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)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

RESULTS

The board of directors (the "Board") of Dragon Hill Wuling Automobile Holdings Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010 together with the comparative figures for the previous years.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTES	**2010** *RMB'000*	2009 *RMB'000*
Revenue	*4*	**11,063,390**	9,888,856
Cost of sales		**(9,983,234)**	(9,016,957)
Gross profit		**1,080,156**	871,899
Other income	*4*	**108,387**	84,758
Distribution costs		**(289,875)**	(256,309)
General and administrative expenses		**(627,060)**	(447,800)
Net gain on held-for-trading investments		**–**	4
Gain on disposal of an associate		**1,572**	–
Share of results of an associate		**(1,715)**	30
Change in fair value of derivative financial instrument	*15*	**27,152**	(65,684)
Change in fair value of investment properties		**2,958**	2,024
Finance costs	*5*	**(63,912)**	(49,210)
Profit before tax		**237,663**	139,712
Income tax expense	*6*	**(55,120)**	(31,093)
Profit for the year	*7*	**182,543**	108,619
Other comprehensive income			
Exchange differences arising from translation of foreign operation		**8,664**	326
Total comprehensive income for the year		**191,207**	108,945

* *For identification purpose only*

	NOTES	**2010** *RMB'000*	2009 *RMB'000*
Profit (loss) for the year attributable to:			
Owners of the Company		**77,648**	(21,928)
Non-controlling interests		**104,895**	130,547
		182,543	108,619
Total comprehensive income (expenses)			
Attributable to:			
Owners of the Company		**86,312**	(21,602)
Non-controlling interests		**104,895**	130,547
		191,207	108,945
Earnings (loss) per share	*9*		
Basic		**7.84 cents**	(2.38) cents
Diluted		**5.23 cents**	(2.38) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	NOTES	2010 RMB'000	2009 RMB'000 (restated)	2008 RMB'000 (restated)
NON-CURRENT ASSETS				
Property, plant and equipment		**891,537**	668,500	570,065
Prepaid lease payments		**32,104**	44,975	13,912
Premium on prepaid lease payments		**997**	1,022	1,047
Investment properties		**27,103**	25,141	6,172
Intangible assets		**928**	928	928
Investment in an associate		**–**	2,434	3,304
Available-for-sale investments		**360**	495	495
Deposits for trading rights		**174**	180	180
Deposits for acquisition of land use rights		**50,800**	–	–
Deposits for acquisition of property, plant and equipment		**183,229**	47,175	51,170
		1,187,232	790,850	647,273
CURRENT ASSETS				
Inventories	*10*	**895,836**	795,689	600,273
Loans receivable	*11*	**50**	450	68
Trade and other receivables	*12 (i)*	**4,767,834**	3,995,094	2,861,209
Bills receivables discounted with recourse	*12 (ii)*	**1,418,202**	1,335,778	342,008
Prepaid lease payments		**689**	937	201
Held-for-trading investments		**7**	7	3
Client trust bank accounts		**5,373**	7,235	2,350
Pledged bank deposits		**952,549**	835,653	624,601
Bank balances and cash		**845,433**	812,525	596,066
		8,885,973	7,783,368	5,026,779

	NOTES	2010 RMB'000	2009 RMB'000 (restated)	2008 RMB'000 (restated)
CURRENT LIABILITIES				
Trade and other payables	*13 (i)*	**6,243,018**	5,167,274	3,279,598
Advances drawn on bills receivables discounted with recourse	*13 (ii)*	**1,418,202**	1,335,778	342,008
Amounts due to shareholders		**627,013**	815,106	989,580
Amount due to an associate		**–**	11,371	20,467
Provision for warranty	*14*	**125,665**	111,739	83,226
Tax payable		**44,100**	26,180	31,787
Derivative financial instrument	*15*	**54,369**	83,861	–
Convertible loan notes	*15*	**4,928**	5,115	–
Bank borrowings – due within one year		**240,521**	233,686	198,104
Obligations under finance leases – due within one year		**79**	254	270
		8,757,895	7,790,364	4,945,040
NET CURRENT ASSETS (LIABILITIES)		**128,078**	(6,996)	81,739
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,315,310**	783,854	729,012
NON-CURRENT LIABILITIES				
Amount due to shareholders		**329,533**	–	–
Convertible loan notes	*15*	**72,763**	72,287	–
Bank borrowings – due after one year		**2,872**	4,414	19,212
Obligations under finance leases – due after one year		**79**	158	412
Deferred tax liabilities		**9,527**	6,833	2,158
		414,774	83,692	21,782
		900,536	700,162	707,230
CAPITAL AND RESERVES				
Share capital	*16*	**3,961**	3,659	3,659
Reserves		**297,613**	122,428	143,085
Equity attributable to owners of the Company		**301,574**	126,087	146,744
Non-controlling interests		**598,962**	574,075	560,486
		900,536	700,162	707,230

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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 Unit 2805-2806, 28th Floor, Office Tower, Convention Plaza, 1 Harbour 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 Group's principal operations are conducted in the People's Republic of China (the "PRC"). The consolidated financial statements are presented in Renminbi dollars ("RMB") , which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") /CHANGES IN ACCOUNTING POLICIES

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").

HKFRS 2 (Amendments)	Group Cash-settled Shared-based Payment Transactions
HKFRS 3 (As revised in 2008)	Business Combinations
HKAS 27 (As revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvement to HKFRSs issued in 2008
HK (IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 5	Presentation of Financial Statements– Classification by the Borrower of a Team Loan that Contains a Repayment on demand clause

Except as described below, the application of the new and revised HKFRSs in the current year has had no material effect on the amount report in these consolidated financial statements and disclosures set out in these consolidated financial statements.

