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五菱汽車集團控股有限公司
WULING MOTORS HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability) (股份代號 Stock Code : 305)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2011	2010	**Change**
	RMB'000	*RMB'000*	*(%)*
	(Unaudited)	*(Unaudited)*	
Revenue	**5,230,031**	5,614,563	(6.8)
Gross profit	**427,344**	532,894	(19.8)
Profit for the period	**64,133**	113,938	(43.7)
Profit attributable to the owners of the Company	**22,094**	64,274	(65.6)
Profit for the period, adjusting for the change in fair value of the derivative financial instrument embedded with the convertible loan notes issued by the Company	**70,578**	70,085	0.7
Profit attributable to the owners of the Company, adjusting for the change in fair value of the derivative financial instrument embedded with the convertible loan notes issued by the Company	**28,539**	20,421	39.8
Interim dividend per share	**HK1 cent**	Nil	N/A

INTERIM RESULTS

The board of directors (the "Board") of Wuling Motors Holdings Limited (formerly known as Dragon Hill Wuling Automobile Holdings Limited) (the "Company") announces the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011.

The interim financial results are unaudited, but have been reviewed by Deloitte Touche Tohmatsu in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants, whose independent review report is included in the interim report to be sent to the shareholders. The interim financial results have also been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2011

		Six months ended 30 June	
		2011	2010
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	3	**5,230,031**	5,614,563
Cost of sales		**(4,802,687)**	(5,081,669)
Gross profit		**427,344**	532,894
Other income		**75,677**	55,845
Selling and distribution costs		**(117,877)**	(158,610)
General and administrative expenses		**(250,738)**	(307,917)
Gain on disposal of available-for-sale investments		**–**	813
Change in fair value of investment properties	8	**2,524**	877
Share of result of an associate		**–**	(1,715)
Gain on disposal of an associate		**–**	1,572
Change in fair value of derivative financial instrument	13	**(6,445)**	43,853
Finance costs		**(49,158)**	(30,729)
Profit before taxation		**81,327**	136,883
Income tax expense	4	**(17,194)**	(22,945)
Profit for the period	5	**64,133**	113,938
Other comprehensive income:			
Exchange differences arising from translation of foreign operation		**2,407**	593
Total comprehensive income for the period		**66,540**	114,531

		Six months ended 30 June	
		2011	2010
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Profit for the period attributable to:			
Owners of the Company		**22,094**	64,274
Non-controlling interests		**42,039**	49,664
		64,133	113,938
Total comprehensive income attributable to:			
Owners of the Company		**24,501**	64,867
Non-controlling interests		**42,039**	49,664
		66,540	114,531
			(Restated)
Earnings per share	7		
– Basic		**2.02 cents**	6.61 cents
– Diluted		**2.02 cents**	2.22 cents
Dividend	6		
Interim dividend		**HK1 cent**	Nil

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2011

	Notes	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	**946,075**	891,537
Prepaid lease payments	8	**173,483**	32,104
Premium on prepaid lease payments		**985**	997
Investment properties	8	**29,067**	27,103
Intangible assets		**662**	928
Available-for-sale investments		**360**	360
Deposits for trading rights		**–**	174
Deposits for acquisition of land use right		**10,800**	50,800
Deposits for acquisition of property, plant and equipment		**192,738**	183,229
		1,354,170	1,187,232
CURRENT ASSETS			
Inventories		**603,639**	895,836
Loan receivables		**–**	50
Trade and other receivables	10(i)	**4,577,430**	4,767,834
Bills receivables discounted with recourse	10(ii)	**1,098,358**	1,418,202
Prepaid lease payments	8	**3,597**	689
Held-for-trading investments		**7**	7
Client trust bank accounts		**–**	5,373
Pledged bank deposits		**1,072,857**	952,549
Cash and cash equivalents		**658,201**	845,433
		8,014,089	8,885,973
Assets classified as held for sale	9	**8,398**	–
		8,022,487	8,885,973

	Notes	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
CURRENT LIABILITIES			
Trade and other payables	11(i)	**5,556,403**	6,243,018
Advances drawn on bills receivables discounted with recourse	11(ii)	**1,098,358**	1,418,202
Amounts due to shareholders	17	**563,459**	627,013
Provision for warranty	12	**114,357**	125,665
Tax payable		**40,303**	44,100
Derivative financial instrument	13	**59,674**	54,369
Convertible loan notes	13	**2,321**	4,928
Bank borrowings – due within one year	14	**392,426**	240,521
Obligations under finance leases – due within one year		**75**	79
		7,827,376	8,757,895
Liabilities associated with assets classified as held for sale	9	**4,511**	–
		7,831,887	8,757,895
NET CURRENT ASSETS		**190,600**	128,078
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,544,770**	1,315,310
NON-CURRENT LIABILITIES			
Amounts due to shareholders	17	**327,886**	329,533
Convertible loan notes	13	**72,996**	72,763
Bank borrowings – due after one year	14	**55,653**	2,872
Obligations under finance leases – due after one year		**37**	79
Deferred tax liabilities		**11,975**	9,527
		468,547	414,774
		1,076,223	900,536
CAPITAL AND RESERVES			
Share capital	15	**4,524**	3,961
Reserves		**446,380**	297,613
Equity attributable to owners of the Company		**450,904**	301,574
Non-controlling interests		**625,319**	598,962
		1,076,223	900,536

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

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 instruments and investment properties, which are measured at fair values as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010. In addition, the Group adopted the following new accounting policy for non-current assets classified as held for sale.

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current asset classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

Except as described below, the application of the new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed financial statements.

The Group has applied HKAS 24 "Related Party Disclosures (as revised in 2009)" for the first time in the current period. HKAS 24 (as revised in 2009) has changed the definition of a related party. HKAS 24 (as revised in 2009) requires retrospective application. The related party disclosures set out in note 17 to the condensed consolidated financial statements have been changed to reflect the application of HKAS 24 (as revised in 2009). Upon the application of this standard, SAIC-GM-Wuling Automobile Co., Limited is not considered as a related party to the Group.

