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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 FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

**FINANCIAL HIGHLIGHTS**

| | **2012** *RMB'000* | 2011 *RMB'000* | Change (%) |
|---|---|---|---|
| Revenue | **11,856,125** | 10,908,602 | 8.7% |
| Gross profit | **1,234,857** | 971,715 | 27.1% |
| Profit for the year | **98,577** | 136,455 | –27.8% |
| Profit attributable to the owners of the Company | **40,214** | 69,813 | –42.4% |
| Profit for the year, adjusting for the change in fair value of the derivative financial instrument embedded with the convertible loan notes issued by the Company, and recognition of equity settled share-based payments | **104,087** | 101,807 | 2.2% |
| Profits 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, and recognition of equity settled share-based payments | **45,724** | 35,165 | 30.0% |

## RESULTS

The board of directors (the "Board") of Wuling Motors Holdings Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012 together with the comparative figures for the previous year.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
*FOR THE YEAR ENDED 31 DECEMBER 2012*

| | *NOTES* | **2012** **RMB'000** | 2011 RMB'000 |
|---|---|---|---|
| **Revenue** | *4* | **11,856,125** | 10,908,602 |
| Cost of sales | | **(10,621,268)** | (9,936,887) |
| **Gross profit** | | **1,234,857** | 971,715 |
| Other income | *4* | **63,765** | 83,527 |
| Other gains and losses | *4* | **10,405** | 38,016 |
| Selling and distribution costs | | **(353,229)** | (245,548) |
| General and administrative expenses | | **(722,309)** | (605,435) |
| Finance costs | *5* | **(89,806)** | (74,354) |
| **Profit before tax** | | **143,683** | 167,921 |
| Income tax expense | *6* | **(45,106)** | (31,466) |
| **Profit for the year** | *7* | **98,577** | 136,455 |
| **Other comprehensive income** | | | |
| Exchange differences arising from translation of foreign operation | | **(307)** | 39 |
| Exchange reserve released upon disposal of subsidiaries | | **(247)** | (33) |
| Total comprehensive income for the year | | **98,023** | 136,461 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | **40,214** | 69,813 |
| Non-controlling interests | | **58,363** | 66,642 |
| | | **98,577** | 136,455 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | **39,660** | 69,819 |
| Non-controlling interests | | **58,363** | 66,642 |
| | | **98,023** | 136,461 |
| **Earnings per share** | *9* | | |
| Basic | | **3.44 cents** | 6.17 cents |
| Diluted | | **2.84 cents** | 3.16 cents |
| **Dividends** | *8* | | |
| Interim dividend | | **Nil** | HK1 cent |
| