THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer, registered institution in securities, or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.

WULING MOTORS
五菱汽车

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

(Incorporated in Bermuda with limited liability) (Stock Code: 305)

(I) PROPOSED OPEN OFFER OF NOT LESS THAN 167,229,341 OFFER SHARES ON THE BASIS OF 1 OFFER SHARE FOR EVERY 6 SHARES HELD ON THE RECORD DATE; AND (II) APPLICATION FOR WHITEWASH WAIVER

Underwriter
Wuling (Hong Kong) Holdings Limited

Financial Adviser

時富金融 CFSG
時富融資有限公司
Celestial Capital Limited

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

GD 粵海證券有限公司
GUANGDONG SECURITIES LIMITED

Terms used in this cover shall have the same meanings as defined in this circular.

A letter from the Board is set out on pages 12 to 35 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in connection with the Open Offer, the Underwriting Agreement and the Whitewash Waiver are set out on page 36 of this circular. A letter from Guangdong Securities, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice and recommendation in connection with the Open Offer, the Underwriting Agreement and the Whitewash Waiver, is set out on pages 37 to 52 of this circular.

A notice of the SGM to be held at 12:00 noon on Tuesday, 8 March 2011 at Unit 2805-06, 28th Floor, Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong is set out on pages 175 to 177 of this circular. A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the meeting in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at Tricor Tengis Limited, the Hong Kong branch share registrar of the Company, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

The Open Offer is conditional upon, among other things, the fulfillment of the conditions set out under the section headed "Conditions of the Underwriting Agreement" of the letter from the Board on pages 12 to 35 of this circular. In particular, the Open Offer is conditional upon, among other things, (i) the Whitewash Waiver having been granted by the Executive and (ii) the approval of the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver at the SGM by the Independent Shareholders. The Underwriter is entitled under the Underwriting Agreement to terminate the Underwriting Agreement on the occurrence of certain events, including but not limited to force majeure, as described in the section headed "Termination of the Underwriting Agreement" on pages 10 to 11 of this circular. Accordingly, the Open Offer may or may not proceed.

Any Shareholders and other persons contemplating buying or selling the Shares from the date of this circular up to the date on which all the conditions of the Open Offer are fulfilled (which is expected to be at 4:00 p.m. on Monday, 28 March 2011) will accordingly bear the risk that the Open Offer may not become unconditional or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares, and if they are in doubt about their position, they should consult their professional advisers.

15 February 2011

* *For identification purpose only*

CONTENTS

EXPECTED TIMETABLE

Set out below is an indicative timetable for the implementation of the Open Offer. **The timetable is subject to change as agreed between the Company and the Underwriter. The Company will notify the Shareholders on any changes to the expected timetable as and when appropriate.**

	2011
Last day of dealings in the Shares on cum-entitlements basis	2 March (Wednesday)
First day of dealings in the Shares on ex-entitlements basis	3 March (Thursday)
Latest time for lodging transfers of the Shares in order to qualify for the Open Offer	4:30 p.m. on 4 March (Friday)
Latest time for return of proxy form for the SGM	12:00 noon on 6 March (Sunday)
Register of members of the Company closes (both dates inclusive)	7 March (Monday) to 8 March (Tuesday)
Record Date	8 March (Tuesday)
SGM	12:00 noon on 8 March (Tuesday)
Poll results announcement of the SGM	8 March (Tuesday)
Register of members of the Company re-opens	9 March (Wednesday)
Despatch of the Prospectus Documents and the Overseas Letter	9 March (Wednesday)
Final Acceptance Time and latest time for the payment for the Offer Shares	4:00 p.m. on 23 March (Wednesday)
Latest time for the Open Offer to become unconditional	4:00 p.m. on 28 March (Monday)
Announcement of results of acceptance of the Open Offer	29 March (Tuesday)

	2011
Despatch of share certificates for the Offer Shares	29 March (Tuesday)
Commencement of dealings in the Offer Shares	31 March (Thursday)

Notes:

(i) All times in this circular refer to Hong Kong time.

(ii) Effect of bad weather on the latest time for acceptance of and payment for the Offer Shares:

The latest time for acceptance of and payment for the Offer Shares will not take place at the Final Acceptance Time if there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning:

(a) in force in Hong Kong at any local time before 12:00 noon but no longer in force after 12:00 noon on the Final Acceptance Date. Instead the latest time of acceptance of and payment for the Offer Shares will be extended to 5:00 p.m. on the same Business Day;

(b) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Final Acceptance Date. Instead the latest time of acceptance of and payment for the Offer Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m..

If the latest time for acceptance of and payment for the Offer Shares does not take place on the Final Acceptance Date, the dates mentioned in this section headed "Expected timetable" may be affected. An announcement will be made by the Company in such an event as soon as practicable.

In this circular, the following expressions have the meanings set out below unless the context otherwise requires:

"acting in concert"	has the same meaning ascribed to it under the Takeovers Code
"Announcement"	the announcement of the Company dated 4 January 2011 in relation to, among other things, the Open Offer, the Underwriting Agreement and the Whitewash Waiver
"Application Form(s)"	the application form(s) to be issued to the Qualifying Shareholders in respect of their assured entitlements under the Open Offer
"associate(s)"	has the same meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (excluding Saturday and any day on which a tropical cyclone warning no.8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a "black" rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for business
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CN Holder Undertaking"	undertaking from the Underwriter pursuant to the Underwriting Agreement that it will not transfer or otherwise dispose of the Existing Convertible Notes currently held by it nor exercise any conversion rights attached to the Existing Convertible Notes on or before the Record Date
"Companies Ordinance"	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (as amended from time to time)
"Company"	Dragon Hill Wuling Automobile Holdings Limited, a company incorporated in Bermuda with limited liability and the Shares of which are listed on the main board of the Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company

"Dragon Hill"	Dragon Hill Development Limited, a company incorporated in Samoa with limited liability, a substantial Shareholder which was beneficially interested in approximately 25.91% of the issued share capital of the Company as at the Latest Practicable Date. It is solely and beneficially owned by Mr. Lee Shing, an executive Director, the Vice-chairman and the Chief Executive Officer of the Company, who is also the sole director of Dragon Hill. Dragon Hill is a party acting in concert with the Underwriter
"Dragon Hill Assured Entitlement"	being the assured entitlement of Dragon Hill in respect of a total of 43,326,602 Offer Shares under the Open Offer, based on 259,959,613 Shares held by Dragon Hill as at the Latest Practicable Date and as at the Record Date (Dragon Hill has undertaken not to dispose of or transfer any of such 259,959,613 Shares on or before the Record Date)
"Excluded Shareholder(s)"	the Overseas Shareholder(s), in the opinion of the Directors that it is necessary or expedient to exclude such Overseas Shareholder(s) from the Open Offer on account either of the legal restrictions under the laws or the requirements of the relevant regulatory body or stock exchange in such places
"Executive"	the Executive Director of the Corporate Finance Division of the Securities and Future Commission of Hong Kong or any delegate of the Executive Director
"Existing Convertible Notes"	the convertible notes in an aggregate principal amount of HK$100,000,000 issued by the Company to the Underwriter pursuant to an subscription agreement dated 28 November 2008, details of which are set out in the Company's circular dated 16 December 2008
"Final Acceptance Date"	23 March 2011 or such later date as may be agreed between the Company and the Underwriter
"Final Acceptance Time"	4:00 p.m. on the Final Acceptance Date or such later time and/or date as may be agreed between the Company and the Underwriter, being the latest time for acceptance of allotment of the Offer Shares on an assured basis
"Group"	the Company and its subsidiaries

"Guangdong Securities"	Guangdong Securities Limited, a licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and the independent financial adviser appointed by the Company and approved by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders on the Open Offer, the Underwriting Agreement and the Whitewash Waiver
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board (comprising Mr. Yu Xiumin, Mr. Zuo Duofu and Mr. Ye Xiang, all being independent non-executive Directors) formed to advise the Independent Shareholders on the Open Offer, the Underwriting Agreement and the Whitewash Waiver
"Independent Shareholders"	the Shareholders who are not involved or interested in the Open Offer (save for any assured entitlements to the Open Offer as the Qualifying Shareholders), the Underwriting Agreement and the Whitewash Waiver, and do not include the Underwriter, Dragon Hill, their respective associates and parties acting in concert with any of them
"Irrevocable Undertaking 1"	an irrevocable undertaking given by the Underwriter pursuant to the Underwriting Agreement in favour of the Company to, among other things, subscribe for all of the Offer Shares as will be allotted and issued to it as its assured entitlement under the Open Offer
"Irrevocable Undertaking 2"	an irrevocable undertaking given by Dragon Hill in favour of the Company to, among other things, subscribe for 50% of the Dragon Hill Assured Entitlement under the Open Offer
"Irrevocable Undertakings"	Irrevocable Undertaking 1 and Irrevocable Undertaking 2
"Last Trading Date"	29 December 2010, being the last day on which the Shares were traded on the Stock Exchange immediately preceding the publication of the Announcement

"Latest Practicable Date"	11 February 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Latest Time for Termination"	the latest time for the Underwriter to terminate the Underwriter Agreement, being 4:00 p.m. on the third Business Day after the Final Acceptance Date or such later time and/or date as may be agreed between the Company and the Underwriter
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Liuzhou Wuling"	柳州五菱汽車有限責任公司 (Liuzhou Wuling Motors Company Limited*), a wholly state-owned limited enterprise established in the PRC, being the ultimate holding company of the Underwriter and a party acting in concert with the Underwriter
"Non-Concert Party Held Options"	all outstanding Options other than those held by parties acting in concert with the Underwriter
"Offer Share(s)"	not less than 167,229,341 new Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the Non-Concert Party Held Options are not exercised on or before the Record Date) and not more than 177,774,341 new Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming all Non-Concert Party Held Options having been exercised on or before the Record Date) to be issued by the Company pursuant to the Open Offer
"Open Offer"	the proposed issue of Offer Shares by the Company to the Qualifying Shareholders on the basis of one (1) Offer Share for every six (6) Shares held on the Record Date at the Subscription Price, which is subject to the terms and conditions stipulated in the Underwriting Agreement, in particular, the conditions precedent as detailed in the paragraph headed "Conditions of the Underwriting Agreement" under the section headed "Underwriting Arrangement" in the letter from the Board set out in this circular
"Option Undertaking"	undertaking from the Underwriter pursuant to the Underwriting Agreement that it will procure all parties acting in concert with it who are holders of the Options not to exercise any rights under the Options to subscribe for any Shares on or before the Record Date

"Options"	the outstanding options granted by the Company to subscribe for an aggregate of 76,820,000 Shares as at the Latest Practicable Date pursuant to the share option scheme adopted by the Company which was approved by the Shareholders on 11 June 2002, amongst which (i) Options carrying subscription rights to subscribe for a total of 37,370,000 Shares are currently exercisable up to the expiry date on 31 December 2012; and (ii) Options carrying subscription rights to subscribe for a total of 39,450,000 Shares will be exercisable during the period up to the expiry date on 31 December 2013
"Overseas Letter"	the letter in respect of the exclusion of the Excluded Shareholders from the Open Offer in such form as may be agreed between the Company and the Underwriter
"Overseas Shareholder(s)"	the Shareholder(s) whose registered address(es) (as shown in the register of members of the Company on the Record Date) are outside Hong Kong
"PRC"	the People's Republic of China, which for the purpose of this circular excludes Taiwan, Hong Kong and the Macau Special Administrative Region of the PRC
"Prospectus"	the prospectus to be issued by the Company for despatch to the Qualifying Shareholders in relation to the Open Offer, and if, to the extent legally and practically permissible, for despatch to the Excluded Shareholders for information purpose only
"Prospectus Documents"	the Prospectus and the Application Form
"Prospectus Posting Date"	9 March 2011 or such later date as may be agreed between the Company and the Underwriter for the despatch of the Prospectus Documents
"Qualifying Shareholders"	the Shareholders whose names appear on the register of members of the Company at the close of business on the Record Date, other than the Excluded Shareholders
"Record Date"	8 March 2011 or such other date as may be agreed between the Company and the Underwriter, being the date by reference to which entitlements to the Open Offer will be determined
"Registrar"	Tricor Tengis Limited, the Hong Kong branch share registrar of the Company which is situated at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong

"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened and held on 8 March 2011 at which resolutions will be proposed to consider and, if thought fit, approve the Open Offer, the Underwriting Agreement and the Whitewash Waiver
"Share(s)"	ordinary share(s) of HK$0.004 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	the subscription price of HK$0.90 per Offer Share
"substantial Shareholder(s)"	has the same meaning ascribed to it under the Listing Rules
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Underwriter"	Wuling (Hong Kong) Holdings Limited, a company incorporated in Hong Kong with limited liability and a substantial Shareholder which was beneficially interested in approximately 29.93% of the issued share capital of the Company as at the Latest Practicable Date. It is an indirect wholly-owned subsidiary of Liuzhou Wuling
"Underwriting Agreement"	collectively, the conditional underwriting agreement dated 29 December 2010 entered into between the Company and the Underwriter in relation to the Open Offer and as amended and supplemented by two supplemental agreements and a side letter entered into by the parties thereto on 4 January 2011, 12 January 2011 and 14 February 2011, respectively
"Whitewash Waiver"	a waiver from the Executive pursuant to note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligations of the Underwriter and parties acting in concert with it to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by the Underwriter or parties acting in concert with it which would otherwise arise as a result of the Underwriter being required to perform its underwriting commitment under the Underwriting Agreement

"Wuling Industrial"	柳州五菱汽車工業有限公司 (Liuzhou Wuling Motors Industrial Company Limited*), a company established in the PRC and a non-wholly owned subsidiary of the Company
"Wuling Industrial Group"	Wuling Industrial and its subsidiaries
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

In this circular, unless otherwise specified, amounts in HK$ are converted to RMB at the conversion rate at HK$1.1814 = RMB1.0000 for illustration only. No representation is made that any amounts in RMB or HK$ could have been or could be converted at such rate or any other rates.

* *For identification purpose only*

TERMINATION OF THE UNDERWRITING AGREEMENT

Under the Underwriting Agreement, the Underwriter shall be entitled by serving notice in writing to the Company to terminate the Underwriting Agreement at any time prior to the Latest Time for Termination if:

(a) in the reasonable opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:

(1) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or

(2) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement, of a political, financial, economic, currency market or other nature (whether or not ejusdem generic with any of the foregoing) or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market which would, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

(3) any change, effect or development that is or is reasonably likely to be, individually or in the aggregate with other changes, effects or developments, materially adverse to: (i) the business, assets, condition (financial or otherwise), operating results, operations or business prospects of the Group taken as a whole; or (ii) the ability of the Company to consummate the transactions contemplated under the Underwriting Agreement (excluding any such adverse change, effect or development which has been cured); or

(4) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which would, in the reasonable opinion of the Underwriter, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole;

(b) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, imposition of economic sanctions, on Hong Kong, the PRC or other jurisdiction relevant to the business of the Group taken as a whole and a change in currency conditions for the purpose of this clause includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs which, in the reasonable opinion of the Underwriter, makes it inexpedient or inadvisable to proceed with the Open Offer; or

(c) the circular or the Prospectus Documents in connection with the Open Offer when published contains information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which, in the reasonable opinion of the Underwriter, is material to the Group as a whole and is likely to affect materially and adversely the success of the Open Offer or might cause a prudent investor not to apply for its assured entitlements of Offer Shares under the Open Offer; or

(d) the Company commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement of a material nature which would materially and adversely affect the success of the Open Offer.

If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional on or before the Latest Time for Termination (or such other time and/or date as the Company and the Underwriter may agree in writing), the Underwriting Agreement shall terminate and the Open Offer will not proceed, and both parties shall be released and discharged from their respective obligations under the Underwriting Agreement save for any antecedent breaches.

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

(Incorporated in Bermuda with limited liability) (Stock Code: 305)

Executive Directors:
Mr. Sun Shaoli *(Chairman)*
Mr. Lee Shing *(Vice-chairman and Chief Executive Officer)*
Mr. Wei Hongwen
Mr. Zhong Xianhua
Ms. Liu Yaling
Mr. Zhou Sheji

Independent non-executive Directors:
Mr. Yu Xiumin
Mr. Zuo Duofu
Mr. Ye Xiang

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Head office and principal place of business in Hong Kong:
Unit 2805-06
28th Floor
Office Tower
Convention Plaza
No.1 Habour Road
Wanchai
Hong Kong

15 February 2011

To the Qualifying Shareholders and, for information only, Excluded Shareholders

Dear Sir or Madam,

(I) PROPOSED OPEN OFFER OF NOT LESS THAN 167,229,341 OFFER SHARES ON THE BASIS OF 1 OFFER SHARE FOR EVERY 6 SHARES HELD ON THE RECORD DATE; AND (II) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

Reference is made to the Announcement and the subsequent announcements of the Company dated 12 January 2011, 24 January 2011 and 10 February 2011, respectively in relation to, among other things, the Open Offer and the Whitewash Waiver. The Open Offer will be underwritten by the Underwriter pursuant to the Underwriting Agreement.

* *For identification purpose only*

The Open Offer, the Underwriting Agreement and the Whitewash Waiver are subject to, among other things, the approval by the Independent Shareholders at the SGM by way of poll. The Independent Board Committee, which comprises Mr. Yu Xiumin, Mr. Zuo Duofu and Mr. Ye Xiang (all being independent non-executive Directors), has been formed to advise the Independent Shareholders on the Open Offer, the Underwriting Agreement and the Whitewash Waiver. Guangdong Securities has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders to advise on the respective terms and conditions of the Open Offer (including the Underwriting Agreement) and the Whitewash Waiver, and to make recommendations (i) as to whether the Whitewash Waiver is fair and reasonable; and (ii) as to voting of the resolution to approve the Whitewash Waiver.

The purpose of this circular is to provide you with, among others, (i) details of the Open Offer, the Underwriting Agreement and the Whitewash Waiver; (ii) the recommendations from the Independent Board Committee to the Independent Shareholders on the Open Offer, the Underwriting Agreement and the Whitewash Waiver; (iii) the advice and recommendations from Guangdong Securities to the Independent Board Committee and the Independent Shareholders on the Open Offer, the Underwriting Agreement and the Whitewash Waiver; (iv) the financial information and other general information on the Group; and (v) the notice of the SGM.

PROPOSED OPEN OFFER

Issue statistics

Basis of the Open Offer:	one (1) Offer Share for every six (6) Shares held on the Record Date (rounded down to the nearest one). No Offer Share will be offered to the Excluded Shareholders, and no fractional entitlement will be allotted or issued to the Shareholders under the Open Offer but will be aggregated and underwritten by the Underwriter
Subscription Price:	HK$0.90 per Offer Share, payable in full upon acceptance of the assured allotment of the Offer Shares
Number of Shares in issue as at the Latest Practicable Date *(Note (a))*:	1,003,376,049 Shares
Maximum number of Shares issuable on or before the Record Date (after taking into account the CN Holder Undertaking, the Option Undertaking and the exercise in full of Non-Concert Party Held Options) *(Notes (b) and (c))*:	63,270,000 Shares

Notes:

(a) As at the Latest Practicable Date, there were (i) a total of 1,003,376,049 Shares in issue; (ii) outstanding Existing Convertible Notes with an aggregate principal amount of HK$100,000,000; and (iii) Options carrying subscription rights to subscribe for an aggregate of 76,820,000 Shares.

(b) The Existing Convertible Notes are currently held by the Underwriter which has irrevocably undertaken that it will not transfer or otherwise dispose of the Existing Convertible Notes nor exercise any conversion rights attached to the Existing Convertible Notes on or before the Record Date (i.e. the CN Holder Undertaking). Therefore, no Offer Share shall be issued as a result of conversion of any part of the Existing Convertible Notes.

(c) Among all Options carrying rights to subscribe for a total of 76,820,000 Shares,

(i) Options carrying subscription rights to subscribe for a total of 37,370,000 Shares are exercisable up to the expiry date on 31 December 2012, and Options carrying subscription rights to subscribe for a total of 39,450,000 Shares are exercisable up to the expiry date on 31 December 2013;

(ii) Options carrying subscription rights to subscribe for a total of 13,550,000 Shares are held by parties acting in concert with the Underwriter, whereupon pursuant to the Option Undertaking, the Underwriter will procure such parties acting in concert with it not to exercise any rights under the Options to subscribe for any Shares on or before the Record Date. The Non-Concert Party Held Options carrying subscription rights to subscribe for a total of 63,270,000 Shares;

(iii) as the Record Date is tentatively fixed on 8 March 2011, a maximum of 10,545,000 Offer Shares may be issued resulting from the exercise in full of all Non-Concert Party Held Options on or before the Record Date.

Number of Offer Shares:	Not less than 167,229,341 Offer Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the Non-Concert Party Held Options are not exercised on or before the Record Date) and not more than 177,774,341 Offer Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the exercise in full of all Non-Concert Party Held Options on or before the Record Date)
Number of Offer Shares to be subscribed by the Underwriter under the Irrevocable Undertaking 1:	50,048,000 Offer Shares, being all of the Offer Shares to be allotted on an assured basis to the Underwriter, based on the 300,288,000 Shares held by the Underwriter as at the Latest Practicable Date and as at the Record Date (the Underwriter has undertaken not to dispose of or transfer any of such 300,288,000 Shares nor exercise any conversion rights attached to the Existing Convertible Notes on or before the Record Date)
Number of Offer Shares to be subscribed by Dragon Hill under the Irrevocable Undertaking 2:	21,663,301 Offer Shares, being 50% of the Dragon Hill Assured Entitlement, based on the 259,959,613 Shares held by Dragon Hill as at the Latest Practicable Date and as at the Record Date (Dragon Hill has undertaken not to dispose of or transfer any of such 259,959,613 Shares on or before the Record Date)

Maximum number of Offer Shares underwritten by the Underwriter:	All Offer Shares (other than those which have been irrevocably undertaken to be subscribed by the Underwriter and Dragon Hill under the Irrevocable Undertakings), being not less than 95,518,040 Offer Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the Non-Concert Party Held Options are not exercised on or before the Record Date) and not more than 106,063,040 Offer Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the exercise in full of all Non-Concert Party Held Options on or before the Record Date), including Offer Shares created by the aggregation of fractional entitlements which will not be allotted or issued to the Shareholders under the Open Offer
Number of Shares in issue immediately upon completion of the Open Offer:	Not less than 1,170,605,390 Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the Non-Concert Party Held Options are not exercised on or before the Record Date) and not more than 1,244,420,390 Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the exercise in full of all Non-Concert Party Held Options on or before the Record Date)

As at the Latest Practicable Date, save for the Existing Convertible Notes and the Options, there were no outstanding derivatives, options, warrants or other convertible securities which might confer any right to the holder thereof to subscribe for, convert or exchange into new Shares.

Pursuant to the Underwriting Agreement, the Company has undertaken that it shall not, without the prior written consent of the Underwriter, issue or repurchase any Share or issue or grant any options or other securities convertible into, exchangeable for or which carry rights to acquire Shares (other than the Offer Shares and the Shares to be allotted and issued upon the exercise of the subscription rights attached to the Options (if any) from 29 December 2010, being the date of the Underwriting Agreement, until the next date immediately after the Latest Time for Termination). In addition, the Underwriter, being holder of the Existing Convertible Notes, has given the CN Holder Undertaking and the Option Undertaking.

Based on (i) the CN Holder Undertaking given by the Underwriter as holder of the Existing Convertible Notes, as well as the Option Undertaking, (ii) the assumption that the Non-Concert Party Held Options will not be exercised to subscribe for Shares from the Latest Practicable Date up to the Record Date, (iii) the assumption that there is no change to the number of issued Shares from the Latest Practicable Date up to the Record Date; and (iv) the assumption that the Open Offer is completed, an aggregate of 167,229,341 Offer Shares would be allotted and issued under the Open Offer, representing approximately 16.67% of the existing issued share capital of the Company and approximately 14.29% of the issued share capital of the Company as enlarged by the allotment and issue of the Offer Shares immediately upon completion of the Open Offer. The aggregate nominal value of such Offer Shares is approximately HK$668,917.

Subscription Price

The Subscription Price of HK$0.90 per Offer Share shall be payable in cash in full upon acceptance of the assured allotment under the Open Offer by the Qualifying Shareholders. The Subscription Price represents:

(i) a discount of approximately 2.17% to the closing price of HK$0.92 per Share as quoted on the Stock Exchange on the Last Trading Date;

(ii) a discount of approximately 3.23% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Date, being approximately HK$0.93 per Share;

(iii) a discount of approximately 6.25% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Date, being approximately HK$0.96 per Share;

(iv) a discount of approximately 2.17% to the theoretical ex-entitlement price of approximately HK$0.92 per Share based on the closing price of HK$0.92 per Share as quoted on the Stock Exchange on the Last Trading Date;

(v) a discount of approximately 8.16% to the closing price of HK$0.98 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(vi) a premium of approximately 500.00% over the audited net asset value per Share of RMB0.13 (equivalent to approximately HK$0.15) based on the audited equity attributable to equity holders of the Company of RMB126,087,000 (equivalent to approximately HK$148,959,000) as at 31 December 2009 and a total of 1,003,376,049 Shares in issue as at the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Underwriter with reference to (i) the prevailing market conditions (including but not limited to the prevailing market prices of the Shares); and (ii) the needs of the Group to raise equity funding in order to finance its business developments (details of which are set out in the section headed "Reasons for the Open Offer and the use of proceeds" below in this letter from the Board). The Open Offer offers an opportunity for all Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company and participate in the future growth of the Group by subscribing the Offer Shares allotted to them on an assured basis under the Open Offer. In addition, the terms of the Open Offer, and the related underwriting arrangement under the Underwriting Agreement together with the terms thereof (in particular no underwriting commission is charged by the Underwriter) will minimise the cost, effort and risk to be involved by the Company in its fund raising activities. In view of the above, the Directors consider that the respective terms of the Open Offer and the Underwriting Agreement (including the Subscription Price) are fair and reasonable and it is in the interests of the Company and the Shareholders as a whole to raise capital through the Open Offer.

The net price (after deduction of all related costs and expenses) per Offer Share upon full acceptance of the relevant assured allotment of the Offer Shares will be approximately HK$0.88.

Qualifying Shareholders

The Company will send (i) the Prospectus Documents to the Qualifying Shareholders; and (ii) if, to the extent legally and practically permissible, the Overseas Letter and the Prospectus to the Excluded Shareholders for information purpose only.

The Open Offer is only available to the Qualifying Shareholders. To qualify for the Open Offer, a Shareholder must be registered as a member of the Company at the close of business on the Record Date and not be an Excluded Shareholder. In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfers of Shares (with the relevant share certificate(s)) with the Registrar by 4:30 p.m. on 4 March 2011. The last day of dealings in the Shares on a cum-entitlements basis will therefore be 2 March 2011. The Shares will be dealt with on an ex-entitlements basis from 3 March 2011.

Excluded Shareholders

If there are any Shareholders whose registered addresses (as shown in the register of members of the Company on the Record Date) are outside Hong Kong (i.e. the Overseas Shareholders) at the close of business on the Record Date, such Overseas Shareholders may or may not be eligible to take part in the Open Offer.

The Company will comply with Rule 13.36(2)(a) of the Listing Rules and make enquiries with the Company's legal advisers ("**Enquiries**") regarding the feasibility of extending the Open Offer to the Overseas Shareholders by taking into consideration the applicable securities legislation of the relevant places of residence of the Overseas Shareholders as well as the requirements of the relevant regulatory body or stock exchange in such places in respect of the issue of Offer Shares to the Overseas Shareholders.

If, after making the Enquiries, the Directors are of the opinion that it would be necessary or expedient, on account either of the legal restrictions under the laws of the relevant place of residence of an Overseas Shareholder or any applicable requirements of the relevant regulatory body or stock exchange in that place, not to offer the Offer Shares to such Overseas Shareholder, the Open Offer will not be extended to such Overseas Shareholder who will become an Excluded Shareholder. The results of the Enquires and the basis of any exclusion of the Excluded Shareholders will be included in the Overseas Letter and/or the Prospectus. The Offer Shares which would otherwise be allotted to the Excluded Shareholders will be taken up by the Underwriter or its nominees. According to the register of members of the Company as at the Latest Practicable Date, there were six Overseas Shareholders whose addresses were in Canada, Macau, Malaysia, Spain and the United Kingdom.

The Prospectus Documents are not intended to be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong and Bermuda and will be sent to the Excluded Shareholders for their information only, if and to the extent legally and practically permissible. However, as long as the Excluded Shareholders are Independent Shareholders, they are entitled to vote on all resolutions at the SGM.

Fractions of the Offer Shares

Fractional entitlements to the Offer Shares, if any, will not be allotted or issued to the Shareholders under the Open Offer, but will be aggregated and underwritten by the Underwriter.

Odd lot arrangement

There will be no odd lots arrangement in relation to and as a result of the Open Offer.

Status of the Offer Shares

The Offer Shares, when allotted, issued and fully-paid, will rank pari passu in all respects with the Shares in issue on the date of allotment of the Offer Shares. Holders of such Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid with a record date which falls on or after the date of allotment and issue of the Offer Shares. Dealings in the Offer Shares will be subject to payment of stamp duty in Hong Kong and any other applicable fees and charges in Hong Kong.

No transfer of nil-paid entitlements

The invitation to subscribe for the Offer Shares to be made to the Qualifying Shareholders will not be transferable. There will not be any trading in nil-paid entitlements on the Stock Exchange.