Hong Kong Interpretation 5 Presentation of Financial Statements– Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ('HK int 5') clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ('repayment on demand clause') should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

As a result, bank borrowings that contain a repayment on demand clause with the aggregate carrying amounts of approximately RMB13,120,000 and RMB1,076,000 have been reclassified from non-current liabilities to current liabilities as at 31 December 2009 and 1 January 2009 respectively. As at 31 December 2010, bank borrowings (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of approximately RMB69,543,000 have been classified as current liabilities. The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities.

The effects of the above changes in accounting policies on the financial positions of the Group as at 1 January 2009 and 31 December 2009 is as follows:

	As at 1.1.2009 (originally stated)	**Adjustments**	**As at 1.1.2009 (restated)**	**As at 31.12.2009 (originally stated)**	**Adjustments**	**As at 31.12.2009 (restated)**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowings – due within one year	197,028	1,076	198,104	220,566	13,120	233,686
Bank borrowings – due after one year	20,288	(1,076)	19,212	17,534	(13,120)	4,414
	217,316	–	217,316	238,100	–	238,100

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First– time Adopters[2]
HKFRS 7 (Amendments)	Disclosures– Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKFRS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK (IFRIC) –Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]
HKFRS 1 (Amendments)	Servere hyperinflation and removal of fixed dates for first-time adopters[3]

[1] Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 July 2010.
[3] Effective for annual periods beginning on or after 1 July 2011.
[4] Effective for annual periods beginning on or after 1 January 2013.
[5] Effective for annual periods beginning on or after 1 January 2012.
[6] Effective for annual periods beginning on or after 1 January 2011.
[7] Effective for annual periods beginning on or after 1 February 2010.

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial instruments (as revised in November 2010) adds requirement for financial liabilities and for derecognition.

Under HKFRS 9, all recognized financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flow, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to change in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that application of the new Standard may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

3. SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of the resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. This is also the basis upon which the Group is organized.

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

- 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 earned 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, gain on disposal 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 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 allocated to the segments.

Inter-segment sales are charged at prevailing market prices.

An analysis of the Group's profit before tax and assets and liabilities 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 2010							
Revenue							
External sales	3,589,536	5,230,910	1,555,380	685,984	1,580	–	11,063,390
Inter– segment sales	291,393	109,716	109,857	3,394,908	–	(3,905,874)	–
Total	3,880,929	5,340,626	1,665,237	4,080,892	1,580	(3,905,874)	11,063,390
Segment profit (loss)	214,348	65,418	26,870	25,790	(14,634)		317,792
Bank interest income							18,766
Change in fair value of investment properties							2,958
Change in fair value of derivative financial instrument							27,152
Share option expenses							(25,689)
Central administration costs							(39,261)
Share of result of an associate							(1,715)
Gain on disposal of an associate							1,572
Finance costs							(63,912)
Profit before tax							237,663
Other information							
Capital additions	109,518	123,311	11,849	70,072	380		315,130
Depreciation of property, plant and equipment	27,053	37,413	3,920	10,579	669		79,634
Release of prepaid lease payments	–	751	–	–	–		751
Release of premium on prepaid lease payments	–	25	–	–	–		25
Loss (gain) on disposal of property, plant and equipment	580	5	112	(424)	250		523
Allowance of inventories	–	–	1,186	–	–		1,186
At 31 December 2010							
Assets							
Segment assets	2,574,426	3,666,478	509,953	1,486,009	38,357		8,275,223
Pledged bank deposits							952,549
Bank balances and cash							845,433
Consolidated assets							10,073,205
Liabilities							
Segment liabilities	2,297,215	3,066,878	516,779	1,891,798	13,549		7,786,219
Amounts due to shareholders							956,546
Derivative financial instrument							54,369
Convertible loan notes							77,691
Bank borrowings							243,393
Others							54,451
Consolidated liabilities							9,172,669

	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 on held-for-trading investments							4
Share option expenses							(945)
Central administration costs							(42,676)
Share of result of an associate							30
Finance costs							(49,210)
Profit before tax							139,712
Other information							
Capital additions	97,153	44,312	31,042	4,175	87		176,769
Depreciation of property, plant and equipment	26,096	24,868	10,455	3,089	977		65,485
Release of prepaid lease payments	129	–	–	–	–		129
Release of premium on prepaid lease payments	25	–	–	–	–		25
Impairment recognized on trade receivables	309	254	–	–	11		574
(Gain) loss on disposal of property, plant and equipment	(780)	165	(77)	2	(4,380)		(5,070)
(Reversal of allowance) allowance of inventories	(26,017)	14,152	–	–	–		(11,865)
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

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	
	2010	2009
	RMB'000	*RMB'000*
The PRC (excluding Hong Kong)	**11,061,810**	9,887,127
Hong Kong	**1,580**	1,729
Consolidated	**11,063,390**	9,888,856

(b) *Non-current assets*

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

	Carrying amount of non-current assets	
	2010	2009
	RMB'000	*RMB'000*
Hong Kong	**29,844**	28,493
Philippines	**174**	180
The PRC (excluding Hong Kong)	**1,157,214**	762,177
	1,187,232	790,850

Information about a major customer

Revenue derived from sales to a single customer, SGMW (as defined in note 12) in respect of:

	2010	2009
	RMB'000	*RMB'000*
Engines and parts' segment	**2,667,317**	2,736,383
Automotive components and accessories' segment	**4,765,864**	4,613,021
Specialized vehicles' segment	**234,138**	–
Trading of raw materials, water and power supply's segment	**330,723**	302,375
	7,998,042	7,651,779

