	**12,171**	–
Increase in provision for warranty	**18,947**	5,101
Cash generated from operations	**878,652**	27,554
Income tax (paid) refunded	**(61,556)**	8,977
Net Cash from Operating Activities	**817,096**	36,531

	Note	2008 RMB'000	2007 RMB'000
Investing Activities			
(Increase) decrease in pledged bank deposits		**(322,567)**	448,333
Purchase of property, plant and equipment		**(128,974)**	(84,282)
Deposits paid for purchase of property, plant and equipment		**(51,170)**	(5,718)
Increase of prepaid lease payments		**(12,243)**	–
Proceeds from disposal of an investment property		**14,701**	–
Interest received		**13,249**	12,604
Proceeds from disposal of property, plant and equipment		**3,889**	5,067
Dividend received from held-for-trading investments		**16**	120
Dividend received from available-for-sale investments		**–**	11
Acquisition of subsidiaries	40	**–**	124,731
Net Cash (Used in) from Investing Activities		**(483,099)**	500,866
Financing Activities			
(Repayment to) advance from a shareholder		**(416,115)**	178,455
Repayment of bank loans		**(63,266)**	(257,159)
Interest paid		**(45,014)**	(17,221)
Dividend paid to minority shareholders		**(10,575)**	–
Repayment of obligations under finance leases		**(294)**	(18)
New bank loans raised		**195,920**	101,198
Proceeds from issue and exercise of warrants		**–**	48,929
Advance from an associate		**–**	2,923
Share issue expenses		**–**	(20)
Net Cash (Used in) from Financing Activities		**(339,344)**	57,087
Net (Decrease) Increase in Cash and Cash Equivalents		**(5,347)**	594,484
Cash and Cash Equivalents at Beginning of year		**601,617**	7,607
Effect of Foreign Exchange Rate Changes, Net		**(204)**	(474)
Cash and Cash Equivalents at end of year, representing bank balances and cash		**596,066**	601,617

1. GENERAL INFORMATION

The Company is a limited company incorporated in Bermuda under The Companies Act 1981 (as amended) of Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. The address of the head office and principal place of business of the Company are located at 35th Floor, Morrison Plaza, 9 Morrison Hill Road, Wanchai, Hong Kong.

The Company acts as an investment holding company and its subsidiaries are engaged in the manufacturing and trading of engines and parts, automotive components and accessories, specialized vehicles and the trading of raw materials, water and power supply services. The details of its principal subsidiaries are disclosed in Note 46.

The Group's principal operations are conducted in the People's Republic of China (the "PRC"). The consolidated financial statements are presented in Renminbi dollars ("RMB"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

Hong Kong Accounting Standard ("HKAS") 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
Hong Kong (International Financial Reporting Interpretations Committee) – Interpretations ("HK(IFRIC)-Int") 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[5]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC)-Int 18	Transfer of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods ending on or after 30 June 2009
5 Effective for annual periods beginning on or after 1 July 2008
6 Effective for annual periods beginning on or after 1 October 2008
7 Effective for transfers on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "*Business Combinations*" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the consolidated income statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results, assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, interests in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts, value-added tax and other sales related taxes.

Revenue from sale of goods is recognised when goods are delivered and title has been passed.

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Commission income on securities dealing is recognised on a trade date basis.

Revenue on trading in securities is recognised on the transaction date when the relevant contract notes have been exchanged.

Dividend income is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the period in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments represented the land use rights which are stated at cost less accumulated amortisation. The cost of land use rights are amortised on a straight line basis over the periods of the rights.

Investment properties

Investment properties are properties held to earn rentals and for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in the consolidated income statement for the period in which they arise.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessee (continued)

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the consolidated income statement in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in the consolidated income statement for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. RMB) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates of the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in the consolidated income statement in the period in which the foreign operation is disposed of.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits costs

Payments under the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates that have been enacted by the respective balance sheet dates. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Intangible assets acquired separately

Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

The intangible assets of the Group, representing the eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited and The Philippine Stock Exchange, Inc., have indefinite useful lives.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives.

Research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to the consolidated income statement in the period in which it is incurred.

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted-average method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at FVTPL

Financial assets at FVTPL represent financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in the consolidated income statement includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including loans receivable, trade and other receivables, bills receivables discounted with recourse, client trust bank accounts, pledged bank deposits and bank balances are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Available-for-sale financial assets (continued)

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 to 180 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in the consolidated income statement in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, advances drawn on bills receivables discounted with recourse, amount due to a shareholder, amount due to an associate, bank borrowings and obligations under finance leases are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments, including shares and warrants, issued by the Company are recorded at the proceeds received, net of direct issue cost.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the consolidated income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date which the share options granted vest immediately, with a corresponding increase in share options reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future and the key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight line basis over their estimated useful lives, after taking into account their estimated residual value. The Group assesses annually the residual value and the useful life of the property, plant and equipment. If the expectation differs from the original estimate, such difference will impact the depreciation and the amortisation charged in the year in which such estimate is changed.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Impairment loss for trade receivables of RMB3,233,000 (2007: RMB1,174,000) was recognised during the year.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Provision for warranty

The Group makes warranty provision based on information available prior to the issuance of the consolidated financial statements indicating that it is probable that the Group will be required to settle the present obligations. As disclosed in Note 31, the Group estimates the provision based on past experience. The actual settlement of these warranty costs may differ from the estimation made by management. If the costs are settled for an amount greater than management's estimation, a future charge to consolidated income statement will result. Likewise, if the costs are settled for an amount that is less that the estimation, a future credit to consolidated income statement will result.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from that of prior year.

The capital structure of the Group consists of debts, which includes the bank borrowings as disclosed in Note 32, and equity attributable to equity holders of the Company, comprising issued capital and various reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as issue of new debts.

6. FINANCIAL INSTRUMENTS

(i) Categories of financial instruments

	2008 **RMB'000**	2007 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**4,307,931**	3,388,168
Available-for-sale financial assets	**495**	498
Held-for-trading investments	**3**	1,038
Financial liabilities at amortised cost	**4,582,924**	3,456,246

(ii) Financial risk management objectives and policies

The Group's major financial instruments include loans receivable, trade and other receivables, client trust bank accounts, pledged bank deposits, bank balances, trade and other payables, amount due to a shareholder, amount due to an associate, bank borrowings and obligations under finance leases. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

6. FINANCIAL INSTRUMENTS (continued)

(ii) Financial risk management objectives and policies (continued)

(a) *Currency risk*

The Group mainly operates in the PRC and the exposure in exchange rate risks mainly arises from fluctuations in Hong Kong dollars ("HKD") and Euro against the functional currency of the relevant group entities. Exchange rate fluctuations and market trends have always been the concern of the Group. The Group currently does not enter into any derivative contracts aimed at minimising the currency risk exposure. However, the management will consider hedging significant currency risk should the need arise.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting dates is as follows:

	Liabilities		Assets	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
HKD	**35,779**	57,199	**11,214**	25,722
Euro	**6,828**	8,907	**–**	–

The following table details the Group's sensitivity to a 5% increase and decrease in Renminbi against Euro and HK dollars. 5% is the sensitivity rate used by management for the assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. There will be an increase in post-tax profit where Renminbi strengthens against Euro and HK dollars and vice versa.

	2008	2007
	RMB'000	RMB'000
Impact on post-tax profit or loss		
– HKD	**1,044**	1,338
– Euro	**290**	379
	1,334	1,717

(b) *Interest rate risk*

The Group's fair value and cash flow interest rate risks mainly relate to fixed and variable rates borrowings respectively. The Group's bank balances also have exposure to cash flow interest rate due to the fluctuation of the prevailing market interest rate on bank balances. The directors consider the Group's exposure of the bank deposits to fair value interest rate risk is not significant as interest bearing bank balances are within short maturity periods. It's the Group's policy to keep its borrowings at a mixture of floating rate and fixed rate of interest so as to minimise the fair value interest rate risk.

6. FINANCIAL INSTRUMENTS (continued)

(ii) Financial risk management objectives and policies (continued)

(b) *Interest rate risk (continued)*

The Group currently does not have any interest rate hedging policy in relation to fair value and cash flow interest rate risks. The directors monitor the Group's exposure on an ongoing basis and will consider hedging interest rate risk should the need arise.

The sensitivity analysis below have been determined based on the exposure to interest rates on its variable rate borrowings and bank deposits at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout both years in the case of instruments that have floating rates. A 50 basis point increase or decrease is used by the management for the assessment of the possible change in interest rates.

If interest rates had been 50 basis point higher and all other variables were held constant, the Group's profit for the year ended 31 December 2008 would decrease by RMB152,000 (2007: decrease by RMB159,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

(c) *Credit risk*

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at the respective balance sheet date in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team of staff members responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other than SAIC-GM-Wuling Automobile Co., Ltd. (上汽通用五菱汽車股份有限公司) ("SGMW") (Note 25(i)), the Group has no significant concentration of credit risk on customers. The management of the Group has delegated two key management members of Liuzhou Wuling to participate in the management of SGMW, to monitor the procedures in ensuring that follow-up action is taken to recover overdue debts, if any, from SGMW.

The credit risk on liquid funds is limited because the counterparties are banks in the PRC with good reputation.

(d) *Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

6. FINANCIAL INSTRUMENTS (continued)

(ii) Financial risk management objectives and policies (continued)

(d) *Liquidity risk (continued)*

The Group relies on advances from a shareholder and also bank borrowings as significant sources of liquidity.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	0-30 days RMB'000	31-90 days RMB'000	91-365 days RMB'000	1-5 years RMB'000	5 + years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
2008								
Non-derivative financial liabilities								
Trade and other payables	–	**(1,250,708)**	**(813,913)**	**(948,250)**	**–**	**–**	**(3,012,871)**	**(3,012,871)**
Advances drawn on bills receivables discounted with recourse	4.87	**(162,971)**	**(119,969)**	**(68,242)**	**–**	**–**	**(351,182)**	**(342,008)**
Amount due to a shareholder	–	**(989,580)**	**–**	**–**	**–**	**–**	**(989,580)**	**(989,580)**
Amount due to an associate	–	**(20,467)**	**–**	**–**	**–**	**–**	**(20,467)**	**(20,467)**
Bank borrowings								
– fixed rate	5.67	**–**	**(30,391)**	**(157,399)**	**(5,161)**	**(1,618)**	**(194,569)**	**(186,828)**
– variable rate	3.03	**(228)**	**(458)**	**(15,722)**	**(9,505)**	**(7,214)**	**(33,127)**	**(30,488)**
Obligations under finance leases	5.15	**(27)**	**(53)**	**(240)**	**(498)**	**–**	**(818)**	**(682)**
		(2,423,981)	**(964,784)**	**(1,189,853)**	**(15,164)**	**(8,832)**	**(4,602,614)**	**(4,582,924)**
2007								
Non-derivative financial liabilities								
Trade and other payables	–	(659,350)	(573,775)	(685,609)	–	–	(1,918,734)	(1,918,734)
Advances drawn on bills receivables discounted with recourse	5.28	–	–	(38,809)	–	–	(38,809)	(35,199)
Amount due to a shareholder	–	(530,274)	–	(875,421)	–	–	(1,405,695)	(1,405,695)
Amount due to an associate	–	(1,067)	–	(7,229)	–	–	(8,296)	(8,296)
Bank borrowings								
– fixed rate	6.10	–	–	(36,603)	(5,754)	(2,116)	(44,473)	(39,907)
– variable rate	5.57	(305)	(610)	(22,446)	(14,037)	(12,635)	(50,033)	(47,403)
Obligations under finance leases	5.15	(28)	(53)	(260)	(870)	–	(1,211)	(1,012)
		(1,191,024)	(574,438)	(1,666,377)	(20,661)	(14,751)	(3,467,251)	(3,456,246)

6. FINANCIAL INSTRUMENTS (continued)

(iii) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices;

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transaction as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

7. SEGMENT INFORMATION

(i) 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.

- Manufacture and sale of engines and parts

- Manufacture and sale of automotive components and accessories

- Manufacture and sale of specialized vehicles

- Trading of raw materials, water and power supply services

- Others

7. SEGMENT INFORMATION (continued)

(i) Business segments (continued)

	Engines and parts RMB'000	Automotive components and accessories RMB'000	Specialized vehicles RMB'000	Trading of raw materials, water and power supply services RMB'000	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
For the year ended 31 December 2008							
Turnover							
External sales	2,678,898	3,143,504	615,919	671,288	2,302	–	7,111,911
Inter-segment sales	365,015	49,495	173,184	2,232,155	–	(2,819,849)	–
Total	3,043,913	3,192,999	789,103	2,903,443	2,302	(2,819,849)	7,111,911
Segment results	131,959	46,290	14,113	54,127	(5,798)		240,691
Unallocated income							13,245
Unallocated expense							(44,955)
Share of results of an associate							802
Finance costs							(45,014)
Profit before tax							164,769
Income tax expense							(27,882)
Profit for the year							136,887
Other information							
Capital additions	30,003	135,252	666	21,616	531		188,068
Depreciation of property, plant and equipment	21,344	22,669	3,004	6,741	4,551		58,309
Amortisation of prepaid lease payments	–	226	–	–	–		226
Impairment of trade receivables	1,305	840	1,075	–	13		3,233
Loss (gain) on disposal of property, plant and equipment	(937)	288	–	(104)	188		(565)
Write-down for inventories	16,104	–	–	–	–		16,104

7. SEGMENT INFORMATION (continued)

(i) Business segments (continued)

	Engines and parts RMB'000	Automotive components and accessories RMB'000	Specialized vehicles RMB'000	Trading of raw materials, water and power supply services RMB'000	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
At 31 December 2008							
Balance sheet							
Assets							
Segment assets	1,472,501	2,209,577	323,172	396,459	48,372		4,450,081
Interest in an associate							3,304
Unallocated assets							1,220,667
Consolidated assets							5,674,052
Liabilities							
Segment liabilities	1,091,201	1,347,475	140,894	1,135,075	11,336		3,725,981
Unallocated liabilities							1,240,841
Consolidated liabilities							4,966,822

7. SEGMENT INFORMATION (continued)

(i) Business segments (continued)

	Engines and parts RMB'000	Automotive components and accessories RMB'000	Specialized vehicles RMB'000	Trading of raw materials, water and power supply services RMB'000	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
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	1,101,192	938,250	287,848	1,028,965	4,904	(504,703)	2,856,456
Segment results	77,143	12,111	2,548	17,189	(1,879)		107,112
Unallocated income							20,315
Unallocated expense							(13,206)
Share of results of an associate							220
Finance costs							(17,221)
Profit before tax							97,220
Income tax expense							(22,602)
Profit for the year							74,618
Other information							
Capital additions	208,399	196,046	22,292	28,975	4,013		459,725
Depreciation of property, plant and equipment	12,166	5,455	984	494	1,055		20,154
Amortisation of prepaid lease payments	–	16	–	–	–		16
Impairment of trade receivables	811	142	185	–	36		1,174
Loss on disposal of property, plant and equipment	696	(32)	–	137	31		832
Write-down for inventories	8,787	–	–	–	–		8,787

7. SEGMENT INFORMATION (continued)

(i) Business segments (continued)

	Engines and parts RMB'000	Automotive components and accessories RMB'000	Specialized vehicles RMB'000	Trading of raw materials, water and power supply services RMB'000	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
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 assets							902,152
Consolidated assets							4,462,984
Liabilities							
Segment liabilities	926,123	872,225	32,040	451,332	39,940		2,321,660
Unallocated liabilities							1,560,635
Consolidated liabilities							3,882,295

(ii) Geographical segments

No geographical segment information is presented as over 90% of the Group's sales and operating profits are derived within the PRC (excluding Hong Kong) and over 90% operating assets of the Group are located in the PRC (excluding Hong Kong), which is considered as one geographic location with similar risks and return.