No application for excess Offer Shares

There is no arrangement for application of the Offer Shares by Qualifying Shareholders in excess of their proportionate assured allotment under the Open Offer. Each Qualifying Shareholder will be entitled to the Open Offer on equal and fair basis by subscribing the Offer Shares in proportion to its shareholding in the Company as at the Record Date. The Company considers that it is not cost-effective to set up arrangement in relation to application for excess Offer Shares as additional effort and costs will be incurred by the Company to administer the relevant excess application procedures.

Any Offer Share not subscribed by the Qualifying Shareholders will be taken up by the Underwriter pursuant to the terms of the Underwriting Agreement. In compliance with Rule 7.26A(2) of the Listing Rules, the absence of excess application arrangement and the alternative arrangement for the disposal of the Offer Shares not being subscribed must be specifically approved by the Independent Shareholders at the SGM.

Share certificates for the Offer Shares

Subject to the fulfilment of the conditions of the Open Offer, share certificates for the Offer Shares are expected to be posted by ordinary mail to subscribers (or their nominees) of the Offer Shares who have validly accepted and subscribed for, and paid for the Offer Shares on or before 29 March 2011 at the own risk of such subscribers (or their nominees).

Closure of register of members

The Company's register of members will be closed from 7 March 2011 to 8 March 2011 (both dates inclusive) for the purpose of establishing entitlements to the Open Offer. No transfer of Shares will be registered during this period.

Application for listing

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Offer Shares. None of the securities of the Company is listed or dealt in on any other stock exchange other than the Stock Exchange, and no such listing or permission to deal is proposed to be sought from any other stock exchange.

Subject to the grant of listing of, and permission to deal in, the Offer Shares on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Conditions of the Open Offer

The Open Offer is conditional upon the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof.

UNDERWRITING ARRANGEMENT

Underwriting Agreement

Date:	29 December 2010 as amended and supplemented by a supplemental agreement and a second supplemental agreement dated 4 January 2011 and 12 January 2011, respectively
Underwriter:	Wuling (Hong Kong) Holdings Limited, which is a substantial Shareholder and whose ordinary course of business does not include underwriting
Maximum number of Offer Shares underwritten by the Underwriter:	All Offer Shares (other than those which have been irrevocably undertaken to be subscribed by the Underwriter and Dragon Hill under the Irrevocable Undertakings), being not less than 95,518,040 Offer Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and

	assuming the Non-Concert Party Held Options are not exercised on or before the Record Date) and not more than 106,063,040 Offer Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the exercise in full of all Non-Concert Party Held Options on or before the Record Date), including Offer Shares created by the aggregation of fractional entitlements which will not be allotted or issued to the Shareholders under the Open Offer. Having taken into account the Irrevocable Undertakings, the Open Offer is fully underwritten
Underwriting commission:	The Underwriter will not receive any underwriting commission. The Company will reimburse the Underwriter for all reasonable costs and expenses incurred by it in connection with the Underwriting Agreement

Conditions of the Underwriting Agreement

The Underwriting Agreement is conditional upon the following conditions being fulfilled:

(a) the Company despatching the Circular to the Shareholders containing, among other matters, details of the Open Offer and the Whitewash Waiver together with proxy form and notice of the SGM;

(b) the passing by the Independent Shareholders at the SGM of resolutions approving, among others, the Underwriting Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Offer Shares, as well as the Whitewash Waiver;

(c) the Executive granting the Whitewash Waiver waiving any obligation on the part of the Underwriter and parties acting in concert with it to make a general offer for all the securities of the Company not already owned by it or agreed to be acquired by it upon completion of the Underwriting Agreement;

(d) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong, respectively, one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution(s) of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies Ordinance not later than the Prospectus Posting Date;

(e) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and the Overseas Letter to the Excluded Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Open Offer on or before the Prospectus Posting Date;

(f) the Listing Committee of the Stock Exchange granting and not having withdrawn or revoked listing of and permission to deal in the Offer Shares by no later than the first day of their dealings as stated in the Prospectus;

(g) the approval being obtained from the SFC for the Underwriter and/or its holding companies, where appropriate, to become substantial shareholders of Dragon Hill Financial Services Limited, an indirect wholly-owned subsidiary of the Company;

(h) the Underwriting Agreement not being terminated by the Underwriter pursuant to the terms thereof; and

(i) compliance with and performance of the Irrevocable Undertaking 2, all the undertakings and obligations of the Company and the Underwriter under the Underwriting Agreement.

None of the conditions precedent above can be waived. If any of the conditions precedent is not fulfilled by the time and/or date specified therein or if no such time and/or date is specified, the Latest Time for Termination, the Underwriting Agreement shall terminate and no party thereto shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches, and the Open Offer will not proceed.

Termination of the Underwriting Agreement

Under the Underwriting Agreement, the Underwriter shall be entitled by serving notice in writing to the Company to terminate the Underwriting Agreement at any time prior to the Latest Time for Termination if:

(a) in the reasonable opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:

(1) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or

(2) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement, of a political, financial, economic, currency market or other nature (whether or not ejusdem generic with any of the foregoing) or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market which would, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

(3) any change, effect or development that is or is reasonably likely to be, individually or in the aggregate with other changes, effects or developments, materially adverse to: (i) the business, assets, condition (financial or otherwise), operating results, operations or business prospects of the Group taken as a whole; or (ii) the ability of the Company to consummate the transactions contemplated under the Underwriting Agreement (excluding any such adverse change, effect or development which has been cured); or

(4) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which would, in the reasonable opinion of the Underwriter, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole;

(b) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, imposition of economic sanctions, on Hong Kong, the PRC or other jurisdiction relevant to the business of the Group taken as a whole and a change in currency conditions for the purpose of this clause includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs which, in the reasonable opinion of the Underwriter, makes it inexpedient or inadvisable to proceed with the Open Offer; or

(c) the circular or the Prospectus Documents in connection with the Open Offer when published contains information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which, in the reasonable opinion of the Underwriter, is material to the Group as a whole and is likely to affect materially and adversely the success of the Open Offer or might cause a prudent investor not to apply for its assured entitlements of Offer Shares under the Open Offer; or

(d) the Company commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement of a material nature which would materially and adversely affect the success of the Open Offer.

If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional on or before the Latest Time for Termination (or such other time and/or date as the Company and the Underwriter may agree in writing), the Underwriting Agreement shall terminate and the Open Offer will not proceed, and both parties shall be released and discharged from their respective obligations under the Underwriting Agreement save for any antecedent breaches.

Respective irrevocable undertakings from the Company, the Underwriter and Dragon Hill

Pursuant to the Underwriting Agreement and the Irrevocable Undertaking 1,

(i) the Underwriter has irrevocably undertaken that it shall not transfer or otherwise dispose of any of the 300,288,000 Shares held by it as at 29 December 2010 and prior to or on the date the Underwriting Agreement becoming unconditional, and that it shall subscribe for 50,048,000 Offer Shares, being all of the Offer Shares to be allotted to it on an assured basis based on the 300,288,000 Shares held by it (i.e. the Irrevocable Undertaking 1). In addition, the Underwriter has undertaken that it will not transfer or otherwise dispose of the Existing Convertible Notes currently held by it nor exercise any conversion rights attached to the Existing Convertible Notes on or before the Record Date (i.e. the CN Holder Undertaking). Furthermore, the Underwriter has undertaken it will procure all parties acting in concert with it who are holders of the Options not to exercise any subscription rights attached to the Options to subscribe for any Shares on or before the Record Date (i.e. the Option Undertaking); and

(ii) the Company has undertaken that it shall not, without the prior written consent of the Underwriter, from 29 December 2010, being the date of the Underwriting Agreement, until the next day immediately after the Latest Time for Termination, issue or repurchase any Shares or issue or grant any options or other securities which may be convertible into or exchangeable for or carry rights to acquire Shares (other than the Offer Shares and the Shares falling to be issued upon exercise of the subscription rights attached to the Options).

Pursuant to the Irrevocable Undertaking 2, Dragon Hill, another substantial Shareholder holding 259,959,613 Shares as at the Latest Practicable Date, has irrevocably undertaken that (a) it would accept the assured allotment of 21,663,301 Offer Shares to be allotted to it, being 50% of the Dragon Hill Assured Entitlement (while the remaining 50% of the Dragon Hill Assured Entitlement is fully underwritten by the Underwriter pursuant to the Underwriting Agreement; as at the Latest Practicable Date, Dragon Hill has not determined whether to take up such remaining 50%, and if it does not take up the remaining 50% of the Dragon Hill Assured Entitlement, the relevant Offer Shares, being 21,663,301 Offer Shares, shall be taken up by the Underwriter pursuant to the Underwriting Agreement); and (b) it shall not dispose of or transfer any of 259,959,613 Shares held by it as at the date of the Announcement until the Record Date.

ADJUSTMENTS IN RELATION TO THE OPTIONS AND EXISTING CONVERTIBLE NOTES

Adjustments ("**Relevant Adjustments**") to: (i) the exercise price and number of the Shares to be subscribed under the Options, and (ii) the conversion price and the number of Shares issuable upon exercise of the conversion rights attached to the Existing Convertible Notes may be required under the relevant terms of the instrument constituting the share option scheme of the Company adopted on 11 June 2002 and the Existing Convertible Notes respectively. Further announcement will be made by the Company in due course.

The Relevant Adjustments, if any, will not have any impact on the Open Offer and the number of Offer Shares to be issued and allotted under the Open Offer as (i) any adjustments to the exercise price and number of Shares to be subscribed under the Options will take place upon completion of the Open Offer; and (ii) pursuant to the CN Holder Undertaking, no conversion rights attached to the Existing Convertible Notes will be exercised on or before the Record Date.

WARNING OF THE RISK OF DEALING IN THE SHARES

The Open Offer is conditional upon, among other things, (i) the fulfilment of the conditions set out under the paragraph headed "Conditions of the Underwriting Agreement" under the section headed "Underwriting Arrangement" in this letter from the Board, and (ii) the Underwriting Agreement not being terminated in accordance with its terms thereof (a summary of which is set out under the paragraph headed "Termination of the Underwriting Agreement" under the section headed "Underwriting Arrangement" in this letter from the Board). Accordingly, the Open Offer may or may not proceed.

Any Shareholders and other persons contemplating buying or selling Shares from the date of this circular up to the date on which all the conditions of the Open Offer are fulfilled (which is expected to be at 4:00 p.m. on 28 March 2011) bear the risk that the Open Offer may not become unconditional or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares, and if they are in doubt about their position, they should consult their professional advisers.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in manufacturing and trading of engines and parts, automotive components and accessories, specialized vehicles and the trading and supply services of raw materials, water and power. The Group's principal operations are conducted in the PRC.

As set out in the 2010 interim report of the Company, since the date of the latest published audited financial statements of the Company for the year ended 31 December 2009, during the six-month period ended 30 June 2010, the Group recorded unaudited revenue of approximately RMB5,615 million, representing an increase of approximately 17% as compared to the same period in 2009, whereas, unaudited profit for the period attributable to owners of the Company amounted to approximately RMB64 million during the six months ended 30 June 2010 as compared to an unaudited loss of approximately RMB$41 million recorded in the same period in the preceding year. As at 30 June 2010, the Group's unaudited net assets amounted to approximately RMB857 million, which was increased as compared to the audited net assets of approximately RMB700 million as recorded at 31 December 2009 (as shown in the 2009 annual report of the Company), in which unaudited net assets attributable to the owners of the Company amounted to RMB271 million as at 30 June 2010, representing an increase of approximately 115% as compared to the comparative audited figure of approximately RMB126 million as recorded at 31 December 2009. The Group's gearing ratio, being calculated based on the Group's total bank borrowings and the Group's net assets, was 20.9% at 30 June 2010, which showed a decrease as compared to the gearing ratio of 34% as recorded at 31 December 2009 (as shown in the 2009 annual report of the Company).

The increase in unaudited revenue during the first half of 2010 (as compared with the corresponding period in 2009) was mainly attributable to the continuous strong market demands for the vehicles produced by its customers and the increasing sales of specialized vehicles on the back of the favourable market condition of the automobile industry during the period. As set out in the 2010 interim report of the Company, unaudited profit attributable to the owners of the Company turned around from a deficit in the corresponding period in the previous year to a profit for the first half of 2010 was mainly the results of the fair value adjustment relating to the Existing Convertible Notes, in which a gain of approximately RMB44 million was recorded in the first half of 2010 as compared to a loss of approximately RMB61 million recorded in the corresponding period in 2009. On exclusion of the effects of these fair value adjustments, unaudited profit attributable to the owners of the Company was only slightly improved in the first half of 2010. Despite the increase in unaudited revenue and a better gross margin performance in the first half of 2010, unaudited operating results of the Group did not improve on a proportionate magnitude due to the share option expenses, the higher level of distribution costs in the automotive components and specialized vehicles divisions and the additional research and development expenses incurred for the new products as well as certain business development projects.

Looking ahead, the Group expects the favourable economic conditions and market trends will bring business opportunities to its four main business segments. In response to the encouraging market situation, the management has been implementing various capacity expansion programs in the Group in order to cope with the growing demands from the customers. In addition, the Group will also continue to undertake quality after-sale services and planned technical re-engineering programs to further the product quality standard and technical capability so as to stay competitive in the industry.

SHAREHOLDING STRUCTURE OF THE COMPANY

After taking into account the Irrevocable Undertakings, the CN Holder Undertaking, the Option Undertaking and assuming the Non-Concert Party Held Options are not exercised on or before completion of the Open Offer, the shareholding structure of the Company as at the Latest Practicable Date and immediately after completion of the Open Offer is set out below:

	As at the Latest Practicable Date		Immediately after completion of the Open Offer (after taking into account the Irrevocable Undertakings *(Note 1)* and assuming all other Qualifying Shareholders take up their entitlements under the Open Offer)		Immediately after completion of the Open Offer (after taking into account the Irrevocable Undertakings *(Note 1)* and assuming no other Qualifying Shareholders take up their entitlements under the Open Offer)	
	No. of Shares	*Approximate %*	*No. of Share*	*Approximate %*	*No. of Shares*	*Approximate %*
The Underwriter and parties acting in concert with it:						
The Underwriter *(Notes 2 and 4)*	300,288,000	29.93	371,999,301	31.78	445,854,040	38.09
Dragon Hill *(Notes 3 and 4)*	259,959,613	25.91	281,622,914	24.06	281,622,914	24.06
Sub-total	560,247,613	55.84	653,622,215	55.84	727,476,954	62.15
Mr. Zhou Sheji and associates *(Note 5)*	44,770,000	4.46	52,231,666	4.46	44,770,000	3.82
Director of a subsidiary of the Company	220,000	0.02	256,667	0.02	220,000	0.02
Public	398,138,436	39.68	464,494,842	39.68	398,138,436	34.01
Total	1,003,376,049	100.00	1,170,605,390	100.00	1,170,605,390	100.00

Notes:

1. Pursuant to the Irrevocable Undertaking 2, Dragon Hill has irrevocably undertaken to subscribe for 21,663,301 Offer Shares, being 50% of the Dragon Hill Assured Entitlement. As at the Latest Practicable Date, Dragon Hill has not determined whether to take up the remaining 50% of Dragon Hill Assured Entitlement or not. If Dragon Hill does not take up the remaining 50% of Dragon Hill Assured Entitlement, the relevant Offer Shares, being 21,663,301 Offer Shares, shall be taken up by the Underwriter pursuant to the Underwriting Agreement.

2. The entire issued share capital of the Underwriter is held by Wuling Motors (Hong Kong) Company Limited ("Wuling Motors"), and the entire issued share capital of Wuling Motors is held by Liuzhou Wuling.

3. The entire issued share capital of Dragon Hill is beneficially owned by Mr. Lee Shing, an executive Director, the Vice-chairman and the Chief Executive Officer of the Company.

4. Under the Takeovers Code, the Underwriter and Dragon Hill (together with its sole beneficial owner, Mr. Lee Shing) are presumed to be acting in concert.

5. Mr. Zhou Sheji, an executive Director, through Gao Bao Development Limited which is wholly and beneficially owned by Mr. Zhou, is interested in 44,770,000 Shares.

After taking into account the Irrevocable Undertakings, the CN Holder Undertaking, the Option Undertaking and assuming that all Non-Concert Party Held Options which carry subscription rights to subscribe for a total of 63,270,000 Shares are exercised in full on or before the Record Date, the shareholding structure of the Company as at the Record Date and immediately after completion of the Open Offer is set out below:

	As at the Record Date (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming that all Non-Concert Party Held Options are exercised in full on or before the Record Date)		**Immediately after completion of the Open Offer (after taking into account the Irrevocable Undertakings** *(Note 1)* **and assuming all other Qualifying Shareholders take up their entitlements under the Open Offer)**		**Immediately after completion of the Open Offer (after taking into account the Irrevocable Undertakings** *(Note 1)* **and assuming no other Qualifying Shareholders take up their entitlements under the Open Offer)**	
	No. of Shares	*Approximate %*	*No. of Share*	*Approximate %*	*No. of Shares*	*Approximate %*
The Underwriter and parties acting in concert with it:						
The Underwriter *(Notes 2 and 4)*	300,288,000	28.15	371,999,301	29.89	456,399,040	36.68
Dragon Hill *(Notes 3 and 4)*	259,959,613	24.37	281,622,914	22.63	281,622,914	22.63
Sub-total	560,247,613	52.52	653,622,215	52.52	738,021,954	59.31
Mr. Zhou Sheji and associates *(Note 5)*	46,170,000	4.33	53,865,000	4.33	46,170,000	3.71
Director of a subsidiary of the Company	220,000	0.02	256,667	0.02	220,000	0.02
All other holders of Options *(Note 6)*	61,870,000	5.80	72,181,666	5.80	61,870,000	4.97
Public	398,138,436	37.33	464,494,842	37.33	398,138,436	31.99
Total	1,066,646,049	100.00	1,244,420,390	100.00	1,244,420,390	100.00

Notes:

1. Pursuant to the Irrevocable Undertaking 2, Dragon Hill has irrevocably undertaken to subscribe for 21,663,301 Offer Shares, being 50% of the Dragon Hill Assured Entitlement. As at the Latest Practicable Date, Dragon Hill has not determined whether to take up the remaining 50% of Dragon Hill Assured Entitlement or not. If Dragon Hill does not take up the remaining 50% of Dragon Hill Assured Entitlement, the relevant Offer Shares, being 21,663,301 Offer Shares, shall be taken up by the Underwriter pursuant to the Underwriting Agreement.

2. The entire issued share capital of the Underwriter is held by Wuling Motors, and the entire issued share capital of Wuling Motors is held by Liuzhou Wuling.

3. The entire issued share capital of Dragon Hill is beneficially owned by Mr. Lee Shing, an executive Director, the Vice-chairman and the Chief Executive Officer of the Company.

4. Under the Takeovers Code, the Underwriter and Dragon Hill (together with its sole beneficial owner, Mr. Lee Shing) are presumed to be acting in concert.

5. (a) Mr. Zhou Sheji, an executive Director, through Gao Bao Development Limited which is wholly and beneficially owned by Mr. Zhou, is interested in 44,770,000 Shares.

   (b) As at the Latest Practicable Date, Mr. Zhou Sheji held Options which carry subscription rights to subscribe for a total of 1,400,000 Shares.

6. As at the Latest Practicable Date, certain other Directors (not including those Directors who are acting in concert with the Underwriter and Mr. Zhou Sheji (whose interests in the Shares and the Options are disclosed hereabove separately)), employees and advisors of the Group who are not parties acting in concert with the Underwriter held the Non-Concert Party Held Options which carry subscription rights to subscribe for a total of 61,870,000 Shares.

Shareholders and public investors should note that the above changes in shareholding structure of the Company are for illustration purpose only and the actual change in the shareholding structure of the Company upon completion of the Open Offer are subject to various factors including, among other things, the results of acceptance of the Open Offer.

Further announcement(s) setting out, among other things, shareholding structure of the Company will be made by the Company in accordance with the Listing Rules following the conclusion of the SGM and completion of the Open Offer.

INFORMATION ON THE UNDERWRITER

The Underwriter is a company incorporated in Hong Kong with limited liability and a substantial Shareholder whose ordinary course of business does not include underwriting. The Underwriter was a substantial Shareholder holding 300,288,000 Shares, representing approximately 29.93% of the total number of Shares in issue as at the Latest Practicable Date. In addition, the Underwriter also held the Existing Convertible Notes issued by the Company in the principal amount of HK$100 million which are convertible into a total of 136,986,300 Shares, representing approximately 13.65% of the total issued Shares as at the Latest Practicable Date and approximately 12.01% of the total issued Shares as enlarged by the issue of Shares upon exercise in full of the Existing Convertible Notes, during the four-year period commencing from 12 January 2010 at the existing conversion price of HK$0.73 per Share.

DEALINGS IN THE SHARES BY THE UNDERWRITER AND PARTIES ACTING IN CONCERT WITH IT

There had been no acquisition of and dealing in the voting rights, shares, options, warrants and convertible securities of the Company and derivatives of such securities by the Underwriter, Liuzhou Wuling (being the ultimate holding company of the Underwriter), Dragon Hill and parties acting in concert with any of them for the six-month period immediately prior to the date of the Announcement and thereafter up to the Latest Practicable Date, save for the release on 27 August 2010 of a share charge created on 28 August 2007 by Dragon Hill in favour of the Underwriter pursuant to the Share Charge Documents as defined and detailed in circular of the Company dated 25 June 2007 in respect of 254,659,613 Shares beneficially held by Dragon Hill.

As at the Latest Practicable Date, other than (i) 300,288,000 Shares, representing approximately 29.93% of the issued share capital of the Company, held by the Underwriter; (ii) the Existing Convertible Notes held by the Underwriter; (iii) 259,959,613 Shares, representing approximately 25.91% of the issued share capital of the Company, held by Dragon Hill; and (iv) certain Options carrying subscription rights to subscribe for a total of 13,550,000 Shares which are held by Mr. Sun Shaoli (who is a director of the Underwriter as well as an executive Director and the Chairman of the Company), Mr. Wei Hongwen (who is a director of the Underwriter and an executive Director), Mr. Zhong Xianhua (who is a senior management member of the Underwriter and an executive Director), five other individuals who hold directorships and/or senior management posts in the Underwriter and/or its holding companies (including an ex-director of Liuzhou Wuling who retired as a director thereof on 21 January 2011), and Mr. Lee Shing (who is (a) an executive Director, the Vice-chairman and the Chief Executive Officer of the Company, and (b) the ultimate beneficial owner of Dragon Hill, a substantial Shareholder) and his spouse:

(i) the Underwriter and the parties acting in concert with it did not hold any other Shares, convertible securities, warrants or options of the Company or any outstanding derivative in respect of relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) of the Company;

(ii) there was no arrangement (whether by way of option, indemnity or otherwise) in relation to the shares of the Underwriter or the Company which might be material to the Open Offer, save for the Underwriting Agreement, the Irrevocable Undertakings, the CN Holder Undertaking, the Option Undertaking and the Whitewash Waiver;

(iii) there was no agreement or arrangement to which the Underwriter is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Open Offer, the Underwriting Agreement and the Whitewash Waiver, other than those set out in the paragraph headed "Conditions of the Underwriting Agreement" under the section headed "Underwriting Arrangement" in this letter from the Board;

(iv) the Underwriter and the parties acting in concert with it did not receive any irrevocable commitment or arrangements to vote in favour of or against the resolutions in respect of the Open Offer or the Underwriting Agreement or the Whitewash Waiver; and

(v) the Underwriter and the parties acting in concert with it did not borrow or lend any relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) in the Company.

IMPLICATION UNDER THE TAKEOVERS CODE AND WHITEWASH WAIVER

Pursuant to the Underwriting Agreement, the Underwriter has irrevocably undertaken to subscribe for 50,048,000 Offer Shares, being the Underwriter's assured entitlement under the Open Offer based on a total of 300,288,000 Shares held by it as at the Latest Practicable Date, and has agreed to fully underwrite the balance of the Offer Shares (not including 21,663,301 Offer Shares to be allotted to Dragon Hill on an assured basis (being 50% of the Dragon Hill Assured Entitlement, whereupon Dragon Hill has undertaken to subscribe for those 21,663,301 Offer Shares under the Irrevocable

Undertaking 2)) which are not subscribed by the Qualifying Shareholders (including any Offer Shares which are not undertaken to be subscribed by Dragon Hill pursuant to the Irrevocable Undertaking 2 (being the remaining 50% of the Dragon Hill Assured Entitlement) and are not subscribed by Dragon Hill under the Open Offer).

If upon completion of the Open Offer and after taking into account the Irrevocable Undertakings from the Underwriter and Dragon Hill respectively, no other Qualifying Shareholder take up any Offer Shares, the Underwriter will be required to take up (i) not less than 95,518,040 Offer Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the Non-Concert Party Held Options are not exercised on or before the Record Date); or (ii) a maximum of 106,063,040 Offer Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the exercise in full of all Non-Concert Party Held Options on or before the Record Date) pursuant to the Underwriting Agreement. As at the Latest Practicable Date, the Underwriter, Liuzhou Wuling (being the ultimate holding company of the Underwriter) and parties acting in concert with them (including Dragon Hill) held a total of 560,247,613 Shares, representing approximately 55.84% of the issued share capital of the Company as at the date of the Announcement. Immediately after completion of the Open Offer, the shareholding percentage of the Underwriter and parties acting in concert with it in the Company may be increased from approximately 55.84% as at the Latest Practicable Date to a maximum of approximately 62.15% of the issued share capital of the Company as enlarged by the allotment and issue of the Offer Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the Non-Concert Party Held Options are not exercised on or before the Record Date). The voting rights held by the Underwriter and parties acting in concert with it already exceeded 50% of the voting rights of the Company before completion of the Open Offer. Accordingly, the Underwriter and the parties acing in concert with it may increase their aggregate shareholding in the Company upon completion of the Open Offer without triggering any obligation under Rule 26 of the Takeovers Code to make a general offer.

With respect to the shareholding interest of the Underwriter in the Company, (i) the Underwriter currently held a total of 300,288,000 Shares, representing approximately 29.93% of the existing issued share capital of the Company as at the Latest Practicable Date, and (ii) the underwriting arrangement may result in the shareholding interest of the Underwriter in the Company being increased to:

(i) (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the Non-Concert Party Held Options are not exercised on or before the Record Date) up to 445,854,040 Shares, representing approximately 38.09% of the issued share capital of the Company as enlarged by the allotment and issue of the Offer Shares immediately after the completion of the Open Offer; and

(ii) (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the exercise in full of all Non-Concert Party Held Options on or before the Record Date) up to 456,399,040 Shares, representing approximately 36.68% of the issued share capital of the Company as enlarged by the allotment and issue of the Offer Shares immediately after the completion of the Open Offer.

Accordingly, the underwriting of the Offer Shares by the Underwriter will trigger an obligation on the Underwriter, together with parties acting in concert with it, to make a mandatory offer under Rule 26 of the Takeovers Code for all the issued securities of the Company not already owned or agreed to be acquired by the Underwriter and parties acting in concert with it.

An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that the Whitewash Waiver will be granted subject to, among other things, the approval by the Independent Shareholders at the SGM by way of poll. Accordingly, the Underwriter (which currently holds approximately 29.93% shareholding interest in the Company), Dragon Hill (which currently holds approximately 25.91% shareholding interest in the Company), their respective associates and parties acting in concert with any of them shall abstain from voting on the resolution(s) to approve the Whitewash Waiver at the SGM. Completion of the Open Offer is conditional upon, among other things, the grant of the Whitewash Waiver by the Executive. If the Whitewash Waiver is not granted by the Executive, the Open Offer will not become unconditional and will not proceed.

The Underwriter, Dragon Hill, their respective associates and parties acting in concert with any of them, and Shareholders who are interested in or involved in the Open Offer (save for any assured entitlement to the Open Offer as a Qualifying Shareholder), the Underwriting Agreement and the Whitewash Waiver will abstain from voting on the relevant resolutions at the SGM.

As at the Latest Practicable Date, 44,770,000 Shares were held by Gao Bao Development Limited which is wholly and beneficially owned by Mr. Zhou Sheji, an executive Director. Pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code, Gao Bao Development Limited will abstain from voting in respect of the resolutions regarding the Open Offer, the Underwriter Agreement and the Whitewash Waiver. As at the Latest Practicable Date, Gao Bao Development Limited has not indicated as to whether it would subscribe for the Offer Shares pursuant to its assured entitlement under the Open Offer.

Save for the Shares held by Gao Bao Development Limited which is wholly and beneficially owned by Mr. Zhou Sheji as mentioned above, as at the Latest Practicable Date, no other Directors who are not parties acting in concert with the Underwriter, Liuzhou Wuling, Dragon Hill and their respective associates held any Shares.

INTENTION OF THE UNDERWRITER

Save for the securities dealing and margin financing division which is non-core to the principal business activities of the Group and has been operating at a loss for the past three years, where the Group has carried out certain studies on its business potential, viability and possible actions to be taken, including but not limited to close down of such business or disposal of the same, it is the intention of the Underwriter that the Group will continue its current business, and the Underwriter has no intention to make any major changes to the business (including redeployment of fixed assets of the Group) or continued employment of the employees of the Group. As at the Latest Practicable Date, no concrete plan has yet been formulated and determined by the Underwriter and the Group on the securities dealing and margin financing division and such line of business may or may not be carried on by the Group in future. The Company and the Underwriter will comply with the Listing Rules and, where applicable, the Takeovers Code (for instance Rule 25 thereof in case of special deals, if any) when making decisions and taking actions in respect of the securities business of the Group in future.

As mentioned in the following section headed "Reasons for the Open Offer and the use of proceeds", net proceeds from the Open Offer will be used to finance the business and operations of the Wuling Industrial Group as well as the Group's general working capital. After taking into account the factors set out in the section headed "Reasons for the Open Offer and the use of proceeds" below, the Underwriter believes that the Open Offer would strengthen the Group's financial position, enlarge its capital base and provide funds to finance the development of the Group's business and operations, which in turn would enhance the value of the investments of the Shareholders, including the Underwriter and parties acting in concert with it, in the Company in the long run.