4. REVENUE AND OTHER INCOME

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

	2010 *RMB'000*	2009 *RMB'000*
Sales of goods	**11,061,810**	9,887,127
Commission and interest income from securities dealing and margin finance	**980**	1,453
Gross property rental income	**600**	276
	11,063,390	9,888,856
Other income	**108,387**	84,758
	11,171,777	9,973,614

Details of other income are as follows:

	2010 *RMB'000*	2009 *RMB'000*
Sales of scrap materials and parts	**62,155**	47,514
Bank interest income	**18,766**	20,553
Project income	**8,993**	5,606
Recovery of trade receivables previously written off	**8,097**	–
Service income on repairs and maintenance	**5,016**	2,784
Machinery rental income	**1,380**	1,083
Gain on disposal of available-for-sale investments	**813**	–
Foreign exchange gains, net	**522**	–
Gain on disposal of property, plant and equipment	**–**	5,070
Dividend income from held-for-trading investments	**–**	52
Others	**2,645**	2,096
	108,387	84,758

5. FINANCE COSTS

	2010 *RMB'000*	2009 *RMB'000*
Interests on:		
– amount due to a shareholder	**1,453**	–
– borrowings wholly repayable within five years	**7,265**	9,385
– borrowings not wholly repayable within five years	**383**	239
– advances drawn on bills receivables	**46,345**	31,606
– obligations under finance leases	**47**	50
– convertible loan notes *(Note 15)*	**8,419**	7,930
	63,912	49,210

6. INCOME TAX EXPENSE

	2010	2009
	RMB'000	*RMB'000*
Tax charge represents:		
PRC Enterprise Income Tax		
Current	**52,704**	34,119
Tax deduction in respect of the acquisition of qualified assets in the PRC	**–**	(5,351)
Overprovision in prior years	**(281)**	(2,350)
	52,423	26,418
Deferred tax		
Current year	**2,697**	4,675
	55,120	31,093

Hong Kong

Hong Kong Profit 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 relevant companies in 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 Motor Industrial Company Limited ("Wuling Industrial") , all the Group's major PRC operating subsidiaries would continue to enjoy a preferential income tax rate of 15% until 2010 because (i) they are located in the western region of the PRC; (ii) their main business falls 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.

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 RMB7,003,000 (2009: RMB6,209,000) has been provided in respect of the undistributed earnings of the Group's PRC subsidiaries as a charge to the consolidated statement of comprehensive income.

7. PROFIT FOR THE YEAR

	2010	2009
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments	**10,519**	5,176
Other staff costs	**445,968**	360,827
Retirement benefit scheme contributions, excluding directors	**59,849**	46,447
Equity-settled share-based payments, excluding directors	**20,913**	–
Total staff costs	**537,249**	412,450
Gross property rental income	**(600)**	(276)
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	**3**	11
Net rental income	**(597)**	(265)
Auditor's remuneration	**1,966**	2,207
Cost of inventories recognized as an expense *(note)*	**9,983,234**	9,016,957
Depreciation of property, plant and equipment	**79,634**	65,485
Loss (gain) on disposal of property, plant and equipment	**523**	(5,070)
Impairment loss recognized on trade receivables	**2,554**	574
Release of prepaid lease payments (included in general and administrative expenses)	**751**	129
Release of premium on prepaid lease payments (included in general and administrative expenses)	**25**	25
Research and development expenses (included in general and administrative expenses)	**83,901**	42,735
Recovery of trade receivables previously written off	**(8,097)**	–

Note: Included in cost of inventories recognised as an expense is an amount of approximately RMB1,186,000 and (RMB11,865,000) as allowance and reversal of allowance for inventories for the year ended 31 December 2010 and 2009, respectively.

8. DIVIDENDS

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

9. 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:

	2010	2009
	RMB'000	*RMB'000*
Earnings (Loss)		
Earnings (loss) for the purpose of basic earnings (loss) per share	**77,648**	(21,928)
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	**8,419**	–
Change in fair value of derivative financial instruments	**(27,152)**	–
	58,915	(21,928)
Number of shares	*'000*	*'000*
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	**990,095**	921,535
Effect of dilutive potential ordinary shares:		
Convertible loan notes	**136,986**	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**1,127,081**	921,535

The computation of diluted loss per share 2009 does not assume the conversion of the company's outstanding convertible loan notes issued in 2009 since their exercise would result in a decrease in loss per share.

The computation of diluted earnings (loss) per share in 2010 and 2009 does not assume the exercise of the outstanding share options as the exercise price is higher than the average market price of the Company's shares during the relevant year.

The weighted average number of ordinary shares for the purpose of basic earnings (loss) per share in 2010 and 2009 has been adjusted for the Open Offer (as defined in note 17) on 8 March 2011.

10. INVENTORIES

	2010	2009
	RMB'000	*RMB'000*
Raw materials	**589,926**	403,044
Work in progress	**100,005**	65,271
Finished goods	**205,905**	327,374
	895,836	795,689

11. LOANS RECEIVABLE

Loans receivable comprise margin clients accounts receivable of RMB50,000 (2009: RMB450,000).

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% (2009: 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.

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

(i) Trade and other receivables

	2010	2009
	RMB'000	*RMB'000*
Trade and bills receivables		
– related party *(note a)*	**2,243,699**	2,490,458
– Liuzhou Wuling Group *(note b)*	**76,414**	74,465
– third parties	**1,967,000**	1,270,221
	4,287,113	3,835,144
Less: Allowance for doubtful debts	**(5,551)**	(7,080)
	4,281,562	3,828,064
Other receivables:		
Prepayment for expenses	**10,958**	5,348
Prepayment for purchase of raw materials *(note c)*	**459,677**	137,800
Value-added tax recoverable	**–**	8,415
Others	**15,637**	15,467
	486,272	167,030
	4,767,834	3,995,094

Notes:

(a) The related party is SAIC-GM-Wuling Automobile Co., Limited ("SGMW") in which Liuzhou Wuling, a substantial shareholder of the Company, holds a 5.8% (2009: 15%) equity interest.