8. REVENUE AND OTHER INCOME

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

	2008 RMB'000	2007 RMB'000
Sales of goods	**7,109,609**	2,851,552
Commission and interest income from securities dealing and margin finance	**1,561**	4,054
Gross property rental income	**741**	850
	7,111,911	2,856,456
Other income	**85,057**	36,488
	7,196,968	2,892,944

8. REVENUE AND OTHER INCOME (continued)

Details of other income are as follows:

	2008 RMB'000	2007 RMB'000
Sales of scrap materials and parts	**55,965**	19,567
Bank interest income	**13,249**	12,604
Service income on repairs and maintenance	**10,847**	–
Foreign exchange gains, net	**819**	–
Machinery rental income	**505**	597
Dividend income from held-for-trading investments	**16**	120
Dividend income from available-for-sale investments	**–**	11
Recovery of bad debts	**–**	748
Others	**3,656**	2,841
	85,057	36,488

9. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interests on:		
– borrowings wholly repayable within five years	**3,170**	894
– borrowings not wholly repayable within five years	**866**	1,167
– bills receivable discounted	**40,927**	15,157
– obligations under finance leases	**51**	3
	45,014	17,221

10. PROFIT BEFORE TAX

	2008 RMB'000	2007 RMB'000
Profit before tax has been arrived at after charging (crediting):		
Directors' emoluments (Note 11)	**4,342**	2,234
Other staff costs	**311,447**	80,524
Retirement benefit scheme contributions, excluding directors	**52,285**	16,292
Share-based payments	**4,814**	–
Total staff costs	**372,888**	99,050
Gross property rental income	**741**	850
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	**(79)**	(62)
Net rental income	**662**	788
Write-down for inventories (included in cost of sales)	**16,104**	8,787
Auditor's remuneration	**2,226**	1,951
Cost of inventories recognised as an expense	**6,140,883**	2,583,147
Depreciation of property, plant and equipment	**58,309**	20,154
Impairment of trade receivables	**3,233**	1,174
(Gain) loss on disposal of property, plant and equipment	**(565)**	832
Amortisation of prepaid lease payments (included in general and administrative expenses)	**226**	16
Research and development expenses (included in general and administrative expenses)	**40,259**	48,548

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the directors are as follows:

2008

		Other emoluments			
	Fees RMB'000	Salaries and allowances RMB'000	Contributions to retirement benefits schemes RMB'000	Share-based payments RMB'000	Total emoluments RMB'000
Lee Shing	**1,069**	**196**	**11**	**–**	**1,276**
He Shiji (note)	**107**	**668**	**103**	**–**	**878**
Sun Shaoli	**107**	**14**	**–**	**–**	**121**
Wei Hongwen (note)	**107**	**550**	**83**	**–**	**740**
Liu Yaling	**107**	**14**	**–**	**125**	**246**
Wang Shaohua	**107**	**14**	**–**	**125**	**246**
Pei Qingong	**107**	**14**	**–**	**125**	**246**
Yu Xiumiu	**53**	**3**	**–**	**64**	**120**
Zuo Duofu	**53**	**3**	**–**	**64**	**120**
Cheng Kin Wah Thomas	**107**	**5**	**–**	**64**	**176**
Ye Xiang	**24**	**1**	**–**	**–**	**25**
Zhou Sheji (note)	**24**	**121**	**3**	**–**	**148**
	1,972	**1,603**	**200**	**567**	**4,342**

2007

Lee Shing	1,169	213	11	–	1,393
He Shiji (note)	36	51	–	–	87
Sun Shaoli	36	3	–	–	39
Wei Hongwen (note)	36	43	–	–	79
Liu Yaling	117	10	–	–	127
Wang Shaohua	117	10	–	–	127
Pei Qingong	117	10	–	–	127
Yu Xiumiu	59	5	–	–	64
Zuo Duofu	59	5	–	–	64
Cheng Kin Wah Thomas	117	10	–	–	127
	1,863	360	11	–	2,234

note: Emoluments of these directors included the balances paid or payable by the subsidiaries of the Company.

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2007: one) were directors of the Company whose emoluments are included in the disclosure in Note 11 above. The emoluments of the remaining two (2007: four) individuals are as follows:

	2008 RMB'000	2007 RMB'000
Salaries and other benefits	**1,044**	3,030
Bonus	**85**	66
Share-based payments	**3,718**	–
Contributions to retirement benefits scheme	**20**	61
Total emoluments	**4,867**	3,157

Their emoluments were within the following bands:

	2008 Number of employees	2007 Number of employees
RMB nil to RMB1,000,000	**–**	4
RMB1,500,001 to RMB2,000,000	**1**	–
RMB3,000,001 to RMB3,500,000	**1**	–

No emoluments were paid by the Group to the directors or the above individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during each of the two years ended 31 December 2008.

13. INCOME TAX EXPENSE

	2008 RMB'000	2007 RMB'000
Tax charge represents:		
PRC Enterprise Income Tax		
Current	**34,602**	22,401
Overprovision in prior years	**(8,677)**	–
Deferred tax (Note 34)		
Current year	**1,964**	201
Attributable to a change in tax rate	**(7)**	–
	27,882	22,602

13. INCOME TAX EXPENSE (continued)

Hong Kong

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

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.

The PRC

For the year ended 31 December 2007, pursuant to the tax notice, Caishui [2001] No. 202, other than Wuling Industrial which was subject to PRC income tax rate of 33%, all the major operating subsidiaries of the Group in the PRC were entitled to a preferential income tax rate of 15% because (i) they were located in the western region of the PRC; (ii) their main business fell 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, pursuant to which, all the major operating subsidiaries of the Group in the PRC, other than Wuling Industrial, 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.

The New Law also requires withholding tax upon distribution of profits earned by the PRC subsidiaries since 1 January 2008. Deferred tax of RMB2,133,000 has been provided in full in respect of the undistributed earnings of the Group's PRC subsidiaries and recognised in the consolidated financial statements in respect of the temporary differences attributable to such profits.

The income tax expense for the year can be reconciled to the profit before tax as follows:

	2008 **RMB'000**	2007 RMB'000
Profit before tax	**164,769**	97,220
Tax at the domestic income tax rate of 15% (2007: 15%) (note)	**24,715**	14,583
Tax effect of share of results of an associate	**(120)**	(33)
Tax effect of expenses not deductible for tax purposes	**4,052**	2,654
Tax effect of income not taxable for tax purposes	**(2,139)**	(2,329)
Tax effect of tax losses not recognised	**854**	1,423
Tax effect of utilisation of tax losses previously not recognised	**(594)**	(839)
Tax effect of different tax rate used by certain subsidiaries	**7,665**	7,143
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	**(7)**	–
Tax effect of undistributed profit of subsidiaries in the PRC	**2,133**	–
Overprovision in prior years	**(8,677)**	–
Income tax expense	**27,882**	22,602

Note: This represents the domestic income tax rate of the jurisdiction where a substantial portion of the Group's operation is based.

Details of movement in deferred tax are set out in Note 34.

14. DIVIDENDS

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

15. 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:

	2008 RMB'000	2007 RMB'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**32,647**	11,147

	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**917,288**	887,288
Effect of dilutive potential ordinary shares:		
Warrants	**–**	21,123
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**917,288**	908,411

No dilutive earnings per share has been presented for the year ended 31 December 2008 because the exercise price of the Company's options was higher than the average market price of the Company's shares for the year.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Computers RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
AT COST								
At 1 January 2007	10,642	390	–	891	1,162	758	–	13,843
Exchange realignment	(754)	(52)	–	(58)	(74)	(72)	–	(1,010)
Acquisition of subsidiaries	12,501	–	316,470	6,145	5,114	7,370	26,813	374,413
Additions	2,337	668	32,657	3,115	1,510	4,303	40,722	85,312
Disposals	–	–	(14,759)	(781)	(405)	(1,377)	–	(17,322)
Transfer	231	–	3,767	–	–	–	(3,998)	–
At 31 December 2007	24,957	1,006	338,135	9,312	7,307	10,982	63,537	455,236
Exchange realignment	(688)	(85)	–	(60)	(71)	(75)	–	(979)
Additions	2,478	124	65,805	3,020	1,742	2,802	112,097	188,068
Disposals	–	–	(10,887)	(478)	(2,624)	(1,234)	–	(15,223)
Transfer	8,168	–	8,019	–	–	–	(16,187)	–
At 31 December 2008	34,915	1,045	401,072	11,794	6,354	12,475	159,447	627,102
DEPRECIATION AND AMORTISATION								
At 1 January 2007	133	7	–	524	883	655	–	2,202
Exchange realignment	(31)	(8)	–	(37)	(48)	(18)	–	(142)
Provided for the year	930	184	16,656	726	807	851	–	20,154
Eliminated on disposals	–	–	(9,551)	(626)	(330)	(916)	–	(11,423)
At 31 December 2007	1,032	183	7,105	587	1,312	572	–	10,791
Exchange realignment	(45)	(24)	–	(42)	(47)	(6)	–	(164)
Provided for the year	1,610	249	49,540	2,538	1,329	3,043	–	58,309
Eliminated on disposals	–	–	(8,645)	(274)	(1,875)	(1,105)	–	(11,899)
At 31 December 2008	2,597	408	48,000	2,809	719	2,504	–	57,037
CARRYING VALUE								
At 31 December 2008	32,318	637	353,072	8,985	5,635	9,971	159,447	570,065
At 31 December 2007	23,925	823	331,030	8,725	5,995	10,410	63,537	444,445

16. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Leasehold land and buildings	Over the shorter of 20 years or the remaining lease terms
Leasehold improvements	Over the shorter of the lease terms and the useful life of 5 years
Plant and machinery	10%
Furniture, fixtures and equipment	15% – 20%
Computers	10% – 33%
Motor vehicles	16% – 25%

Included in leasehold land and buildings are certain owner-occupied leasehold land and buildings of approximately RMB9,735,000 (2007: RMB10,882,000) and RMB22,583,000 (2007: RMB13,043,000) in Hong Kong and the PRC respectively, where in the opinion of the directors of the Company, allocation between the land and building elements could not be made reliably.

The carrying value of properties shown above comprises:

	2008 RMB'000	2007 RMB'000
Land in Hong Kong:		
Long leases	**9,735**	10,882
Land in the PRC:		
Medium term leases	**22,583**	13,043
	32,318	23,925

The net book value of motor vehicles held under finance leases amounted to RMB807,000 (2007: RMB1,300,000).

17. PREPAID LEASE PAYMENTS

	2008 RMB'000	2007 RMB'000
Analysed for reporting purposes as:		
Current assets	**201**	49
Non-current assets	**13,912**	2,022
	14,113	2,071

The amounts represent upfront payments for the right to use land in the PRC for periods between 20 to 50 years.

18. PREMIUM ON PREPAID LEASE PAYMENTS

Premium on prepaid lease payments of the Group represents the fair value adjustment on the prepaid lease payments and are amortised over the lease term of the related prepaid lease payments on a straight line basis.

19. INVESTMENT PROPERTIES

	2008 RMB'000	2007 RMB'000
Carrying amount at 1 January	**19,737**	15,814
Exchange realignment	**(1,017)**	(1,229)
Net increase in fair value recognised in the income statement	**2,153**	5,152
Disposal	**(14,701)**	–
Carrying amount at 31 December	**6,172**	19,737

The Group's investment properties are all situated in Hong Kong and are held under long leases. The fair value of the Group's investment properties at 31 December 2008 has been arrived at on the basis of a valuation carried out as of that day by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar transactions.

20. INTANGIBLE ASSETS

	Stock exchange trading rights RMB'000
COST	
At 1 January 2007	9,020
Exchange realignment	192
At 31 December 2007 and 31 December 2008	9,212
IMPAIRMENT	
At 1 January 2007	8,144
Exchange realignment	140
At 31 December 2007 and 31 December 2008	8,284
CARRYING VALUE	
At 31 December 2007 and 31 December 2008	928

In the opinion of the directors, the carrying amounts of the stock exchange trading rights, which are considered to have indefinite lives, approximate to their recoverable amounts which were based on their market values.

21. INTEREST IN AN ASSOCIATE

	2008 RMB'000	2007 RMB'000
Cost of investment in an associate		
– unlisted equity investment in the PRC	**2,282**	2,282
Share of post-acquisition profits and reserves	**1,022**	220
	3,304	2,502

The Group holds a 30% interest in 柳州五菱物流有限公司 which is a limited liability company established in the PRC and is engaged in the business of logistic services.

21. INTEREST IN AN ASSOCIATE (continued)

The summarized financial information in respect of the Group's associate is set out below:

	2008 RMB'000	2007 RMB'000
Total assets	**37,857**	24,205
Total liabilities	**(26,844)**	(15,863)
Net assets	**11,013**	8,342
Group's share of net assets of an associate	**3,304**	2,502
Revenue	**90,277**	23,274
Profit for the year	**2,673**	733
Group's share of result of an associate for the year	**802**	220

22. AVAILABLE-FOR-SALE INVESTMENTS

These investments represent unlisted equity securities issued by private entities established in the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

23. INVENTORIES

	2008 RMB'000	2007 RMB'000
Raw materials	**251,371**	206,821
Work in progress	**122,809**	47,086
Finished goods	**226,093**	178,696
	600,273	432,603

24. LOANS RECEIVABLE

Loans receivable comprise margin clients accounts receivable of RMB68,000 (2007: RMB2,448,000).

The margin clients accounts receivable are secured by the underlying pledged securities, repayable on demand and bear interest at annual effective rates of 10% to 11% (2007: 10% – 11%) per annum. No aged analysis is disclosed as, in the opinion of the directors, an aged analysis is not relevant in view of the nature of the business of securities margin financing.

25. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLES DISCOUNTED WITH RECOURSE

(i) Trade and other receivables

	2008 RMB'000	2007 RMB'000
Trade and bills receivables		
– related party (note a)	**2,062,678**	1,863,844
– Liuzhou Wuling Group (note b)	**8,437**	12,711
– third parties	**629,328**	518,783
	2,700,443	2,395,338
Less: Allowance for doubtful debts	**(8,647)**	(6,204)
	2,691,796	2,389,134
Other receivables:		
Prepayments	**81,125**	67,205
Deposits paid	**33,284**	32,741
Value-added tax receivables	**3,962**	10,690
Others	**51,042**	51,749
	169,413	162,385
	2,861,209	2,551,519

notes:

(a) The related party is SAIC-GM-Wuling Automobile Co. Limited ("SGMW") in which Liuzhou Wuling, a substantial shareholder of the Company, holds a 15% equity interest.

(b) Being Liuzhou Wuling and its subsidiaries and associates (collectively referred to as the "Liuzhou Wuling Group").