IMPLICATION UNDER THE LISTING RULES

As no excess application for the Offer Shares is available under the Open Offer and the Open Offer is underwritten by a substantial Shareholder, pursuant to Rule 7.26A(2) of the Listing Rules, specific approval shall be obtained from the Independent Shareholders in respect of the absence of such excess application arrangement. Accordingly, the entering into of the Underwriting Agreement between the Company and the Underwriter, which is a substantial Shareholder, also constitutes a connected transaction for the Company under the Listing Rules. Shareholders who have a material interest in the matter (namely, the Underwriter, its associates and parties acting in concert with any of them) shall abstain from voting. The Underwriter, which currently held approximately 29.93% shareholding interest in the Company as at the Latest Practicable Date, together with its associates and parties acting in concert with any of them (including Dragon Hill which held approximately 25.91% shareholding interest in the Company as at the Latest Practicable Date), shall abstain from voting on the resolutions to approve the Open Offer and the Underwriting Agreement at the SGM.

REASONS FOR THE OPEN OFFER AND THE USE OF PROCEEDS

The Company, through its 51% owned subsidiary, Wuling Industrial, is principally engaged in the manufacturing and trading of engines and parts, automotive components and accessories, specialised vehicles and the trading and supply services of raw materials, water and power in the PRC.

On 30 July 2010, the Company announced the acquisition by Wuling Industrial in Qingdao of certain properties, comprising one factory complex (including supporting facilities and annex) and three pieces of land with an aggregate area of 112,477.9 square metres and certain assets, comprising production facilities and machinery for the production of automotive components ("Qingdao Acquisition") and the entering into of the relevant agreements ("Acquisition Agreements") by the Company and the vendors. On 31 December 2010, the Company announced that supplemental agreement has been entered into by the parties to the Acquisition Agreements for the purpose of extending the long stop date thereof from 31 December 2010 to 30 July 2011. As the land under the Qingdao Acquisition has not been fully built up and has close proximity to the existing production facilities of a key customer and the existing factory of the Wuling Industrial Group in Qingdao, Wuling Industrial has intended to further develop the land for its planned capacity expansion programmes commencing from year 2011 onwards upon completion of the Qingdao Acquisition ("Post Acquisition Expansion Programmes").

The Post Acquisition Expansion Programmes to be undertaken by the Wuling Industrial Group are targeted at the increasing demands from the existing customers as well as certain new customers for its automotive components near the Qingdao region. It is planned that upon full completion of the Post Acquisition Expansion Programmes in or about mid-2013, the annual production capacity of the automotive component division of the Wuling Industrial Group will increase by 30% and reach 1,300,000 sets/units a year. Based on current estimations, the Post Acquisition Expansion Programmes shall have a funding requirement for planned capital expenditures of approximately RMB340 million (equivalent to approximately HK$401,676,000).

Wuling Industrial has proposed to finance the Post Acquisition Expansion Programmes by way of the following:

(1) proposed increase in the registered and paid up capital of Wuling Industrial; and

(2) internal resources of the Wuling Industrial Group in respect of any balance.

In order to maintain its 51% shareholding interests in Wuling Industrial, the Company will be required to inject proportionally (i.e. 51%) an additional registered capital proposed to be increased by Wuling Industrial ("WI Capital Increase Injection").

The Wuling Industrial Group has achieved impressive growth in revenue in its Qingdao factory since its commencement of operation in 2008 resulting from the substantial increase in demands of a key customer. As the Directors expect the demands from this key customer and other new customers will continue to grow in the coming years, it is essential for Wuling Industrial to undertake active capacity expansion programmes in Qingdao. The Directors consider the Post Acquisition Expansion Programmes will be beneficial to the Group as it will enable the Group (through Wuling Industrial Group) to have sufficient capacity in meeting the increasing demands from customers in the coming years, as well as to achieve an optimal scale of operation in promoting efficiency and profitability. The Directors also consider that to participate in the WI Capital Increase Injection will ensure the Company maintains its shareholdings and thus preserve the value of the Company's investment in Wuling Industrial without incurring an immediate dilution.

The Directors believe that raising long-term equity capital through the Open Offer to finance WI Capital Increase Injection is in the best interests of the Company and the Shareholders as a whole after consideration of various means of fund raising before resolving to the Open Offer, including but not limited to placing, borrowings, debt securities, rights issue. In view of the substantial amount of the WI Capital Increase Injection, borrowings or issuance of debt securities would result in the Company being subject to interest burden or additional debt; while placing would only be available to certain placees who are not necessarily the Shareholders. Although rights issue is similar to an open offer except that it enables the Shareholders to trade in nil-paid rights, trading arrangements are needed to be set up with the share registrar at the expense of the Company and extra administrative work from the Company would be involved under a rights issue. Therefore, raising funds by way of the Open Offer is more cost effective and efficient as compared to rights issue. The Directors consider that the Open Offer will enable all Shareholders to participate in the future development of the Company on equal terms, the net proceeds from the Open Offer would strengthen the capital base of the Company and provide greater financial flexibility for the Company.

The gross proceeds and the net proceeds from the Open Offer amounted to approximately HK$150,500,000 and approximately HK$147,300,000 respectively (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming that the Non-Concert Party Held Options are not exercised on or before the Record Date). The Company intends to apply 80% of the net proceeds which amounts to approximately HK$117,840,000 from the Open Offer to finance the business and operations of the Wuling Industrial Group and the remaining 20% of the net proceeds which amounts to approximately HK$29,460,000 as general working capital of the Group.

The WI Capital Increase Injection, if participated by the Company, will constitute a connected transaction for the Company. As at the Latest Practicable Date, details of the WI Capital Increase Injection, including the amounts required thereunder, have not yet been determined and finalized. The Company will reassess the transaction of WI Capital Increase Injection when it takes place and comply with Chapter 14A of the Listing Rules on a timely basis.

FUND-RAISING EXERCISE OF THE COMPANY DURING THE PAST TWELVE MONTHS

The table below sets out the Company's fund raising activities in the past twelve months. Save for those fund raising activities, the Company had not conducted any other fund raising activities in the past twelve months immediately prior to the date of this announcement.

Date of announcement	Details of the fund raising activities	Net proceeds	Intended use of proceeds	Actual use of proceeds
22 January 2010 and 12 March 2010	Placing of new Shares and Subscription for new Shares under specific mandate	HK$67.8 million	To finance part of the settlement of the outstanding amount of the Company's investment in 51% shareholding interest in Wuling Industrial due by the Company (details of which were set out in the circular of the Company dated 25 June 2007)	Injected into Wuling Industrial in accordance with the intended use
1 November 2010	Issue of new Shares upon exercise of Options by two directors of a subsidiary and other employees of the Group	HK$2.2 million	As general working capital of the Group	As general working capital of the Group

SGM

A notice of the SGM to be held at 12:00 noon on Tuesday, 8 March 2011 at Unit 2805-06, 28th Floor, Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong is set out on pages 175 to 177 of this circular for the purpose of considering and, if thought fit for, approving, among other things, the Open Offer, the Underwriting Agreement and the Whitewash Waiver.

The form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the meeting in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at Tricor Tengis Limited, the Company's branch share registrar in Hong Kong, at 26th Floor Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

Subject to, among other things, the Open Offer, the Underwriting Agreement and the Whitewash Waiver being approved at the SGM, the Prospectus or Prospectus Documents, where appropriate, containing further information on the Open Offer will be dispatched to the Shareholders as soon as practicable.

RECOMMENDATION

Your attention is drawn to (i) the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Open Offer, the Underwriting Agreement and the Whitewash Waiver set out in its letter on page 36 of this circular; and (ii) the advice and recommendation of Guangdong Securities to the Independent Board Committee and the Independent Shareholders set out in its letter on pages 37 to 52 of this circular. The Independent Board Committee, having taken into account the advice and recommendation of Guangdong Securities, consider that the terms of the Open Offer, the Underwriting Agreement and the Whitewash Waiver, are fair and reasonable so far as the Independent Shareholders are concerned, and the Open Offer, the Underwriting Agreement and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to approve the Open Offer, the Underwriting Agreement and the Whitewash Waiver at the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information on the Group set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board of
Dragon Hill Wuling Automobile Holdings Limited
Sun Shaoli
Chairman

Dragon Hill Wuling Automobile Holdings Limited
(俊山五菱汽車集團有限公司*)
(Incorporated in Bermuda with limited liability) (Stock Code: 305)

15 February 2011

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular of the Company dated 15 February 2011 (the "**Circular**"), of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed to advise you on the Open Offer, the Underwriting Agreement and the Whitewash Waiver. Guangdong Securities has been appointed as the independent financial adviser to advise you and us in this regard. Details of its independent advice and recommendation, together with the principal factors and reasons it has taken into consideration, are set out on pages 37 to 52 of the Circular.

Having considered the respective terms of the Open Offer, the Underwriting Agreement and the Whitewash Waiver, and the advice of Guangdong Securities in relation thereto, we are of the opinion that the respective terms of the Open Offer, the Underwriting Agreement and the Whitewash Waiver are fair and reasonable in so far as the Company and the Independent Shareholders are concerned, and the Open Offer, the Underwriting Agreement and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole. We therefore recommend that you vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Open Offer, the Underwriting Agreement and the Whitewash Waiver.

Yours faithfully,
For and on behalf of the Independent Board Committee
Yu Xiumin **Zuo Duofu** **Ye Xiang**
Independent non-executive Directors

* *For identification purpose only*

Set out below is the text of a letter received from Guangdong Securities, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer and the Whitewash Waiver for the purpose of inclusion in this circular.

GD 粵海證券有限公司
GUANGDONG SECURITIES LIMITED

Units 2505-06, 25/F.
Low Block of Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

15 February 2011

To: The independent board committee and the independent shareholders of Dragon Hill Wuling Automobile Holdings Limited

Dear Sirs,

PROPOSED OPEN OFFER OF NOT LESS THAN 167,229,341 OFFER SHARES ON THE BASIS OF ONE OFFER SHARE FOR EVERY SIX SHARES HELD ON THE RECORD DATE AND APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Open Offer and the Whitewash Waiver, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 15 February 2011 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Open Offer

On 4 January 2011, the Board announced that the Company proposed to raise approximately HK$147,300,000, after expenses, by way of the Open Offer of not less than 167,229,341 Offer Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the Non-Concert Party Held Options are not exercised on or before the Record Date) and not more than 177,774,341 Offer Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the exercise in full of all Non-Concert Party Held Options on or before the Record Date) at the Subscription Price of HK$0.90 per Offer Share on the basis of one Offer Share for every six Shares held on the Record Date.

The Underwriter and Dragon Hill have given the Irrevocable Undertakings, pursuant to which (i) the Underwriter has undertaken to subscribe for 50,048,000 Offer Shares, being all of the Offer Shares to be allotted on an assured basis to the Underwriter under the Open Offer; and (ii) Dragon Hill has undertaken to subscribe for 21,663,301 Offer Shares, being 50% of the Dragon Hill Assured Entitlement under the Open Offer. All Offer Shares (other than those which have been irrevocably undertaken to be subscribed for by the Underwriter and Dragon Hill under the Irrevocable Undertakings) are fully underwritten by the Underwriter pursuant to the Underwriting Agreement (as amended and supplemented by two supplemental agreements dated 4 January 2011 and 12 January 2011 respectively).

Under Rule 7.26A(2) of the Listing Rules, since no excess application for the Offer Shares is available and the Open Offer is fully underwritten by a substantial shareholder of the Company, specific approval must be obtained from the Independent Shareholders in respect of the absence of the excess application arrangement and the alternative arrangement for the disposal of the Offer Shares.

The Whitewash Waiver

According to the Board Letter, the underwriting of the Offer Shares by the Underwriter will trigger an obligation on the Underwriter, together with parties acting in concert with it, to make a mandatory offer under Rule 26 of the Takeovers Code for all the issued securities of the Company not already owned or agreed to be acquired by the Underwriter and parties acting in concert with it.

An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval by the Independent Shareholders at the SGM by way of poll. If the Whitewash Waiver is not granted by the Executive, the Open Offer will not become unconditional and will not proceed.

The Underwriter, Dragon Hill, their respective associates and parties acting in concert with any of them, and Shareholders who are interested or involved in the Open Offer (save for any assured entitlement to the Open Offer as a Qualifying Shareholder), the Underwriting Agreement and the Whitewash Waiver will abstain from voting on the relevant resolutions at the SGM.

An Independent Board Committee comprising Mr. Yu Xiumin, Mr. Zuo Duofu and Mr. Ye Xiang, all being independent non-executive Directors, has been formed to advise the Independent Shareholders on (i) whether the terms of the Open Offer, the Underwriting Agreement and the Whitewash Waiver are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Open Offer and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolutions to approve the Open Offer, the Underwriting Agreement, the

Whitewash Waiver and the respective transactions contemplated thereunder at the SGM. All members of the Independent Board Committee have confirmed to the Company that they are (i) independent of and not parties acting in concert with the Underwriter, Liuzhou Wuling, Dragon Hill, their respective associates and parties acting in concert with any of them; and (ii) independent in respect of the Open Offer, the Underwriting Agreement and the Whitewash Waiver. We, Guangdong Securities Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the aforesaid respects.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the despatch of the Circular, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Underwriter, Dragon Hill, Wuling Motors (Hong Kong) Company Limited, Liuzhou Wuling, Mr. Lee Shing, the holders of the Options or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Open Offer and the Whitewash Waiver. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Guangdong Securities is to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

(I) THE OPEN OFFER

In arriving at our opinion in respect of the Open Offer, we have taken into consideration the following principal factors and reasons:

(1) Background of and reasons for the Open Offer

The Company, through its direct 51% owned subsidiary, Wuling Industrial, is principally engaged in the manufacturing and trading of engines and parts, automotive components and accessories, specialized vehicles and the trading and supply services of raw materials, water and power in the PRC.

On 30 July 2010, the Company announced (i) the acquisition by Wuling Industrial of certain properties in Qingdao city, the PRC, comprising one factory complex (including supporting facilities and annex) and three pieces of land with an aggregate area of 112,477.9 square metres and certain assets, comprising production facilities and machinery for the production of automotive components (the "**Qingdao Acquisition**"); and (ii) the entering into of the relevant agreements (the "**Acquisition Agreements**") by the Company and the vendors. On 31 December 2010, the Company announced that a supplemental agreement was entered into by the parties to the Acquisition Agreements for the purpose of extending the long stop date thereof from 31 December 2010 to 30 July 2011. As further advised by the Directors, as the land under the Qingdao Acquisition has not been fully built up and has close proximity to the existing production facilities of a key customer and the existing factory of the Wuling Industrial Group in Qingdao, Wuling Industrial intended to further develop the land for its planned capacity expansion programmes commencing from 2011 onwards upon completion of the Qingdao Acquisition (the "**Post Acquisition Expansion Programmes**").

Based on the Board Letter and the Directors' representation, the Post Acquisition Expansion Programmes to be undertaken by the Wuling Industrial Group are targeted at the increasing demands from its existing customers as well as certain new customers for the automotive components of the Wuling Industrial Group near the Qingdao region. Upon full completion of the Post Acquisition Expansion Programmes in or about mid-2013, the Directors expect that the annual production capacity of the automotive component division of the Wuling Industrial Group will increase by 30% and reach 1,300,000 sets/units a year. Based on the current estimations of the Directors, the Post Acquisition Expansion Programmes shall have a funding requirement for planned capital expenditures of approximately RMB340 million (equivalent to approximately HK$401,676,000).

As referred to in the Board Letter and further confirmed by the Directors, Wuling Industrial has proposed to finance the Post Acquisition Expansion Programmes by the following ways:

(1) proposed increase in the registered and paid up capital of Wuling Industrial; and

(2) internal resources of the Wuling Industrial Group in respect of any balance.

In order to maintain its 51% shareholding interests in Wuling Industrial, the Company will be required to inject an additional registered capital in the amount being 51% proportionate to the registered capital proposed to be increased by Wuling Industrial (the "**WI Capital Increase Injection**") into Wuling Industrial.

According to the Directors, the Wuling Industrial Group has achieved impressive growth in revenue in the Qingdao factory since the commencement of its operation in 2008 resulting from the substantial increase in demands from a key customer. As the Directors expect that the demands from this key customer and other new customers will continue to grow in the coming years, it is essential for Wuling Industrial to undertake active capacity expansion programmes in Qingdao. The Directors consider the Post Acquisition Expansion Programmes to be beneficial to the Group as it will enable the Group (through the Wuling Industrial Group) to possess sufficient capacity for meeting the future increasing demands from customers, as well as achieving an optimal scale of operation in promoting efficiency and profitability. The Directors also consider that the Company's participation in the WI Capital Increase Injection will enable it to maintain its shareholdings and thus preserve the value of its investment in Wuling Industrial.

The net proceeds from the Open Offer is estimated to be of approximately HK$147,300,000 (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming that the Non-Concert Party Held Options are not exercised on or before the Record Date). The Company intends to apply 80% of such net proceeds which amounts to approximately HK$117,840,000 to finance the business and operations of the Wuling Industrial Group and the remaining 20% of such net proceeds which amounts to approximately HK$29,460,000 as general working capital of the Group.

In view of (i) the increasing demands for the Group's automotive components near Qingdao as represented by the Directors; (ii) the Group's strategy to proceed with the Post Acquisition Expansion Programmes; (iii) the expected funding needs of Wuling Industrial; and (iv) the intended use of the net proceeds from the Open Offer, we are of the opinion that the reasons for the Open Offer are justifiable.

(2) Other financing alternatives available to the Group

With reference to the Board Letter, save and except for the placing of new Shares and subscription for new Shares under specific mandate which were announced by the Company on 22 January 2010 and 12 March 2010, respectively, and the issue of new Shares upon exercise of Options by two directors of a subsidiary of the Company and other employees of the Group which was announced by the Company on 1 November 2010, the Group had not conducted any other fund raising activities during the past 12 months immediately prior to the Latest Practicable Date.

We have further enquired into the Directors and were informed by the Directors that the Group has considered other methods, namely debt financing and equity financing, for fund raising. However, as advised by the Directors, given the substantial amount as required under the WI Capital Increase Injection, borrowings or issuance of debt securities would result in the Company being subject to heavy interest burden or substantial additional debt. For this reason, the Directors consider debt financing to be inappropriate for the Group.

With regard to equity financing, the Directors advised us that since placement of Shares would only be available to certain placees who are not necessarily the existing Shareholders, and thus the existing Shareholders would be excluded from subscribing for the Shares and their shareholding interests in the Company would be diluted, placement of Shares is not a preferred option to the Company. Moreover, although both open offer and rights issue will provide the Qualifying Shareholders with an equal opportunity to participate in the enlargement of the capital base of the Company and the future development of the Group; while maintaining their proportionate shareholding interests in the Company, due to the fact that an open offer does not require trading of nil-paid rights and thus is more time and cost effective than rights issue, the Directors consider an open offer to be the most appropriate fund raising method currently available to the Company.

Having taken into consideration the aforesaid weaknesses of the other financing alternatives and the possible benefits of the Open Offer, we concur with the Directors that the Open Offer is an appropriate financing method currently available to the Company and we also consider the Open Offer to be in the interests of the Company and the Shareholders as a whole.

(3) Principal terms of the Open Offer

The table below as extracted from the Board Letter summarises the major terms of the Open Offer:

Basis of the Open Offer:	One Offer Share for every six Shares held on the Record Date (rounded down to the nearest one). No Offer Share will be offered to the Excluded Shareholders, and no fractional entitlement will be allotted or issued to the Shareholders under the Open Offer but will be aggregated and underwritten by the Underwriter
Subscription Price:	HK$0.90 per Offer Share, payable in full upon acceptance of the assured allotment of the Offer Shares
Number of Shares in issue as at the Latest Practicable Date:	1,003,376,049 Shares
Maximum number of Shares issuable on or before the Record Date (after taking into account the CN Holder Undertaking, the Option Undertaking and the exercise in full of all Non-Concert Party Held Options):	63,270,000 Shares
Number of Offer Shares:	Not less than 167,229,341 Offer Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the Non-Concert Party Held Options are not exercised on or before the Record Date) and not more than 177,774,341 Offer Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the exercise in full of all Non-Concert Party Held Options on or before the Record Date)
Number of Offer Shares to be subscribed for by the Underwriter under Irrevocable Undertaking 1:	50,048,000 Offer Shares, being all of the Offer Shares to be allotted on an assured basis to the Underwriter

Number of Offer Shares to be subscribed for by Dragon Hill under Irrevocable Undertaking 2:	21,663,301 Offer Shares, being 50% of the Dragon Hill Assured Entitlement
Maximum number of Offer Shares underwritten by the Underwriter:	All Offer Shares (other than those which have been irrevocably undertaken to be subscribed for by the Underwriter and Dragon Hill under the Irrevocable Undertakings), being not less than 95,518,040 Offer Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the Non-Concert Party Held Options are not exercised on or before the Record Date) and not more than 106,063,040 Offer Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the exercise in full of all Non-Concert Party Held Options on or before the Record Date), including Offer Shares created by the aggregation of fractional entitlements which will not be allotted or issued to the Shareholders under the Open Offer
Number of Shares in issue immediately upon completion of the Open Offer:	Not less than 1,170,605,390 Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the Non-Concert Party Held Options are not exercised on or before the Record Date) and not more than 1,244,420,390 Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the exercise in full of all Non-Concert Party Held Options on or before the Record Date)

The Subscription Price of HK$0.90 per Offer Share represents:

(a) a discount of approximately 8.16% to the closing price of HK$0.98 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(b) a discount of approximately 2.17% to the closing price of HK$0.92 per Share as quoted on the Stock Exchange on the Last Trading Date;

(c) a discount of approximately 3.23% to the average of the closing prices of the Shares for the last five consecutive trading days up to and including the Last Trading Date, being approximately HK$0.93 per Share;

(d) a discount of approximately 6.25% to the average of the closing prices of the Shares for the last ten consecutive trading days up to and including the Last Trading Date, being approximately HK$0.96 per Share;

(e) a discount of approximately 2.17% to the theoretical ex-entitlement price of approximately HK$0.92 per Share based on the closing price of HK$0.92 per Share as quoted on the Stock Exchange on the Last Trading Date; and

(f) a premium of approximately 500.00% over the audited net asset value per Share of approximately RMB0.13 (equivalent to approximately HK$0.15) based on the audited equity attributable to owners of the Company of RMB126,087,000 (equivalent to approximately HK$148,959,000) as at 31 December 2009 and a total of 1,003,376,049 Shares in issue as at the Latest Practicable Date.

As confirmed by the Directors, the Subscription Price was arrived at after arm's length negotiations between the Company and the Underwriter with reference to (i) the prevailing market conditions (including but not limited to the prevailing market prices of the Shares); and (ii) the needs of the Group to raise equity funding in order to finance its business development as set out under the section headed "Reasons for the Open Offer and the use of proceeds" in the Board Letter. As mentioned in the foregoing section, the Directors are also of the opinion that the Open Offer offers an opportunity for all Qualifying Shareholders to maintain their respective pro-rata shareholdings in the Company and participate in the future growth of the Group by subscribing for the Offer Shares allotted to them on an assured basis under the Open Offer. In addition, the terms of the Open Offer, and the related underwriting arrangement under the Underwriting Agreement together with the terms thereof (in particular that no underwriting commission is charged by the Underwriter) will minimise the cost, effort and risk to be involved by the Company in its fund raising activity. In view of all of the above, we concur with the Directors that the respective terms of the Open Offer (including the Subscription Price) and the Underwriting Agreement are fair and reasonable so far as the Independent Shareholders are concerned and it is in the interests of the Company and the Shareholders as a whole to raise capital through the Open Offer.

(4) Analysis on the Subscription Price

In order to assess the fairness and reasonableness of the Subscription Price, we set out the following informative analysis for illustrative purpose:

The following table sets out the highest and lowest closing prices and the average daily closing price of the Shares as quoted on the Stock Exchange in each month during the period commencing from 1 December 2009 up to and including the Latest Practicable Date (the "**Review Period**"):

Month	**Highest closing price**	**Lowest closing price**	**Average daily closing price**
	HK$	*HK$*	*HK$*
2009			
December	1.300	1.010	1.160
2010			
January	1.180	0.980	1.082
February	1.010	0.890	0.943
March	1.020	0.890	0.957
April	1.090	0.930	1.006
May	0.970	0.660	0.819
June	0.760	0.680	0.722
July	0.720	0.630	0.679
August	0.730	0.670	0.700
September	0.850	0.700	0.749
October *(Note 1)*	1.520	0.740	0.977
November *(Note 2)*	1.410	1.060	1.257
December *(Note 3)*	1.110	0.910	0.993
2011			
January *(Note 3)*	1.120	0.960	0.994
February (up to and including the Latest Practicable Date)	0.990	0.980	0.986

Source: the Stock Exchange web-site (www.hkex.com.hk)

Notes:

1. Trading in the Shares was suspended on 22 October 2010 (with effect from 3:19 p.m.).
2. Trading in the Shares was suspended on 19 November 2010 (with effect from 11:16 a.m.).
3. Trading in the Shares was suspended from 30 December 2010 onwards until 4 January 2011 (both dates inclusive).

During the Review Period, the closing prices of the Shares ranged from the lowest of HK$0.63 on 19 July 2010 to the highest of HK$1.52 on 22 October 2010. The Subscription Price represents discounts to the average daily closing price of the Shares in recent months starting from October 2010 to February 2011 (up to the Latest Practicable Date). We have also researched over the internet for recent open offer exercises by companies listed on the Stock Exchange from September 2010 up to the Latest Practicable Date (the "**Comparables**"), and we noted that the subscription prices of the Comparables were set at deeper discounts to their last trading day's share prices and theoretical ex-rights prices than those of the Subscription Price. Nevertheless, given that the businesses, operations and prospects of the Company are different from the Comparables, the Comparables can only be served as a general reference for the market practice in recent open offer exercises by companies listed on the Stock Exchange. Taking into account that the Subscription Price is close to and represents discounts to the prevailing market prices of the Shares, we consider that the Subscription Price is no less favourable to the Independent Shareholders. In light of also the factors as mentioned under the section headed "Principal terms of the Open Offer" of this letter, we consider that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

(5) Application for excess Offer Shares

As stated in the Board Letter, there is no arrangement for application of the Offer Shares by Qualifying Shareholders in excess of their proportionate assured allotment under the Open Offer. Each Qualifying Shareholder will be entitled to the Open Offer on an equal and fair basis by way of subscription of the Offer Shares in proportion to his/her/its shareholding in the Company as at the Record Date. The Company considers that it is not cost effective to set up arrangement in relation to application for excess Offer Shares as additional effort and costs will be incurred by the Company to administer the relevant excess application procedures. Any Offer Share not subscribed for by the Qualifying Shareholders will be taken up by the Underwriter pursuant to the Underwriting Agreement.

There are market practices from time to time for listed issuers not to offer excess application in consideration of the unnecessary administrative costs. In this respect, we noted that 10 out of the 11 Comparables did not offer excess application for the offer shares. Accordingly, we are of the opinion that the absence of the excess application arrangement is in line with the common market practice.

Although the absence of the excess application arrangement may not be desirable from the point of view of those Qualifying Shareholders who wish to take up additional Offer Shares in excess of their assured entitlements, in light of that (i) the nil excess application should be balanced against the fact that the Subscription Price has been set at discounts to the prevailing market prices of the Shares which provides reasonable incentive for the Qualifying Shareholders to take up their respective assured entitlement of the Offer Shares and participate in the Open Offer; (ii) those Qualifying Shareholders who choose to accept their respective entitlements under the Open Offer in full can maintain their respective existing shareholdings in the Company after the Open Offer; (iii) the Open Offer allows the Qualifying Shareholders who are optimistic about the future development of the Company to exercise their rights to subscribe for the Offer Shares with a fair chance; and (iv) the nil excess application would lower the administrative costs of the Open Offer to the Company and is in line with common market practice, we consider that the absence of the arrangement for excess application under the Open Offer may not give rise to less favourable situation to the Independent Shareholders than the Underwriter. As such, we are of the view that the absence of excess application arrangement, on balance, is acceptable.

(6) The underwriting arrangement

With reference to the Board Letter, the Underwriter is a company incorporated in Hong Kong with limited liability and a substantial shareholder of the Company whose ordinary course of business does not include underwriting. As at the Latest Practicable Date, the Underwriter was interested in 300,288,000 Shares, representing approximately 29.93% of the total number of Shares in issue. In addition, the Underwriter also holds the Existing Convertible Notes. Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite not less than 95,518,040 Offer Shares and not more than 106,063,040 Offer Shares without underwriting commission. We consider that the underwriting arrangement is beneficial to the Company as no underwriting commission will be charged to the Company.

We have also reviewed the other major terms of the Open Offer and the Underwriting Agreement and are not aware of any terms which are uncommon to normal market practice. Accordingly, we consider that the terms of the Open Offer and the Underwriting Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(7) Potential dilution of the shareholding interests of the public Shareholders

Two tables which demonstrate the possible shareholding structures of the Company as at the Latest Practicable Date or the Record Date and immediately after completion of the Open Offer are contained under the section headed “Shareholding structure of the Company” in the Board Letter.

All Qualifying Shareholders are entitled to subscribe for the Offer Shares. For those Qualifying Shareholders who take up their entitlements in full under the Open Offer, their shareholding interests in the Company will remain unchanged after the Open Offer.