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

(c) Included in the balance were amounts of approximately RMB244,663,000 (2009: nil) paid to SGMW.

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:

	2010	2009
	RMB'000	*RMB'000*
0 – 90 days	**4,197,390**	3,693,060
91 – 180 days	**52,135**	48,095
181 – 365 days	**20,011**	86,873
Over 365 days	**12,026**	36
	4,281,562	3,828,064

(ii) Bills receivables discounted with recourse

The amounts represent bills receivables discounted to banks with recourse with a maturity period of less than 180 days. The Group recognizes the full amount of the discount proceeds as liabilities as set out in note 13(ii).

13. 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:

	2010	2009
	RMB'000	*RMB'000*
Trade and bills payables:		
– third parties	**5,704,634**	4,633,420
Trade and bills payables:		
0 – 90 days	**5,667,643**	4,508,295
91 – 180 days	**7,777**	95,714
181 – 365 days	**16,416**	8,603
Over 365 days	**12,798**	20,808
	5,704,634	4,633,420
Others payables and accruals	**538,384**	533,854
	6,243,018	5,167,274

The settlement terms of the trade payables arising from the Group's securities dealing and brokerage business is two days after the trade date. Such trade payables were not material as at 31 December 2010 and 2009. The Group is granted average credit period of 90 days to 180 days by its trade suppliers for purchase of goods.

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

	2010	2009
Effective interest rates per annum	**1.80% to 2.25%**	1.50% to 2.82%

14. PROVISION FOR WARRANTY

	RMB'000
At 1 January 2009	83,226
Additional provision in the year	87,153
Utilization of provision	(58,640)
At 31 December 2009	111,739
Additional provision in the year	87,466
Utilization of provision	(73,540)
At 31 December 2010	125,665

The warranty provision represents management's best estimate, under its 2-year product warranty granted to its specialized vehicles, automobile components and engines customers. However, based on prior experience and industry averages for defective products, it is expected that the majority of this expenditure will be incurred in the next financial year.

15. DERIVATIVE FINANCIAL INSTRUMENT/CONVERTIBLE LOAN NOTES

On 12 January 2009, the Company issued convertible loan notes with an aggregate principal sum of HK$100,000,000 at par (equivalent to approximately RMB88,069,000) to Wuling HK ("CN 2014"). CN 2014 is denominated in HKD 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.

As a result of the share placement and subscription at a discount as set out in note 16, 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 during the year is as follows:

	2010	2009
	RMB'000	*RMB'000*
At the beginning of the year	**77,402**	69,755
Effective interest expense	**8,419**	7,930
Interest paid	**(5,220)**	–
Exchange difference	**(2,910)**	(283)
At the end of the year	**77,691**	77,402
Less: Amount included in current liabilities	**(4,928)**	(5,115)
Amount due after one year	**72,763**	72,287

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

	2010	2009
	RMB'000	*RMB'000*
At the beginning of the year	**83,861**	18,314
Changes in fair value during the year	**(27,152)**	65,684
Exchange difference	**(2,340)**	(137)
At the end of the year	**54,369**	83,861

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 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 was measured at fair value using the Binomial Option Pricing Model, at initial recognitions and at the end of the reporting period by Vigers Appraisal and Consulting Limited, 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 31 December 2010	At 31 December 2009
Share price	**HKD 0.92**	HKD 1.18
Conversion price	**HKD 0.73**	HKD 0.74
Expected dividend yield	**0%**	0%
Volatility	**68.90%**	63.00%

16. SHARE CAPITAL

	2010 & 2009
	RMB'000
Authorized:	
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

	Number of shares		**Share capital**	
	2010	2009	**2010**	2009
			HK$'000	*HK$'000*
Issued and fully paid:				
At beginning of the year	**917,288,049**	917,288,049	**3,669**	3,669
Issue of new shares *(note)*	**84,008,000**	–	**336**	–
Exercise of share options	**2,080,000**	–	**8**	–
At end of the year	**1,003,376,049**	917,288,049	**4,013**	3,669
			RMB'000	*RMB'000*
Shown in the financial statements as			**3,961**	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 HKD0.85 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 HKD0.85 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 was 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.

17. EVENTS AFTER THE REPORTING DATE

On 4 January 2011, the Company announced an open offer of rights shares on the basis of 1 offer share for every 6 shares held on 8 March 2011 (the "Open Offer"). The Open Offer involves the issue of not less than 167,229,341 offer shares but not more than 177,774,341 offer shares at a price of HKD0.90 per offer share.

Further details of the Open Offer are set out in a circular of the Company dated 15 February 2011.

On 8 March 2011, the shareholders of the Company approved the Open Offer in a special general meeting of the Company.

On 29 March 2011, the Open Offer was completed as set out in the announcement of the Company of the same date.

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Review – By Key Business Segments

The business performance and evaluation of the Group's four main business segments namely (1) engines and parts; (2) automotive components; (3) specialized vehicles; and (4) trading and supply services for the year of 2010 are detailed below:

Engines and Parts – Liuzhou Wuling Liuji Motors Company Limited ("Wuling Liuji")

Turnover (based on external sales) of the engines and parts division for the year ended 31 December 2010 was RMB3,589,536,000, representing an increase of 11.7% as compared to last year. Operating profits for the year was RMB214,348,000, representing a slight increase of 1.4% as compared to last year.

The engines and parts division undertaken by Wuling Liuji continued to be the major contributor to the Group's operating profits for the year 2010.