The Group has not early applied new or revised standards and interpretations that have been issued but are not yet effective. The following new or revised standards and interpretations have been issued after the date the consolidated financial statements for the year ended 31 December 2010 were authorized for issuance and are not yet effective:

HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[2]
HKAS 19 (Revised 2011)	Employee Benefits[1]
HKAS 27 (Revised 2011)	Separate Financial Statements[1]
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[1]

[1] *Effective for annual periods beginning on or after 1 January 2013*
[2] *Effective for annual periods beginning on or after 1 July 2012*

The new or revised standards on consolidation, joint arrangements and disclosures were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group's consolidated financial statements for financial year ending 31 December 2013 and the potential impact is described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The application of HKFRS 10 might result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated.

Other than as disclosed above, the directors of the Company anticipate that the application of the other new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

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

	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*
Six months ended 30 June 2011							
Segment revenue							
External sales	**1,720,983**	**2,554,049**	**719,325**	**234,775**	**899**	**–**	**5,230,031**
Inter-segment sales	**75,126**	**5,666**	**19,034**	**651,170**	**–**	**(750,996)**	**–**
Group's revenue	**1,796,109**	**2,559,715**	**738,359**	**885,945**	**899**	**(750,996)**	**5,230,031**
Segment profit (loss)	**99,476**	**23,170**	**13,598**	**9,670**	**(3,825)**		**142,089**
Bank interest income							**11,242**
Change in fair value of investment properties							**2,524**
Central administration costs							**(18,085)**
Change in fair value of derivative financial instrument							**(6,445)**
Equity-settled share-based payments							**(840)**
Finance costs							**(49,158)**
Profit before tax							**81,327**
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
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 result 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

The following is an analysis of the Group's assets by reportable and operating segments:

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
Engines and parts	**2,707,647**	2,574,426
Automotive components and accessories	**3,247,802**	3,666,478
Specialized vehicles	**644,249**	509,953
Trading of raw materials, water and power supply	**974,905**	1,486,009
Others	**67,750**	38,357
Total segment assets	**7,642,353**	8,275,223

4. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2011 *RMB'000*	2010 *RMB'000*
PRC Enterprise Income Tax	**14,746**	20,398
Deferred tax		
Current period	**2,448**	2,547
	17,194	22,945

Hong Kong

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

No provision for Hong Kong Profits Tax has been made for both periods as the relevant companies in the Group had 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 [2011] No. 58, 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 2020 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.

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 all 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	
	2011	2010
	RMB'000	*RMB'000*
Profit for the period has been arrived at after charging (crediting) the following items:		
Directors' emoluments	**1,972**	5,238
Other staff costs	**160,717**	144,786
Retirement benefit scheme contributions, excluding directors	**64,919**	55,214
Equity-settled share-based payments, excluding directors	**714**	15,131
Total staff costs	**228,322**	220,369
Gross property rental income	**(343)**	(263)
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	**1**	1
Net rental income	**(342)**	(262)
Cost of inventories recognized as an expense	**4,802,687**	5,081,669
Depreciation of property, plant and equipment	**39,388**	37,072
Release of prepaid lease payments (included in general and administrative expenses)	**1,123**	84
Release of premium on prepaid lease payments (included in general and administrative expenses)	**12**	12
Research and development expenses (included in general and administrative expenses)	**22,579**	81,040
(Gain) loss on disposal of property, plant and equipment	**(165)**	716
Bank interest income	**(11,242)**	(10,129)

6. DIVIDEND

No dividends was paid, declared or proposed during the reporting period.

Subsequent to the end of the interim period, the directors have determined that an interim dividend of HK1 cent (equivalent to approximately RMB0.83 cent) per share (2010: Nil) will be paid to the owners of the Company whose names appear in the Register of Members on 14 October 2011.

7. EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Earnings:		
Profit for the period attributable to owners of the Company for the purpose of basic earning per share	**22,094**	64,274
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes *(note a)*	**–**	4,164
Change in fair value of derivative financial instrument *(note a)*	**–**	(43,853)
Earnings for the purpose of diluted earnings per share *(note b)*	**22,094**	24,585

	For the six months ended 30 June	
	2011	2010
	'000	*'000*
		(Restated)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,092,457**	972,826
Effect of dilutive potential ordinary shares:		
Convertible loan notes *(note a)*	**–**	136,986
Weighted average number of ordinary shares for the purpose of diluted earnings per share *(note b)*	**1,092,457**	1,109,812

Notes:

(a) The computation of diluted earnings per share for the six months ended 30 June 2011 does not assume the conversion of the Company's outstanding convertible loan notes since their exercise would result in an increase in earnings per share.

(b) The computation of diluted earnings per share for the six months ended 30 June 2011 and 2010 does not assume the exercise of the outstanding share options as the exercise price was higher than the average market price of the Company's shares during the relevant periods.

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share in 2010 and 2011 have also been adjusted for the bonus element of the Open Offer (as defined in note 15) completed on 28 March 2011.

8. MOVEMENTS IN INVESTMENT PROPERTIES, PREPAID LEASE PAYMENTS 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 2011 and 31 December 2010 were 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 RMB2,524,000 has been recognized directly in profit or loss for the six months ended 30 June 2011 (six months ended 30 June 2010: RMB877,000).

During the period, additions to the Group's prepaid lease payments amounted to RMB145,410,000 (six months ended 30 June 2010: nil) which are related to medium term land use rights on land situated in the People's Republic of China. The Group has obtained the relevant land use right certificates.

During the period, additions to the Group's property, plant and equipment amounted to RMB107,150,000 (six months ended 30 June 2010: RMB142,178,000). In addition, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB13,052,000 (six months ended 30 June 2010: RMB1,586,000) for a cash proceed of RMB13,217,000 (six months ended 30 June 2010: RMB870,000), resulting in a gain on disposal of RMB165,000 (six months ended 30 June 2010: loss on disposal of RMB716,000).