In the case that all Qualifying Shareholders do not accept the Open Offer and hence the Underwriter is obligated to take up the unsubscribed Offer Shares except for those undertaken to be subscribed for by the Underwriter and Dragon Hill pursuant to the Irrevocable Undertakings, the shareholding interests of the existing public Shareholders in the Company will be diluted by the maxima of approximately 5.67 and 5.34 percent point respectively, upon completion of the Open Offer assuming no exercise and full exercise of the Non-Concert Party Held Options on or before the Record Date.

We are aware of the potential dilution effect as just mentioned. Nonetheless, we consider that the foregoing should be balanced against by the following factors:

- Independent Shareholders are offered a chance to express their views on the terms of the Open Offer and the Underwriting Agreement through their votes at the SGM;
- Qualifying Shareholders have their choice of whether to accept the Open Offer or not;
- the Open Offer offers the Qualifying Shareholders a chance to subscribe for their pro-rata Offer Shares for the purpose of maintaining their respective existing shareholding interests in the Company at discounts to the prevailing market prices of the Shares; and
- those Qualifying Shareholders who choose to accept the Open Offer in full can maintain their respective existing shareholding interests in the Company after the Open Offer.

Having considered the above, we consider the potential dilution to the shareholding interests of the existing public Shareholders in the Company, which may only happen when the Qualifying Shareholders do not subscribe for their pro-rata Offer Shares, to be acceptable.

(8) Financial effects of the Open Offer

Effect on net asset value

An unaudited pro forma statement of consolidated net tangible assets of the Group based on the unaudited consolidated net tangible asset value ("**NTAV**") of the Group attributable to owners of the Company as at 30 June 2010 as if the Open Offer has taken place on 30 June 2010 is set out in Appendix II to the Circular (the "**Statement**").

Based on the Statement, the unaudited consolidated NTAV of the Group was approximately RMB270.44 million (equivalent to approximately HK$319.50 million) as at 30 June 2010 and the unaudited consolidated NTAV per Share was approximately RMB0.270 (equivalent to approximately HK$0.319) before completion of the Open Offer based on 1,003,376,049 Shares in issue as at the Latest Practicable Date. Upon completion of the Open Offer and based on the number of Offer Shares to be issued, the unaudited pro forma adjusted consolidated NTAV of the Group and the unaudited pro forma adjusted consolidated NTAV per Share (i) would increase by approximately 46% to approximately RMB395.13 million (equivalent to approximately HK$466.81 million) and increase by approximately 25% to approximately RMB0.338 (equivalent to approximately HK$0.399) per Share respectively (assuming the Non-Concert Party Held Options are not exercised on or before the Record Date); and (ii) would increase by approximately 70% to approximately RMB460.47 million (equivalent to approximately HK$544.00 million) and increase by approximately 37% to approximately RMB0.370 (equivalent to approximately

HK$0.437) per Share respectively (assuming the exercise in full of all Non-Concert Party Held Options on or before the Record Date) based on the Statement.

Effect on earnings and working capital

As advised by the Directors, the Open Offer will not have immediate material impact on the total earnings of the Group. On the other hand, as part of the net proceeds from the Open Offer will be used as general working capital of the Group, the working capital of the Group would be increased upon completion of the Open Offer.

Effect on gearing

As at 30 June 2010, the Group's gearing level (calculated as the Group's total bank borrowings over the Group's net assets) was approximately 20.9%. Since the net assets of the Group is expected to increase while the total bank borrowings of the Group would remain unchanged as a result of the Open Offer, the Directors expected that the Open Offer would improve the Group's gearing position.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Open Offer.

RECOMMENDATION ON THE OPEN OFFER

Having taken into account the above factors and reasons, we are of the opinion that (i) the terms of the Open Offer and the Underwriting Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Open Offer is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM to approve the Open Offer and the Underwriting Agreement, and the respective transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

(II) THE WHITEWASH WAIVER

If upon completion of the Open Offer and after taking into account the Irrevocable Undertakings from the Underwriter and Dragon Hill respectively, no other Qualifying Shareholder takes up any Offer Shares, the Underwriter will be required to take up not less than 95,518,040 Offer Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the Non-Concert Party Held Options are not exercised on or before the Record Date) and not more than 106,063,040 Offer Shares (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the exercise in full of all Non-Concert Party Held Options on or before the Record Date) pursuant to the Underwriting Agreement. As at the Latest Practicable Date, the Underwriter, Liuzhou Wuling and parties acting in concert with them (including Dragon Hill) held a total of 560,247,613 Shares, representing approximately 55.84% of the issued share capital of the Company as at the Latest Practicable Date. Immediately after completion of the Open Offer, the shareholding percentage of the Underwriter and parties acting in concert with it in the Company may be increased from approximately 55.84% as at the Latest Practicable Date to a maximum of approximately 62.15% of the issued share capital of the Company as enlarged by the allotment and issue of the Offer Shares (after taking into account of the CN Holder Undertaking, the Option Undertaking and assuming the Non-Concert Party Held Options are not exercised on or before the Record Date). With reference to the Board Letter, the voting rights held by the Underwriter and parties acting in concert with it already exceeded 50% of the voting rights of the Company before completion of the Open Offer. Independent Shareholders should therefore note that in such event, the Underwriter and parties acting in concert with it may increase their aggregate shareholding in the Company upon completion of the Open Offer without triggering any obligation under Rule 26 of the Takeovers Code to make a general offer.

With respect to the sole shareholding interest of the Underwriter in the Company, (i) the Underwriter held a total of 300,288,000 Shares, representing approximately 29.93% of the issued share capital of the Company as at the Latest Practicable Date, and (ii) the underwriting arrangement may result in the shareholding interest of the Underwriter in the Company being increased to:

(i) (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the Non-Concert Party Held Options are not exercised on or before the Record Date) 445,854,040 Shares, representing approximately 38.09% of the issued share capital of the Company as enlarged by the allotment and issue of the Offer Shares immediately after the completion of the Open Offer; and

(ii) (after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the exercise in full of all Non-Concert Party Held Options on or before the Record Date) 456,399,040 Shares, representing approximately 36.68% of the issued share capital of the Company as enlarged by the allotment and issue of the Offer Shares immediately after the completion of the Open Offer.

Accordingly, the underwriting of the Offer Shares by the Underwriter will trigger an obligation on the Underwriter, together with parties acting in concert with it, to make a mandatory offer under Rule 26 of the Takeovers Code for all the issued securities of the Company not already owned or agreed to be acquired by the Underwriter and parties acting in concert with it.

An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval by the Independent Shareholders at the SGM by way of poll.

Completion of the Open Offer is conditional upon, among other things, the grant of the Whitewash Waiver by the Executive. If the Whitewash Waiver is not granted by the Executive, the Open Offer will not become unconditional and will not proceed.

Given (i) the reasons for and the possible benefits of the Open Offer to the Company as set forth under the section headed "Background of and reasons for the Open Offer" of this letter; and (ii) the terms of the Open Offer and the Underwriting Agreement being fair and reasonable so far as the Independent Shareholders are concerned, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for the completion of the Open Offer, is in the interests of the Company and the Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Open Offer.

RECOMMENDATION ON THE WHITEWASH WAIVER

Having taken into account the reasons for and possible benefits of the Open Offer and the Underwriting Agreement, and that the Open Offer is conditional upon the grant of the Whitewash Waiver, we consider that the Whitewash Waiver is in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Whitewash Waiver and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Guangdong Securities Limited
Graham Lam
Managing Director

1. THREE YEARS FINANCIAL SUMMARY

Set out below is a summary of the financial results and assets and liabilities of the Group for the three financial years ended 31 December 2009 and for the six months ended 30 June 2010.

The financial results and assets and liabilities of the Group for the three financial years ended 31 December 2009 were extracted from the annual reports of the Company for the year ended 31 December 2008 and 2009 respectively. The financial results and assets and liabilities of the Group for the six months ended 30 June 2010 were extracted from the interim report of the Company for the six months ended 30 June 2010.

The financial statements for the three financial years ended 31 December 2009 were audited by Deloitte Touche Tohmatsu, the independent auditors of the Company.

No qualification was made by the auditors of the Company in the issued statutory accounts for the three financial years ended 31 December 2007, 2008 and 2009.

Consolidated Statement of Comprehensive Income

For the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010:

	For the six months ended 30 June	For the year ended 31 December		
	2010	2009	2008	2007
	(Unaudited)	(Audited)	(Audited)	(Audited)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	5,614,563	9,888,856	7,111,911	2,856,456
Cost of sales	(5,081,669)	(9,016,957)	(6,339,666)	(2,591,934)
Gross profit	532,894	871,899	772,245	264,522
Other income	55,845	84,758	85,057	36,488
Distribution costs	(158,610)	(256,309)	(187,163)	(51,736)
General and administrative expenses	(226,877)	(447,800)	(463,066)	(149,187)
Research and development expenses	(81,040)	–	–	–
Net gain (loss) on held-for-trading investments	–	4	(245)	8,982
Gain on disposal of available-for-sale investments	813	–	–	–
Gain on disposal of an associate	1,572	–	–	–
Share of results of an associate	(1,715)	30	802	220
Change in fair value of derivative financial instrument	43,853	(65,684)	–	–
Change in fair value of investment properties	877	2,024	2,153	5,152
Finance costs	(30,729)	(49,210)	(45,014)	(17,221)
Profit before taxation	136,883	139,712	164,769	97,220
Income tax expense	(22,945)	(31,093)	(27,882)	(22,602)
Profit for the period/year	113,938	108,619	136,887	74,618

	For the six months ended 30 June	For the year ended 31 December		
	2010	2009	2008	2007
	(Unaudited)	(Audited)	(Audited)	(Audited)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other comprehensive income				
Exchange differences arising from translation of foreign operation	593	326	140	(3,349)
Total comprehensive income for the period/year	114,531	108,945	137,027	71,269
Profit/(loss) for the year attributable to:				
Owners of the Company	64,274	(21,928)	32,647	11,147
Non-controlling interests	49,664	130,547	104,240	63,471
	113,938	108,619	136,887	74,618
Total comprehensive income/(expense) attributable to:				
Owners of the Company	64,867	(21,602)	32,787	7,798
Non-controlling interests	49,664	130,547	104,240	63,471
	114,531	108,945	137,027	71,269
	cents	*cents*	*cents*	*cents*
Earnings/(loss) per share				
Basic	RMB6.64	RMB(2.39)	RMB3.56	RMB1.26
Diluted	RMB2.22	RMB(2.39)	RMB3.56	RMB1.23
Dividends	–	–	–	–

No exceptional items were incurred for the three years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010.

Consolidated Statement of Financial Position

As at 31 December 2007, 2008 and 2009 and 30 June 2010:

	As at 30 June	As at 31 December		
	2010	**2009**	**2008**	**2007**
	(Unaudited)	**(Audited)**	**(Audited)**	**(Audited)**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	772,006	668,500	570,065	444,445
Prepaid lease payments	32,762	44,975	13,912	2,022
Premium on prepaid lease payments	1,010	1,022	1,047	1,072
Investment properties	25,813	25,141	6,172	19,737
Intangible assets	928	928	928	928
Investment in an associate	–	2,434	3,304	2,502
Available-for-sale investments	360	495	495	498
Deposits for trading rights	179	180	180	192
Deposits for acquisition of property, plant and equipment	83,396	47,175	51,170	59,094
	916,454	790,850	647,273	530,490
Current assets				
Inventories	651,479	795,689	600,273	432,603
Loans receivable	–	450	68	2,448
Trade and other receivables	4,997,165	3,995,094	2,861,209	2,551,519
Bills receivables discounted with recourse	1,327,808	1,335,778	342,008	35,199
Prepaid lease payments	697	937	201	49
Held-for-trading investments	7	7	3	1,038
Client trust bank accounts	7,465	7,235	2,350	5,987
Pledged bank deposits	728,234	835,653	624,601	302,034
Cash and cash equivalents	533,821	812,525	596,066	601,617
	8,246,676	7,783,368	5,026,779	3,932,494

	As at 30 June 2010 (Unaudited) *RMB'000*	As at 31 December 2009 (Audited) *RMB'000*	2008 (Audited) *RMB'000*	2007 (Audited) *RMB'000*
Current liabilities				
Trade and other payables	5,738,272	5,167,274	3,279,598	2,212,874
Advances drawn on bills receivables discounted with recourse	1,327,808	1,335,778	342,008	35,199
Amounts due to shareholders	797,818	815,106	989,580	1,405,695
Amount due to an associate	–	11,371	20,467	8,296
Provision for warranty	114,484	111,739	83,226	64,279
Tax payable	25,471	26,180	31,787	67,420
Derivative financial instrument	39,598	83,861	–	–
Convertible loan notes – current portion	2,437	5,115	–	–
Bank borrowings – due within one year	162,291	220,566	197,028	54,806
Obligations under finance leases – due within one year	157	254	270	287
	8,208,336	7,777,244	4,943,964	3,848,856
Net current assets	38,340	6,124	82,815	83,638
Total assets less current liabilities	954,794	796,974	730,088	614,128
Non-current liabilities				
Bank borrowings – due after one year	16,819	17,534	20,288	32,504
Obligations under finance leases – due after one year	118	158	412	725
Deferred tax liabilities	7,364	6,833	2,158	210
Convertible loan notes	73,259	72,287	–	–
	97,560	96,812	22,858	33,439
	857,234	700,162	707,230	580,689
Capital and reserves				
Share capital	3,954	3,659	3,659	3,659
Reserves	267,414	122,428	143,085	104,917
Equity attributable to owners of the Company	271,368	126,087	146,744	108,576
Non-controlling interests	585,866	574,075	560,486	472,113
	857,234	700,162	707,230	580,689

2. AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2009

Set out below are the audited financial statements of the Group for the year ended 31 December 2009 together with the accompanying notes as extracted from the annual report of the Company for the year ended 31 December 2009.

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 60 to 122, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended 31 December 2009, 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 of the Company, 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.

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 2009 and of the Group's profit and cash flows for the year then ended 31 December 2009 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
26 April 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Revenue	6	9,888,856	7,111,911
Cost of sales		(9,016,957)	(6,339,666)
Gross profit		871,899	772,245
Other income	6	84,758	85,057
Distribution costs		(256,309)	(187,163)
General and administrative expenses		(447,800)	(463,066)
Net gain (loss) on held-for-trading investments		4	(245)
Share of results of an associate	19	30	802
Change in fair value of derivative financial instrument	30	(65,684)	–
Change in fair value of investment properties	17	2,024	2,153
Finance costs	7	(49,210)	(45,014)
Profit before tax		139,712	164,769
Income tax expense	8	(31,093)	(27,882)
Profit for the year	9	108,619	136,887
Other comprehensive income			
Exchange difference arising from translation of foreign operation		326	140
Total comprehensive income for the year		108,945	137,027

	Notes	2009 RMB'000	2008 RMB'000
(Loss) profit for the year attributable to:			
Owners of the Company		(21,928)	32,647
Minority interests		130,547	104,240
		108,619	136,887
Total comprehensive (expenses) income attributable to:			
Owners of the Company		(21,602)	32,787
Minority interests		130,547	104,240
		108,945	137,027
(Loss) earnings per share	*13*		
Basic and diluted		RMB(2.39) cents	RMB3.56 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Non-current Assets			
Property, plant and equipment	14	668,500	570,065
Prepaid lease payments	15	44,975	13,912
Premium on prepaid lease payments	16	1,022	1,047
Investment properties	17	25,141	6,172
Intangible assets	18	928	928
Investment in an associate	19	2,434	3,304
Available-for-sale investments	20	495	495
Deposits for trading rights		180	180
Deposits for acquisition of property, plant and equipment		47,175	51,170
		790,850	647,273
Current Assets			
Inventories	21	795,689	600,273
Loans receivable	22	450	68
Trade and other receivables	23(i)	3,995,094	2,861,209
Bills receivables discounted with recourse	23(ii)	1,335,778	342,008
Prepaid lease payments	15	937	201
Held-for-trading investments	24	7	3
Client trust bank accounts	25	7,235	2,350
Pledged bank deposits	26	835,653	624,601
Bank balances and cash	26	812,525	596,066
		7,783,368	5,026,779
Current Liabilities			
Trade and other payables	27(i)	5,167,274	3,279,598
Advances drawn on bills receivables discounted with recourse	27(ii)	1,335,778	342,008
Amounts due to shareholders	28	815,106	989,580
Amount due to an associate	28	11,371	20,467
Provision for warranty	29	111,739	83,226
Tax payable		26,180	31,787
Derivative financial instrument	30	83,861	–
Convertible loan notes	30	5,115	–
Bank borrowings – due within one year	31	220,566	197,028
Obligations under finance leases – due within one year	32	254	270
		7,777,244	4,943,964
Net Current Assets		6,124	82,815
Total Assets Less Current Liabilities		796,974	730,088

	Notes	2009 RMB'000	2008 RMB'000
Non-current Liabilities			
Bank borrowings – due after one year	31	17,534	20,288
Obligations under finance leases – due after one year	32	158	412
Deferred tax liabilities	33	6,833	2,158
Convertible loan notes	30	72,287	–
		96,812	22,858
		700,162	707,230
Capital and Reserves			
Share capital	34	3,659	3,659
Reserves		122,428	143,085
Equity attributable to owners of the Company		126,087	146,744
Minority interests		574,075	560,486
		700,162	707,230

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to owners of the Company										
	Share capital	Share premium	Exchange reserve	Contributed surplus	Share option reserve	PRC general reserve	Capital reserve	Accumulated losses	Total	Minority interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*note i*)	*RMB'000*	*RMB'000* (*note ii*)	*RMB'000* (*note iii*)	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	3,659	279,305	(3,349)	97,435	–	9,085	18,505	(296,064)	108,576	472,113	580,689
Profit for the year	–	–	–	–	–	–	–	32,647	32,647	104,240	136,887
Exchange difference arising from translation of foreign operation	–	–	140	–	–	–	–	–	140	–	140
Total comprehensive 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-settled 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
(Loss) profit for the year	–	–	–	–	–	–	–	(21,928)	(21,928)	130,547	108,619
Exchange difference arising from translation of foreign operation	–	–	326	–	–	–	–	–	326	–	326
Total comprehensive income (expense) for the year	–	–	326	–	–	–	–	(21,928)	(21,602)	130,547	108,945
Deregistration of subsidiaries (*note v*)	–	–	–	–	–	–	–	–	–	(153)	(153)
Recognition of equity-settled share-based payments	–	–	–	–	945	–	–	–	945	–	945
Transfer to accumulated losses on lapse of share options	–	–	–	–	(5,293)	–	–	5,293	–	–	–
Dividend paid to minority interests	–	–	–	–	–	–	–	–	–	(116,805)	(116,805)
Transfers	–	–	–	–	–	13,166	–	(13,166)	–	–	–
Subtotal	–	–	–	–	(4,348)	13,166	–	(7,873)	945	(116,958)	(116,013)
At 31 December 2009	3,659	279,305	(2,883)	97,435	945	52,151	18,505	(323,030)	126,087	574,075	700,162

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 arising from a capital reduction on 19 June 2006.

(ii) According to the relevant requirement in the memorandum of association of the subsidiaries in the People's Republic of China ("PRC"), 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 ended 31 December 2008, 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 a 51% owned subsidiary and a branch respectively, were deregistered. No gain or loss was resulted from the deregistration.

(v) During the year ended 31 December 2009, 柳州五菱柳機汽車零部件工貿有限公司, being a 95% owned subsidiary, was deregistered. No gain or loss was resulted from the deregistration.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	2009	2008
	RMB'000	*RMB'000*
Operating Activities		
Profit before tax	139,712	164,769
Adjustments for:		
Change in fair value of derivative financial instrument	65,684	–
Depreciation of property, plant and equipment	65,485	58,309
Finance costs	49,210	45,014
Recognition of equity-settled share-based payments	945	5,381
Impairment losses recognised on trade receivables	574	3,233
Release of prepaid lease payments	129	49
Release of premium on prepaid lease payments	25	25
Interest income	(20,553)	(13,249)
(Reversal of) allowance for inventories	(11,865)	16,104
Gain on disposal of property, plant and equipment	(5,070)	(565)
Increase in fair value of investment properties	(2,024)	(2,153)
Dividend income from held-for-trading investments	(52)	(16)
Share of results of an associate	(30)	(802)
Net (gain) loss on held-for-trading investments	(4)	245
Operating cash flows before movements in working capital	282,166	276,344
Increase in trade and other payables	1,887,523	1,066,877
Increase in provision for warranty	28,513	18,947
Increase in trade and other receivables	(1,134,459)	(318,509)
Increase in bills receivables discounted with recourse	(993,770)	(306,809)
Increase in inventories	(183,551)	(183,774)
(Decrease) increase in amount due to an associate	(9,096)	12,171
(Increase) decrease in client trust bank accounts	(4,885)	3,315
(Increase) decrease in loans receivable	(382)	2,371
Decrease in held-for-trading investments	–	758
Cash (used in) generated from operations	(127,941)	571,691
Income tax paid	(30,411)	(61,556)
Withholding tax paid	(1,614)	–
Net Cash (Used in) from Operating Activities	(159,966)	510,135

	2009	2008
	RMB'000	*RMB'000*
Investing Activities		
Interest received	20,553	13,249
Proceeds from disposal of property, plant and equipment	17,911	3,889
Proceeds from disposal of investment properties	6,455	14,701
Dividend received from an associate	900	–
Dividend received from held-for-trading investments	52	16
Increase in pledged bank deposits	(211,052)	(322,567)
Purchase of property, plant and equipment	(125,603)	(128,974)
Deposits paid for purchase of property, plant and equipment	(47,175)	(51,170)
Increase in prepaid lease payments	(31,928)	(12,091)
Purchase of investment properties	(23,400)	–
Net Cash Used in Investing Activities	(393,287)	(482,947)
Financing Activities		
New bank loans raised	217,440	195,920
Advance drawn on bills receivables discounted with recourse	993,770	306,809
Proceeds from issue of convertible loan notes	88,069	–
Advance from a shareholder	3,516	–
Repayment of bank loans	(206,332)	(63,266)
Repayment to a shareholder	(177,990)	(416,115)
Dividend paid to minority shareholders	(116,805)	(10,575)
Interest paid	(41,280)	(45,014)
Repayment of obligations under finance leases	(270)	(294)
Net Cash from (Used in) Financing Activities	760,118	(32,535)
Net Increase (Decrease) in Cash And Cash Equivalents	206,865	(5,347)
Cash and Cash Equivalents at Beginning of Year	596,066	601,617
Effect of Foreign Exchange Rate Changes, Net	(101)	(204)
Cash and Cash Equivalent at End of Year	802,830	596,066
Cash and Cash Equivalents at End of Year, representing		
bank balances and cash	812,525	596,066
bank overdraft (included in bank borrowings)	(9,695)	–
	802,830	596,066

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

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 "Stock Exchange"). The addresses 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 procurement services of raw materials, water and power supply. The details of its principal subsidiaries are disclosed in Note 45.

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 ("HKFRS(s)")

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

Hong Kong Accounting Standard ("HKAS") 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
Hong Kong (International Financial Reporting Interpretations Committee) ("HK(IFRIC)") – Interpretation ("Int") 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group and the financial statements of the Company for the current or prior accounting periods.

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments. The amendments also expand and amend the disclosures required in relation to liquidity risk. Maturity analysis of the Group's and the Company's maximum exposure to financial guarantee contracts are disclosed. The expanded disclosure is applied retrospectively by the Group and the Company.

HKAS23 (revised 2007) borrowing costs

In previous years, the Group expenses all borrowings costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS 23 (Revised 2007) removes the option previously available to expense all borrowing costs when incurred. The adoption of HKAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalize all such borrowing costs as part of the cost of the qualifying asset. The Group has applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009 in accordance with the transitional provision in HKAS 23 (Revised 2007). As the revised accounting policy has been applied prospectively from 1 January 2009, this change in accounting policy has not resulted in restatement of amounts reported in respect of prior accounting periods. In the current year, there was no impact to the Group's financial statements as no borrowing costs have been capitalized.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009.

2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

3 Effective for annual periods beginning on or after 1 January 2010.

4 Effective for annual periods beginning on or after 1 February 2010.

5 Effective for annual periods beginning on or after 1 July 2010.

6 Effective for annual periods beginning on or after 1 January 2011.

7 Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the 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.

HKFRS 9 "Financial Instruments" ("HKFRS 9") introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognized financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's and the Company's financial assets.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements of the Group and the financial statements of the Company.

3. Significant accounting policies

The consolidated financial statements have been prepared on the historical cost basis except that certain properties and financial instruments are measured at revalued amounts or 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 statement of comprehensive income 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 profit or loss.

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 recognized.

Investments 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position 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 recognized 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 recognized when goods are delivered and title has been passed.

Service income is recognized 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 on initial recognition.

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.

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 recognized 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 profit or loss 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 profit or loss 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, including rentals involved in advance from property, plant and equipment and investment properties let under operating leases is recognised in profit or loss 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 recognized 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 statement of financial position 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 profit or loss.

Operating lease payments are recognised as an expense 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 and amortised over the lease term on a straight line basis.

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 the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that 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 profit or loss 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 other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in the consolidated statement of comprehensive income 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 end of the reporting period, 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 in other comprehensive income and accumulated in equity (the translation reserve).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale for which the commencement date for capitalization is on or after 1 January 2009, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government grants

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognized as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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 statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. 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 utilized. Such assets and liabilities are not recognized 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 recognized 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profit against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

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 profit or loss in the period 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.

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

Research and development expenditures

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

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Impairment loss on tangible and intangible assets

At the end of the reporting period, 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. 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 in the consolidated statement of financial position 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 profit or loss.

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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified 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.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss 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. 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.

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 the end of the reporting period (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 the end of the reporting period. 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 profit or loss 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 profit or loss.

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 profit or loss 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 an associate, amounts due to shareholders, obligations under finance leases and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Convertible loan notes

Convertible loan notes issued by the Group that contain both liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes 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.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and the Company not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

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 in other comprehensive income is recognised in profit or loss.

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 profit or loss.

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 consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows 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 expensed on a straight line basis over the vesting period or 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 end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to 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 retained profits.

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 end of the reporting period, 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 lives 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.

As at 31 December 2009, the carrying amount of trade receivable is approximately RMB3,828,064,000 (net of allowance for doubtful debts of approximately RMB7,080,000) (2008: carrying amount of approximately RMB2,691,796,000, net of allowance for doubtful debts of approximately RMB8,647,000).

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 29, 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 the profit or loss will result. Likewise, if the costs are settled for an amount that is less that the estimation, a future credit to the profit or loss will result.

5. Segment information

The Group has adopted HKFRS 8 "Operating Segments" ("HKFRS 8") with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. In contrast, the predecessor standard (HKAS 14 "Segment Reporting" ("HKAS 14")) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as a starting point for the identification of such segments. In the past, the Group's primarily reporting format was business segment. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segment as compared with the primary operating segment determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment of profit or loss.

The Group is organized into the following five operating segments:

- 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 (including property investment, securities dealing and margin finance services)

Segment profit represents the profit caused by each segment without the allocation of central administrative costs, bank interest income, change in fair value of investment properties, change in fair value of derivative financial instrument, net gain or loss on held-for-trading investments, share option expenses, share of results of an associate and finance costs. This is the measure reported to the chief operating decision makers for the purpose of resource allocation and assessment of segment performance.

The assets of the Group are allocated based on the operations of the segments. However, investment in an associate, pledged bank deposits, and bank balances and cash, are not entirely allocated to the segments.

The liabilities of the Group are allocated based on the operations of the segments. However, amounts due to shareholders, derivative financial instrument, convertible loan notes, bank borrowings, tax payables and deferred tax liabilities (included in others), are not entirely allocated to the segments.

Inter-segment sales are charged at prevailing market prices.

An analysis of the Group's reportable segment profit before tax by operating segment is as follows:

	Engines and parts *RMB'000*	Automotive components and accessories *RMB'000*	Specialized vehicles *RMB'000*	Trading of raw materials, water and power supply *RMB'000*	Others *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
For the year ended 31 December 2009							
Revenue							
External sales	3,214,228	5,049,408	962,324	661,167	1,729	–	9,888,856
Inter-segment sales	338,678	62,776	115,100	3,207,521	–	(3,724,075)	–
Total	3,552,906	5,112,184	1,077,424	3,868,688	1,729	(3,724,075)	9,888,856
Segment profit (loss)	211,454	4,742	16,206	53,435	(10,221)		275,616
Bank interest income							20,553
Change in fair value of investment properties							2,024
Change in fair value of derivative financial instrument							(65,684)
Net gain (loss) on held-for-trading investments							4
Share option expenses							(945)
Central administration costs							(42,676)
Share of results of an associate							30
Finance costs							(49,210)
Profit before tax							139,712
Other information							
Capital additions	44,312	97,153	4,175	31,042	87		176,769
Depreciation of property, plant and equipment	24,868	26,096	3,089	10,455	977		65,485
Release of prepaid lease payments	–	129	–	–	–		129
Release of premium on prepaid lease payments	–	25	–	–	–		25
Impairment of trade receivables	254	309	–	–	11		574
(Gain) loss on disposal of property, plant and equipment	165	(780)	2	(77)	(4,380)		(5,070)
(Reversal of) allowance for inventories	14,152	(26,017)	–	–	–		(11,865)

	Engines and parts	Automotive components and accessories	Specialized vehicles	Trading of raw materials, water and power supply	Others	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2009							
Assets							
Segment assets	2,019,546	3,344,288	393,983	1,126,143	39,646		6,923,606
Investment in an associate							2,434
Pledged bank deposits							835,653
Bank balances and cash							812,525
Consolidated assets							8,574,218
Liabilities							
Segment liabilities	1,811,342	2,428,386	208,806	2,162,029	16,011		6,626,574
Amounts due to shareholders							815,106
Derivative financial instrument							83,861
Convertible loan notes							77,402
Bank borrowings							238,100
Others							33,013
Consolidated liabilities							7,874,056

	Engines and parts	Automotive components and accessories	Specialized vehicles	Trading of raw materials, water and power supply	Others	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2008							
Revenue							
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 profit (loss)	131,959	46,290	14,113	54,127	(7,710)		238,779
Bank interest income							13,249
Change in fair value of investment properties							2,153
Net gain (loss) on held-for-trading investments							(245)
Central administration costs							(44,955)
Share of results of an associate							802
Finance costs							(45,014)
Profit before tax							164,769
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
Release of prepaid lease payments	–	201	–	–	–		201
Release of premium on prepaid lease payments	–	25	–	–	–		25
Impairment of trade receivables	1,305	840	1,075	–	13		3,233
(Gain) loss on disposal of property, plant and equipment	(937)	288	–	(104)	188		(565)
Allowance for inventories	16,104	–	–	–	–		16,104

	Engines and parts	Automotive components and accessories	Specialized vehicles	Trading of raw materials, water and power supply	Others	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2008							
Assets							
Segment assets	1,472,501	2,209,577	323,172	396,459	48,372		4,450,081
Investment in an associate							3,304
Pledged bank deposits							624,601
Bank balances and cash							596,066
Consolidated assets							5,674,052
Liabilities							
Segment liabilities	1,091,201	1,347,475	140,894	1,135,075	11,336		3,725,981
Amount due to a shareholder							989,580
Bank borrowings							217,316
Others							33,945
Consolidated liabilities							4,966,822

Geographical information

(a) Revenue from external customers

The Group's operations are located in Hong Kong and the PRC (excluding Hong Kong). The following table provides an analysis of the Group's revenue by geographical market based on the location of customers, irrespective of the origin of the goods and services.