During this year, Wuling Liuji continued to deliver a set of solid results to the Group. The satisfactory results achieved by Wuling Liuji were mainly attributable to the continuous strong market demands for the main models. Total sale volume exceeded 700,000 units, represented a successive year of record number. Growth of business of SGMW and increasing orders from other customers in 2010 benefited the business performance of this division. Besides, due to an increase in the volume of sale to other customers, percentage share of the total sale volume other than SAIC GM Wuling Automobile Co., Limited ("SGMW") increased to more than 20% in this year. Wuling Liuji is currently supplying its engine products to a number of motor vehicles' manufacturers including SGMW, FAW Haima, Gonow Auto, Ziyang Nanjun Auto, Beiqi Foton and Mianyang Huaxib (上汽通用五菱、一汽海馬、吉奧汽車、資陽南駿汽車、北汽福田及綿陽華鑫). Wuling Liuji has also exported its product to the overseas markets including Indonesia, Turkey, Pakistan, Thailand and the United States. The successful launch of the agricultural machinery by Wuling Liuji last year has also begun to contribute to the business performance during the year.

Operating margin maintained at 6.0% as compared to 6.6% recorded in last year with a similar gross margin performance as a result of a slightly higher material costs and a stable scale of operation. Meanwhile, the division incurred research and development expenses of approximately RMB27,460,000, representing an increase of 43.4% as compared last year. The research and development expenses were primarily incurred for the on-going technical development projects for new products and models which will contribute to the profitability of the division in future.

Total production capacity of Wuling Liuji for the assembly functions at present is about 800,000 units a year. The new production line for the nonferrous metallic parts for the engine's cylinder, which commenced operation in 2008, had been fully operational in this year and began to contribute to the business performance of this division. The parts produced by this new production line are primarily applied for the existing models of SGMW and other new customers. The division's second re-engineering project on the foundry of cylinder block and cylinder head was also progressing satisfactorily during the year. This project, which aims at further strengthening the Group's capability in the engines businesses with a targeted capacity of 600,000 units, is expected to commence operation in early 2011.

As mentioned above, Wuling Liuji continued to steadily expand its businesses to other automobile manufacturers during the year. Approximately 25% of the total sale volume in 2010 was originated from customers other than SGMW. Meanwhile, the launches of new products such as the generators and the agricultural machinery will also bring in new business opportunities to the division. This strategy, which aims at promoting a more diversified portfolio of products and customers, will further the long term business potential of this division.

The engines produced by Wuling Liuji are mainly for the economical-typed mini-vehicles. Its products are state-designated products exempt from quality surveillance inspection. The "LJ" model has also been recognized as a reputable trademark in the Guangxi Province. Going forward, Wuling Liuji will continue to focus on the research and development, as well as the marketing programmes of its new products, such as the L15, L18 and LJ475 models in maintaining its competitiveness in this market segment.

The Group expects the strong market demands for SGMW and other customers' models will continue in 2011 which will benefit the business performance in this division.

Automotive Component – Liuzhou Wuling Motors United Development Limited ("Wuling United")

Turnover (based on external sales) of the automotive components division for the year ended 31 December 2010 was RMB5,230,910,000, representing a slight increase of 3.6% as compared to last year. Following steady improvement of the operation of the Qingdao factory, profitability was gradually restored to a reasonable level. Operating profits for the year was RMB65,418,000.

The automotive components division undertaken by Wuling United continued to be the largest contributor to the total revenue of the Group due to the strong market demand in 2010.

During this year, Wuling United, being the key supplier supplying a majority portion of the key automotive components to SGMW, registered another year of record revenue. This remarkable result was mainly attributable to the continuous strong market demands for the vehicles produced by SGMW. Total sale volume exceeded 1,200,000 units/sets, in which sales to SGMW accounted for more than 90% of the total turnover. Other customers include Dongfeng Yu'an, Bei Qi Foton, Hebei Changan and Chery Automobile etc, where satisfactory growth was achieved in this year.

Meanwhile, profitability performance was also impressively improved as compared to last year, despite the undesirable higher cost of production and transportation continued to adversely affect the operation of the new Qingdao factory. Same as previous years, to cope with the tremendous increases in demands from SGMW, production facilities of the automotive components division were required to be operated at an above full capacity level during this year. This overloaded operating environment was in particular undesirable for the new facility in Qingdao, which drove up the cost of production and resulted in a loss making situation in this new plant in the year 2009. However, with the installation of additional plant and machinery and better operation stability, such undesirable condition has been gradually improved. The division's research and development expenses was substantially increased to approximately RMB32,336,000 during this year. The research and development expenses were primarily incurred for the on-going technical development projects for new products and models which will contribute to the profitability of the division in future.

Wuling United currently operates the largest manufacturing base of automotive components in the south-western part of China and is recognized as the Top 100 Automotive Components Enterprise in China in term of its comprehensive strength of competitiveness. Its six specialized facilities cover the products range of the brake, the chassis assembly, automotive accessories, plastic components, welding parts and the seat sets. Wuling United's main facilities are located in Liuzhou and Qingdao which ensure closer proximity to the customer's needs in both the northern and southern part of China. Maximum capacity, for Liuzhou and Qingdao in total, at present can reach 1,200,000 units/sets a year.

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

The Group expects the growth of business of SGMW from the existing models and the launch of new models will continue to boost the revenue growth of the automotive components and accessories division in the coming years. As a result, the Group entered in contracts to acquire a factory premises and certain production facilities in Qingdao in July 2010. The Group considers this new facility is a desirable option for the expansion programs due to the close proximity to the existing production facilities of SGMW as well as the Group's existing factory in Qingdao, where immediate capacity can be available to cope with vigorous demands in this region.