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

	2008 RMB'000	2007 RMB'000
0 – 90 days	**2,676,893**	2,370,628
91 – 180 days	**14,474**	13,102
181 – 365 days	**117**	4,320
Over 365 days	**312**	1,084
	2,691,796	2,389,134

25. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLES DISCOUNTED WITH RECOURSE (continued)

(i) Trade and other receivables (continued)

Ageing of trade receivables which are past due but not impaired

	2008 **RMB'000**	2007 RMB'000
181 – 365 days	**117**	4,320
Over 365 days	**312**	1,084
Total	**429**	5,404

The Group generally allows an average credit period of 90 days to 180 days to its trade customers for sales of goods.

Before accepting any new customer, the Group assesses the potential customer's credit quality by investigating their historical credit record and defines credit limit by customer.

The settlement term of trade receivables arising from the Group's securities dealing and brokerage business is two days after the trade date.

It is the Group's policy to provide fully for all receivables which are past due, i.e. those over 180 days, because historical experience is such that receivables that are past due beyond 180 days are generally not recoverable. However, included in the Group's trade receivable balance were debtors with an aggregate carrying amount of RMB429,000 (2007: RMB5,404,000) which were past due at the reporting date but for which the Group has not provided impairment loss, as there has not been a significant change in credit quality and the Group believes that the amounts are still recoverable as there are continuing subsequent settlement. The Group does not hold any collateral over these balances.

25. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLES DISCOUNTED WITH RECOURSE (continued)

(i) Trade and other receivables (continued)

Movement in the allowance for doubtful debts

	2008 RMB'000	2007 RMB'000
Balance at beginning of the year	**6,204**	15,232
Exchange realignment	**(626)**	506
Acquisition of subsidiaries	**–**	3,099
Impairment losses recognised on receivables	**3,233**	1,174
Amounts written off as uncollectible	**(164)**	(13,807)
Balance at end of the year	**8,647**	6,204

The amounts of the Group's trade and other receivables denominated in a currency other than the functional currency of the relevant group entities are set out below:

	2008 RMB'000	2007 RMB'000
Trade and other receivables – HKD	**2,866**	13,219

(ii) Bills receivables discounted with recourse

The amounts represent bills receivables discounted to banks with recourse with a maturity period of less than 180 days. The Group retains all the risks and rewards of such discounted bills receivables and accordingly, the Group continues to recognise the full amount as secured discounted bills in Note 29(ii).

26. HELD-FOR-TRADING INVESTMENTS

	2008 RMB'000	2007 RMB'000
Listed equity investments, at market value:		
Hong Kong	**3**	1,038

27. CLIENT TRUST BANK ACCOUNTS

These represent clients' trust monies kept in the trust bank accounts of a subsidiary engaged in the securities dealing business. The application of amounts maintained in such trust bank accounts is prescribed by the Securities and Futures Ordinance. The Group has classified the clients' monies as client trust bank accounts under the current assets section of the balance sheet and recognised the corresponding accounts payable to respective clients on the ground that it is liable for any loss or misappropriation of clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

The amount of the Group's client trust bank accounts are all denominated in HKD.

28. PLEDGED BANK DEPOSITS AND BANK BALANCES

The pledged bank deposits are used to secure the bills payable and short-term bank borrowings which are payable within one year. Accordingly, the pledged bank deposits are classified as current assets. Bank balances and cash comprise cash held by the Group with the original maturity of three months or less.

The pledged bank deposits and bank balances carried variable interest rates as follows:

	2008	2007
Pledged deposits	**0.72% to 1.98%**	2.07% to 3.78%
Other bank balances	**0.1% to 0.72%**	0.1% to 0.72%

The amounts of the Group's bank balances and cash denominated in a currency other than the functional currency of the relevant group entities are set out below:

	2008 **RMB'000**	2007 RMB'000
Bank balances and cash – HKD	**5,998**	6,516

29. TRADE AND OTHER PAYABLES AND ADVANCES DRAWN ON BILLS RECEIVABLES DISCOUNTED WITH RECOURSE

(i) Trade and other payables

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

	2008 RMB'000	2007 RMB'000
Trade and bills payables:		
– third parties	**2,992,433**	1,862,498
Trade and bills payables:		
0 – 90 days	**2,965,190**	1,817,635
91 – 180 days	**8,125**	29,012
181 – 365 days	**15,075**	12,761
Over 365 days	**4,043**	3,090
	2,992,433	1,862,498
Other payables and accruals	**287,165**	350,376
	3,279,598	2,212,874

The settlement terms of the trade payables arising from the Group's securities dealing and brokerage business is two days after the trade date. The Group is granted average credit period of 90 days to 180 days by its trade suppliers for purchase of goods.

The amount of the Group's trade and other payables denominated in a currency other than the functional currency of the relevant group entities are set out below:

	2008 RMB'000	2007 RMB'000
Trade and other payables – HKD	**5,291**	9,796

29. TRADE AND OTHER PAYABLES AND ADVANCES DRAWN ON BILLS RECEIVABLES DISCOUNTED WITH RECOURSE (continued)

(ii) Advances drawn on bills receivables discounted with recourse

The amounts represent the Group's bank borrowings secured by bills discounted to banks with recourse (see Note 25(ii). The ranges of effective interest rates per annum in respect of the Group's discounted bills with recourse are as follows:

	2008	2007
Effective interest rates per annum	**3.50% to 6.24%**	3.59% to 6.96%

30. AMOUNT DUE TO A SHAREHOLDER/AN ASSOCIATE

	2008 RMB'000	2007 RMB'000
Liuzhou Wuling	**989,580**	1,405,695
柳州五菱物流有限公司 (note a)	**20,467**	8,296
	1,010,047	1,413,991

notes:

(a) 柳州五菱物流有限公司 is a 30% associate of the Group. The amount is trade in nature and aged within the credit period of 90 days.

(b) Both balances are unsecured, non-interest bearing and repayable on demand.

31. PROVISION FOR WARRANTY

	RMB'000
At 1 January 2007	–
Acquisition of subsidiaries	59,178
Additional provision in the year	11,982
Utilisation of provision	(6,881)
At 31 December 2007	64,279
Additional provision in the year	84,123
Utilisation of provision	(65,176)
At 31 December 2008	83,226

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 specialized vehicles, automobile components and engines customers.

32. BANK BORROWINGS

	2008 RMB'000	2007 RMB'000
Secured	**30,488**	47,403
Unsecured	**186,828**	39,907
	217,316	87,310
Amounts repayable:		
On demand or within one year	**197,028**	54,806
More than one year, but not exceeding two years	**3,841**	5,134
More than two years, but not exceeding five years	**9,085**	14,656
More than five years	**7,362**	12,714
	217,316	87,310
Less: Amount due within one year shown under current liabilities	**(197,028)**	(54,806)
	20,288	32,504

At 31 December 2008, except bank loans of RMB30,488,000 (2007: RMB47,403,000) and RMB6,828,000 (2007: RMB8,907,000) which were denominated in Hong Kong dollars and Euro, respectively, all the Group's bank borrowings were denominated in RMB.

The collaterals for the Group's secured bank borrowings are:

(a) mortgages over the Group's investment properties situated in Hong Kong, which had an aggregate carrying amount of RMB6,172,000 (2007: RMB19,737,000) as set out in Note 19.

(b) a mortgage over the Group's leasehold land and building, which had a carrying value at the balance sheet date of RMB9,735,000 (2007: RMB12,098,000) as set out in Note 16.

The Group's unsecured bank borrowings are supported by:

(a) A personal guarantee to the extent of HK$20,000,000 (2007: HK$20,000,000) given by Mr. Lee Shing, a director of the Company.

(b) Corporate guarantees to the extent of RMB400,000,000 (2007: RMB400,000,000) given by Liuzhou Wuling.

32. BANK BORROWINGS (continued)

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2008		2007	
	%	RMB'000	%	RMB'000
Effective interest rate:				
Fixed rate borrowings	4.5 to 6.39	186,828	4.5 to 7.54	39,907
Variable-rate borrowings	1.87 to 4.8	30,488	4.4 to 7.0	47,403

33. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is five years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates from 4.8% to 5.5%.

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts payable under finance leases				
Within one year	320	341	270	287
In more than one year but not more than two years	302	341	254	287
In more than two years but not more than five years	196	529	158	438
	818	1,211	682	1,012
Less: future finance charges	(136)	(199)	–	–
Present value of lease obligations	682	1,012	682	1,012
Less: Amount due for settlement with 12 months			(270)	(287)
Amount due settlement after 12 months			412	725

The Group's obligations under finance lease are secured by the lessor's charge over the leased assets.

34. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation RMB'000	Revaluation of properties RMB'000	Tax losses RMB'000	Withholding tax on undistributed earnings of the PRC subsidiaries RMB'000	Fair value adjustments on properties and inventories RMB'000	Allowance for bad and doubtful debts RMB'000	Total RMB'000
At 1 January 2007	–	19	–	–	–	–	19
Charge (credit) to consolidated income statement for the year	137	903	(839)	–	–	–	201
Exchange realignment	(6)	(38)	34	–	–	–	(10)
Acquisition of subsidiaries	–	–	–	–	(5,445)	5,445	–
At 31 December 2007	131	884	(805)	–	(5,445)	5,445	210
Effect of change in tax rate	–	(15)	8	–	–	–	(7)
Charge (credit) to consolidated income statement for the year	61	205	(435)	2,133	–	–	1,964
Disposal of an investment property	–	(946)	946	–	–	–	–
Exchange realignment	(7)	(43)	41	–	–	–	(9)
At 31 December 2008	185	85	(245)	2,133	(5,445)	5,445	2,158

At the balance sheet date, the Group had unused tax losses of approximately RMB203,480,000 (2007: RMB201,742,000). A deferred tax asset has been recognised in respect of RMB1,633,000 (2007: RMB5,593,000) tax losses, no deferred tax assets has been recognised in respect of the remaining tax losses of RMB201,847,000 (2007: RMB196,149,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

In addition, the Group has deductible temporary differences of RMB11,537,000 (2007: RMB11,537,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the New Law of the PRC, withholding tax is imposed on dividend declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. At 31 December 2008, deferred tax has been provided in respect of temporary differences attributable to such retained profits.

35. SHARE CAPITAL

	2008 RMB'000	2007 RMB'000
Authorized:		
25,000,000,000 ordinary shares of HK$0.004 each	**100,000**	100,000
1,521,400,000 convertible preference shares of HK$0.001 each	**1,521**	1,521
	101,521	101,521
Issued and fully paid:		
917,288,049 ordinary shares of HK$0.004 each	**3,659**	3,659

A summary of the movements in the Company's authorized and issued share capital is as follows:

	Authorized		Issued and fully paid	
	Number of share '000	Amount RMB'000	Number of share '000	Amount RMB'000
Ordinary shares				
At 1 January 2007	25,000,000	100,000	767,288	3,069
Conversion of warrants (note)	–	–	150,000	590
At 31 December 2007 and 31 December 2008	25,000,000	100,000	917,288	3,659

note:

Pursuant to an ordinary resolution passed at a special general meeting of the Company on 23 December 2006, the Company issued unlisted warrants attaching the rights to subscribe for 150,000,000 ordinary shares of HK$0.004 each in the Company at a subscription price of HK$0.332 per share, payable in cash and subject to adjustment, from the date of issue until the third anniversary of the date thereof. The issue price of the warrants was HK$0.016 each and the total proceeds from the issue of the warrants was HK$2,400,000.

During the year ended 31 December 2007, all warrants were exercised.

36. SHARE OPTION SCHEME

On 11 June 2002, the Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

(i) A summary of the share option scheme of the Group is as follows:

Purpose

Provide incentives and rewards to eligible participants.

Participants

Eligible participants include:

(a) any employee(s) (whether full-time or part-time employee(s), including any executive director but not any non-executive director) of the Company and its subsidiaries;

(b) any non-executive director (including independent non-executive directors) of the Company and its subsidiaries;

(c) any supplier of goods or services to any member of the Group;

(d) any customer of the Group;

(e) any person or entity that provides research, development or other technological support to the Group; and

(f) any shareholder of any member of the Group or any holder of any securities issued by any member of the Group.

Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of the annual report

91,728,804 (2007: 15,375,604) ordinary shares, being 10% (2007: 1.68%) of the issued share capital.

Maximum entitlement of each participant

The maximum number of ordinary shares shall not exceed 1% of the issued ordinary share capital of the Company in issue in any 12-month period.

Period within which the securities must be taken up under an option

Subject to the discretion on issuance of board of directors.

Minimum period for which an option must be held before it can be exercised

Not applicable.

Amount payable on acceptance

HK$1.00

36. SHARE OPTION SCHEME (continued)

(i) A summary of the share option scheme of the Group is as follows: (continued)

Period within which payments/calls/loans must be made/repaid

Not applicable.

Basis of determining the exercise price

Determined by the directors at their discretion and shall not be lower than the highest of:

(a) the closing price of the ordinary shares on the Stock Exchange at the offer date, which must be a trading day;

(b) the average closing price of the ordinary shares on the Stock Exchange for the five business days immediately preceding the offer date; and

(c) the nominal value of an ordinary share.

The remaining life of the scheme

The Scheme will be valid and effective until 7 July 2012, after which no further options will be granted but the provisions of the Scheme shall remain in full force and effect in all other respects. Options complying with the provisions of the Listing Rules which are granted during the duration of the Scheme and remain unexercised immediately prior to 7 July 2012 shall continue to be exercisable in accordance with their terms of grant within the option period for which such options are granted, notwithstanding the expiry of the Scheme.

(ii) The following share options were outstanding under the Scheme during both years:

Category	As at 1 January 2008	Granted on 2 January 2008	Lapsed/ cancelled	As at 31 December 2008	Exercise period	Exercise price per per share
Directors	–	1,590,000	–	1,590,000	From 21 January 2008 to 31 December 2009	HK$2.318
Other contracted employees						
In aggregate	–	13,730,000	(250,000)	13,480,000	From 21 January 2008 to 31 December 2009	HK$2.318
Total	–	15,320,000	(250,000)	15,070,000		

On 2 January 2008, 15,320,000 shares options were granted and were subsequently accepted by the grantees. The share options were vested immediately on the date of acceptance.

36. SHARE OPTION SCHEME (continued)

(ii) The following share options were outstanding under the Scheme during both years: (continued)

These fair values were calculated using the Binominal Option Pricing Model (the "Model") by Vigers Appraisal & Consulting Limited, an independent third party. The Model is one of the commonly used models to estimate the fair value of the options. The value of an option varies with different variables of certain subjective assumptions. Any changes in the variables so adopted may materially affect the estimation of the fair value of an option. The inputs into the Model were as follows:

Grant date	2 January 2008
Share price	HK$2.07
Exercise price	HK$2.318
Expected life	1.2 to 1.4 years
Standard deviation	50%
Dividend yield	0%
Risk-free interest rate	1.769%

Expected volatility of 50% was determined by comparing to companies in similar industry. The expected life used in the Model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised a total expense of RMB5,381,000 (2007: RMB Nil) for the year ended 31 December 2008 in relation to share options granted by the Company.