	Revenue by geographical market	
	2009	**2008**
	RMB'000	*RMB'000*
The PRC (excluding Hong Kong)	9,887,127	7,109,609
Hong Kong	1,729	2,302
Consolidated	9,888,856	7,111,911

(b) Non-current assets

The following is an analysis of the carrying amount of non-current assets, excluding financial instruments, based on the geographical location of the assets located:

	Carrying amount of non-current assets 2009 *RMB'000*	2008 *RMB'000*
Hong Kong	28,493	18,870
Philippines	180	180
The PRC (excluding Hong Kong)	761,682	627,728
	790,355	646,778

Information about a major customer

Revenue of approximately RMB302,375,000, RMB3,414,082,000 and RMB5,098,896,000 (2008: RMB338,519,000, RMB2,898,253,000 and RMB3,694,035,000) was derived from sales to a single customer in respect of the trading of raw materials, water and power supply's segment, engines and parts' segment and automotive components and accessories' segment respectively.

6. Revenue and other income

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

	2009 *RMB'000*	2008 *RMB'000*
Sales of goods	9,887,127	7,109,609
Commission and interest income from securities dealing and margin finance	1,453	1,561
Gross property rental income	276	741
	9,888,856	7,111,911
Other income	84,758	85,057
	9,973,614	7,196,968

Details of other income are as follows:

	2009	2008
	RMB'000	*RMB'000*
Sales of scrap materials and parts	47,514	55,965
Bank interest income	20,553	13,249
Service income on repairs and maintenance	2,784	7,381
Foreign exchange gains, net	–	819
Machinery rental income	1,083	505
Dividend income from held-for-trading investments	52	16
Project income	5,606	3,466
Gain on disposal of property, plant and equipment	5,070	565
Others	2,096	3,091
	84,758	85,057

7. Finance costs

	2009	2008
	RMB'000	*RMB'000*
Interests on:		
– borrowings wholly repayable within five years	9,385	12,515
– borrowings not wholly repayable within five years	239	866
– advances drawn on bills receivables	31,606	31,582
– obligations under finance leases	50	51
– convertible loan notes *(Note 30)*	7,930	–
	49,210	45,014

8. Income tax expense

	2009	2008
	RMB'000	*RMB'000*
Tax charge represents:		
PRC Enterprise Income Tax		
Current	34,119	36,741
Tax deduction in respect of the acquisition of qualified assets in the PRC	(5,351)	(2,139)
Overprovision in prior years	(2,350)	(8,677)
	26,418	25,925
Deferred tax *(Note 33)*		
Current year	4,675	1,964
Attributable to a change in tax rate	–	(7)
	4,675	1,957
	31,093	27,882

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% of the estimated assessable profit for both years.

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

Under the Law of the PRC on Enterprise Income Tax (the "New Law") and Implementation Regulation of the New Law, the tax rate of entities established in the PRC is 25% from 1 January 2008 onwards.

Pursuant to the tax notice, Caishui [2001] No. 202, and the Implementation Regulations of the New Law issued by the State Council of the PRC on 6 December 2008, other than Liuzhou Wuling Motors Industrial Company Limited ("Wuling Industrial") which was subject to PRC income tax rate of 25% for the year ended 31 December 2008, all the Group's major PRC operating subsidiaries would continue to enjoy a preferential income tax rate of 15% until 2010 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 exceeded 70% of their total income.

For the year ended 31 December 2009, pursuant to the tax notice, Liuzhou Liunan [2010] No. 001, Wuling Industrial, also became entitled to a preferential income tax rate of 15% in 2009 and 2010.

The New Law also requires withholding tax upon distribution of profits earned by the PRC subsidiaries since 1 January 2008. Deferred tax of RMB4,595,000 (2008: RMB2,133,000) has been provided in full in respect of the undistributed earnings of the Group's PRC subsidiaries as a charge to the consolidated statement of comprehensive income.

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

	2009	**2008**
	RMB'000	*RMB'000*
Profit before tax	139,712	164,769
Tax at the domestic income tax rate of 15% (2008: 15%) *(Note)*	20,957	24,715
Tax effect of share of results of an associate	5	(120)
Tax effect of expenses not deductible for tax purposes	11,705	4,052
Tax effect of income not taxable for tax purposes	(72)	–
Tax effect of tax losses not recognized	1,973	854
Tax effect of utilisation of tax losses previously not recognized	(369)	(594)
Tax effect of different tax rate used by certain subsidiaries	–	7,665
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	–	(7)
Tax effect of undistributed profits of PRC subsidiaries	4,595	2,133
Overprovision in prior years	(2,350)	(8,677)
Tax deduction in respect of the acquisition of qualified assets in the PRC	(5,351)	(2,139)
Income tax expense	31,093	27,882

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 33.

9. Profit for the year

	2009	2008
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments *(Note 10)*	5,176	4,342
Other staff costs	360,827	311,447
Retirement benefit scheme contributions, excluding directors	46,447	52,285
Equity-settled share-based payments – others staff	–	4,814
Total staff costs	412,450	372,888
Gross property rental income	276	741
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	(11)	(79)
Net rental income	265	662
Auditor's remuneration	2,207	2,226
Cost of inventories recognised as an expense	9,016,957	6,339,666
Depreciation of property, plant and equipment	65,485	58,309
Gain on disposal of property, plant and equipment	(5,070)	(565)
Impairment losses recognised on trade receivables	574	3,233
Release of prepaid lease payments (included in general and administrative expenses)	129	49
Release of premium on prepaid lease payments (included in general and administrative expenses)	25	25
Research and development expenses	42,735	40,259
(Reversal of) allowance for inventories (included in cost of sales)	(11,865)	16,104

10. Directors' emoluments

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

	Fees	Other emoluments: Salaries and allowances	Other emoluments: Contributions to retirement benefits schemes	Equity-settled share-based payments	Total emoluments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2009					
Lee Shing	1,056	141	11	–	1,208
He Shiji	106	324	106	341	877
Sun Shaoli	106	334	102	–	542
Wei Hongwen	106	283	90	–	479
Liu Yaling	106	14	–	–	120
Wang Shaohua	106	14	–	302	422
Pei Qingong	106	14	–	302	422
Yu Xiumiu	92	5	–	–	97
Zuo Duofu	92	5	–	–	97
Cheng Kin Wah, Thomas	26	–	–	–	26
Ye Xiang	145	5	–	–	150
Zhou Sheji	106	619	11	–	736
	2,153	1,758	320	945	5,176
2008					
Lee Shing	1,069	196	11	–	1,276
He Shiji	107	668	103	–	878
Sun Shaoli	107	14	–	–	121
Wei Hongwen	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	24	121	3	–	148
	1,972	1,603	200	567	4,342

11. Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2008: three) were directors of the Company whose emoluments are included in the disclosure in Note 10 above. The emolument of the remaining one (2008: two) individual is as follows:

	2009 *RMB'000*	**2008** *RMB'000*
Salaries and other benefits	915	1,044
Bonus	70	85
Equity-settled share-based payments	–	3,718
Contributions to retirement benefits schemes	11	20
Total emoluments	996	4,867

Their emoluments were within the following bands:

	2009 *Number of employees*	**2008** *Number of employees*
HK$ nil to HK$1,000,000	–	–
HK$1,000,001 to HK$2,000,000	1	1
HK$2,000,001 to HK$3,000,000	–	–
HK$3,000,001 to HK$3,500,000	–	1

No emoluments were paid by the Group to the directors of the Company 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 2009.

12. Dividends

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

13. (Loss) earnings per share

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the following data:

	2009 *RMB'000*	**2008** *RMB'000*
(Loss) earnings		
(Loss) earnings for the purpose of basic and diluted (loss) earnings per share	(21,928)	32,647
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share	917,288	917,288

The computation of diluted (loss) earnings per share for either year does not include (i) the assumed exercise of the outstanding share options as the exercise price was higher than the market price of the Company's shares throughout each of the two years ended 31 December 2009 and (ii) the assumed conversion of the Company's convertible loan notes issued in 2009.

14. Property, plant and equipment

	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Computers	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At Cost								
At 1 January 2008	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
Exchange realignment	(7)	–	–	(1)	(1)	(1)	–	(10)
Additions	–	4	51,751	2,228	2,876	3,771	116,139	176,769
Disposals	(10,843)	(554)	(16,539)	(717)	(875)	(1,365)	–	(30,893)
Transfer	91,555	–	58,884	–	–	–	(150,439)	–
At 31 December 2009	115,620	495	495,168	13,304	8,354	14,880	125,147	772,968
Depreciation and Amortisation								
At 1 January 2008	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
Exchange realignment	(1)	–	–	–	–	(1)	–	(2)
Provided for the year	2,253	181	54,648	2,791	2,601	3,011	–	65,485
Eliminated on disposals	(1,226)	(264)	(13,826)	(659)	(834)	(1,243)	–	(18,052)
At 31 December 2009	3,623	325	88,822	4,941	2,486	4,271	–	104,468
Carrying Value								
At 31 December 2009	111,997	170	406,346	8,363	5,868	10,609	125,147	668,500
At 31 December 2008	32,318	637	353,072	8,985	5,635	9,971	159,447	570,065

The above items of property, plant and equipment, other than construction in progress, 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 RMB1,396,000 (2008: RMB9,735,000) in Hong Kong, 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:

	2009	**2008**
	RMB'000	*RMB'000*
Land in Hong Kong:		
Long leases	1,396	9,735
Land in the PRC:		
Medium term leases	110,601	22,583
	111,997	32,318

The net book value of motor vehicles held under finance leases amounted to RMB455,000 (2008: RMB807,000).

Property, plant and equipment of approximately RMB1,851,000 (2008: RMB9,735,000) at the ended of reporting period have been pledged to secure banking facilities granted to the Group.

15. Prepaid lease payments

	2009	**2008**
	RMB'000	*RMB'000*
Analysed for reporting purposes as:		
Current assets	937	201
Non-current assets	44,975	13,912
	45,912	14,113

The amounts represent upfront payments for the right to use land in the PRC for periods between 40 to 50 years.

16. Premium on prepaid lease payments

The amount represents the fair value adjustment on the prepaid lease payments and is amortised over the lease term of the related prepaid lease payments on a straight line basis.

17. Investment properties

	2009	**2008**
	RMB'000	*RMB'000*
Fair value at 1 January	6,172	19,737
Exchange adjustment	–	(1,017)
Addition	23,400	–
Net increase in fair value recognised in profit or loss	2,024	2,153
Disposal	(6,455)	(14,701)
Fair value at 31 December	25,141	6,172

All of the Group's investment property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties. 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 2009 was arrived at on the basis of a valuation carried out as of that day by Vigers Appraisal & Consulting Limited, independent qualified professional valuers not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar transactions.

All of the Group's investment properties have been pledged to secure banking facilities granted to the Group.

18. Intangible assets

	Stock exchange trading rights
	RMB'000
Cost	
At 1 January 2008 and 31 December 2008 and 2009	9,212
Impairment	
At 1 January 2008 and 31 December 2008 and 2009	8,284
Carrying Value	
At 31 December 2009 and 2008	928

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

19. Interest in an associate

	2009	2008
	RMB'000	*RMB'000*
Cost of investment in an associate		
– unlisted equity investment in the PRC	2,282	2,282
Share of post-acquisition profits, net-off dividend received	152	1,022
	2,434	3,304

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.

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

	2009	2008
	RMB'000	*RMB'000*
Total assets	46,295	37,857
Total liabilities	(38,182)	(26,844)
Net assets	8,113	11,013
Group's share of net assets of an associate	2,434	3,304
Revenue	128,285	90,277
Profit for the year	100	2,673
Group's share of results of an associate for the year	30	802

20. 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 the end of the reporting period 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.

21. Inventories

	2009	2008
	RMB'000	*RMB'000*
Raw materials	403,044	251,371
Work in progress	65,271	122,809
Finished goods	327,374	226,093
	795,689	600,273

22. Loans receivable

Loans receivable comprise margin clients accounts receivable of RMB450,000 (2008: RMB68,000).

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% (2008: 10% to 11%) per annum. No aged analysis is disclosed, as in the opinion of the directors of the Company, an aged analysis is not relevant in view of the nature of the business of securities margin financing.

23. Trade and other receivables and bills receivables discounted with recourse

(i) Trade and other receivables

	2009	2008
	RMB'000	*RMB'000*
Trade and bills receivables		
– related party *(Note a)*	2,490,458	2,062,678
– Liuzhou Wuling Group *(Note b)*	74,465	70,082
– third parties	1,270,221	567,683
	3,835,144	2,700,443
Less: Allowance for doubtful debts	(7,080)	(8,647)
	3,828,064	2,691,796
Other receivables:		
Prepayments paid for expenses	5,348	4,153
Prepayments paid for purchase of raw materials	137,800	110,256
Value-added tax recoverable	8,415	3,962
Others	15,467	51,042
	167,030	169,413
	3,995,094	2,861,209

Notes:

(a) The related party is SAIC-GM-Wuling Automobile Co., Limited ("SGMW") in which Liuzhou Wuling Motors Company Limited ("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 and bills receivables based on the invoice date (net of allowance for doubtful debts) as at the end of the reporting period is as follows:

	2009	**2008**
	RMB'000	*RMB'000*
0 – 90 days	3,693,060	2,676,893
91 – 180 days	48,095	14,474
181 – 365 days	86,873	117
Over 365 days	36	312
	3,828,064	2,691,796

Aging of trade receivables which are past due but not impaired

	2009	**2008**
	RMB'000	*RMB'000*
181 – 365 days	86,873	117
Over 365 days	36	312
Total	86,909	429

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

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

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 are debtors with an aggregate carrying amount of RMB86,909,000 (2008: RMB429,000) which were past due at the reporting date but for which the Group has not provided impairment loss because the Group believes that the amounts are still recoverable as there has not been a significant deterioration in credit quality of these customers and there are continuing subsequent settlements. The Group does not hold any collateral over these balances.

Movement in the allowance for doubtful debts

	2009	2008
	RMB'000	*RMB'000*
Balance at beginning of the year	8,647	6,204
Exchange realignment	–	(626)
Amounts recovered during the year	(2,097)	–
Impairment losses recognised on trade receivables	574	3,233
Amounts written off as uncollectible	(44)	(164)
Balance at end of the year	7,080	8,647

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:

	2009	2008
	RMB'000	*RMB'000*
Trade and other receivables		
– Hong Kong Dollars ("HKD")	3,278	2,866

(ii) Bills receivables discounted with recourse

The amounts represent bills receivables already discounted to banks with recourse with a maturity period of less than 180 days. The Group retains all the risks and rewards of such bills and accordingly, the Group recognises the full amount of the discount proceeds as liabilities as set out in Note 27(ii).

24. Held-for-trading investments

	2009	2008
	RMB'000	*RMB'000*
Listed equity investments, at market value:		
Hong Kong	7	3

25. 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 consolidated statement of financial position 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 in the Group's client trust bank accounts are all denominated in HKD.

26. 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:

	2009	**2008**
Pledged deposits	0.66% to 1.98%	0.72% to 1.98%
Bank balances	0.1% to 1.17%	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:

	2009	**2008**
	RMB'000	*RMB'000*
Bank balances and cash – HKD	8,626	5,998

27. 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 end of the reporting period is as follows:

	2009	**2008**
	RMB'000	*RMB'000*
Trade and bills payables:		
– third parties	4,633,420	2,992,433
Trade and bills payables:		
0 – 90 days	4,508,295	2,965,190
91 – 180 days	95,714	8,125
181 – 365 days	8,603	15,075
Over 365 days	20,808	4,043
	4,633,420	2,992,433
Other payables and accruals	533,854	287,165
	5,167,274	3,279,598

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:

	2009	**2008**
	RMB'000	*RMB'000*
Trade and other payables – HKD	15,599	5,291

(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 23(ii)). The ranges of effective interest rates per annum in respect of these bank borrowings are as follows:

	2009	**2008**
Effective interest rates per annum	1.50% to 2.82%	3.50% to 6.24%

28. Amounts due to shareholders/an associate

	2009	**2008**
	RMB'000	*RMB'000*
Liuzhou Wuling *(Note ii)*	811,590	989,580
Dragon Hill Development Limited *(Note iii)*	3,516	–
	815,106	989,580
柳州五菱物流有限公司 *(Note i and ii)*	11,371	20,467
	826,477	1,010,047

Notes:

(i) 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.

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

(iii) Dragon Hill Development Limited is a substantial shareholder of the Company. The amount is unsecured, bearing interest at 5% per annum and repayable on demand.

29. Provision for warranty

	RMB'000
At 1 January 2008	64,279
Additional provision in the year	84,123
Utilization of provision	(65,176)
At 31 December 2008	83,226
Additional provision in the year	87,153
Utilization of provision	(58,640)
At 31 December 2009	111,739

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.

30. Derivative financial instrument/convertible loan notes

On 12 January 2009, the Company issued convertible loan notes with principal sum of HK$100,000,000 at par (equivalent to approximately RMB88,069,000) to Wuling (Hong Kong) Holdings Limited ("Wuling HK"), a substantial shareholder of the Company ("CN 2014"). CN 2014 is denominated in Hong Kong dollars and carries interest at 6% per annum with maturity on 12 January 2014. CN 2014 entitles the holder to convert, in whole or in part, the principal sum 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, at a conversion price of HK$0.74 per ordinary share, subject to anti-dilutive adjustments. If not converted, CN 2014 will be redeemed on the maturity date at par.

The fair values at initial recognition of the liability component and conversion option component of HK$79,248,000 (approximately RMB69,755,000) and HK$20,752,000 (approximately RMB18,314,000) respectively are determined based on the valuation provided by Grant Sherman Appraisal Limited, independent professional qualified valuers not connected with the Group. Subsequent to initial recognition, the liability component is carried at amortised cost using the effective interest method at an interest rate of 11.64%.

The movement of the liability and the conversion option components of CN 2014 during the year is as follows:

	Liability component *RMB'000*	Conversion option component *RMB'000*
At date of issue	69,755	18,314
Effective interest expense	7,930	–
Change in fair value during the year	–	65,684
Exchange difference	(283)	(137)
At 31 December 2009	77,402	83,861
Less: Amount included in current liabilities	(5,115)	(83,861)
Amount due after one year	72,287	–

The methods and assumptions applied for the valuation of CN 2014 are as follows:

(i) Valuation of liability component

The fair value of the liability component on initial recognition was calculated based on the present value of contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the credit rating of the Company and remaining time to maturity.

(ii) Valuation of conversion option component

The conversion option component is measured at fair value using the Binomial Option Pricing Model, at initial recognition and at the end of the reporting period. The inputs into the model as at the respective dates are as follows:

	At 31 December 2009	At date of issue
Share price	HK$1.18	HK$0.49
Conversion price	HK$0.74	HK$0.74
Expected dividend yield	0%	0%
Volatility	63.00%	46.64%

31. Bank borrowings

	2009 *RMB'000*	2008 *RMB'000*
Bank overdrafts	9,695	–
Bank loans	228,405	217,316
	238,100	217,316
Secured	32,430	30,488
Unsecured	205,670	186,828
	238,100	217,316
Amounts repayable:		
On demand or within one year	220,566	197,028
More than one year, but not exceeding two years	2,099	3,841
More than two years, but not exceeding five years	5,355	9,085
More than five years	10,080	7,362
	238,100	217,316
Less: Amount due within one year shown under current liabilities	(220,566)	(197,028)
	17,534	20,288

The exposure of the Group's borrowings and the contractual maturity dates are as follows:

	2009 *RMB'000*	2008 *RMB'000*
Fixed-rate borrowings		
On demand or within one year	201,254	181,106
More than one year, but not exceeding two years	1,255	1,106
More than two years, but not exceeding five years	3,159	3,318
More than five years	–	1,298
	205,668	186,828
Variable-rate borrowings		
On demand or within one year	19,312	15,921
More than one year, but not exceeding two years	844	2,735
More than two years, but not exceeding five years	2,196	5,767
More than five years	10,080	6,065
	32,432	30,488
Total borrowings	238,100	217,316

At 31 December 2009, except for bank loans for RMB32,430,000 (2008: RMB30,488,000) and RMB5,669,000 (2008: RMB6,828,000) 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:

(i) mortgages over the Group's investment properties situated in Hong Kong, which had an aggregate carrying amount of RMB25,141,000 (2008: RMB6,172,000) as set out in Note 17.

(ii) a mortgage over the Group's property, plant and equipment which had a carrying value at the end of the reporting period of RMB1,851,000 (2008: RMB9,735,000) as set out in Note 14.

(iii) a pledged bank deposit of RMB4,395,000 (2008: Nil).

The Group's unsecured bank borrowings are supported by:

(i) A personal guarantee to the extent of HK$15,000,000 (2008: HK$20,000,000) given by Mr. Lee Shing, a director of the Company.

(ii) Corporate guarantees to the extent of RMB400,000,000 (2008: RMB400,000,000) given by Liuzhou Wuling.

(iii) An unlimited deed of guarantee by Mr. Lee Shing in respect of the bank overdraft.

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

	2009	**2008**
	%	%
Effective interest rate:		
Fixed rate borrowings	4.5 to 5.31	4.5 to 6.39
Variable-rate borrowings	1.87 to 5.75	1.87 to 4.8

32. 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**	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts payable under finance leases				
Within one year	302	320	254	270
In more than one year but not more than two years	98	302	79	254
In more than two years but not more than five years	98	196	79	158
	498	818	412	682
Less: Future finance charges	(86)	(136)	–	–
Present value of lease obligations	412	682	412	682
Less: Amount due for settlement with 12 months			(254)	(270)
Amount due for settlement after 12 months			158	412

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

33. 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*	Total *RMB'000*
At 1 January 2008	131	884	(805)	–	210
Effect of change in tax rate	–	(15)	8	–	(7)
Charge (credit) to profit or loss	61	205	(435)	2,133	1,964
Disposal of an investment property	–	(946)	946	–	–
Exchange differences	(7)	(43)	41	–	(9)
At 31 December 2008	185	85	(245)	2,133	2,158
(Credit) charge to profit or loss	(97)	270	(93)	4,595	4,675
Disposal of investment properties	–	(85)	85	–	–
At 31 December 2009	88	270	(253)	6,728	6,833

At the end of the reporting period, the Group had unused tax losses of approximately RMB214,804,000 (2008: RMB203,480,000). A deferred tax asset has been recognised in respect of tax losses of RMB1,687,000 (2008: RMB1,633,000), no deferred tax assets has been recognised in respect of the remaining tax losses of RMB213,117,000 (2008: RMB201,847,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation amounting to RMB6,728,000 (2008: RMB2,133,000) has been provided for in the consolidated financial statements in respect of withholding tax on undistributed earnings of the PRC subsidiaries.

34. Share capital

	2009 & 2008 *RMB'000*
Authorised:	
25,000,000,000 ordinary shares of HK$0.004 each	100,000
1,521,400,000 convertible preference shares of HK$0.001 each	1,521
	101,521
Issued and fully paid:	
917,288,049 ordinary shares of HK$0.004 each	3,659

35. 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 (2008: 91,728,804) ordinary shares, being 10% (2008: 10%) 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

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

Not applicable.

Basis of determining the exercise price

Determined by the directors of the Company 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 table discloses details of the Company's share options held by directors and employees and movements in such holding during the current and prior years:***

For the year ended 31 December 2009

Date of grant	Vesting period	Exercise period	Exercise price per share	Number of share options As at 1 January 2009	Granted during the year	Lapsed/ cancelled during the year	As at 31 December 2009
Directors							
2 January 2008	Nil	From 21 January 2008 to 31 December 2009	HK$2.318	1,590,000	–	(1,590,000)	–
29 December 2009	Nil	From 30 December 2009 to 31 December 2012	HK$1.070	–	2,500,000	–	2,500,000
29 December 2009	Nil	From 21 January 2010 to 31 December 2012	HK$1.070	–	5,900,000	–	5,900,000
29 December 2009	From 30 December 2009 to 29 December 2010	From 30 December 2010 to 31 December 2013	HK$1.070	–	2,500,000	–	2,500,000
29 December 2009	From 21 January 2010 to 20 January 2011	From 21 January 2011 to 31 December 2013	HK$1.070	–	5,900,000	–	5,900,000
				1,590,000	16,800,000	(1,590,000)	16,800,000
Employees							
(Continuous Contracts)							
2 January 2008	Nil	From 21 January 2008 to 31 December 2009	HK$2.318	13,480,000	–	(13,480,000)	–
29 December 2009	Nil	From 21 January 2010 to 31 December 2012	HK$1.070	–	31,050,000	–	31,050,000
29 December 2009	From 21 January 2010 to 20 January 2011	From 21 January 2011 to 31 December 2013	HK$1.070	–	31,050,000	–	31,050,000
				13,480,000	62,100,000	(13,480,000)	62,100,000
Total				15,070,000	78,900,000	(15,070,000)	78,900,000

For the year ended 31 December 2008

			Number of share options			
Date of grant	**Exercise date**	**Exercise price per share**	**As at 1 January 2008**	**Granted during the year**	**Lapsed during the year**	**As at 31 December 2008**
Directors						
2 January 2008	From 21 January 2008 to 31 December 2009	HK$2.318	–	1,590,000	–	1,590,000
Employees						
(Continuous Contracts)						
2 January 2008	From 21 January 2008 to 31 December 2009	HK$2.318	–	13,730,000	(250,000)	13,480,000
Total			–	15,320,000	(250,000)	15,070,000

On 29 December 2009, 78,900,000 share options were granted in which 39,450,000 share options may be exercisable commencing from the date of acceptance until 31 December 2012 and the remaining 39,450,000 share options shall be exercisable commencing from the date falling on the first anniversary of the date of acceptance until 31 December 2013. A number of 5,000,000 share options were accepted by the grantees before 31 December 2009. The remaining 73,900,000 were accepted by the grantees subsequent to 31 December 2009. The estimated fair values of the 78,900,000 options granted on that date are ranged from HK$0.3606 to HK$0.4701 per share.

Included in the share options granted to the employees, a number of 700,000 share options were granted to the spouse of Mr. Lee Shing, an executive director of the Company.

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

The fair values of the share options 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	29 December 2009	2 January 2008
Share price	HK$1.030	HK$2.07
Exercise price	HK$1.070	HK$2.318
Expected life	3 to 4 years	1.2 to 1.4 years
Standard deviation	63.0% to 65.2%	50%
Dividend yield	0%	0%
Risk-free interest rate	1.117% to 1.547%	1.769%

Expected volatility of 63.0% to 65.2% (2008: 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 RMB945,000 (2008: RMB5,381,000) for the year ended 31 December 2009 in relation to 5,000,000 share options granted and accepted during the year.

36. Capital commitments

	2009	2008
	RMB'000	*RMB'000*
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of construction in progress	81,273	18,214
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	7,431	120,569
	88,704	138,783

37. Pledge of assets

At the respective end of the reporting period, the Group's bank borrowings and credit facilities from financial institutions were secured by the following:

	2009	2008
	RMB'000	*RMB'000*
Bank deposits	835,653	624,601
Property, plant and equipment	1,851	9,735
Investment properties	25,141	6,172
Bills receivables discounted with recourse	1,335,778	342,008
	2,198,423	982,516

38. 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 profit or loss 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 profit or loss 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.

39. Non-cash transactions

During the year ended 31 December 2008, purchase of property, plant and equipment of RMB1,030,000 was acquired through inception of finance lease.

During the year ended 31 December 2009, deposits paid for acquisition of property, plant and equipment of RMB51,170,000 was transferred to property, plant and equipment.

40. Operating leases

The Group as lessor

Machinery rental income earned during both years are as disclosed in Note 6. All machineries held have committed lessees for the next year.

Properties rental income earned during the year was RMB276,000 (2008: RMB741,000). All of the properties held have committed tenants for the next one year.