Going forward, Wuling United will continue to actively upgrade its product standard and capability. Through the implementation of a series of enhancement projects on organization structure, quality control and production management, it is targeted that the production quality will be improved. Strategically, Wuling United will gradually shift from its original focus on supplying to the commercial-typed vehicles to the higher value-added passenger vehicles segment. Meanwhile, to pursue the long term growth potential of the enterprise, the division will continue to undertake various expansion and innovation plans as well as other flexible co-operation projects with the large multinational corporations.

Specialized Vehicles – Liuzhou Wuling Specialized Vehicles Manufacturing Company Limited ("Wuling Specialized Vehicles")

Turnover (based on external sales) of the specialized vehicles division for the year ended 31 December 2010 was RMB1,555,380,000, representing a significant increase of 61.6% as compared to last year. Operating profits for the year was RMB26,870,000, representing a significant increase of 65.8% as compared to last year.

The specialized vehicles division continued to actively launch new models and expand its capacity to cope with the increasing market demands. In 2009, it became the first enterprise possessing the qualification for manufacturing new energy electrical mini-truck in China, which products have been launched in 2010.

During this year, through active marketing and promotion programs, Wuling Specialized Vehicles sold more than 40,000 specialized vehicles, representing an impressive increase of 33.3% as compared to last year.

Operating margin slightly increased to 1.73% from 1.68% recorded in last year. High distribution costs incurred for the selling of certain specialized vehicles to those provinces located far away from Liuzhou continued to have an adverse impact on the profitability of this division during the year.

Wuling Specialized Vehicles operates a comprehensive car assembly line which covers the production processes of welding, painting and assembly. Wuling Specialized Vehicles produces more than a hundred different types of specially-designed vehicles which serves the particular needs of customers, such as sightseeing bus, golf cart, police car, mini fire engine, postal van, ambulance, container wagon, refrigerator vehicle, heat preservation vehicle, garbage truck and electrical vehicles, etc. The customers range from government departments, public institutes, private enterprises with different size of operation to private individuals. Products are mainly sold in the domestic market covering the 24 provinces and cities across the country, but have recently expanded to the overseas markets such as USA, Korea, Saudi Arabia, South Africa, UAE and Vietnam, etc.

The capability of Wuling Specialized Vehicles in the car assembly industry is originated from the long-standing industry experiences of Wuling. In fact, the models designed and developed by Wuling Specialized Vehicles are branded as "Wuling", which is itself a benchmark of quality products and services in the market. Wuling Specialized Vehicles is currently the first enterprise which possesses the capability for manufacturing new energy electrical mini-truck in China. The division aims at playing an important part in the new energy vehicle segment and is actively pursuing various development plans for market expansions and enhancement of research capability. Current products include electrical sight-seeing bus, electrical community car and electrical trucks, etc. The new energy vehicle will become an important part of the corporate strategic plan.

Total capacity of Wuling Specialized Vehicles at present is about 60,000 vehicles a year. The Group has established a new production plant in Qingdao currently with a capacity of 10,000 vehicles to facilitate geographical diversification which enables quality services and cost effectiveness. For further expansion, the site of the factory premises in Qingdao recently acquired by Wuling Industrial will also be integrated with certain facilities for the production of specialized vehicles.

Going forward, Wuling Specialized Vehicles will continue to undertake research and development projects for new product, technical and capability improvement with specific focus on the new energy vehicles. More active marketing programmes for the new energy models will be launched in 2011 for promoting its growth potential.

The division will also continue to consolidate its existing business and at the same time explore opportunities both locally and overseas with an innovative strategy. On the back of our basic business principle of "Supplying Favourite Vehicles to the Ordinary People", the division will diligently and aggressively pursuing opportunities in consistent with the growing pace of China automobile industry, aiming at delivering the top quality specialized vehicles to the general public consumer market.

Trading and Supply Services – Liuzhou Wuling Motors Industrial Company Limited ("Wuling Industrial")

Turnover (based on external sales) of the trading and supply services division for the year ended 31 December 2010 was RMB685,984,000, representing an increase of 3.8% compared to last year. Inter-segment sales which were primarily contributed from the sales to Wuling United was RMB3,394,908,000, representing an increase of 5.8% compared to last year. Operating profits for the year was RMB25,790,000, representing a decrease of 51.7% compared to last year, which was mainly attributable to the increases in general and administration expenses incurred for the various on-going corporate exercises.

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

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

Headquartered in Liuzhou in the Guangxi Province and supported by a total number of 5,200 staff members and over 4,200 workers (inclusive of the staff members of the three aforementioned subsidiaries) , Wuling Industrial enjoys the close proximity advantage to the key customer and perform a core and effective functions to the key customer and to its subsidiaries.

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

(1) to expedite the growth of the three main businesses in the automotive components industry with the market principles of supplying good quality vehicles at competitive price to the customers and with the ultimate targets to secure and reinforce the leading position in the market;

(2) to promote a coherent working environment among different entities which include the group companies, its customers, suppliers and other services providers to ensure common corporate goals and to determine appropriate operational policies; and

(3) to design and carry out effective procurement and resources allocation programmes to enhance efficiency and competitiveness of the group companies as well as the entities serviced by the Group in the industry.

During the year, the trading and supply services division continued to experience business expansion resulting from the continuous strong market demands for the vehicles produced by SGMW.

Operating margin experienced a decline in this year due to an increase in general and administrative expenses resulting from the active on-going corporate exercises undertook by the Group. The corporate exercises which pave the ways for capturing future opportunities in the automobile industry in China are essential development which will benefit the Group's long term business potential and profitability.