9. ASSETS CLASSIFIED AS HELD FOR SALE

On 23 May 2011, the Group entered into a conditional sale and purchase agreement with an independent third party, to dispose of certain subsidiaries that carrying out security dealing and margin finance operations for a cash consideration of HK$4,500,000 (equivalent to approximately RMB3,737,000). Accordingly, the carrying amount of the assets and liabilities of the subsidiaries as at 30 June 2011 are reclassified as assets held for sale, and are as follows:

	RMB'000
Property, plant and equipment	157
Intangible assets	266
Deposits for trading rights	170
Loan receivables	437
Trade and other receivables	1,824
Client trust bank accounts	2,298
Bank balances and cash	3,246
Total assets classified as held for sale	8,398
Trade and other payables and total liabilities associated with as assets classified as held for sale	4,511

The transaction was completed in July 2011 and resulted in a loss on disposal of approximately RMB150,000.

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 RMB4,258,793,000 (31 December 2010: RMB4,281,562,000) and an aged analysis based on the invoice date (net of allowance for doubtful debts) is presented as follows:

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
0 to 90 days	**3,692,431**	4,197,390
91 to 180 days	**537,422**	52,135
181 – 365 days	**22,429**	20,011
Over 365 days	**6,511**	12,026
	4,258,793	4,281,562

(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 2010: 180 days). The Group recognizes the full amount of the discount proceeds as liabilities as set out in note 11(ii).

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 RMB4,992,302,000 (31 December 2010: RMB5,704,634,000) and an aged analysis based on the invoice date is presented as follows:

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
0 to 90 days	**4,803,863**	5,667,643
91 to 180 days	**108,966**	7,777
181 to 365 days	**44,767**	16,416
Over 365 days	**34,706**	12,798
	4,992,302	5,704,634

(ii) Advances drawn on bills receivables discounted with recourse

The amount represents the Group's bank borrowings secured by the bills discounted to banks with recourse (see note 10(ii)).

12. PROVISION FOR WARRANTY

	Six months ended 30 June 2011 *RMB'000*	Year ended 31 December 2010 *RMB'000*
At the beginning of the period/year	**125,665**	111,739
Additional provision in the period/year	**17,836**	87,466
Utilization of provision	**(29,144)**	(73,540)
At the end of the period/year	**114,357**	125,665

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, automotive 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 with significant influence over the Company ("CN2014"). CN2014 is denominated in Hong Kong dollars and carries interest at 6% per annum with maturity on 12 January 2014. CN2014 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 anti-dilutive adjustments. Unless converted, CN2014 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 CN2014 for the six months ended 30 June 2011 is set out below:

	For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
At the beginning of the period	**77,691**	77,402
Effective interest expense	**4,173**	4,164
Interest paid	**(5,048)**	(5,263)
Exchange difference	**(1,499)**	(607)
At the end of the period	**75,317**	75,696
Less: amount included in current liabilities	**(2,321)**	(2,437)
Amount due after one year	**72,996**	73,259

Movement in the fair value of the conversion option derivative component of CN2014 during the period is as follows:

	For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
At the beginning of the period	**54,369**	83,861
Changes in fair value during the period	**6,445**	(43,853)
Exchange difference	**(1,140)**	(410)
At the end of the period	**59,674**	39,598

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

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 2011	At 31 December 2010
Stock price	**HK$1.03**	HK$0.92
Conversion price	**HK$0.73**	HK$0.73
Expected dividend yield	**0%**	0%
Volatility	**69.70%**	68.90%

14. BANK BORROWINGS

During the period, the Group obtained new unsecured bank borrowings of RMB307 million (six months ended 30 June 2010: RMB108 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 1.9% to 5.8% (six months ended 30 June 2010: 1.3% to 5.8%) per annum.

As at 31 December 2010, bank borrowings of approximately RMB69,543,000, which were not repayable within one year but contained a repayment on demand clause, were classified as current liabilities. During the current interim reporting period, the relevant banks revised the terms of the said bank borrowings. Accordingly, these bank borrowings with outstanding balance of approximately RMB53,237,000 are classified as non-current liabilities as at 30 June 2011.

15. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Authorized:		
Ordinary shares of HK$0.004 each	25,000,000,000	100,000
Convertible preference shares of HK$0.001 each	1,521,400,000	1,521
Balance at 1 January 2010, 30 June 2010, 1 January 2011 and 30 June 2011		101,521
Issued and fully paid:		
Ordinary shares of HK$0.004 each		
As at 1 January 2010	917,288,049	3,669
Issue of new shares on 12 March 2010 *(note a)*	84,008,000	336
As at 30 June 2010	1,001,296,049	4,005
Exercise of share options	2,080,000	8
As at 31 December 2010	1,003,376,049	4,013
Issue of new shares upon Open Offer *(note b)*	167,229,341	669
As at 30 June 2011	1,170,605,390	4,682

	RMB'000
Shown in the financial statements as	
– 30 June 2011	4,524
– 31 December 2010	3,961

Notes:

(a) Pursuant to an ordinary resolution passed at special general meeting of the Company on 8 March 2011, an issue of shares at a price of HK$0.90 per share on the basis of 1 share for every 6 then existing shares (the "Open Offer") was approved. The Open Offer was completed on 28 March 2011 and a total of 167,229,341 new shares were issued, resulting in gross proceeds of approximately RMB126,644,000 (equivalent to approximately HK$150,506,000) to the Company. The proceeds from the Open Offer provide additional working capital to finance the Group's daily operations.

The new shares issued during the Open Offer ranked pari passu in all respects with the then existing shares then in issue.

(b) 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

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 operation, and will expire on 7 July 2012.

The table below discloses movement of the Company's share options held by the Group's directors, advisors and employees:

		Number of share options			
	Note	**Directors**	**Advisors**	**Employees (Continuous Contracts)**	**Total**
Outstanding at 1 January 2010		16,800,000	–	62,100,000	78,900,000
Reclassified during the year		(3,600,000)	5,000,000	(1,400,000)	–
Exercised during the year		–	–	(2,080,000)	(2,080,000)
Outstanding at 31 December 2010		13,200,000	5,000,000	58,620,000	76,820,000
Reclassified during the period	(i)	–	1,400,000	(1,400,000)	–
Adjustment	(ii)	99,994	48,484	433,491	581,969
Outstanding at 30 June 2011		13,299,994	6,448,484	57,653,491	77,401,969

Note:

(i) During the period ended 30 June 2011, an employee resigned from the Company and retained as an advisor of the Group, who provide advises on the Group's operation directions. The respective share options have been reclassified from the Employees' category to the Advisors' category accordingly.

(ii) The number of share options was adjusted to take into account the effect of the Open Offer.

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

The fair values of the share options were calculated using the Model by Vigers. 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. Details of the inputs into the Model were disclosed in the Company's annual report for the year ended 31 December 2010.

All outstanding share options were granted on 29 December 2009 and their initial exercise price is HK$1.07 per share. Upon the Open Offer completed on 28 March 2011 and with effect from 29 March 2011, the exercise price of the share options has been adjusted to HK$1.062.

Certain share options were granted with no vesting period while certain share options were granted with a vesting period of one year starting from the date of acceptance. During the period, an amount of RMB878,000 (30 June 2010: RMB18,864,000) 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 attached to certain share options. The amount was charged in the consolidated statement of comprehensive income with a corresponding credit to share option reserve.

At 30 June 2011, all outstanding share options were fully vested.

17. RELATED PARTY DISCLOSURES

(I) Related party transactions

Company	Transactions	For the six months ended 30 June 2011 RMB'000	2010 RMB'000
Liuzhou Wuling Group *(note)*	License fee paid	**1,650**	1,650
	Rental expense	**15,102**	15,003
	Sales of goods	**25,746**	18,093
	Sales of raw materials	**36,843**	33,353
	Supply services of water and power	**878**	612
	Purchases of automotive components and other accessories	**62,510**	33,478

Note:

Being Liuzhou Wuling and its subsidiaries other than the Group (collectively referred to as the "Liuzhou Wuling Group"). Liuzhou Wuling is a beneficial owner of the Company which holds 37.05% equity interest in the Company by virtue of its 100% equity interest in Wuling (Hong Kong) Holdings Limited ("Wuling HK"), a substantial shareholder of the Company.

(II) Related party balances

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Trade receivables		
– Liuzhou Wuling Group	**46,693**	76,414
Amounts due to shareholders		
– Liuzhou Wuling *(note i)*	**805,183**	871,850
– Wuling HK *(note ii)*	**86,162**	84,696
	891,345	956,546
Less: Amount due within one year shown under current liabilities	**(563,459)**	(627,013)
Amount shown under non-current liabilities	**327,886**	329,533

Notes:

(i) The entire balance is unsecured and interest-free. Other than an amount of RMB244,837,000 (31 December 2010: RMB244,837,000) which is repayable after one year of the end of the reporting period, the balance is repayable on demand.

(ii) Other than an amount of RMB83,049,000 (31 December 2010: RMB84,696,000) which is unsecured, bearing interest at 4.5% per annum and repayable after one year of the end of the reporting period, the amount is unsecured, interest-free and repayable on demand.

(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, which was released during the current period.

(ii) An unlimited deed of guarantee by Mr. Lee Shing in respect of certain bank overdrafts.

(iii) 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	
	2011	2010
	RMB'000	*RMB'000*
Short-term benefits	**1,566**	1,381
Post-employment benefits	**242**	124
Equity-settled share-based payments	**164**	3,733
	1,972	5,238

18. CAPITAL COMMITMENTS

	At 30 June 2011	At 31 December 2010
	RMB'000	*RMB'000*
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
– construction in progress	**60,813**	115,828
– acquisition of property, plant and equipment	**102,561**	103,318
– land use rights	**14,400**	114,950
	177,774	334,096

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 2011	At 31 December 2010
	RMB'000	*RMB'000*
Within one year	**–**	185

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 2011	At 31 December 2010
	RMB'000	*RMB'000*
Within one year	**34,678**	35,616
In the second to fifth year inclusive	**17,926**	35,970
	52,604	71,586

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) On 11 July 2011, the registered capital of Wuling Industrial was increased to RMB960,000,000 (equivalent to approximately HK$1,146,655,000) by the creation of additional registered capital of RMB193,000,000 (equivalent to approximately HK$232,391,000), as set out in the Company's circular dated 9 May 2011. On 29 July 2011, the additional registered capital was fully paid by respective shareholders in accordance to their equity interests in Wuling Industrial. Upon completion of the capital increase, the Group continues to hold 51% equity interest in Wuling Industrial.

(b) In August 2011, the Group entered into a second supplementary agreement to further extend the completion date for the acquisition of certain land use rights, production facilities and related assets for an aggregate consideration of approximately RMB137,800,000 from Qingdao Lianheng Automotive Components Co. Limited due to a delay in obtaining the relevant ownership certificates of the properties. Further details of the delay are set out in the announcement of the Company dated 5 August 2011.

BUSINESS REVIEW AND PROSPECTS

Results and Performances

Following two consecutive years of robust growth, the automobile market in China experienced a cooled down session in the first half of 2011. Total number of motor vehicles sold recorded only a slight increase of 1.4% compared to the corresponding period in last year. A cyclical downturn was even happened to the commercial-typed vehicles segment in which a sharp decline of 12.1% was recorded over the period. As anticipated, cessation of some of the stimulus programs, in particular the direct subsidy incentive programs, to the automobile sector put pressure on the automobile industry in China, in which some of the enterprises had to respond by scaling down their sale targets for this year. Nevertheless, our competitive strength in the market placed us in a relatively better position facing with this general slow down of the growth of the China automobile industry in this year. During the first half of 2011, the Group recorded total revenue of RMB5,230,031,000, representing a slight decrease of 6.8% as compared to the corresponding period in last year.

Gross profit for the period under review was RMB427,344,000, representing a decline of 19.8%, which was mainly due to the combined adverse effects of a lower volume of business and the increasing production cost during the period.

Net profit of the Group for the first half of 2011 was RMB64,133,000, representing a decrease of 43.7% as compared to the corresponding period in last year. Meanwhile, profits attributable to the owners of the Company was RMB22,094,000, representing a decrease of 65.6%. Further looking into the reasons, such results were partly affected by the fair value adjustments of the convertible loan notes issued by the Company in which a loss of RMB6,445,000 was recorded for the six months ended 30 June 2011, whereas on the contrary, a profit of RMB43,853,000 was recorded for the corresponding period in last year.