At the end of the reporting period, the Group had contracted with lessees for the following future minimum lease receipts:

	2009	**2008**
	RMB'000	*RMB'000*
Within one year	689	127
In the second to fifth year inclusive	–	4
	689	131

The Group as lessee

Minimum lease payments made under operating leases during the year was RMB31,373,000 (2008: RMB33,220,000).

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2009	**2008**
	RMB'000	*RMB'000*
Within one year	35,287	29,884
In the second to fifth year inclusive	55,543	94
	90,830	29,978

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

41. Related party disclosures

(i) Related party transactions

Company	Transactions	2009 *RMB'000*	2008 *RMB'000*
SGMW	Sales of goods	8,683,069	6,831,300
	Purchases of materials	1,776,753	1,527,130
	Sales of raw materials	132,284	99,507
	Warranty expense	38,265	60,458
	Project income	5,606	3,466
Liuzhou Wuling Group	Sales of raw materials and automobile components	80,598	55,465
	Sales of specialized vehicles	5,766	7,333
	Purchases of automotive components and other accessories	48,304	27,081
	Purchases of mini passenger buses	23,496	16,009
	License fee paid	3,300	3,300
	Rental expense	28,150	28,150
	Procurement services of water and power	1,149	956
	Purchases of electronic devices and components	1,759	1,106
	Research and development expense	96	–
柳州五菱物流有限公司	Transportation expense	85,154	44,066
	Rental expense	489	465

(ii) Related party balances

Details of the Group's outstanding balances with related parties are set out in Notes 23 and 28 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. The respective corporate guarantee was executed on 23 June 2009 by Wuling Industrial.

As at 31 December 2009, Liuzhou Wuling utilised approximately RMB125,879,000 of such banking facilities (2008: Nil). In the opinion of the directors of the Company, 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 31.

(iv) Compensation of key management personnel

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

	2009	2008
	RMB'000	*RMB'000*
Short-term benefits	4,896	4,704
Post-employment benefits	331	220
Equity-settled share-based payments	945	4,285
	6,172	9,209

(v) Convertible loan notes

Details of convertible loan notes issued to Wuling HK during the year ended 31 December 2009 are set out in Note 30.

42. 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 31, 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 of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as issue of new debts.

43. Financial instruments

(i). Categories of financial instruments

	2009	2008
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	6,843,587	4,307,931
Available-for-sale financial assets	495	495
Held-for-trading investments	7	3
Financial liabilities		
Amortised cost	7,418,460	4,582,924
Fair value through profit or loss	83,861	–

(ii). Financial risk management objectives and policies

The Group's major financial instruments include loans receivable, trade and other receivables, bills receivables discounted with recourse, client trust bank accounts, pledged bank deposits, bank balances, trade and other payables, amounts due to shareholders, amount due to an associate, bank borrowings, advances drawn on bills receivables discounted with recourse, obligations under finance leases and convertible loan notes. 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.

(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 monetary assets and liabilities denominated in currencies other than the relevant group entities' functional currency at the end of the reporting period is as follows:

	Liabilities		**Assets**	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
HKD	120,057	35,779	18,535	11,214
Euro	5,669	6,828	–	–

The following table details the Group's sensitivity to a 5% increase and decrease in Renminbi against Euro and HKD. 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 HKD and vice versa.

	2009	**2008**
	RMB'000	*RMB'000*
Impact on post-tax profit or loss		
– HKD	7,879	1,044
– Euro	241	290
	8,120	1,334

(b) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings due to the fluctuation of the prevailing market interest rate, and exposed to fair value interest rate risk in relation to a fixed-rate bank borrowings and convertible loan notes. The directors of the Company consider the Group's exposure of the bank balances to cash flow 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.

The Group currently does not have any interest rate hedging policy in relation to fair value and cash flow interest rate risks. The directors of the Company 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 balances at the end of the reporting period 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 2009 would decrease by RMB162,000 (2008: decrease by RMB152,000). This is mainly attributable to the Group's exposure to interest rates on its bank balances and 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 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statement of financial position. 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 the end of the reporting period 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.

The Group has no significant concentration of credit risk other than in relation to the amount due from SGMW (Note 23) which represents 65% (2008: 77%) of the total trade and bills receivables as at 31 December 2009. In view of the significant balance due from SGMW, the Group has kept regular contact with SGMW for updated information. In addition, as Liuzhou Wuling has representation in the board of directors of SGMW, the Group can access the up-to-date information of SGMW through Liuzhou Wuling. In this regard, the Group believes that it can take prompt action to recover the trade debt due from SGMW should the need arise.

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.

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	31-90 days	91-365 days	1-5 years	5 + years	Total undiscounted cash flow	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2009								
Non-derivative financial liabilities								
Trade and other payables	–	4,363,976	451,190	125,125	–	–	4,940,291	4,940,291
Advances drawn on bills receivables discounted with recourse	4.87	1,400,830	–	–	–	–	1,400,830	1,335,778
Amounts due to shareholders								
– fixed rate	5.00	3,531	–	–	–	–	3,531	3,516
– non-interest bearing	–	811,590	–	–	–	–	811,590	811,590
Amount due to an associate	–	11,371	–	–	–	–	11,371	11,371
Bank borrowings								
– fixed rate	5.04	17,616	35,233	158,549	4,636	–	216,034	205,668
– variable rate	5.18	1,693	3,387	15,230	3,195	10,605	34,110	32,432
Obligations under finance leases	5.15	22	44	201	166	–	433	412
Convertible loan notes	6.00	5,421	–	–	108,855	–	114,276	77,402
		6,616,050	489,854	299,105	116,852	10,605	7,532,466	7,418,460
Financial guarantee contracts		125,879	–	–	–	–	125,879	–
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

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers it is not probable that the amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of reporting period.

(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; and
- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

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.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	At 31.12.2009			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets at FVTPL				
Held-for-trading investments	7	–	–	7
Financial liabilities at FVTPL				
Derivative financial instrument	–	–	83,861	83,861

The reconciliation of level 3 fair value measurement financial liability has been disclosed in note 30.

44. Events after the reporting date

In March, 2010, the Company issued and allotted 58,220,000 and 25,788,000 shares to independent third party and Wuling HK respectively, raising net proceeds of approximately HK$67.8 million (RMB59.7 million). Details of such issue and allotment of shares of the Company were set out in the Company's announcements dated 21 January 2010 and 12 March 2010, and the Company's circular dated 8 February 2010. The net proceeds were subsequently injected into Wuling Industrial as partial settlement of the outstanding subscription money payable to Wuling Industrial, which in turn were used by Wuling Industrial as additional working capital.

As a result of the aforementioned issue and allotment of new shares, the conversion price of the convertible loan note as detailed in note 30 was adjusted from HK$0.74 to HK$0.73 with effect from 12 March 2010.

45. Subsidiaries

Particulars of the Company's principal subsidiaries at 31 December 2009 and 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		Principal activities
			Direct	Indirect	
			%	%	
Wuling Industrial	The PRC 30 October 2006 *(note iii)*	RMB767,000,000	50.98 *(note i)*	–	Investment holding and trading of raw materials, water and power supply
柳州五菱柳機動力有限公司 Liuzhou Wuling Liuji Motors Company Limited	The PRC 16 June 1993 *(note iii)*	RMB100,120,000	–	50.98 *(note ii)*	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 iii)*	RMB100,000,000	–	50.97 *(note ii)*	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 iii)*	RMB15,000,000	–	49.98 *(note ii)*	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 iii)*	RMB6,000,000	–	26 *(note ii)*	Manufacture and sale of accessories of motor vehicles
泰興市菱迪機械有限公司	The PRC 28 March 2004 *(note iii)*	RMB3,000,000	–	26 *(note ii)*	Manufacture and sale of engines
Hilcrest Limited	British Virgin Islands/ Hong Kong	US$1	100	–	Property investment

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	
			%	%	
Watary Investments Limited	British Virgin Islands/ Hong Kong	US$36,000	100	–	Investment holding
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:

(i) 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 paid at 31 December 2008. On 13 January 2009, the Company paid an additional amount of 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, the Company shared 30.52% (2008: 17.22%) on profit of Wuling Industrial in 2009.

(ii) This represents the effective interest held by the Company. These subsidiaries are held by the Group through Wuling Industrial.

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

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

3. UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2010

Set out below are the unaudited financial statements of the Group for the six months ended 30 June 2010 together with the accompanying notes as extracted from the interim report of the Company for the six months ended 30 June 2010.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

		Six months ended 30 June	
		2010	**2009**
	Notes	*RMB'000*	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	5,614,563	4,813,928
Cost of sales		(5,081,669)	(4,409,568)
Gross profit		532,894	404,360
Other income		55,845	40,162
Distribution costs		(158,610)	(78,312)
General and administrative expenses		(226,877)	(195,705)
Research and development expenses		(81,040)	(40,979)
Net gain on held-for-trading investments		–	3
Gain on disposal of available-for-sale investments		813	–
Change in fair value of investment properties	*8*	877	260
Gain on disposal of an associate		1,572	–
Share of results of an associate		(1,715)	645
Change in fair value of derivative financial instrument	*13*	43,853	(61,437)
Finance costs		(30,729)	(22,004)
Profit before taxation		136,883	46,993
Income tax expense	*4*	(22,945)	(17,126)
Profit for the period	*5*	113,938	29,867
Other comprehensive income (expense):			
Exchange differences arising from translation of foreign operation		593	(190)
Total comprehensive income for the period		114,531	29,677

	Notes	Six months ended 30 June 2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		64,274	(41,440)
Non-controlling interests		49,664	71,307
		113,938	29,867
Total comprehensive income (expense) attributable to:			
Owners of the Company		64,867	(41,630)
Non-controlling interests		49,664	71,307
		114,531	29,677
Earnings (loss) per share	*6*		
– Basic		RMB6.64 cents	RMB(4.52) cents
– Diluted		RMB2.22 cents	RMB(4.52) cents
Dividends		–	–
Dividends per share		–	–

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2010

	Notes	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Unaudited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	772,006	668,500
Prepaid lease payments		32,762	44,975
Premium on prepaid lease payments		1,010	1,022
Investment properties	8	25,813	25,141
Intangible assets		928	928
Investment in an associate	9	–	2,434
Available-for-sale investments		360	495
Deposits for trading rights		179	180
Deposits paid for acquisition of property, plant and equipment		83,396	47,175
		916,454	790,850
CURRENT ASSETS			
Inventories		651,479	795,689
Loan receivables		–	450
Trade and other receivables	10(i)	4,997,165	3,995,094
Bills receivables discounted with recourse	10(ii)	1,327,808	1,335,778
Prepaid lease payments		697	937
Held-for-trading investments		7	7
Client trust bank accounts		7,465	7,235
Pledged bank deposits		728,234	835,653
Cash and cash equivalents		533,821	812,525
		8,246,676	7,783,368

	Notes	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Unaudited)
CURRENT LIABILITIES			
Trade and other payables	*11(i)*	5,738,272	5,167,274
Advances drawn on bills receivables discounted with recourse	*11(ii)*	1,327,808	1,335,778
Amount due to shareholders	*17*	797,818	815,106
Amount due to an associate		–	11,371
Provision for warranty	*12*	114,484	111,739
Tax payable		25,471	26,180
Derivative financial instrument	*13*	39,598	83,861
Convertible loan notes – current portion	*13*	2,437	5,115
Bank borrowings – due within one year	*14*	162,291	220,566
Obligations under finance leases – due within one year		157	254
		8,208,336	7,777,244
NET CURRENT ASSETS		38,340	6,124
TOTAL ASSETS LESS CURRENT LIABILITIES		954,794	796,974
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	*14*	16,819	17,534
Obligations under finance leases – due after one year		118	158
Deferred tax liabilities		7,364	6,833
Convertible loan notes – non-current portion	*13*	73,259	72,287
		97,560	96,812
		857,234	700,162
CAPITAL AND RESERVES			
Share capital	*15*	3,954	3,659
Reserves		267,414	122,428
Equity attributable to owners of the Company		271,368	126,087
Non-controlling interests		585,866	574,075
		857,234	700,162

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Attributable to owners of the Company										
	Issued share capital RMB'000	Share premium account 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)	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2009 (audited)	3,659	279,305	(3,209)	97,435	5,293	38,985	18,505	(293,229)	146,744	560,486	707,230
(Loss) profit for the period	–	–	–	–	–	–	–	(41,440)	(41,440)	71,307	29,867
Exchange difference arising from translation of foreign operation	–	–	(190)	–	–	–	–	–	(190)	–	(190)
Total comprehensive (expense) income for the period	–	–	(190)	–	–	–	–	(41,440)	(41,630)	71,307	29,677
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(80,538)	(80,538)
Transfers	–	–	–	–	–	4,274	–	(4,274)	–	–	–
Subtotal	–	–	–	–	–	4,274	–	(4,274)	–	(80,538)	(80,538)
At 30 June 2009 (unaudited)	3,659	279,305	(3,399)	97,435	5,293	43,259	18,505	(338,943)	105,114	551,255	656,369
Profit for the period	–	–	–	–	–	–	–	19,512	19,512	59,240	78,752
Exchange difference arising from translation of foreign operation	–	–	516	–	–	–	–	–	516	–	516
Total comprehensive income for the period	–	–	516	–	–	–	–	19,512	20,028	59,240	79,268
Deregistration of a subsidiary *(note iv)*	–	–	–	–	–	–	–	–	–	(153)	(153)
Recognition of equity settled share –based payments	–	–	–	–	945	–	–	–	945	–	945
Transfer to accumulated losses on lapse of share options	–	–	–	–	(5,293)	–	–	5,293	–	–	–
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(36,267)	(36,267)
Transfers	–	–	–	–	–	8,892	–	(8,892)	–	–	–
Subtotal	–	–	–	–	(4,348)	8,892	–	(3,599)	945	(36,420)	(35,475)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Attributable to owners of the Company										
	Issued share capital RMB'000	Share premium account RMB'000	Exchange reserve RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000 note (i)	PRC general reserve RMB'000	Capital reserve RMB'000 note (ii)	Accumulated losses RMB'000 note (iii)	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2009 (audited)	3,659	279,305	(2,883)	97,435	945	52,151	18,505	(323,030)	126,087	574,075	700,162
Profit for the period	–	–	–	–	–	–	–	64,274	64,274	49,664	113,938
Exchange difference arising from translation of foreign operation	–	–	593	–	–	–	–	–	593	–	593
Total comprehensive income for the period	–	–	593	–	–	–	–	64,274	64,867	49,664	114,531
Issue of new shares *(note 15)*	295	62,343	–	–	–	–	–	–	62,638	–	62,638
Cost of issuing new shares	–	(1,088)	–	–	–	–	–	–	(1,088)	–	(1,088)
Recognition of equity settled sharebased payments	–	–	–	–	18,864	–	–	–	18,864	–	18,864
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(37,873)	(37,873)
Transfers	–	–	–	–	–	15,133	–	(15,133)	–	–	–
Subtotal	295	61,255	–	–	18,864	15,133	–	(15,133)	80,414	(37,873)	42,541
A t 30 June 2010 (unaudited)	3,954	340,560	(2,290)	97,435	19,809	67,284	18,505	(273,889)	271,368	585,866	857,234

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 therefor; and (ii) the transfer of the credit arising from a capital reduction on 19 June 2006.

(ii) According to the relevant requirement in the memorandum of association of the subsidiaries in the People's Republic of China ("PRC"), a portion of their profits after taxation, as determined by the board of the 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 ended 31 December 2009, 柳州五菱柳機汽車零部件工貿有限責任公司, being a 95% owned subsidiary of Wuling Industrial, was deregistered. No gain or loss was resulted from the deregistration.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	**2009**
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Net cash (used in) from operating activities	(138,593)	552,679
Net cash used in investing activities		
Decrease (increase) in pledged bank deposits	107,454	(297,662)
Proceeds from disposal of an associate	2,291	–
Proceeds from disposal of property, plant and equipment	870	18,220
Purchase of property, plant and equipment	(95,003)	(29,379)
Deposits paid for acquisition of property, plant and equipment	(83,396)	(58,255)
Other investing cash flows	23,446	(13,327)
	(44,338)	(380,403)
Net cash (used in) from financing activities		
Bank borrowings raised	107,502	70,000
Proceeds from issue of new shares, net of share issue costs	61,550	–
Repayment of bank borrowings	(166,272)	(75,539)
Dividends paid to non-controlling interests of subsidiaries	(37,873)	(80,538)
Interest paid	(31,828)	(17,990)
(Repayment to) advance from a shareholder	(17,288)	38,181
Repayment of amount due to an associate	(11,371)	(19,385)
Proceeds from the issue of convertible loan notes	–	88,069
Other financing cash flows	(139)	(132)
	(95,719)	2,666
Net (decrease) increase in cash and cash equivalents	(278,650)	174,942
Cash and cash equivalents at the beginning of period	812,525	596,066
Effect of foreign exchange rate changes	(54)	(50)
Cash and cash equivalents at the end of period, representing bank balances and cash	533,821	770,958

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and with Hong Kong Accounting Standard (HKAS 34), Interim Financial Reporting.

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

2. Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instrument and investment properties, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

The Group applies HKFRS 3 (Revised) "Business Combinations" prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of these new and revised HKFRSs had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 9	Financial Instruments[5]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

[1] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
[2] Effective for annual periods beginning on or after 1 February 2010
[3] Effective for annual periods beginning on or after 1 July 2010
[4] Effective for annual periods beginning on or after 1 January 2011
[5] Effective for annual periods beginning on or after 1 January 2013

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

3. Segment information

The following is analysis of the Group's revenue and results by operating segment for the period under review:

	Engines and parts	Automotive components and accessories	Specialized vehicles	Trading of raw materials, water and power supply	Others	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended 30 June 2010							
Segment revenue							
External sales	1,799,182	2,700,474	789,252	324,972	683	–	5,614,563
Inter-segment sales	170,007	5,926	78,758	1,995,468	–	(2,250,159)	–
Group's revenue	1,969,189	2,706,400	868,010	2,320,440	683	(2,250,159)	5,614,563
Inter-segment sales were charged at prevailing market prices.							
Segment profit (loss)	88,631	29,047	15,766	24,634	(5,824)		152,254
Bank interest income							10,129
Change in fair value of investment properties							877
Central administration costs							(22,201)
Change in fair value of derivative financial instrument							43,853
Share of results of an associate							(1,715)
Gain on disposal of an associate							1,572
Gain on disposal of available-for-sale investments							813
Equity-settled share-based payments							(17,970)
Finance costs							(30,729)
Profit before tax							136,883

	Engines and parts	Automotive components and accessories	Specialized vehicles	Trading of raw materials, water and power supply	Others	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended 30 June 2009							
Segment revenue							
External sales	1,622,373	2,508,534	490,505	191,735	781	–	4,813,928
Inter-segment sales	169,262	16,168	29,436	1,472,850	–	(1,687,716)	–
Group's revenue	1,791,635	2,524,702	519,941	1,664,585	781	(1,687,716)	4,813,928
Inter-segment sales were charged at prevailing market prices.							
Segment profit	80,393	12,647	7,297	21,368	3,040		124,745
Bank interest income							11,203
Change in fair value of investment properties							260
Central administration costs							(6,419)
Change in fair value of derivative financial instrument							(61,437)
Share of results of an associate							645
Finance costs							(22,004)
Profit before tax							46,993

Segment profit represents profit earned by each segment without allocation of bank interest income, change in fair value of investment properties, central administration costs, change in fair value of derivative financial instrument, share of results of an associate, gain on disposal of an associate, gain on disposal of available-for-sale investments, equity-settled share-based payments for central administration staff, finance costs and income tax expense. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

The following is an analysis of the Group's assets by operating segment:

	At 2010 30 June *RMB'000*	At 2009 31 December *RMB'000*
Engines and parts	2,361,820	2,019,546
Automobile components and accessories	3,113,244	3,344,288
Specialized vehicles	496,942	393,983
Trading of raw material, water and power supply	1,890,396	1,126,143
Others	38,673	39,646
	7,901,075	6,923,606

4. Income tax expense

	For the six months ended 30 June	
	2010	**2009**
	RMB'000	*RMB'000*
Tax charge represents:		
PRC Enterprise Income Tax	20,398	14,171
Deferred tax		
Current period	2,547	2,955
	22,945	17,126

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

Pursuant to the tax notice, Caishui [2001] No. 202, other than Wuling Industrial, all the Group's major PRC operating subsidiaries would continue to enjoy a preferential income tax rate of 15% until December 2010 because (i) they are located in the western areas of the PRC; (ii) their main business falls into the National Key Encouraged Industry and Technology Catalogue; and (iii) their annual revenue generated from their main business exceeds 70% of their total revenue.

Wuling Industrial was subject to PRC income tax at 25% for the six months ended 30 June 2009. Pursuant to the tax notice, Liuzhou Liunan [2010] No. 001, Wuling Industrial is also entitled to a preferential income tax rate of 15% from July 2009 to December 2011.

Deferred tax has been provided in the condensed consolidated financial statements in respect of the undistributed profits earned by the Company's PRC subsidiaries to the non-PRC resident shareholders.

5. Profit for the period

	For the six months ended 30 June	
	2010	**2009**
	RMB'000	*RMB'000*
Profit for the period has been arrived at after charging (crediting) the following items:		
Directors' emoluments	1,505	1,773
Other staff costs	144,786	111,847
Retirement benefit scheme contributions, excluding directors	55,214	48,385
Equity-settled share-based payments		
– other staff	15,131	–
– directors	3,733	–
	18,864	–
Total staff costs	220,369	162,005
Gross property rental income	(263)	(65)
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	1	4
Net rental income	(262)	(61)
Cost of inventories recognized as an expense	5,081,669	4,409,568
Depreciation of property, plant and equipment	37,072	32,452
Loss (gain) on disposal of property, plant and equipment	716	(4,150)
Amortization of prepaid lease payments (included in general and administrative expenses)	84	75
Amortization of premium on prepaid lease payments (included in general and administrative expenses)	12	12
Bank interest income	(10,129)	(11,203)

6. Earnings (loss) per share

The calculation of the basic and diluted earnings (loss) per share attributable to the owners of the Company is based on the following data:

	For the six months ended 30 June	
	2010	**2009**
	RMB'000	*RMB'000*
Earnings (loss):		
Profit (loss) for the period attributable to owners of the Company for the purpose of basic earnings per share	64,274	(41,440)
Effect of dilutive potential ordinary shares:		
Finance costs on convertible loan notes	4,164	–
Fair value changes on derivative financial instrument	(43,853)	–
Earnings (loss) for the purpose of` diluted earnings per share	24,585	(41,440)

	For the six months ended 30 June	
	2010	**2009**
	RMB'000	*RMB'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	968,342,635	917,288,049
Effect of dilutive potential ordinary shares:		
Convertible loan notes	136,986,300	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	1,105,328,935	917,288,049

The computation of diluted earnings per share for the six months ended 30 June 2010 and 2009 does not assume the exercise of the outstanding share options as the exercise price was higher than the market price of the Company's shares throughout the relevant periods.

7. Dividend

No dividend were paid, or proposed during the reporting period. The directors do not recommend the payment of an interim dividend.

8. Movements in investment properties and property, plant and equipment

The Group's investment properties are all situated in Hong Kong and are held under long term leases. The fair value of these investment properties at 30 June 2010 was arrived at on the basis of a valuation carried out as of that day by Vigers Appraisal Consulting Limited ("Vigers"), a firm of independent qualified professional valuers not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar transactions. The resulting increase in fair value of investment properties of approximately RMB877,000 has been recognized directly in profit or loss for the six months ended 30 June 2010 (six months ended 30 June 2009: RMB260,000).

During the period, additions to the Group's property, plant and equipment amounted to RMB142,178,000 (six months ended 30 June 2009: RMB80,549,000).

9. Interest in an associate

At 31 December 2009, the Group held a 30% interest in 柳州五菱物流有限公司 which was accounted for as an associate. In May 2010, the Group disposed of its 30% interest in the associate to an independent third party for a consideration of RMB2,291,000. This disposal gave rise to a gain in profit or loss, calculated as follows:

	RMB'000
Proceeds of disposal	2,291
Less: carrying amount of investment on the date of disposal	(719)
Profit recognized	1,572

10. Trade and other receivables and bills receivables discounted with recourse

(i) Trade and other receivables

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

Included in trade and other receivables are trade receivables of RMB4,724,328,000 (31 December 2009: RMB3,828,064,000) and an aged analysis of the Group's trade receivables based on the invoice date (net of allowance for doubtful debts) is presented as follows:

	At 2010 30 June *RMB'000*	**At 2009 31 December** *RMB'000*
0 to 90 days	4,696,061	3,693,060
91 to 180 days	11,529	48,095
181 – 365 days	16,634	86,873
Over 365 days	104	36
	4,724,328	3,828,064

(ii) Bills receivables discounted with recourse

The amount represents bills receivables discounted to banks with recourse with a maturity period of less than 180 days (31 December 2009: 180 days). The Group retains all the risks and rewards of such bills and accordingly, the Group recognizes the full amount of the discount proceeds as liabilities as set out in note 11.

11. Trade and other payables and advances drawn on bills receivables discounted with recourse

(i) Trade and other payables

Included in trade and other payables are trade payables of RMB5,247,709,000 (31 December 2009: RMB4,633,420,000).

The aged analysis of the Group's trade and bills payables based on the invoice date is presented as follows:

	At 2010 30 June *RMB'000*	At 2009 31 December *RMB'000*
0 to 90 days	5,159,082	4,508,295
91 to 180 days	19,142	95,714
181 to 365 days	18,933	8,603
Over 365 days	50,552	20,808
	5,247,709	4,633,420

12. Provision for warranty

	Six months ended 30 June 2010 *RMB'000*	Year ended 31 December 2009 *RMB'000*
At the beginning of the period/year	111,739	83,226
Additional provision in the period/year	37,248	87,153
Utilization of provision	(34,503)	(58,640)
At the end of the period/year	114,484	111,739

The warranty provision represents the 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 engine customers.

13. Derivative financial instrument/convertible loan notes

On 12 January 2009, the Company issued convertible loan notes with a principal amount of HK$100,000,000 at par (equivalent to approximately RMB88,069,000) to Wuling (Hong Kong) Holdings Limited ("Wuling HK"), a substantial shareholder of the Company ("CN 2014"). CN 2014 is denominated in Hong Kong dollars and carries interest at 6% per annum with maturity on 12 January 2014. CN 2014 entitles 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, at a conversion price of HK$0.74 per ordinary share, subject to antidilutive adjustments. Unless converted, CN 2014 will be redeemed on the maturity date at par.

As a result of the share placement and subscription at a discount as set out in Note 15, the conversion price of CN2014 was adjusted from HK$0.74 per share to HK$0.73 per share with effect from 12 March 2010.

The movement of the liability component of CN 2014 for the six months ended 30 June 2010 is set out below:

	For the six months ended 30 June	
	2010	**2009**
	RMB'000	*RMB'000*
At the beginning of the period	77,402	69,755
Effective interest expense	4,164	4,014
Interest paid	(5,263)	–
Exchange difference	(607)	56
At the end of the period	75,696	73,825
Less: amount included in current liabilities	(2,437)	(2,468)
Amount due after one year	73,259	71,357

Movement in the fair value of the conversion option derivative component of CN 2014 during the period is as follows:

	For the six months ended 30 June	
	2010	**2009**
	RMB'000	*RMB'000*
At the beginning of the period	83,861	18,314
Changes in fair value during the period	(43,853)	61,437
Exchange difference	(410)	45
At the end of the period	39,598	79,796

The methods and assumptions applied for the valuation of CN2014 are as follows:

(i) Valuation of liability component

The fair value of the liability component on initial recognition was determined based on a valuation provided by Grant Sherman Appraisal Limited, a firm of independent professional valuers not connected with the Group, calculated using the present value of contractually determined stream of future cash flows discounted at the required yield of 11.64%, which was determined with reference to the credit rating of the Company and remaining time to maturity.

(ii) Valuation of conversion option component

The Conversion option component is measured at fair value using the Binomial Option Pricing Model (the "Model") at the end of the reporting period provided by Vigers, a firm of independent professional valuers not connected with the Group. The inputs into the model as at the respective dates are as follows:

	At 30 June 2010	**At 31 December 2009**
Stock price	HK$0.69	HK$1.18
Conversion price	HK$0.73	HK$0.74
Expected dividend yield	0%	0%
Volatility	71.00%	63.00%

14. Bank borrowings

During the period, the Group obtained new bank borrowings of RMB108 million (six months ended 30 June 2009: RMB70 million) which were used to repay existing bank borrowings and to finance the Group's daily operation.

The Group's borrowings carry interest at market rates ranging from 1.3% to 5.8% (six months ended 30 June 2009: 1.2% to 5.3%) per annum.

15. Share capital

	Number of shares	At 30 June 2010	At 31 December 2009
		HKD'000	*HKD'000*
Authorized:			
Ordinary shares of HK$0.004 each	25,000,000,000	100,000	100,000
Convertible preference shares of HK$0.001 each	1,521,400,000	1,521	1,521
		101,521	101,521
Issued and fully paid:			
At the beginning of the period/year	917,288,049	3,669	3,669
Issue of new shares on 12 March 2010 *(note)*	84,008,000	336	–
At the end of the period/year	1,001,296,049	4,005	3,669
		RMB'000	*RMB'000*
Shown in the financial statements as		3,954	3,659

Note:

On 21 January 2010, the Company entered into conditional share placement agreements with two placing agents, pursuant to which the placing agents agreed to place for the Company, on a best effort basis, up to a maximum of 220,000,000 new ordinary shares in the Company at a placing price of HK$0.85 per share (the "Placing Agreements") on or before 31 March 2010. The placing price represents a discount of approximately 23.42% to the closing price of the Company's shares on 20 January 2010, being the last trading day before the date of the Placing Agreements.