37. CAPITAL COMMITMENTS

	2008 **RMB'000**	2007 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of construction in progress	**18,214**	37,907
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**120,569**	60,371
	138,783	98,278

38. PLEDGE OF ASSETS

At the respective balance sheet date, the Group's bank borrowings and credit facilities from financial institutions were secured by the following:

	2008 **RMB'000**	2007 RMB'000
Bank deposits	**624,601**	302,034
Property, plant and equipment	**9,735**	12,098
Investment properties	**6,172**	19,737
	640,508	333,869

39. RETIREMENT BENEFITS PLANS

The Group's subsidiaries in the PRC participate in state-managed retirement plans pursuant to which the Group pays a fixed percentage of its qualifying staff's wages as contributions to the plans. The contributions payable to the retirement plans in respect of the year are charged to the consolidated income statements when employees have rendered service entitling them to the contribution.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statements as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

40. ACQUISITION OF SUBSIDIARIES

On 31 August 2007, the Group subscribed for a 50.98% of the registered capital of Wuling Industrial for a consideration of RMB391,000,000. This acquisition has been accounted for using the purchase method.

	Acquiree's carrying amount before combination RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
Net assets acquired:			
Property, plant and equipment	341,369	33,044	374,413
Prepaid lease payments	2,087	–	2,087
Premium on prepaid lease payments	–	1,072	1,072
Interest in an associate	2,282	–	2,282
Available-for-sale investment	498	–	498
Deposits paid for acquisition of property, plant and equipment	53,183	–	53,183
Subscription moneys recoverable	391,000	–	391,000
Inventories	333,716	2,182	335,898
Trade and other receivables	3,133,980	–	3,133,980
Pledged bank deposits	750,367	–	750,367
Bank balances and cash	124,731	–	124,731
Trade and other payables	(2,760,178)	–	(2,760,178)
Amount due to a shareholder	(1,227,240)	–	(1,227,240)
Amount due to an associate	(5,373)	–	(5,373)
Provision for warranty	(59,178)	–	(59,178)
Tax payable	(35,990)	–	(35,990)
Bank borrowings	(263,405)	–	(263,405)
Deferred tax assets	–	5,445	5,445
Deferred tax liabilities	–	(5,445)	(5,445)
Minority interests	(14,849)	–	(14,849)
	767,000	36,298	803,298
Minority interests			(393,793)
Adjusted net asset value			409,505
Deemed capital contribution			(18,505)
Total consideration satisfied by:			
Cash			391,000
Net cash outflow arising on acquisition:			
Bank balances and cash acquired			124,731

40. ACQUISITION OF SUBSIDIARIES (continued)

The subsidiaries acquired contributed approximately RMB2,851,552,000 and RMB74,782,000 to the Group's turnover and profit, respectively, from the date of acquisition to 31 December 2007.

If the acquisition had been completed on 1 January 2007, total group revenue for the year ended 31 December 2007 would have been RMB6,858,542,000, and profit for the year ended 31 December 2007 would have been RMB141,495,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is it intended to be a projection of future results.

Although the Company has agreed to subscribe for a 50.98% of the registered capital of Wuling Industrial for RMB391,000,000, only RMB78,200,000 of the subscription money was due and paid as at 31 December 2008 (2007: RMB78,200,000). According to the relevant joint venture agreement, the balance of the subscription money will be paid within two years from the date of the establishment of Wuling Industrial and the Company is entitled to share the profit of Wuling Industrial based on the percentage of its actual capital contribution made.

41. NON-CASH TRANSACTIONS

During the year ended 31 December 2007, purchase of property, plant and equipment of RMB1,030,000 was acquired through inception of finance lease.

42. OPERATING LEASES

The Group as lessor

Machinery rental income earned during both years are as disclosed in Note 8. All machineries held have committed lessees for the next year.

Properties rental income earned during the year was RMB741,000 (2007: RMB850,000). All of the properties held have committed tenants for the next two years.

At the balance sheet date, the Group had contracted with lessees for the following future minimum lease receipts:

	2008 **RMB'000**	2007 RMB'000
Within one year	**127**	1,061
In the second to fifth year inclusive	**4**	140
	131	1,201

42. OPERATING LEASES (continued)

The Group as lessee

Minimum lease payments made under operating leases during the year was RMB33,220,000 (2007: RMB33,476,000).

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2008 RMB'000	2007 RMB'000
Within one year	**29,884**	32,403
In the second to fifth year inclusive	**94**	31,528
	29,978	63,931

Operating lease payments represent rentals payable by the Group for certain of its office and warehouse properties with fixed monthly rentals for an average term of one to two years.

43. RELATED PARTY DISCLOSURES

(i) Related party transactions

Company	Transactions	2008 RMB'000	2007 RMB'000
SGMW	Sales of goods	**6,831,300**	1,986,054
	Purchases of materials	**1,527,130**	555,165
	Sales of raw materials	**99,507**	7,816
	Warranty expense	**60,458**	7,197
	Project income	**3,466**	632
Liuzhou Wuling Group	Sales of raw materials and automobile components	**55,465**	7,737
	Sales of specialized vehicles	**7,333**	–
	Purchases of automotive components and other accessories	**27,081**	3,005
	Purchase of mini passenger buses	**16,009**	–
	License fee paid	**3,300**	1,100
	Rental expense	**28,150**	9,384
	Supply services of water and power	**956**	352
	Purchase of electronic devices and components	**1,106**	–
柳州五菱物流有限公司	Transportation expense	**44,066**	–
	Rental expense	**465**	–

43. RELATED PARTY DISCLOSURES (continued)

(ii) Related party balances

Details of the Group's outstanding balances with related parties are set out and in Notes 25 and 30 respectively.

(iii) Guarantees provided

(a) During the year ended 31 December 2008, Wuling Industrial entered into an undertaking agreement with Liuzhou Wuling, pursuant to which Wuling Industrial agreed to provide corporate guarantee to a financial institution to the extent of RMB200,000,000 in respect of revolving banking facilities to be granted to Liuzhou Wuling.

As at 31 December 2008, Liuzhou Wuling has not yet executed such banking facilities. In the opinion of the directors, the fair value of the financial guarantee contract is insignificant.

(b) The guarantees provided to the Group by a director of the Company and by Liuzhou Wuling are set out in Note 32.

(iv) Compensation of key management personnel

The remuneration of other members of key management for the Group during the year was as follows:

	2008 RMB'000	2007 RMB'000
Short-term benefits	**4,704**	5,319
Post-employment benefits	**220**	72
Share-based payments	**4,285**	–
	9,209	5,391

(v) Acquisition of subsidiaries from a substantial shareholder

During the year ended 31 December 2007, the Group entered into a joint venture agreement with Liuzhou Wuling, a substantial shareholder of the Company to establish Wuling Industrial. The Group also agreed to subscribe for a 50.98% of the registered capital of Wuling Industrial for a cash consideration of RMB391 million. Details are set out in Note 40.

(vi) Issue of convertible notes

Details of the convertible notes issued subsequent to the balance sheet date are set out in Note 45.

44. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company as at 31 December 2008 and 31 December 2007 are as follows:

	Note	2008 RMB'000	2007 RMB'000
Total Assets			
Property, plant and equipment		**38**	126
Interests in subsidiaries		**394,542**	389,161
Prepayments and deposits		**628**	210
Amounts due from subsidiaries		**58,583**	41,973
Cash and cash equivalents		**371**	228
		454,162	431,698
Total Liabilities			
Other payables and accruals		**2,961**	4,053
Amounts due to subsidiaries		**105,082**	97,096
Capital subscription money payable to a subsidiary		**301,689**	301,689
Bank borrowings		**13,194**	18,708
		422,926	421,546
		31,236	10,152
Capital and Reserves			
Share capital		**3,659**	3,659
Reserves	(i)	**27,577**	6,493
		31,236	10,152

44. BALANCE SHEET OF THE COMPANY (continued)

(i) Reserves

	Share premium account RMB'000	Contributed surplus RMB'000	Other reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2007	228,586	156,053	2,400	–	(422,171)	(35,132)
Conversion of warrants	50,739	–	(2,400)	–	–	48,339
Share issue expenses	(20)	–	–	–	–	(20)
Loss for the year	–	–	–	–	(6,694)	(6,694)
At 31 December 2007 and 1 January 2008	279,305	156,053	–	–	(428,865)	6,493
Equity settled share-based payments	–	–	–	5,381	–	5,381
Transferred to accumulated losses on lapse of share options	–	–	–	(88)	88	–
Profit for the year	–	–	–	–	15,703	15,703
At 31 December 2008	279,305	156,053	–	5,293	(413,074)	27,577

The Company's contributed surplus represents (i) the excess of the fair values of the shares of the subsidiaries acquired pursuant to the reorganisation on 30 November 1992, over the nominal value of the Company's shares issued in exchange therefore; and (ii) the transfer of the credit arising from the cancellation of the paid-up capital in the reduction of the par value of each issued ordinary share. Under The Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances, but is not presently qualified to do so.

45. POST BALANCE SHEET EVENT

On 12 January 2009, the Company issued convertible notes with an aggregate principal amount of HK$100,000,000 equivalent to approximately RMB88,000,000 to Wuling (Hong Kong) Holdings Limited, a substantial shareholder of the Company.

The convertible notes are denominated in HKD and have a nominal interest rate of 6% per annum. The conversion price of the convertible notes is HK$0.74 per ordinary share and the maturity date is due on 11 January 2014.

The convertible notes entitle the holder to convert, in whole or in part, the principal amount into ordinary shares of the Company on any business days commencing from 12 January 2010 upto the fifth business days prior to the maturity date. If the convertible notes have not been converted, it will be redeemed on maturity date at par.

The Company is in the process of making an assessment of the financial effect of the above issue of convertible notes, but is not yet in a position to conclude on this.

46. SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2008 are as follows:

Name of subsidiary	Place and date of establishment/ incorporations	Nominal value of issued capital/ registered capital/ fully paid capital	Interest holdings Direct %	Interest holdings Indirect %	Principal activities
Wuling Industrial	The PRC 30 October 2006 (note c)	RMB767,000,000	51 (note a)	–	Investment holding and sales of motor vehicles
柳州五菱柳機動力有限公司 Liuzhou Wuling Liuji Motors Company Limited	The PRC 16 June 1993 (note c)	RMB100,120,000	–	51 (note b)	Manufacture and sale of petrol engines and motor cycles engines
柳州五菱汽車聯合發展有限公司 Liuzhou Wuling Motors United Development Company Limited	The PRC 25 December 2001 (note c)	RMB100,000,000	–	51 (note b)	Manufacture and sale of automobiles spare parts
柳州五菱專用汽車製造有限公司 Liuzhou Wuling Specialized Vehicles Manufacturing Company Limited	The PRC 10 December 2003 (note c)	RMB15,000,000	–	50 (note b)	Manufacture and sale of special vehicles
無錫五菱動力機械有限責任公司	The PRC 15 July 2005 (note c)	RMB6,000,000	–	26 (note b)	Manufacture and sale of accessories of motor vehicles
柳州五菱柳機汽車零部件工貿公司	The PRC 10 June 2000 (note c)	RMB1,000,000	–	48 (note b)	Manufacture and sale of accessories of engines
泰興市菱迪機械有限公司	The PRC 28 March 2004 (note c)	RMB3,000,000	–	26 (note b)	Manufacture and sale of engines
Hilcrest Limited	British Virgin Islands/ Hong Kong	US$1	100	–	Property investment
Watary Investments Limited	British Virgin Islands/ Hong Kong	US$36,000	100	–	Investment holding

46. SUBSIDIARIES (continued)

Name of subsidiary	Place and date of establishment/ incorporations	Nominal value of issued capital/ registered capital/ fully paid capital	Interest holdings		Principal activities
			Direct %	Indirect %	
Dragon Hill Financial Services Holdings Limited	British Virgin Islands/ Hong Kong	US$2	100	–	Investment holding
Dragon Hill Credit Limited	Hong Kong	HK$10,000,000	–	100	Money lending
Dragon Hill Financial Services Limited	Hong Kong	HK$40,000,000	–	100	Securities dealing and margin finance
Dragon Hill (HK) Limited	Hong Kong	HK$10	–	100	Trading of marketable securities
DH Corporate Services Limited	Hong Kong	HK$2	–	100	Provision of administrative services
Jenpoint Limited	Hong Kong	HK$2	–	100	Property investment

notes:

(a) Although the Company has agreed to subscribe for a 51% of the registered capital of Wuling Industrial for RMB391,000,000, only RMB78,200,000 of the subscription money was due and paid at 31 December 2008. On 13 January 2009, the Company paid additional RMB86,942,000 of the subscription money. According to the relevant joint venture agreement, the balance of the subscription money will be paid within two years from the date of the establishment of Wuling Industrial and the Company is entitled to share the profit of Wuling Industrial based on the percentage of its actual subscription money paid.

(b) This represents the effective interest held by the Company.

(c) The subsidiaries are all sino-foreign equity joint ventures.

(d) None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

List of Properties

Location		Approximate site/floor area	Existing use	Group interest
Investment properties held under long lease				
a.	Office No. 506 on 5th Floor, China Insurance Group Building, No. 141 Des Voeux Road, No. 73 Connaught Road Central, Nos. 61-65 Gilman Street, Central, Hong Kong	1,103 sq. ft.	Commercial	100%
Properties held for own use under long lease				
b.	Office Nos. 504-505 on 5th Floor, China Insurance Group Building, No. 141 Des Voeux Road, No. 73 Connaught Road Central, Nos. 61-65 Gilman Street, Central, Hong Kong	2,198 sq. ft.	Commercial	100%
c.	Flat H on 13th Floor, Southern Building, Nos. 257-273 King's Road, North Point, Hong Kong	605 sq. ft.	Domestic	100%
d.	Factory premises at No. 13, Xihuan Road, Liuzhou, Guangxi Zhuang Autonomous Regions, The PRC	194,431 sq. ft.	Industrial	51%
Industrial Land				
e.	No. 040033190 Tanzhong Road,Liuzhou, Guangxi Zhuang Autonomous Regions, The PRC	226,667 sq. ft.	Industrial land	51%

Corporate Information

BOARD OF DIRECTORS
Executive Directors
Mr. Lee Shing (Chairman & Chief Executive Officer)
Mr. He Shiji (Vice-Chairman)
Mr. Sun Shaoli
Mr. Wei Hongwen
Ms. Liu Yaling
Mr. Pei Qingrong
Mr. Wang Shaohua
Mr. Zhou Sheji

Independent Non-Executive Directors
Mr. Yu Xiumin
Mr. Zuo Duofu
Mr. Ye Xiang

AUDIT COMMITTEE
Mr. Ye Xiang (Chairman)
Mr. Yu Xiumin
Mr. Zuo Duofu

REMUNERATION COMMITTEE
Mr. Zuo Duofu (Chairman)
Mr. Yu Xiumin
Mr. Ye Xiang

COMPANY SECRETARY
Mr. Lai Shi Hong Edward

PRINCIPAL BANKERS
Bank of Communications
China Construction Bank
Bank of China
The Hong Kong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited

AUDITORS
Deloitte Touche Tohmatsu

SOLICITORS
K & L Gates
Sidley Austin Brown & Wood

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
35/F., Morrison Plaza
9 Morrison Hill Road, Wanchai
Hong Kong

REGISTERED OFFICE
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudianna Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

STOCK CODE
Stock Exchange of Hong Kong: 305

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俊山五菱汽車集團有限公司
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Wanchai, Hong Kong

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