On the basis of the exclusion of these fair value adjustments, Group's net profit and profit attributable to the owners of the Company will be adjusted to RMB70,578,000 and RMB28,539,000 respectively, representing respective increase of 0.7% and 39.8% as compared to the adjusted figures in corresponding period in last year. The increase in profit attributable to owners of the Company is also related to the increase in the equity interests of the Company in Liuzhou Wuling Motors Industrial Company Limited ("Wuling Industrial"). After completion of the capital injection to Wuling Industrial on 31 August 2010, the Company's interest in the total paid-up capital of Wuling Industrial has become 51%.

In consideration of the operating results and the financial position of the Group, the board of directors (the "Board") has decided to declare an interim dividend of HK1 cent (equivalent to approximately RMB0.83 cent) per share for the six months ended 30 June 2011, which is the first dividend distribution since the Group engaged in the business of the automobile industry. The Board considers a transparent and stable dividend policy to be an important corporate policy to a listed enterprise and has determined to develop an appropriate policy before the end of this year.

On 4 January 2011, the Company announced an open offer of not less than 167,229,341 new shares of the Company 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 (Hong Kong) Holdings Limited ("Wuling HK"), a substantial shareholder of the Company acted as the underwriter. Net proceeds from the Open Offer was estimated to be approximately HK$147,300,000, where 80% of which was 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 28 March 2011, in accordance with the Open Offer, a total number of 167,229,341 new shares were issued by the Company, in which a total number of 133,363,975 new shares were issued to Wuling HK. Net proceeds intended to be used for the business and operations of the Wuling Industrial Group had been injected to Wuling Industrial by way of an increase in its registered and paid up capital in accordance with our respective equity interests in Wuling Industrial subsequent to the reporting date.

The Open Offer has not only further strengthened the financial position of the Group, but also resulted in an increase of the shareholding interests of Wuling HK in the Company, which is considered to be beneficial to the future development of the Group. In June 2011, in order to clearly reflect the nature of the principal business activities and to provide a new corporate identity and image of the Group, the name of the Company has been changed to "Wuling Motors Holdings Limited".

Opportunities and Challenges

The automobile industry in China was in a challenging state in the first half of 2011 in which total number of motor vehicles sold increased slightly by 1.4% to a number of 9,300,000 vehicles as compared to the corresponding period in last year, represented the lowest growth for the past three years. Taking the commercial-type vehicles segment into account solely, the automobile industry in China was virtually in a declining stage. The difficulties faced by the automobile industry in China during the period were summarized below:

i. Cessation of some of the stimulus programs for vehicles consumption, in particular the direct subsidy programs and the tax concession policy for purchase of vehicles, directly reduced the consumption of motor vehicles;

ii. The problem of traffic congestion and the government policy in restricting the usage of roads by the private vehicles which had adversely affected the buying sentiment of the consumers;

iii. The increasing labour costs and raw materials prices which drove up production costs in the manufacturing sector; and

iv. The implementation of the regulatory measures by the central government, including the raising of the bank interest rates and a series of tightening measures in the financing activities, in alleviating the inflationary pressure on the Chinese economy led to uncertainties in the automobile market.

As stated in our previous annual reports, notwithstanding the favourable business environment in previous years, the Group has never underestimated the risks associated with excessive capacities and regulatory changes. Therefore, apart from implementing appropriate capacity expansion strategies, the Group has also undertaken quality services oriented and technical re-engineering programs to further enhance our product quality standard and technical capability so as to stay competitive in the industry. This combined strategy was proved to be important in this challenging environment. As such, despite the unfavourable market condition, the Group had continued to deliver a set of solid results in the first half of 2011.

The Group is full of confidence in the long term growth potential of the China automobile industry and realizes in business, challenges and opportunities are indistinguishable to each other. An effective business model can translate challenges into opportunities, which to a great extent, relies on the determined goals and effective strategies of the enterprises.

To cope with the challenges as well as to grasp the opportunities in the automobile industry, the Group has been conscientiously undertaken the following strategies and programs:

a. Technical re-engineering projects such as certain specialization programs in our engines and parts division through the setup of the new production plant for the parts of the engine's cylinder, which not only serves as a vertical integration process for our existing products, but can also extend to supply to the engine products manufactured by our customers, including SAIC-GM-Wuling Automobile Co., Limited ("SGMW");

b. Business expansion programs aiming at other car manufacturers in the PRC to develop a healthy diversification of businesses of our (1) engines and parts and (2) automotive components division;

c. Various capacity expansion programs in our automotive components and specialized vehicles divisions through the setup of the new production facilities, such as the acquisitions of a factory premises and certain production facilities in Qingdao in last year; and four pieces of industrial land in Liuzhou with a total site area of 415,034 sqm, to enhance productivity and to increase capacity to satisfy the increasing demands coming from existing and new customers;

d. Strengthening of the technical capability through research and innovation with market oriented strategies to intensify new product development projects. Through the launch of various new models of specialized vehicles, including the V2 mini-van, new energy vehicles such as electrical community car, electrical sight-seeing bus and electrical mini-truck for aiming at both the local and international markets for improving the overall profitability of the Group; and

e. An upgrading program for the operation systems of Wuling Industrial with the objective to improve efficiency and performance standard, as well as to contain cost of production which allows the Group together with its customers to enhance coherence and to stay highly competitive in the market.

Outlook

The Company remains optimistic with the business prospect despite a challenging business environment in China as envisaged in this year and the year ahead. Cessation of certain stimulus programs for vehicles consumption will continue to undermine consumption and adversely affect the operating results of the automobile related enterprises. Meanwhile, inflationary pressures in the Chinese economy will cause the government to be more prudent in advocating supporting programs to the economy. However, being the world largest automobile market, the Company is full of confidence and considers the existing challenges may perhaps serve as a timely health check to the China automobile industry, which will be beneficial to the industry in the long run. Despite uncertainties under the current market environment, the Company expects the China economy will continue to grow in a considerable pace. Increasing income of the general public will eventually encourages demands for motor vehicles, whereas implementation of appropriate regulatory measures will help to stabilize short term market volatility and create long term benefits to the country.

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 first half of 2011 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 six months ended 30 June 2011 was RMB1,720,983,000, representing a slight decrease of 4.3% as compared to the corresponding period in last year. Operating profit for the respective period was RMB99,476,000, representing an increase of 12.2%, where consistent satisfactory operation performance was maintained.

The engines and parts division undertaken by Wuling Liuji continued to be the major contributor to the Group's operating profit for the first half of 2011.

During this six months period, a weakening market condition affected the business volume, in which total sale volume maintained at the level of 400,000 units. Sale to SGMW continued to be the main contributor which accounted for approximately 80% of the total sales for the period. The remaining 20% was supplying to other motor vehicles' manufacturers including FAW Haima, Gonow Auto, Ziyang Nanjun Auto and Beiqi Foton (一汽海馬，吉奧汽車，資陽南駿汽車及北汽福田). In line with the weakening market condition, sale volumes to these other customers have all experienced different extent of affection during these six months period. Meanwhile, sales of agricultural machinery products remained stable during the period.

Operating margin improved to 5.8% as compared to 4.9% recorded in the corresponding period in last year. An improved operating margin performance was achieved for the period due to the gradual positive effect from the operation of the vertical integration projects, i.e. the nonferrous metallic parts for the engine's cylinder project which commenced operation in 2008 and new foundry facilities of cylinder block and cylinder head which started operation in the first half of 2011. Meanwhile, a substantial reduction of the research and development expenses during this period had also benefited the operating results of the division.

The Group remains prudent on the business outlook for the second half of 2011, but believes our product competitiveness in the market and the gradual positive impact from the on-going vertical integration projects will place the Group in a better position in facing with the current unfavourable market situation.

Automotive Components – Liuzhou Wuling Motors United Development Limited (“Wuling United”)

Turnover (based on external sales) of the automotive components division for the six months ended 30 June 2011 was RMB2,554,049,000, representing a decrease of 5.4% as compared to the corresponding period in last year. Operating profit for the respective period was RMB23,170,000, representing a decrease of 20.2%.

During the first half of 2011, the automotive components division undertaken by Wuling United, being the key supplier supplying a majority portion of the key automotive components to SGMW, achieved sale volume of approximately 600,000 units/sets, representing a slight decline of 6.3% as compared to the corresponding period in last year, in which sales to SGMW continued to account for over 90% of the total turnover in this business segment.

Operating margin maintained at a relatively low level as affected by the combined adverse impacts from a lower volume of business and the increasing production cost during the period. However, gradual improvement in the operation of the Qingdao facilities from the installation of additional plant and machinery had effectively promoted operation stability. Meanwhile, implementation of a series of upgrading and consolidation programs in the division had also enhanced operation efficiency. Therefore, despite the undesirable impact from the general market environment in the first half of 2011, the vigorous business activities of this division was maintained which had contributed positively to the performance of the Group.

Notwithstanding the current unfavourable market condition, the Group considers the competitive strength of its key customer, SGMW, in the market on the back of its successful models and the launch of new models will continue to provide strong supports to the operation of the automotive components and accessories division in the second half of 2011. In fact, SGMW was being known as one of the few automobile manufacturers in China which were able to fulfill their planned target during the period. In view of the existing challenges and the potential opportunities arisen in future, the automotive components and accessories division will continue to cautiously implement their capacity expansion and business diversification programs in further strengthening our competitiveness in the China automobile industry.

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

Turnover (based on external sales) of the specialized vehicles division for the six months ended 30 June 2011 was RMB719,325,000, representing a decrease of 8.9% as compared to the corresponding period in last year. Operating profit for the respective period was RMB13,598,000, representing a decrease of 13.8% as compared to that of the segment turnover. Unfavourable factors due to the weakening market sentiment and the cessation of the government subsidy programs had adversely affected this division. Nevertheless, the specialized vehicles division continued to launch new models in expanding its product range over the period which included the introduction and promotion of various new energy electrical vehicles.

During this six months period, due to slower demand and severe market competition, Wuling Specialized Vehicles sold approximately 19,000 specialized vehicles, representing a drop of 13.6% as compared to the corresponding period in last year. Its main products comprised mainly multi-purpose mini-vans, redecorated vans and mini-container wagons, etc.

Operating margin slightly declined to 1.9% during the period. Lower business volume, market competition and increasing production costs resulted in a thinning profit margin in this segment. Despite implementation of a cost control program on the production and marketing which helped to lower selling and distribution costs incurred for the selling of specialized vehicles, a breakthrough development in the profitability of the division was yet to happen during these six months period.

The Group is prudent on the business outlook of the specialized vehicles division for the second half of 2011 and the year ahead. However, the Group remains confidence in the long term business potential of this business segment. With the benefits of an effective cost control programs in production and management, the Group will take this chance to continuously consolidate its existing business and at the same time explore opportunities both locally and overseas so as to fostering a breakthrough business performance to contribute to the Group.

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 six months ended 30 June 2011 was RMB234,775,000, representing a decrease of 27.8% compared to the corresponding period in last year. Inter-segment sales which were primarily contributed from the sales of metal and production materials to Wuling United and Wuling Specialized Vehicles was RMB651,170,000. Operating profit for the respective period was RMB9,670,000, representing a decrease of 60.7%. Launches of the expansion and consolidation programmes for promoting businesses and enhancing operation efficiency, such as the establishment of the integrated technical centre and the sale office, as well as the recruitment of quality technical and management team, increased expenses and affected the performance of this division during the period.

Despite this, the trading and supply services undertaken by Wuling Industrial continued to provide a steady cash flow to the Group.

Apart from the inter-segment sales, revenue from the trading and supply services was mainly generated from SGMW and its suppliers, which relied on Wuling Industrial to provide the necessary factors of production such as the raw materials, water and energy supply through a centralized procurement platform. This centralized procurement model guaranteed benefits from bulk purchases and scale operations to the participated entities and ensured their competitiveness in the industry.