The Group expects the growth of business of SGMW from the existing models and the launch of new models will continue to boost the revenue of the trading and supply services division.

Financial Review

Statement of Comprehensive Income

Group's turnover for the year ended 31 December 2010 was RMB11,063,390,000 representing a 11.9% increase as compared to last year which was mainly attributable to the continuous strong market demands for the vehicles produced by our key customer, SGMW, and the increasing sales of specialized vehicles on the back of the favourable policies implemented by the government during the year.

Gross profits for the year ended 31 December 2010 was RMB1,080,156,000, representing an encouraging 23.9% increase as compared to last year. This encouraging increase rate was mainly due to the improvement in the operating results of our automotive components division in 2010 as compared to last year, which segment performance was adversely affected by the initial stage operations of certain new facilities.

Accordingly, gross margin of the Group increased to 9.8% from 8.8% recorded last year. The single digit gross margin condition was, however, a reflection of the keen competition environment in the automobile industry in China.

Taking into account of the gain on fair value adjustment of RMB27,152,000 relating to the convertible loan notes issued by the Company, and the share option expenses of RMB25,689,000 relating to the issue of share options to the directors and employees, the Group recorded net profits of RMB182,543,000, representing a significant 68.1% increase as compared to last year. Meanwhile, profit attributable to the owners of the Company turned around from a deficit in last year to a profit of RMB77,648,000 for the year ended 31 December 2010.

On 12 March 2010, the Company issued 58,220,000 and 25,788,000 new shares respectively to independent third party investors and, Wuling (Hong Kong) Holdings Limited, a wholly owned subsidiary of Liuzhou Wuling and a substantial shareholder of the Company. Net proceeds amounting to approximately HK$67,800,000 from the issue had been injected into Wuling Industrial, a subsidiary of the Company, subsequently for providing additional working capital for its operations.

Subsequent to this capital injection, the percentage of the paid up capital of the Company in Wuling Industrial was increased from 30.5% to 37.4%, which was used as the basis to calculate the profits attributable to the owners of the Company upto 31 August 2010.

In August 2010, the Group obtained additional credit facilities of approximately RMB80,000,000 and RMB87,000,000 from a number of financial institutions and Wuling HK, respectively, and applied the same to pay up the Group's capital contribution obligations in Wuling Industrial.

Subsequent to this capital injection, the percentage of the paid up capital of the Company in Wuling Industrial was increased from 37.4% to 51%, which was used as the basis to calculate the profits attributable to the owners of the Company commencing from 1 September 2010.

Other income comprised primarily sales of scrap materials and bank interest income was in aggregate RMB108,387,000 for the year ended 31 December 2010, representing an increase of 27.9% as compared to last year. The increase was mainly attributable to an increase in the sale values of scrap materials and the recovery of previously written off trade receivables.

Selling, distribution and warranty expenses of the Group comprised primarily transportation costs, warranty expenses and other marketing expenses was in aggregate RMB289,875,000 for the year ended 31 December 2010, representing an increase of 13.1% as compared to last year. The increase was in line with the revenue growth of the Group.

Administrative expenses of the Group comprised primarily salary and allowances, various insurance expenses, rental expenses and other administrative expenses was in aggregate RMB627,060,000 for the year ended 31 December 2010, representing an increase of 40.0% as compared to last year. The increase was in line with the increasing scale of operation resulting from the continuous business expansion of the Group, as well as the various corporate exercises undertook by the Group to ensure its competitiveness in the automobile industry in China.

Research and development expenses (after deducting the related grants and subsidies from the government of RMB6,606,000) for the year ended 31 December 2010 amounted to RMB83,901,000, representing an increase of 96.3% as compared to last year. Research and development expenses were mainly for new products and continuing development of new models projects, and certain business development plans.

Finance costs for the year ended 31 December 2010 amounted to RMB63,912,000, representing an increase of 29.9% as compared to last year. The balances included the finance cost of RMB8,419,000 incurred for the abovementioned convertible notes issued by the Company.

Taking into account of the gain on fair value adjustment on the convertible notes and the share option expenses as aforementioned, the Company recorded an earnings per share (on diluted basis) of RMB5.23 cents for the year ended 31 December 2010.

Financial Positions

As at 31 December 2010, total assets and total liabilities of the Group stood at RMB10,073,205,000 and RMB9,172,669,000 respectively.

Non-current assets amounted to RMB1,187,232,000 comprised mainly property, plant and equipment, prepaid lease payment and deposits for acquisition of land use rights, property, plant and equipment, etc.

Current assets amounted to RMB8,885,973,000 comprised mainly inventory of RMB895,836,000, trade and other receivables and bill receivables discounted with recourse of RMB6,186,036,000, bank and cash balances (inclusive of pledged bank deposits) of RMB1,797,982,000. Amount due from SGMW, a related company and a key customer in the engines and automotive components businesses of the Group amounted to RMB2,243,699,000 was recorded as trade and other receivables in the consolidated statement of financial position. These receivables balances were subject to normal commercial settlement terms. Total cash and bank balances amounted to RMB1,797,982,000, in which RMB952,549,000 were pledged bank deposits to secure the banking facilities offered to the Group. Overall, the Group had cash (excluding pledged bank deposits) net of bank borrowings amounting to RMB602,040,000 as at 31 December 2010.