Also on the same date, the Company entered into a conditional share subscription agreement with Wuling HK, a substantial shareholder of the Company, pursuant to which Wuling HK would subscribe ordinary shares in the Company at a subscription price of HK$0.85 per share up to a maximum of 95,100,000 shares. The final number of shares subscribed was to be determined with reference to the number of shares ultimately placed under the Placing Agreements.

The above placement and issuance of shares were inter-conditional and their respective conditions precedent were satisfied on 12 March 2010. As a result, these transactions were completed on 12 March 2010 whereby 58,220,000 and 25,788,000 ordinary shares of the Company were issued to independent placees and Wuling HK, respectively.

16. Share option scheme

The Company has 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 operation. Details of the share options outstanding during the current period are as follows:

	Number of share options		
	Directors	Employees and others	Total
Outstanding at 31 December 2009	–	5,000,000	5,000,000
Accepted and granted during the period	11,800,000	62,100,000	73,900,000
Outstanding at 30 June 2010	11,800,000	67,100,000	78,900,000

On 29 December 2009, 78,900,000 share options at an exercise price of HK$1.07 per share were offered of which 39,450,000 share options are exercisable commencing from the date of acceptance until 31 December 2012 and the remaining 39,450,000 share options shall be exercisable commencing from the date falling on the first anniversary of the date of acceptance until 31 December 2013. A total of 5,000,000 share options were accepted by the grantees before 31 December 2009, in which 2,500,000 share options were vested on the date of acceptance and the balances were having a vesting period from the date of grant to 29 December 2010. The remaining 73,900,000 were accepted by the grantees subsequent to 31 December 2009, in which 36,950,000 share options were vested on the date of acceptance and the balances were having a vesting period from the date of grant to 20 January 2011. The total fair values of the share options granted during the period were HK$29,400,000, calculated using the Model by Vigers.

The following assumptions were used to calculate the fair values of share options:

	21 January 2010	29 December 2009
Share price	HK$1.06	HK$1.03
Exercise price	HK$1.07	HK$1.07
Expected life	3 to 4 years	3 to 4 years
Standard deviation	6.30% to 65.2%	6.30% to 65.2%
Dividend yield	0%	0%
Risk-free interest rate	1.117% to 1.547%	1.117% to 1.547%
Fair value per option	HK$0.3606 to HK$0.4708	HK$0.3993 to HK$0.4703

During the period, an amount of RMB18,864,000 (30 June 2009: nil) was recognized as staff costs incurred, which represents amortization of the fair value of the share options on a straight-line basis over the vesting period. The amount was charged in the condensed consolidated statement of comprehensive income with a corresponding credit to share option reserve.

The closing price of the Company's share immediately before 29 December 2009 and 21 January 2010, the relevant dates of grant or acceptance, were HK$1.03 and HK$1.06 respectively.

17. Related party disclosures

(I) Related party transactions

Company	Transactions	For the six months ended 30 June 2010	2009
		RMB'000	*RMB'000*
SAIC-GM-Wuling Automobile Co., Ltd. ("SGMW") *(note i)*	Sales of goods	3,841,965	4,111,447
	Purchases of materials	920,502	855,305
	Warranty expense paid	26,377	27,548
	Project income	695	2,359
	Training income	4	–
Liuzhou Wuling Group *(note ii)*	License fee paid	1,650	1,650
	Rental expense	15,003	14,076
	Sales of goods	18,093	2,336
	Sales of raw materials	33,353	41,137
	Supply services of water and power	612	578
	Purchases of automotive components and other accessories	33,478	25,092

Notes:

(i) Liuzhou Wuling holds approximately 15.83% equity interest in SGMW.

(ii) Liuzhou Wuling Group represents Liuzhou Wuling and its affiliates other than the Group and SGMW.

(II) Related party balances

	At 30 June 2010	At 31 December 2009
	RMB'000	*RMB'000*
Trade receivables		
– SGMW	1,795,791	2,490,438
– Liuzhou Wuling Group	25,689	74,465
Amount due to shareholders		
– Liuzhou Wuling *(note i)*	797,818	811,590
– Dragon Hill Development Limited *(note ii)*	–	3,516
	797,818	815,106

Notes:

(i) The balances are unsecured, non-interest bearing and repayable on demand.

(ii) Dragon Hill Development Limited is a substantial shareholder of the Company. The amount was unsecured, interest-bearing at 5% per annum and repayable on demand. The amount was fully settled during the six months ended 30 June 2010.

(III) Guarantees provided by related parties

The Group's unsecured bank borrowings are supported by:

(i) A personal guarantee to the extent HK$15,000,000 given by Mr. Lee Shing, a director of the Company.

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

(IV) Guarantee provided to a related party

Wuling Industrial has provided a corporate guarantee to a financial institution to the extent of RMB200,000,000 in respect of revolving banking facilities granted to Liuzhou Wuling. In the opinion of the directors, the fair value of financial guarantee contract is insignificant at initial recognition and subsequent reporting dates.

(V) Compensation of key management personnel

The remuneration of the members of key management of the Group in respect of the period are as follows:

	For the six months ended 30 June	
	2010	**2009**
	RMB'000	*RMB'000*
Short-term benefits	1,381	2,138
Post-employment benefits	124	120
Equity-settled share-based payments	3,733	–
	5,238	2,258

18. Capital commitments

	At 30 June 2010 *RMB'000*	At 31 December 2009 *RMB'000*
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
– construction in progress	51,795	81,273
– acquisition of property, plant and equipment	120,472	7,431
	172,267	88,704

19. Operating leases

The Group as lessor

At the end of the reporting period, the Group had contracted with lessees for the following future minimum lease receipts:

	At 30 June 2010 *RMB'000*	At 31 December 2009 *RMB'000*
Within one year	254	689

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 30 June 2010 *RMB'000*	At 31 December 2009 *RMB'000*
Within one year	34,678	35,287
In the second to fifth year inclusive	41,211	55,543
	75,889	90,830

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

20. Events after the reporting date

(a) In July 2010, the Group entered into agreements to acquire certain production facilities and related assets for an aggregate consideration of approximately RMB138 million. Also in August 2010, the Group entered into agreements to acquire certain land use rights in the PRC. The amounts were approximately RMB141 million in aggregate.

(b) In August 2010, the Group obtained additional credit facilities of approximately RMB80 million and RMB87 million from a number of financial institutions and Wuling (Hong Kong) Holdings Limited, respectively. These facilities will be applied to pay up the Group's outstanding capital contribution obligations in its subsidiary, Wuling Industrial.

4. INDEBTEDNESS STATEMENT

At the close of business on 31 December 2010, being the latest practicable date for the purpose of this indebtedness statement, the Group had the following indebtedness:

	RMB'000	*Notes*
Bank borrowings – secured	28,426	*1*
Bank borrowings – unsecured	214,967	*2*
Amounts due to shareholders	956,546	*3*
Bills payables – secured	3,127,333	*1*
Advances drawn on bills receivables discounted with recourse	1,418,202	*4*
Obligations under finance leases	158	*1*
Convertible loan notes	77,691	*5*
	5,823,323	

Notes:

1. These bank borrowings are secured by fixed charges on certain of the Group's investment properties, short-term bank deposits and property, plant and equipment.

2. Of these, bank borrowings of approximately RMB141 million are guaranteed by Liuzhou Wuling and a director of the Company.

3. These represent unsecured amounts due to Liuzhou Wuling and its subsidiary, Wuling (Hong Kong) Holdings Limited ("Wuling HK").

4. The advances drawn on bills receivables discounted with recourse were secured by trade receivables of the Group in the same amount.

5. This represents the liability component of unsecured convertible loan notes with an aggregate principal sum of HK$100,000,000 at par (equivalent to approximately RMB88,609,000) issued by the Company to Wuling HK.

In addition, at 31 December 2010, the Group had contingent liabilities of RMB113 million in respect of financial guarantee provided to a bank in respect of a banking facility to the extent of RMB200 million granted to Liuzhou Wuling.

Save as aforesaid, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 31 December 2010, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

5. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, after taking into consideration the financial resources presently available to the Group, including banking facilities and other internal resources, and the estimated net proceeds from the Open Offer, the Group has sufficient working capital for its present requirements, that is for at least the next twelve months from the date of this circular.

6. MATERIAL CHANGE

The Directors confirm that there have been no material change, in particular material adverse change, in the financial or trading position or outlook of the Group since 31 December 2009, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

1. UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma statement of consolidated net tangible assets (the "Unaudited Pro Forma Financial Information") of the Group prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Open Offer on the consolidated net tangible assets of the Group as if the Open Offer had been completed on 30 June 2010 and taking into account certain assumptions.

The Unaudited Pro Forma Financial Information of the Group has been prepared for illustration purposes only, and because of its nature, it may not give a true picture of the financial position of the Group following the Open Offer or at any future date.

The Unaudited Pro Forma Financial Information of the Group is prepared based on the consolidated net assets of the Group at 30 June 2010, as extracted from the published interim report of the Group as set out in Appendix I to the Circular and the adjustments described below.

Unaudited consolidated net assets of the Group attributable to owners of the Company as at 30 June 2010	Adjustment for intangible assets of the Group attributable to owners of the Company as at 30 June 2010	Adjusted unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2010	Estimated net proceeds from the Open Offer* assuming no Non-Concert Party Held Options are exercised on or before the Record Date	Adjusted unaudited pro forma consolidated net tangible assets of the Group attributable to owners of the Company after the Open Offer* assuming no Non-Concert Party Held Options are exercised on or before the Record Date	Estimated proceeds from exercise of all Non-Concert Party Held Options on or before the Record Date	Estimated net proceeds from the Open Offer * assuming all Non-Concert Party Held Options are exercised on or before the Record Date	Adjusted unaudited pro forma consolidated net tangible assets of the Group attributable to owners of the Company after the Open Offer* assuming all Non-Concert Party Held Options are exercised on or before the Record Date
RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
(note i)	*(note ii)*		*(note iii)*		*(note iv)*	*(note v)*	
		(A)	(B)	(A)+(B)	(C)	(D)	(A)+(C)+(D)
271,368	928	270,440	124,688	395,128	57,304	132,721	460,465

Adjusted unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2010 before Open Offer per Share *(note vi)*	RMB0.270
Adjusted unaudited pro forma consolidated net tangible assets of the Group attributable to owners of the Company after the Open Offer* assuming no Non-Concert Party Held Options are exercised on or before the Record Date per Share *(note vii)*	RMB0.338
Adjusted unaudited pro forma consolidated net tangible assets of the Group attributable to owners of the Company after the Open Offer* assuming all Non-Concert Party Held Options are exercised on or before the Record Date per Share *(note viii)*	RMB0.370

(after taking into account the Irrevocable Undertakings, the CN Undertaking and the Option Undertaking)*

Notes:

i. The unaudited consolidated net assets of the Group attributable to owners of the Company as at 30 June 2010 is extracted from the published unaudited consolidated financial statements of the Group for the six months ended 30 June 2010 as set out in Appendix I to this Circular.

ii. The intangible assets represent the Group's securities trading rights of approximately RMB928,000 which is extracted from the published unaudited consolidated financial statement of the Group for the six months ended 30 June 2010 as set out in Appendix I to this Circular.

iii. The estimated net proceeds from the Open Offer are based on 167,229,341 Offer Shares issued (based on the total number of 1,003,376,049 Shares in issue as at the Latest Practicable Date and on the basis of 1 Offer Share for every 6 Shares held at the Record Date at a subscription price of HK$0.90 (equivalent to approximately RMB0.76) per Offer Share after taking into account the Irrevocable Undertakings, the CN Holder Undertaking and the Option Undertaking and assuming the Non-Concert Party Held Options are not exercised on or before completion of the Open Offer, after deduction of the estimated expenses attributable to the Open Offer of approximately HK$3,200,000 (equivalent to approximately RMB2,709,000) and the differences attributable to rounding.

iv. The estimated net proceeds from the exercise of Non-Concert Party Held Options are based on the total number of 63,270,000 Non-Concert Party Held Options and the exercise price of HK$1.07 per Share (equivalent to RMB0.91) and the differences attributable to rounding.

v. The estimated net proceeds from the Open Offer are based on 177,774,341 Offer Shares issued (based on the aggregate of the total number of 1,003,376,049 Shares in issue as at the Latest Practicable Date and the 63,270,000 new Shares to be issued on exercise of all Non-Concert Party Held Options on or before the Record Date, and on the basis of 1 Offer Share for every 6 Shares held at the Record Date at a subscription price of HK$0.90 (equivalent to approximately RMB0.76) per Offer Share after taking into account the Irrevocable Undertakings, the CN Holder Undertaking and the Option Undertaking, after deduction of the estimated expenses attributable to the Open Offer of approximately HK$3,200,000 (equivalent to approximately RMB2,709,000) and the differences attributable to rounding.

vi. The number of Shares used for the calculation of adjusted unaudited consolidated net tangible assets per Share attributable to owners of the Company as at 30 June 2010 is based on the number of Shares in issue as at the Latest Practicable Date, i.e. 1,003,376,049 Shares.

vii. The number of Shares used for the calculation of adjusted unaudited pro forma consolidated net tangible assets of the Group attributable to owners of the Company after the Open Offer after taking into account the Irrevocable Undertakings, the CN Holder Undertaking and the Option Undertaking and assuming no Non-Concert Party Held Options are exercised on or before the Record Date per Share is based on 1,170,605,390 Shares calculated as follows:

  a. 1,003,376,049 Shares in issue as at the Latest Practicable Date (note vi); and

  b. 167,229,341 Offer Shares (note iii)

viii. The number of Shares used for the calculation of adjusted unaudited pro forma consolidated net tangible assets of the Group attributable to owners of the Company after the Open Offer after taking into account the Irrevocable Undertakings, the CN Holder Undertaking and the Option Undertaking and assuming all Non-Concert Party Held Options are exercised on or before the Record Date per Share is based on 1,244,420,390 Shares calculated as follows:

  a. 1,003,376,049 Shares in issue as at the Latest Practicable Date (note vi)

  b. 177,774,341 Offer Shares (note v); and

  c. 63,270,000 new Shares issued on exercise of all the Non-Concert Party Held Options on or before the Record Date (note v)

2. REPORT ON UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

Deloitte.
德勤

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

TO THE DIRECTORS OF DRAGON HILL WULING AUTOMOBILE HOLDINGS LIMITED

We report on the unaudited pro forma statement of consolidated net tangible assets ("Unaudited Pro Forma Financial Information") of Dragon Hill Wuling Automobile Holdings Limited ("the Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out in Part 1 of Appendix II to the circular of the Company dated 15 February 2011 (the "Circular"), in connection with the open offer of not less than 167,229,341 offer shares and not more than 177,774,341 offer shares of par value of HK$0.004 each at the subscription price of HK$0.9 per offer share (the "Open Offer") on the basis of one offer Share for every six Shares held on the Record Date (as defined in the Circular), which has been prepared by the Directors of the Company for illustration purpose only, to provide information about how the Open Offer might have affected the financial information presented, for inclusion in Appendix II of the Circular. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the accompanying introduction and notes to the Unaudited Pro Forma Financial Information included in Part 1 of Appendix II to the Circular.

Respective responsibilities of Directors of the Company and reporting accountants

It is the responsibility solely of the Directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rule Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Form Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rule, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustment are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustration purpose only, based on the judgements and assumptions of the Directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 30 June 2010 or any future date.

Opinion

In our opinion

a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 15 February 2011

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Group. This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than those relating to the Underwriter and parties acting in concert with it, but including the information on Dragon Hill) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinion expressed in this circular (other than those expressed by the Underwriter) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The directors of the Underwriter jointly and severally accept full responsibilities for the accuracy of the information in this circular (other than those relating to the Group and Dragon Hill) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Group) have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement contained in this circular misleading.

2. SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE NOTES

Share capital of the Company

(a) Share capital as at the Latest Practicable Date

Authorised:		***HK$***
25,000,000,000	Shares	100,000,000
1,521,400,000	Convertible preference shares of HK$0.001 each	1,521,400
Issued and fully paid:		
1,003,376,049	Shares	4,013,504

(b) Share capital upon completion of the Open Offer after taking into account the CN Holder Undertaking, the Option Undertaking and assuming the Non-Concert Party Held Options are not exercised on or before the Record Date

Authorised:		***HK$***
25,000,000,000	Shares	100,000,000
1,521,400,000	Convertible preference shares of HK$0.001 each	1,521,400
Issued and fully paid:		
1,003,376,049	Shares as at the Latest Practicable Date	4,013,504
167,229,341	Offer Shares to be issued pursuant to the Open Offer	668,917
1,170,605,390	Shares upon completion of the Open Offer	4,682,421

(c) Share capital upon completion of the Open Offer after taking into account the CN Holder Undertaking, the Option Undertaking and assuming all the Non-Concert Party Held Options are exercised on or before the Record Date

Authorised:		***HK$***
25,000,000,000	Shares	100,000,000
1,521,400,000	Convertible preference shares of HK$0.001 each	1,521,400
Issued and fully paid:		
1,003,376,049	Shares as at the Latest Practicable Date	4,013,504
63,270,000	new Shares to be issued upon exercise of all Non-Concert Party Held Options	253,080
177,774,341	Offer Shares to be issued pursuant to the Open Offer	711,097
1,244,420,390	Shares upon completion of the Open Offer	4,977,681

Except for a total of 84,008,000 Shares issued pursuant to completion of placing new Shares on 12 March 2010 and a total of 2,080,000 Shares issued on 1 November 2010 pursuant to the exercise of share option of the Company, since 31 December 2009, the date to which the latest audited consolidated accounts of the Company were made up, and up to the Latest Practicable Date, there had not been any new issue of Shares.

All issued Shares rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Offer Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the existing issued Shares.

Share options

As at the Latest Practicable Date, the Company has the following outstanding Options held by the Directors, the employees and advisors of the Group:

Date of grant	Exercise price Per Share	Exercisable Period		No. of Shares which may fall to be issued upon exercise of the Options
	HK$	From	To	
29 December 2009	1.07	30 December 2009	31 December 2012	2,500,000
29 December 2009	1.07	21 January 2010	31 December 2012	34,870,000
29 December 2009	1.07	30 December 2010	31 December 2013	2,500,000
29 December 2009	1.07	21 January 2011	31 December 2013	36,950,000

Notes:

1. As at the Latest Practicable Date, certain Options carrying subscription rights to subscribe for a total of 13,550,000 Shares are held by parties acting in concert with the Underwriter, including (i) Mr. Sun Shaoli, who is a director of the Underwriter, as well as an Executive Director and the Chairman of the Company; (ii) Mr. Wei Hongwen, who is a director of the Underwriter and an executive Director; (iii) Mr. Zhong Xianhua, who is a senior management of the Underwriter and the executive Director; (iv) five other individuals who hold directorships and/or senior management posts in the Underwriter and/or its holding companies (including an ex-director of Liuzhou Wuling who retired as a director thereof on 21 January 2011); and (v) Mr. Lee Shing (who is an executive Director, the Vice-chairman and the Chief Executive Officer of the Company as well as the ultimate beneficial owner of Dragon Hill) and his spouse. Pursuant to the Option Undertaking, the Underwriter will procure such parties acting in concert with it not to exercise any rights under the Options to subscribe for any Shares on or before the Record Date.

2. As at the Latest Practicable Date, certain other Directors, employees and advisors of the Group who are not parties acting in concert with the Underwriter held the Non-Concert Party Held Options which carry subscription rights to subscribe for a total of 63,270,000 Shares.

3. Upon the Open Offer becoming unconditional, the exercise prices and number of the outstanding Share Options may be subject to adjustments. Further announcement will be made in this regard.

Convertible notes

As at the Latest Practicable Date, the Existing Convertible Notes with an aggregate principal amount of HK$100,000,000, which are convertible into a total of 136,986,300 Shares during the four-year period commencing from 12 January 2010 at the existing conversion price of HK$0.73 per Share, were outstanding. The Existing Convertible Notes are currently held by the Underwriter which has irrevocably undertaken that it will not transfer or otherwise dispose of the Existing Convertible Notes nor exercise any conversion rights attached to the Existing Convertible Notes on or before the Record Date (i.e. the CN Holder Undertaking).

Save as disclosed above, the Company did not have any other derivatives, options, warrants and other convertible securities or rights convertible into Shares as at the Latest Practicable Date.

3. MARKET PRICES

The table below shows the closing prices of the Shares as recorded on the Stock Exchange on (i) the Last Trading Date; (ii) the last trading day of each of the six calendar months before the date of the Underwriting Agreement, being 29 December 2010, and thereafter, of each calender month before the Latest Practicable Date; and (iii) the Latest Practicable Date:

Date	**Closing price per Share**
	HK$
30 June 2010	0.69
30 July 2010	0.71
31 August 2010	0.70
30 September 2010	0.85
29 October 2010	1.41
30 November 2010	1.06
29 December 2010 (Last Trading Date)	0.92
31 December 2010	Trading suspended
31 January 2011	0.97
11 February 2011 (Latest Practicable Date)	0.98

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the period commencing six months prior to the date of the Underwriting Agreement up to and including the Latest Practicable Date were HK$1.52 on 22 October 2010 and HK$0.63 on 19 July 2010 respectively.

4. DISCLOSURE OF INTERESTS

(I) Directors and Chief Executive of the Company

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or Chief Executive of the Company held any interest or short positions in the Shares, underlying Shares or debentures of the Company and any of its associated corporations (within the meaning of part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules:

Long positions in respect of the Shares:

Name of Directors	Capacity	Number of Shares held	Approximate percentage of the issued share capital *(Note 3)*
Mr. Lee Shing	Held by controlled corporation *(Note 1)*	281,622,914	22.63%
Mr. Zhou Sheji	Held by controlled corporation *(Note 2)*	44,770,000	3.60%

Notes:

(1) Among those 281,622,914 Shares, 259,959,613 Shares are currently held by Dragon Hill, a company wholly-owned by Mr. Lee Shing, and the remaining 21,663,301 Shares will be subscribed by Dragon Hill pursuant to the Irrevocable Undertaking 2 under the Open Offer.

(2) The 44,770,000 Shares are owned by Gao Bao Development Limited, a company wholly-owned by Mr. Zhou Sheji.

(3) The approximate percentage of the total issued share capital set out in the above table is calculated based on the issued share capital of the Company as enlarged by the allotment and issue of the Offer Shares immediately after completion of the Open Offer, after taking into account the Option Undertaking and assuming all of the Non-Concert Party Held Options are exercised on or before the Record Date.

Long positions in respect of the Options:

Name of Directors	Capacity	Number of outstanding Options held	Exercise period	Price of grant	Subscription price per Share
Mr. Sun Shaoli	Beneficial owner	900,000	From 21 January 2010 to 31 December 2012	HK$1	HK$1.07
		900,000	From 21 January 2011 to 31 December 2013		
		1,800,000			
Mr. Lee Shing	Beneficial owner	900,000	From 21 January 2010 to 31 December 2012	HK$1	HK$1.07
		900,000	From 21 January 2011 to 31 December 2013		
		1,800,000			
	Family interest *(Note)*	350,000	From 21 January 2010 to 31 December 2012	HK$1	HK$1.07
		350,000	From 21 January 2011 to 31 December 2013		
		700,000			
Mr. Wei Hongwen	Beneficial owner	800,000	From 21 January 2010 to 31 December 2012	HK$1	HK$1.07
		800,000	From 21 January 2011 to 31 December 2013		
		1,600,000			
Mr. Zhong Xianhua	Beneficial owner	700,000	From 21 January 2010 to 31 December 2012	HK$1	HK$1.07
		700,000	From 21 January 2011 to 31 December 2013		
		1,400,000			
Ms. Liu Yaling	Beneficial owner	800,000	From 21 January 2010 to 31 December 2012	HK$1	HK$1.07
		800,000	From 21 January 2011 to 31 December 2013		
		1,600,000			
Mr. Zhou Sheji	Beneficial owner	700,000	From 21 January 2010 to 31 December 2012	HK$1	HK$1.07
		700,000	From 21 January 2011 to 31 December 2013		
		1,400,000			

Name of Directors	Capacity	Number of outstanding Options held	Exercise period	Price of grant	Subscription price per Share
Mr. Yu Xiumin	Beneficial owner	600,000	From 21 January 2010 to 31 December 2012	HK$1	HK$1.07
		600,000	From 21 January 2011 to 31 December 2013		
		1,200,000			
Mr. Zuo Duofu	Beneficial owner	600,000	From 21 January 2010 to 31 December 2012	HK$1	HK$1.07
		600,000	From 21 January 2011 to 31 December 2013		
		1,200,000			
Mr. Ye Xiang	Beneficial owner	600,000	From 21 January 2010 to 31 December 2012	HK$1	HK$1.07
		600,000	From 21 January 2011 to 31 December 2013		
		1,200,000			

Note: The 700,000 Options are held by the spouse of Mr. Lee Shing.

(II) Substantial Shareholders

Save as disclosed below, as at the Latest Practicable Date, so far as was known to the Directors and Chief Executive of the Company, no other persons had an interest or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who is expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or in any options in respect of such capital:

Long Positions

Name of Shareholders	Capacity	Nature of interest	Number of Shares	Approximate percentage of the issued share capital *(Note 5)*
Dragon Hill *(Note 1)*	Beneficial owner	Corporate	281,622,914	22.63%
Wuling (Hong Kong) Holdings Limited (being the Underwriter) *(Notes 2, 3 and 4)*	Beneficial owner	Corporate	456,399,040	36.68%
		Unlisted derivatives	136,986,300	11.01%
		Total	593,385,340	47.69%

Long Positions (continued)

Name of Shareholders	Capacity	Nature of interest	Number of Shares	Approximate percentage of the issued share capital *(Note 5)*
Wuling Motors *(Notes 2, 3 and 4)*	Interest in controlled corporation	Corporate	456,399,040	36.68%
		Unlisted derivatives	136,986,300	11.01%
		Total	593,385,340	47.69
Liuzhou Wuling *(Notes 2, 3 and 4)*	Interest in controlled corporation	Corporate	456,399,040	36.68%
		Unlisted derivatives	136,986,300	11.01%
		Total	593,385,340	47.69

Notes:

(1) (a) The entire issued share capital of Dragon Hill is legally and beneficially owned by Mr. Lee Shing, an executive Director, the Vice-chairman and the Chief Executive Officer of the Company. Accordingly, this parcel of shares of the Company has also been disclosed as long position of Mr. Lee under the above section headed "I. Directors and Chief Executive" of the Company.

(b) Among those 281,622,914 Shares, 259,959,613 Shares are currently held by Dragon Hill and the remaining 21,663,301 Shares will be subscribed by Dragon Hill pursuant to the Irrevocable Undertaking 2 under the Open Offer.

(2) The entire issued share capital of the Underwriter is held by Wuling Motors, whereas the entire issued share capital of Wuling Motors is held by Liuzhou Wuling. Accordingly, Wuling Motors and Liuzhou Wuling are deemed to be interested in the Shares held by the Underwriter under the SFO.

(3) Among the 456,399,040 Shares, (i) 300,288,000 Shares are currently held by the Underwriter; (ii) 50,048,000 Shares will be subscribed by the Underwriter pursuant to the Irrevocable Undertaking 1 under the Open Offer; (iii) 106,063,040 Shares to be allotted and issued under the Open Offer have been underwritten by the Underwriter pursuant to the Underwriting Agreement.

(4) The unlisted derivatives referred to 136,986,300 Shares issuable to the Underwriter upon exercise in full of the conversion rights attached to the Existing Convertible Notes with a principal amount of HK$100,000,000 at the existing conversion price of HK$0.73 per Share (subject to adjustments).

(5) The approximate percentage of the total issued share capital set out in the above table is calculated based on the issued share capital of the Company as enlarged by the allotment and issue of the Offer Shares immediately after completion of the Open Offer, after taking into account the Option Undertaking and assuming the exercise in full of all Non-Concert Party Held Options on or before the Record Date.

5. ADDITIONAL DISCLOSURE OF (I) INTERESTS AND DEALINGS IN SECURITIES AND (II) ARRANGEMENTS RELATING TO THE OPEN OFFER AND THE WHITEWASH WAIVER

As at the Latest Practicable Date,

(i) the Underwriter held (a) 300,288,000 Shares, representing approximately 29.93% of the issued share capital of the Company; and (b) the Underwriter held the Existing Convertible Notes which are convertible into a total of 136,986,300 Shares during the four-year period commencing from 12 January 2010 at the existing conversion price of HK$0.73 per Share (subject to adjustments);

(ii) the directors of the Underwriter are Mr. Sun Shaoli and Mr. Wei Hongwen (both being executive Directors) while the directors of Liuzhou Wuling are Mr. Sun Shaoli, Mr. Wei Hongwen (both being executive Directors) and Mr. Kuang Jiazhen;

(iii) Dragon Hill, which is a substantial Shareholder and a company beneficially and wholly owned by Mr. Lee Shing, an executive Director, the Vice-chairman and the Chief Executive Officer of the Company, held 259,959,613 Shares, representing approximately 25.91% of the issued share capital of the Company. The sole director of Dragon Hill is Mr. Lee Shing;

(iv) certain Options carrying subscription rights to subscribe for a total of 13,550,000 Shares at the exercise price of HK$1.07 per Share (subject to adjustments) during the period ending on 31 December 2012 or 2013 are held by parties acting in concert with the Underwriter, including Mr. Sun Shaoli (who is a director of the Underwriter as well as an executive Director and the Chairman of the Company), Mr. Wei Hongwen (who is a director of the Underwriter and an executive Director), Mr. Zhong Xianhua (who is a senior management member of the Underwriter and an executive Director), five other individuals who hold directorships and/or senior management posts in the Underwriter and/or its holding companies (namely Mr. Kuang Jiazhen (who is a director of Liuzhou Wuling), Mr. Huang Zhicheng (who was a director of Liuhou Wuling up to the date of his retirement on 21 January 2011), Mr. Liu Dexiang and Mr. Yang Jianyong (who are senior management of Liuzhou Wuling) and Mr. Wang Zhengtong (who is a senior management of the Underwriter)), and Mr. Lee Shing (who is an executive Director, the Vice-chairman and the Chief Executive Officer of the Company, and the ultimate beneficial owner of Dragon Hill) and his spouse.