In line with an unfavourable business environment which affected the business of SGMW, during this six months period, the trading and supply services division experienced a slight decline in business.

Overall, the Group is confidence in the business prospect of SGMW as supported by its various successful models in the China mini-vehicles market. Besides, the launch of new models will continue to benefit the trading and supply services division in the second half of 2011 which will contribute to the business performance of the division for the full year.

FINANCIAL REVIEW

Statement of Comprehensive Income

Group's turnover for the six months ended 30 June 2011 was RMB5,230,031,000, representing a slight decrease of 6.8% as compared to the corresponding period in last year, which was mainly attributable to the unfavourable business environment affected by the weakening market sentiment and the cessation of the government direct subsidy programs.

Gross profit for the period under review was RMB427,344,000, representing a decrease of 19.8% as compared to the corresponding period in last year which was mainly due to the combined adverse effects of a lower volume of business and the increasing production cost during the period.

Accordingly, gross margin of the Group eased to 8.2% from 9.5% recorded in the corresponding period in last year. The single digit gross margin condition continued to reflect the keen competition environment in the automobile industry in China.

Net profit for the first half of 2011 was RMB64,133,000, representing a decrease of 43.7% as compared to the corresponding period in last year. Meanwhile, profits attributable to the owners of the Company was RMB22,094,000, representing a decrease of 65.6%. Further looking into the reasons, such results were partly affected by the fair value adjustments of the convertible notes issued by the Company in which a loss of RMB6,445,000 was recorded for the six months ended 30 June 2011, whereas on the contrary, a profit of RMB43,853,000 was recorded for the corresponding period in last year.

On the basis of the exclusion of these fair value adjustments, net profit and profit attributable to the owners of the Company will be adjusted to RMB70,578,000 and RMB28,539,000 respectively, representing respective increase of 0.7% and 39.8% as compared to the adjusted figures in corresponding period in last year. The increase in profit attributable to owners of the Company is also related to the increase in the equity interests of the Company in Wuling Industrial. After completion of the capital injection to Wuling Industrial on 31 August 2010, the Company's interest in the total paid-up capital of Wuling Industrial has become 51%.

Other income comprised primarily sales of scrap materials and bank interest income was in aggregate RMB75,677,000 for the six months ended 30 June 2011, representing an increase of 35.5% as compared to the corresponding period in last year as a result of an increase in the sales of scrap materials during the period.

Selling and distribution costs of the Group comprised primarily transportation costs, warranty expenses and other marketing expenses were in aggregate RMB117,877,000 for the six months ended 30 June 2011, representing a decrease of 25.7% as compared to the corresponding period in last year. The decrease was mainly attributable to the decrease in the transportation cost incurred by the automotive components and the specialized vehicles divisions as a result of their respective cost control programs.

General and administrative expenses of the Group comprised primarily salary and allowances, various insurance expenses, rental expenses and other administrative expenses were in aggregate RMB250,738,000 for the six months ended 30 June 2011, which was contained at a similar level as compared to the corresponding period in last year. The result was in line with the more or less stable business volume achieved by the Group during the period.

Research and development expenses for the six months ended 30 June 2011 amounted to RMB22,579,000, representing a significant decrease of 72.1% as compared to the corresponding period in last year. The reduction was a result of the prudent attitude of the management facing with the current unfavourable market condition.

Finance costs for the six months ended 30 June 2011 amounted to RMB49,158,000, representing an increase of 60.0% as compared to the corresponding period in last year, which was mainly due to the increases in borrowings and the interest rates during the period. The balances had also included the finance cost of RMB4,173,000 incurred for the convertible loan notes issued by the Company.

Earnings per share on fully diluted basis for the six months ended 30 June 2011 was slightly reduced to RMB2.02 cents, in which, the negative effect arising from the loss on fair value adjustment on the convertible loan notes issued by the Company was included in the calculation.

Financial Position

As at 30 June 2011, total assets and total liabilities of the Group stood at RMB9,376,657,000 and RMB8,300,434,000 respectively.

Non-current assets amounted to RMB1,354,170,000 comprised mainly property, plant and equipment, prepaid lease payments and deposits paid for acquisition of non-current assets, etc.

Current assets amounted to RMB8,022,487,000 comprised mainly inventories of RMB603,639,000, trade and other receivables and bill receivables discounted with recourse of RMB5,675,788,000, cash and cash equivalents (inclusive of pledged bank deposits) of RMB1,731,058,000. Amount due from SGMW, a key customer in the engines and automotive components businesses of the Group amounted to RMB1,523,838,000 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 RMB1,731,058,000, in which RMB1,072,857,000 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 RMB210,122,000 as at 30 June 2011.

Current liabilities amounted to RMB7,831,887,000, comprised mainly trade and other payables and advances drawn on bill receivables discounted with recourse of RMB6,654,761,000, amount due to shareholders of RMB563,459,000, provision for warranty of RMB114,357,000, tax payable of RMB40,303,000, bank borrowings – due within one year of RMB392,426,000 and derivative financial instrument of RMB59,674,000. Amounts due to shareholders recorded under current liabilities mainly refers to the account payable to Liuzhou Wuling, the ultimate controlling shareholder of the Company and the joint venture partner of Wuling Industrial. The derivative financial instrument represented the fair value of the conversion option embedded in the convertible loan notes by an independent valuer as at 30 June 2011.

Net current assets increased to RMB190,600,000 as at 30 June 2011 from RMB128,078,000 as at 31 December 2010, primarily attributable to the issue of new shares pursuant to the abovementioned Open Offer during the period.

Non-current liabilities amounted to RMB468,547,000 comprised mainly bank borrowings of RMB55,653,000, the liability component of the convertible loan notes of RMB72,996,000 and the amount due to Liuzhou Wuling and Wuling HK of RMB244,837,000 and RMB83,049,000 respectively.

Non-controlling interests mainly refer to Liuzhou Wuling's interest in the Company's non-wholly owned subsidiary, Wuling Industrial.