Current liabilities amounted to RMB8,757,895,000 comprised mainly trade and other payables and advances drawn on bill receivables of RMB7,661,220,000, amount due to a shareholders of RMB627,013,000, provision for warranty of RMB125,665,000, tax payable of RMB44,100,000, bank borrowings – due within one year of RMB240,521,000 and derivative financial instrument of RMB54,369,000. Amount due to a shareholder recorded under current liabilities refers to the account payable to Liuzhou Wuling, a substantial shareholder of the Company and the joint venture partner of Wuling Industrial. During the year, an amount of RMB244,837,000 due from Wuling Industrial Group to Liuzhou Wuling was agreed by Liuzhou Wuling to be settled after one year and was recorded as the Group's non-current liabilities accordingly. The derivative financial instrument represented the fair value of the conversion option embedded in the convertible notes by an independent valuer as at 31 December 2010.

Net current assets amounted RMB128,078,000 as at 31 December 2010.

Non-current liabilities amounted to RMB414,774,000 comprised mainly bank borrowings of RMB2,872,000 and the liability component of the convertible notes of RMB72,763,000, and the amount due to Liuzhou Wuling and Wuling HK of RMB244,837,000 and RMB84,696,000 respectively.

Liquidity and Capital Structure

The Group was operating under a net cash inflow position for the year ended 31 December 2010, in which net cash from operating activities amounted to RMB449,635,000.

Cash and cash equivalents of the Group amounted to RMB845,433,000 as at 31 December 2010, which was increased by RMB32,908,000 as compared to the reporting balances as at 31 December 2009.

Group's bank borrowings increased slightly from RMB238,100,000 as at 31 December 2009 to RMB243,393,000 as at 31 December 2010. Apart from bank borrowings, a five-year convertible notes with maturity date on 12 January 2014 with a principal of HK$100,000,000 was issued by the Company to a substantial shareholder and a shareholder loan of HK$100,000,000 was provided to the Company for financing the capital injection in Wuling Industrial.

Overall, the Group had cash net of bank borrowings amounting to RMB602,040,000 as at 31 December 2010.

At 31 December 2010, the Group had a gearing ratio of 27.0% calculated based on the Group's total bank borrowings and the Group's net assets, which was lower than the gearing ratio of 34.0% as recorded at 31 December 2009.

Issued capital increased to RMB3,961,000 as at 31 December 2010 from RMB3,659,000 as at 31 December 2009. On 12 March 2010, the Company issued 58,220,000 and 25,788,000 new shares respectively to independent third party investors and, Wuling (Hong Kong) Holdings Limited, a wholly owned subsidiary of Liuzhou Wuling and a substantial shareholder of the Company. Net proceeds amounting to approximately HK$67,800,000 from the issue had been injected into Wuling Industrial subsequently for providing additional working capital for its operations. In addition, a number of 2,080,000 new shares were issued during the year upon exercise of the share options held by certain employees of the Group.

Total shareholders' equity comprised primarily the share premium account, contributed surplus and after deducting the accumulated losses, amounted to RMB301,574,000 as at 31 December 2010. Net asset value per share was RMB30.06 cents as at 31 December 2010.

DIVIDEND

No interim dividend was declared or paid during the year (2009: Nil). The directors do not recommend the payment of a final dividend (2009: Nil).

ISSUE OF NEW SHARES SUBSEQUENT TO THE YEAR END

On 4 January 2011, the Company announced an open offer of not less than 167,229,341 shares of the Company (the "Share") to the shareholders on the basis of one offer share for every six Shares held on 8 March 2011 at HK$0.90 per Share (the "Open Offer") , details of which were disclosed in the Company's circular and prospectus dated 15 February 2011 and 9 March 2011 respectively, in which Wuling HK, a substantial shareholder of the Company acted as the underwriter. Net proceeds from the Open Offer is estimated to be approximately HK$147,300,000, where 80% of which is intended to be used for financing the business and operations of the Wuling Industrial Group and the remaining to be used as general working capital of the Group. On 29 March 2011, in accordance with the Open Offer, a total number of 167,229,341 new Shares were issued by the Company.

PURCHASE, REDEMPTION AND SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year (2009: Nil).

CORPORATE GOVERNANCE PRACTICES

During the year, the Company has applied the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited, as amended from time to time, ("Stock Exchange") sets out the principles of good corporate governance and the code provisions as set out in the CG Code and complied with most of these code provisions save for certain deviation from the CG Code provisions in respect of A.2.1.

Code Provision A.2.1 stipulates that the role of chairman and chief executive officer should be separated and should not be performed by the same individual.

During the year, Mr. Lee Shing, an executive director, acted as the Chairman and the Chief Executive Officer of the Company until 4 January 2010. However, after taking into account of the Code Provision A.2.1 and the future development of the Company, with effect from 4 January 2010, Mr. Sun Shaoli, being an executive director, was appointed to replace Mr. Lee Shing as Chairman, whereas Mr. Lee Shing was re-designated as Vice-chairman and remained as the Chief Executive Officer of the Company.

The Board believed that after the appointment of Mr. Sun Shaoli as the Chairman of the Company, the division of responsibilities between the chairman and the chief executive officer could be clearly defined and identified, which enhances the corporate governance of the Company.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

AUDIT COMMITTEE

The Audit Committee, comprising the three independent non-executive directors, namely Mr. Ye Xiang (the Chairman) , Mr. Yu Xiumin and Mr. Zuo Duofu, is established in accordance with the requirements of the CG Code, for the purpose of reviewing and providing, inter alia, supervision over the Group's financial reporting process and internal controls. The terms of reference of the Audit Committee are disclosed on the website of the Company.

The financial statements for the year ended 31 December 2010 have been reviewed by the Audit Committee.

ANNUAL REPORT

The annual report for the year ended 31 December 2010 containing all information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders of the Company and published on the website of Hong Kong Exchange and Clearing Limited at www.hkexnews.hk and the Company at www.dhwuling.com in due course.

BOARD OF DIRECTORS

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.

On behalf of the Board
Sun Shaoli
Chairman

Hong Kong, 30 March 2011