Furthermore,

(a) the Underwriter entered into the Underwriting Agreement with the Company pursuant to which the Underwriter has conditionally agreed to underwrite a maximum of 106,063,040 Offer Shares;

(b) the Underwriter and Dragon Hill have undertaken to subscribe for 50,048,000 Offer Shares and 21,663,301 Offer Shares respectively pursuant to the Irrevocable Undertakings;

(c) the CN Holder Undertaking and the Option Undertaking have been given by the Underwriter.

As at the Latest Practicable Date,

(I) save for the Shares (including Offer Shares), the Existing Convertible Notes and the Options held by the Underwriter and parties acting in concert with it as mentioned above, none of the Underwriter and parties acting in concert with it (including directors and senior management of the Underwriter and Dragon Hill (together with its ultimate beneficial owner, Mr. Lee Shing)), owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company. In addition, none of the Underwriter and parties acting in concert with it had dealt for value in the Shares, convertible securities, warrants, options, or derivatives in respect of the securities, of the Company during the period beginning six months prior to the date of the Underwriting Agreement, being 29 December 2010, and ending with the Latest Practicable Date;

(II) there was no agreement, arrangement or understanding between the Underwriter or any parties acting in concert with it and other parties in relation to the transfer, charge or pledge of the Shares that may be issued and allotted to the Underwriter or any parties acting in concert with it under the Open Offer or as a result of any obligation under the Underwriting Agreement;

(III) the Underwriter, Dragon Hill or parties acting in concert with any of them did not have any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person;

(IV) the Underwriter and the parties acting in concert with it did not borrow or lend any relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) in the Company;

(V) none of the Company and the Directors held any shares, convertible securities, warrants, options and derivatives in respect of shares of the Underwriter, and none of them had dealt for value in any shares, convertible securities, warrants, options and derivatives in respect of shares of the Underwriter for the period commencing six months prior to the date of the Underwriting Agreement and ending on the Latest Practicable Date;

(VI) (i) Mr. Lee Shing, an executive Director, the Vice-chairman and the Chief Executive Officer of the Company, through Dragon Hill which is wholly and beneficially owned by Mr. Lee Shing and which is a party acting in concert with the Underwriter, is interested in 259,959,613 Shares held by Dragon Hill as at the Latest Practicable Date, 21,663,301 Offers Shares to be subscribed by Dragon Hill pursuant to the Irrevocable Undertaking 2 under the Open Offer, and, together with his spouse, Options which carry subscription rights to subscribe for a total of 2,500,000 Shares (details of which are set out in the above paragraph headed "4. Disclosure of interests – Directors and Chief Executive of the Company" of this appendix); (ii) Mr. Zhou Sheji, an executive Director, through Gao Bao Development Limited, which is wholly and beneficially owned by Mr. Zhou Sheji, is interested in 44,770,000 Shares and Mr. Zhou Sheji held Non-Concert Party Held Options which carry subscription rights to subscribe for a total of 1,400,000 Shares (details of which are set out in the above paragraph headed "4. Disclosure of interests – Directors and Chief Executive of the Company" of this appendix); (iii) Mr. Sun Shaoli (executive Director and Chairman of the Company), Mr. Wei Hongwen (executive Director) and Mr. Zhong Xianhua (executive Director), who are parties acting in concert with the Underwriter, in aggregate held Options carrying subscription rights to subscribe for a total of 4,800,000 Shares (details of which are set out in the above paragraph headed "4. Disclosure of interests – Directors and Chief Executive of the Company" of this appendix); and (iv) Mr. Liu Yaling, Mr. Yu Xiumin, Mr. Zuo Duofu and Mr. Ye Xiang held Non-Concert Party Held Options which carry subscription rights to subscribe for a total of 5,200,000 Shares (details of which are set out in the above paragraph headed "4. Disclosure of interests – Directors and Chief Executive of the Company" of this appendix). Save as disclosed, none of the Directors held any Shares, convertible securities, warrants, options and derivatives in respect of the Shares. In addition, none of the Directors had dealt for value in any Shares, convertible securities, warrants, options and derivatives in respect of the Shares for the period commencing six months prior to the date of the Underwriting Agreement and ending on the Latest Practicable Date;

(VII) save for the Shares held and dealt for the accounts of the respective non-discretionary clients by the brokerage division of a fellow subsidiary of Celestial Capital Limited, the financial adviser of the Company, and Dragon Hill Financial Services Limited, an indirect wholly-owned subsidiary of the Company, none of (i) the subsidiaries of the Company; (ii) the pension fund of the Company or of a subsidiary of the Company; and (iii) any advisers to the Company (as specified in class (2) of the definition of "associate" under the Takeovers Code but excluding exempt principal traders) had any interest in the Shares, convertible securities, warrants, options or derivatives of the Company, and none of them had dealt for value in any securities of the Company for the period commencing from the date of the Underwriting Agreement and ending on the Latest Practicable Date;

(VIII) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" in the Takeovers Code, and no such person had dealt for value in any securities in the Company for the period commencing from the date of the Undertaking Agreement and ending on the Latest Practicable Date;

(IX) no Shares, convertible securities, warrants, options or derivatives of the Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company. In addition, no fund managers (other than exempt fund managers) connected with the Company had dealt for value in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company from the date of the Underwriting Agreement up to the Latest Practicable Date;

(X) no Independent Shareholders had irrevocably committed themselves to vote for or against the resolutions to be proposed at the SGM to approve the Open Offer, the Underwriting Agreement, Whitewash Waiver, together with the respective transactions contemplated thereunder;

(XI) the Company or the Directors did not borrow or lend any relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) in the Company;

(XII) there was no arrangement in relation to any benefit given to any Director as compensation for loss of office in any member of the Group or otherwise in connection with the Open Offer and/or the Whitewash Waiver.

(XIII) save for the Underwriting Agreement (which is subject to conditions precedent and termination rights of the Underwriter as respectively mentioned in the paragraphs headed "Conditions of the Underwriting Agreement" and "Termination of the Underwriting Agreement" under the section headed "Underwriting Agreement" in the letter from the Board contained in this circular), the Irrevocable Undertakings given by the Underwriter and Dragon Hill, the CN Holder Undertaking and the Option Undertaking given by the Underwriter, there was no agreement, arrangement or understanding (including any compensation arrangement) existed (i) between the Underwriter or parties acting in concert with it and any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Open Offer and/or the Whitewash Waiver; and (ii) between any Directors and any other person which is conditional on or dependent upon the outcome of the Open Offer and/or the Whitewash Waiver;

(XIV) with regard to the 44,700,000 Shares held by Gao Bao Development Limited which is wholly and beneficially owned by Mr. Zhou Sheji, an executive Director, Gao Bao Development Limited will abstain from voting in respect of the resolutions to be proposed at the SGM to approve the Open Offer, the Underwriting Agreement and the Whitewash Waiver;

(XV) save for Dragon Hill which is wholly and beneficially owned by Mr. Lee Shing, an executive Director, the Vice-chairman and the Chief Executive Officer of the Company, has undertaken to subscribe for 21,663,301 Offer Shares pursuant to the Irrevocable Undertaking 2, none of the Directors had expressed their intention whether to accept or reject their respective assured entitlements under the Open Offer; and

(XVI) save for the Irrevocable Undertakings, the Board did not receive any information from any substantial Shareholders of their intention to take up the Offer Shares.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had service contract with the Company or any or its subsidiaries or associated companies (i) which (including both continuous and fixed term contract) have been entered into or amended within six months before the date of the Announcement; (ii) which are continuous contracts with a notice period of 12 months or more; (iii) which are fixed term contacts with more than 12 months to run irrespective of the notice period; or (iv) which are not expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) have been entered into by members of the Group after the date two years immediately preceding the date of the Underwriting Agreement, being 29 December 2010, and up to the Latest Practicable Date which are or may be material:

(i) the guarantee agreement entered into by Wuling Industrial in favour of China Construction Bank on 23 June 2009 as a condition to a revolving banking facilities upto a maximum amount of RMB200 million granted by China Construction Bank to Liuzhou Wuling, details of which were disclosed in the announcements of the Company made on 2 July 2008 and 23 June 2009;

(ii) the renewed tenancy agreement entered into between Wuling Industrial (as tenant) and Liuzhou Wuling (as landlord) on 13 November 2009, as extended from the then existing tenancy agreement, in connection with the leasing of 12 parcels of land and 69 buildings located in Liuzhou, Guangxi, the PRC, by Liuzhou Wuling to Wuling Industrial for the occupancy of such parcels of land and buildings by the Wuling Industrial Group for its business and operations for a period of three years ending on 31 December 2012 at an annual rental of not more than RMB30,205,000, details of which were disclosed in the announcement of the Company made on 13 November 2009;

(iii) the renewed patent agreement entered into between Wuling Industrial (as lessee) and Liuzhou Wuling (as lessor) on 21 December 2009, as extended from the then existing patent agreement, in relation to the grant of a total number of 167 types of patent rights and know-how of Liuzhou Wuling for use by the Wuling Industrial Group in its trading and manufacturing activities of engines, automotive components and specialized vehicles, and other related businesses for a term of three years ending on 31 December 2012 at an annual license fee of RMB1,300,000, details of which were disclosed in the announcement of the Company made on 21 December 2009;

(iv) the renewed trademark agreement entered into between Wuling Industrial (as lessee) and Liuzhou Wuling (as lessor) on 21 December 2009, as extended from the then existing trademark agreement, in relation to the licensing of 2 registered trademarks of Liuzhou Wuling to Wuling Industrial for use by the Wuling Industrial Group for a term of three years ending on 31 December 2012 at an annual license fee of RMB2,000,000, details of which were disclosed in the announcement of the Company made on 21 December 2009;

(v) the placing agreement dated 21 January 2010 entered into between the Company and SBI E2-Capital Securities Limited in relation to the placing of a maximum number of 170,000,000 new Shares by SBI E2-Capital Securities Limited at HK$0.85 per Share on a best effort basis (subject to the consent of the Company and SBI E2-Capital Securities Limited, such maximum number of 170,000,000 new Shares may be increased by any shortfall of the Shares that have not been placed by Celestial Securities Limited under the placing agreement entered into between the Company and Celestial Securities Limited, as below mentioned, details of which were set out in the Company's announcements dated 21 January 2010, 4 March 2010 and 12 March 2010);

(vi) the placing agreement dated 21 January 2010 entered into between the Company and Celestial Securities Limited in relation to the placing of a maximum number of 50,000,000 new Shares by Celestial Securities Limited at HK$0.85 per Share on a best effort basis (subject to the consent of the Company and Celestial Securities Limited, such maximum number of 50,000,000 new Shares may be increased by any shortfall of the Shares that have not been placed by SBI E2-Capital Securities Limited under the placing agreement entered into between the Company and SBI E2-Capital Securities Limited, as above mentioned, details of which were set out in the Company's announcements dated 21 January 2010, 4 March 2010 and 12 March 2010);

(vii) the subscription agreement dated 21 January 2010 entered into between the Company and the Underwriter in relation to the subscription of a maximum number of 95,100,000 new Shares at HK$0.85 per Share, of which the final number is to be determined in accordance with the final number of placed Shares pursuant to the placing agreements as set out in (v) and (vi) above, details of which were set out in the Company's announcements dated 21 January 2010, 4 March 2010 and 12 March 2010;

(viii) the four tenders submitted by Wuling Industrial on 30 July 2010 to 柳州市國土資源局 (Liuzhou Bureau of Land Resources#) for the purpose of acquiring four pieces of lands in Liuzhou, Guangxi Zhuang Autonomous Region, the PRC, with a total site area of 415,034.55 square metres at a total consideration of RMB140,550,000 which are planned to be used by the Wuling Industrial Group for its future capacity expansion programs, details of which were disclosed in the announcements of the Company made on 30 July 2010 and 10 August 2010;

(ix) the Acquisition Agreements (as defined and detailed under the section "Reasons for the Open Offer and Use of Proceeds" in Letter From the Board) entered into between Wuling Industrial as the purchaser and 青島聯恒汽車零部件有限公司 (Qingdao Lianheng Automotive Components Co. Limited (Note)) and 青島聯成精密模具有限公司 (Qingdao Liancheng Precision Mold Co. Limited (Note)) as the vendors in relation the acquisition of certain properties in Qingdao, comprising one factory complex (including supporting facilities and annex) and three pieces of land with an aggregate area of 112,477.9 square metres and certain assets, comprising production facilities and machinery for the production of automotive components, details of which were disclosed in the announcements of the Company made on 30 July 2010 and 31 December 2010; and

(x) the Underwriting Agreement.

(Note: the English names are for identification only)

8. INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENT SIGNIFICANT TO THE GROUP

A subsidiary of the Company entered into a lease agreement with an associate of Mr. Lee Shing, an executive Director, the Vice-chairman and Chief Executive Officer of the Company, in July 2010 for the leasing of a warehouse for keeping the old records of the Group for three years commencing from 1 August 2010 at a monthly rental of HK$9,200. Save as disclosed herein, as at the Latest Practicable Date, none of the Directors had any interest in any assets which had been since 31 December 2009 (being the date to which the latest published accounts of the Company were made up) acquired or disposed of by or leased to, any member of the Group, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, save as the Underwriting Agreement entered into between the Company and the Underwriter on 29 December 2010, whereas (i) Mr. Sun Shaoli (being an executive Director and the Chairman), Mr. Wei Hongwen and Mr. Zhong Xianhua (both being executive Directors) are directors and/or senior management members of the Underwriter, on 29 December 2010, and (ii) Dragon Hill, a substantial Shareholder which is wholly and beneficially owned by Mr. Lee Shing, is a party acting in concert with the Underwriter, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

9. DIRECTORS' INTERESTS IN MATERIAL CONTRACTS ENTERED INTO BY THE UNDERWRITER

As at the Latest Practicable Date, save for Mr. Lee Shing, through Dragon Hill which is solely and beneficially owned by Mr. Lee Shing and which has undertaken to subscribe for 50% of the Dragon Hill Assured Entitlement pursuant to the Irrevocable Undertaking 2 under the Open Offer as set out in the Underwriting Agreement, none of the Directors had a material personal interest in any contract entered into by the Underwriter.

10. MAJOR LITIGATION AND ARBITRATION PROCEEDINGS

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

11. EXPERTS AND CONSENTS

(a) The following are the qualifications of the experts who have given their opinions and advice which are included in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountant
Guangdong Securities Limited	a licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

(b) Deloitte Touche Tohmatsu did not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) Save for the Shares held and dealt for the accounts of the non-discretionary clients by the brokerage division of Guangdong Securities, Guangdong Securities did not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(d) Each of Deloitte Touche Tohmatsu and Guangdong Securities has given and has not withdrawn its written consent to the issue of this circular with the inclusion of the references to its name and/or its opinion in the form and context in which they are included.

(e) Neither Deloitte Touche Tohmatsu nor Guangdong Securities had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2009, the date to which the latest published audited financial statements of the Group were made up.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) during normal business hours on any week day, except Saturdays, Sundays and public holidays at the principal place of business of the Company in Hong Kong at Unit 2805-06, 28th Floor, Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong; (ii) on the website of the SFC at www.sfc.hk; and (iii) on the Company's website at *www.dhwuling.com* from the date of this circular up to and including the date of completion of the Open Offer:

(a) the memorandum of association and bye-laws of the Company;

(b) the 2008 and 2009 annual reports of the Company containing audited consolidated financial statements of the Group for the two years ended 31 December 2008 and 2009;

(c) the interim report of the Group for the six months ended 30 June 2010;

(d) the letter from Guangdong Securities containing its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from Guangdong Securities" in this circular;

(e) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;

(f) the letter from Deloitte Touche Tohmatsu in respect of the unaudited pro forma financial information following completion of the Open Offer, the text of which is set out in appendix II to this circular;

(g) the material contracts referred to in the paragraph headed "7. Material contracts" in this appendix;

(h) the Irrevocable Undertakings given by the Underwriter and Dragon Hill;

(i) the written consents referred to in the paragraph headed "Experts and consents" in this appendix;

(j) the written consent of Celestial Capital Limited stating it has given and has not withdrawn its written consent to the publication of its name in this circular; and

(k) the memorandum and articles of association of the Underwriter.

13. PARTICULARS OF DIRECTORS

The brief biographies of the Directors are set out below:

Executive Directors

Sun Shaoli

Mr. Sun, aged 55, Chairman of the Board, was appointed as an executive Director on 10 September 2007. Mr. Sun obtained a master degree in business administration from Harbin Industrial University in 1988 and is a senior economist. Mr. Sun has more than 28 years of experience in the automobile manufacturing industry. Mr. Sun is currently the chairman of the board of directors of Liuzhou Wuling, a director of each of Wuling Motors (Hong Kong) Company Limited ("Wuling Motors HK") and Wuling (Hong Kong) Holdings Limited (being the Underwriter), which are direct and indirect wholly-owned subsidiaries of Liuzhou Wuling. The Underwriter is currently a substantial Shareholder which is beneficially interested in approximately 29.93% of the total issued share capital of the Company. Mr. Sun is also currently the chairman of the board of directors of Wuling Industrial and Liuzhou Wuling Liuji Motors Company Limited ("Wuling Liuji", a subsidiary of Wuling Industrial). Wuling Industrial is a joint venture formed by the Company and Liuzhou Wuling and is also a principal subsidiary of the Company.

Lee Shing

Mr. Lee, aged 53, Vice-chairman of the board of directors and the Chief Executive Officer, was appointed as an executive Director on 22 June 2006. Mr. Lee has extensive experience in the trading and manufacturing business in Hong Kong and the PRC. Mr. Lee is also a director of Wuling Industrial, as well as a director of each of Wuling Liuji, Liuzhou Wuling Motors United Development Limited ("Wuling United") and Liuzhou Wuling Specialized Vehicles Manufacturing Company Limited ("Wuling Specialized Vehicles"), all being subsidiaries of Wuling Industrial. Besides, 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, a substantial Shareholder, and the chairman of the board of directors and the acting chief executive officer of Grand TG Gold Holdings Limited (Stock Code: 8299), a company listed on the GEM board of The Stock Exchange of Hong Kong Limited.

Wei Hongwen

Mr. Wei, aged 48, was appointed as an executive Director on 10 September 2007. Mr. Wei obtained a master degree in economics from Sun Yat-Sen University in 1995 and is a professor level senior engineer. Mr. Wei has more than 28 years of experience in the automobile manufacturing industry. He is currently a director and the general manager of Wuling Industrial and the chairman of the board of directors of each Wuling United and Wuling Specialized Vehicles, and a director of Wuling Liuji, all being subsidiaries of Wuling Industrial. Mr. Wei is in charge of the daily operations of our specialized vehicles, automotive engines and components manufacturing business. Mr. Wei is also a director and the chief executive of Liuzhou Wuling, and a director of Wuling Motors HK and the Underwriter, being substantial Shareholders. Mr. Wei is also a director of SAIC-GM-Wuling Automobile Co., Ltd. ("SGMW"), which is a joint venture formed among Shanghai Automobile Industry (Group) Company, General Motors China and Liuzhou Wuling.

Zhong Xianhua

Mr. Zhong, aged 52, was appointed as an executive Director on 4 January 2010. Mr. Zhong is currently a director of Wuling Industrial and the vice president of Liuzhou Wuling, a substantial Shareholder. Mr. Zhong graduated from Hunan University majoring in mesoporphyrin protection. His profession is senior engineer and has over 23 years of extensive experience in the production, marketing and corporate management of the automotive components industry.

Liu Yaling

Ms. Liu, aged 35, was appointed as an executive Director on 22 June 2006. Ms. Liu has a post graduate education background. She is a qualified accountant in the PRC specializing in financial management. Ms. Liu gains her working experience in the automobile manufacturing industry and has approximately 12 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 and an associate member of the Institute of Financial Accountants.

Zhou Sheji

Mr. Zhou, aged 53, was appointed as an executive Director 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 22 years of experience in the management of a number business sectors in China such as construction, international trade and information technology sectors. He is currently a vice general manager of Wuling Industrial, our principal subsidiary. 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

Yu Xiumin

Mr. Yu, aged 50, was appointed as an independent non-executive Director 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.

Zuo Duofu

Mr. Zuo, aged 67, was appointed as an independent non-executive Director on 22 June 2006. Mr. Zuo graduated from Department of Journalism of Jinan University. Mr. Zuo has over 26 years of experience in the media industry in the PRC. He is currently a representative of Congress of Writers' Representatives in Guangdong and a member of president group of Guangdong Writer Association. Mr. Zuo is currently the chairman of the Remuneration Committee and a member of the Audit Committee.

Ye Xiang

Mr. Ye, aged 47, was appointed as an independent non-executive Director on 10 October 2008. Mr. Ye is the founder and managing director of Vision Gain Capital Limited ("Vision Gain"), 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 15 years of experience in the monetary and finance industry and has extensive exposures in the banking and regulatory aspects. Prior to his founding of Vision Gain, 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.

14. CORPORATE INFORMATION

Head office and principal place of business	Unit 2805-06 28th Floor Office Tower Convention Plaza No. 1 Harbour Road Wanchai Hong Kong
Registered office	Canon's Court 22 Victoria Street Hamilton HM 12 Bermuda
Auditors	Deloitte Touche Tohmatsu Certified Public Accountants 35/F One Pacific Place 88 Queensway Hong Kong

Principal bankers	Bank of China (Hong Kong) Limited 1 Garden Road, Hong Kong
	Bank of Communications Co., Ltd – Hong Kong Branch 231-235 Gloucester Road, Wanchai, HK
	The Hong Kong and Shanghai Banking Corporation Limited 1 Queen's Road Central, HK
	Hang Seng Bank Limited 83 Des Voeux Road Central, HK
	Agricultural Bank of China Limited – Liuzhou Branch 47 Sanzhong Road, Liuzhou, Guangxi, the PRC
	China Construction Bank Corporation – Liuzhou Branch 2 Beizhan Road, Liuzhou, Guangxi, the PRC
	Bank of China Limited – Liuzhou Branch 178 Pingshan Dadao, Liuzhou, Guanxi, the PRC
Principal share registrar and transfer agent	Butterfield Fund Services (Bermuda) Limited Rosebank Center 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

Authorised representatives	Mr. Lee Shing Block A, 6/F, Victoria Court 50-56 Hing Fat Street Hong Kong
	Ms. Liu Yaling Flat H, 13/F, Southern Building 257-273 King's Road Hong Kong
Company secretary	Mr. Lai Shi Hong, Edward HKICPA, ICAEW, FCCA

15. PARTIES INVOLVED IN THE OPEN OFFER AND WHITEWASH WAIVER

Underwriter	Wuling (Hong Kong) Holdings Limited 44/F, Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong
Party acting in concert with the Underwriter	Dragon Hill Development Limited Room 905, Wing Fu Building 22-24 Wing Kut Street Central Hong Kong
Financial adviser to the Company	Celestial Capital Limited 21/F Low Block, Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Independent financial adviser to the Independent Board Committee and the Independent Shareholders	Guangdong Securities Limited Units 2505-06, 25/F. Low Block of Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Legal advisers to the Company	*As to Hong Kong Law* Sidley Austin Level 39 Two International Finance Centre 8 Finance Street Central Hong Kong

	As to Bermuda Law Appleby 2206-19 Jardine House 1 Connaught Place Central Hong Kong
Legal advisers to the Underwriter	*As to Hong Kong Law* K&L Gates 44/F Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong
Auditors of the Company	Deloitte Touche Tohmatsu Certified Public Accountants 35/F One Pacific Place 88 Queensway Hong Kong

16. MISCELLANEOUS

In the event of inconsistency, the English text of this circular and the accompanying form of proxy shall prevail over the Chinese text.

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

(Incorporated in Bermuda with limited liability) (Stock Code: 305)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the "**SGM**") of Dragon Hill Wuling Automobile Holdings Limited (the "**Company**") will be held at Unit 2805-06, 28th Floor, Office Tower, Convention Plaza, No.1 Harbour Road, Wanchai, Hong Kong at 12:00 noon on Tuesday, 8 March 2011, for the following purposes:

To consider, and if thought fit, passing with or without modification the following resolutions as **ORDINARY RESOLUTIONS**:

1. "**THAT**,

(a) the underwriting agreement dated 29 December 2010, as supplemented and amended by a supplemental agreement dated 4 January 2011, a second supplemental agreement dated 12 January 2011 and a side letter dated 14 February 2011 (collectively, the "**Underwriting Agreement**"), all being entered into between Wuling (Hong Kong) Holdings Limited (the "**Underwriter**") and the Company (a copy of which has been produced to the meeting marked "A" and initialed by the chairman of the meeting for identification purpose) and any transaction contemplated thereunder (including but not limited to the arrangement for the taking up of the unsubscribed offer shares, if any, by the Underwriter) be and are hereby approved, confirmed and ratified;

(b) any one director of the Company (the ''**Directors**'') be and is hereby authorised to take such actions and execute such documents and do all such acts and things incidental to the Underwriting Agreement as he/she may consider necessary, expedient and appropriate to amend the Underwriting Agreement and to give effect to and implement the terms of the Underwriting Agreement and any transaction as may be contemplated under the Underwriting Agreement;"

* *For identification purpose only*

2. "**THAT** subject to the passing of the resolution numbered 1 and conditional upon the fulfillment of the conditions set out in the Underwriting Agreement and the Underwriting Agreement not being terminated in accordance with the terms thereof:

   (a) the allotment and issue by way of open offer (the "**Open Offer**") of not less than 167,229,341 new shares of HK$0.004 each ("**Shares**") in the share capital of the Company (the "**Offer Shares**") and not more than 177,774,341 Offer Shares to the shareholders of the Company (the "**Shareholders**") whose names appear on the register of members of the Company on the date by reference to which entitlement under the Open Offer will be determined (the "**Record Date**") (excluding those Shareholder(s) (the "**Excluded Shareholder(s)**") with registered addresses outside Hong Kong whom the Directors consider it necessary or expedient to exclude after making the relevant enquiries regarding the legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange in the place where those overseas Shareholders reside) on the basis of one (1) Offer Share for every six (6) Shares held on the Record Date at the subscription price of HK$0.90 per Offer Share and otherwise pursuant to and subject to the terms and conditions set out in the Underwriting Agreement be and is hereby approved;

   (b) the absence of arrangements for application for the Offer Shares by the Shareholders in excess of their entitlements under the Open Offer be and is hereby approved, confirmed and ratified; and

   (c) any Director be and is hereby authorised to sign and execute such documents and do all such acts and things incidental to the Open Offer or as he/she considers necessary, desirable or expedient in connection with the implementation of or giving effect to the Open Offer and the transactions contemplated thereunder."

3. "**THAT** subject to the passing of the resolutions numbered 1 and 2, the waiver (the "**Whitewash Waiver**") to be granted by the Executive Director (including his delegates) of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong pursuant to Note 1 on dispensation from Rule 26.1 of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**") in respect of the obligations of the Underwriter and parties acting in concert with it to make a mandatory general offer under Rule 26.1 of the Takeovers Code for all issued securities of the Company not already owned or agreed to be acquired by the Underwriter and parties acting in concert with it which would otherwise arise as a result of the Underwriter being required to perform its underwriting commitment under the Underwriting Agreement be and is hereby approved, confirmed and ratified, and that any Director be and is hereby authorised to do all things and acts and sign all documents which he/she considers desirable or expedient to implement and/or give effect to any matters relating to or in connection with the Whitewash Waiver."

By Order of the Board
Dragon Hill Wuling Automobile Holdings Limited
Sun Shaoli
Chairman

Hong Kong, 15 February 2011

As at the date of this announcement, the Board comprises Mr. Sun Shaoli (Chairman), Mr. Lee Shing (Vice-chairman and Chief Executive Officer), Mr. Wei Hongwen, Mr. Zhong Xianhua, Ms. Liu Yaling, and Mr. Zhou Sheji as executive Directors and Mr. Yu Xiumin, Mr. Zuo Duofu and Mr. Ye Xiang as independent non-executive Directors.

Notes:

1. Any member entitled to attend and vote at the SGM (or at any adjournment thereof) is entitled to appoint one or more proxies to attend and vote, on a poll, on his behalf. A proxy need not be a member of the Company.

2. A form of proxy for use in connection with the SGM is enclosed and such form is also published on the website of The Stock Exchange of Hong Kong Limited (*www.hkexnews.hk*).

3. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be lodged with the Company's Hong Kong branch share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the SGM (or at any adjournment thereof). Completion and return of the forms of proxy will not preclude a member from attending the SGM and voting in person if he so wishes. In this event that a member attends the SGM after having lodged his form of proxy, his form of proxy will be deemed to have been revoked.

4. In the case of joint holders of Shares, any one of such holders may vote at the SGM, either personally or by proxy, in respect of such Share as if he was solely entitled thereto, but if more than one of such joint holders are present at the SGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.

5. Shareholders are advised to read the circular to the shareholders of the Company dated 15 February 2011 which contains information concerning the resolutions to be proposed in this notice.

6. The ordinary resolutions to be proposed at the SGM shall be decided by way of poll.