Liquidity and Capital Structure

The Group was operating under a net cash inflow position for the six months ended 30 June 2011, in which net cash from operating activities amounted to RMB255,739,000.

As at 30 June 2011, the Group maintained cash and cash equivalents of RMB658,201,000, which was decreased by RMB187,232,000 as compared to the reporting balances as at 31 December 2010.

Group's bank borrowings increased from RMB243,393,000 as at 31 December 2010 to RMB448,079,000 as at 30 June 2011. Apart from bank borrowings, the Company also maintained a five-year convertible loan notes with principal amount of HK$100,000,000 and maturity date on 12 January 2014 and a shareholder loan of HK$100,000,000 owed to Wuling HK, the controlling shareholder of the Company.

Overall, the Group had cash net of bank borrowings amounting to RMB210,122,000 as at 30 June 2011.

As 30 June 2011, the Group had a gearing ratio of 41.6% calculated based on the Group's total bank borrowings and the Group's net assets, which was increased as compared to the gearing ratio of 27.0% as recorded at 31 December 2010.

Issued capital increased to RMB4,524,000 as at 30 June 2011 from RMB3,961,000 as at 31 December 2010. On 29 March 2011, in accordance with the Open Offer, a total number of 167,229,341 new shares were issued at HK$0.90 per share by the Company, in which a total number of 133,363,975 new shares were issued to Wuling HK. Net proceeds raised from the Open Offer amounting to approximately HK$147,300,000, which were mainly used for financing the business and operations of the Wuling Industrial Group and the general working capital of the Group, has further strengthened the liquidity and financial position of the Group.

On 27 May 2011, pursuant to a special resolution passed by the shareholders, the entire share premium account of the Company amounting to RMB466,530,000 was reduced and transferred to the contributed surplus account of the Company. From which, an amount of RMB528,202,000 under the contributed surplus account of the Company was simultaneously applied to eliminate the accumulated losses of RMB528,202,000 carried by the Company as at 31 December 2010. The elimination of the accumulated losses gave the Company greater flexibility to declare dividends to the shareholders at an earlier opportunity in the future as and when the Board considers appropriate.

Total shareholders' equity comprised primarily the contributed surplus, other reserves and retained profits, amounted to RMB450,904,000 as at 30 June 2011. Net asset value per share was RMB38.5 cents as at 30 June 2011.

Pledge of Assets

At 30 June 2011, the properties held by the Group in Hong Kong with an aggregate value of RMB30,345,000 were pledged to secure the bank loans granted to Group. Besides, bank deposits amounting to RMB1,072,857,000 and bills receivables discounted with recourse amounting to RMB1,098,358,000 were pledged to the banks mainly to secure certain banking facilities offered to the member companies of the Wuling Industrial Group.

Exposure to Flucatuation in Exchange Rates

At 30 June 2011, the Group maintained foreign currency and Hong Kong dollar bank loans of an aggregate amount of RMB33,213,000, Hong Kong dollar shareholder loan of an aggregate amount of RMB83,049,000, Hong Kong dollar bank deposits of an aggregate amount of RMB18,685,000 and Hong Kong dollar convertible loan notes with principal value amounting to RMB75,317,000. In comparison with the relative size of the Group's assets, liabilities and main transactions which are denominated in RMB, the Group regarded its exposure to fluctuations in exchange rates and currencies to be minimal.

Commitments

At 30 June 2011, the Group has outstanding commitments, contracted but not provided for in the financial statements, in respect of the acquisitions of construction in progress and property, plant and equipment amounting to RMB177,774,000, which included among others, the outstanding consideration payable for the acquisition of a factory premise and certain production facilities in Qingdao.

Contingent Liabilities

At 30 June 2011, Wuling Industrial, a subsidiary of the Company, 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. The directors do not consider it is probable that a claim will be made against Wuling Industrial under this corporate guarantee.

INTERIM DIVIDEND

The Board has declared payment of an interim dividend of HK1 cent (equivalent to approximately RMB0.83 cent) per ordinary share for the six months ended 30 June 2011 (2010: Nil) to shareholders whose names appear on the register of members of the Company on 14 October 2011. Dividend warrants will be dispatched to shareholders on or about 21 October 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 12 October 2011 to 14 October 2011 (both days inclusive), during which no transfer of shares will be effected. In order to qualify for the interim dividend, all completed transfer forms accompanied with the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 11 October 2011.

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 period ended 30 June 2011 (Period ended 30 June 2010: Nil).

CORPORATE GOVERNANCE PRACTICES

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs. The Company has applied the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange sets out the principles of good corporate governance and the code provisions as set out in the CG Code.

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 period ended 30 June 2011.

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.

At the request of the Audit Committee, the Company's auditors, Deloitte Touche Tohmatsu, had carried out a review of the unaudited interim financial information for the six months ended 30 June 2011 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The independent interim financial information for the six months ended 30 June 2011 has also been reviewed by the Audit Committee.

HUMAN RESOURCES AND REMUNERATION POLICY

At 30 June 2011, the Group had approximately 9,400 employees, including 5,200 staff members and 4,200 workers. Total staff costs for the six months ended 30 June 2011 were approximately RMB228,322,000. The remuneration policy was reviewed in line with the current applicable legislation, market conditions as well as the performance of the Company and the individual.

Besides, the Remuneration Committee of the Company, comprising the three independent non-executive directors, namely Mr. Zuo Duofu (the Chairman), Mr. Yu Xiumin and Mr. Ye Xiang, established under the Board, will also make recommendations on and give approval to the remuneration policy, structure and remuneration packages of the executive directors and the senior management. The terms of reference of the Remuneration Committee of the Company are disclosed on the website of the Company.

The Group regards human resources as an essential element for the growth of a corporation and therefore pays serious attention to its human resources management. The Group maintains a set of established and comprehensive management policy aiming at promoting common corporate goals among employees. The policy which covers the remuneration structure, training and staff development encourages healthy competitive environment which will bring mutual benefits to both the Group and the employees.

INTERIM REPORT

The interim report for the six months ended 30 June 2011 containing all information required by Appendix 16 of 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.wuling.com.hk respectively 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 August 2011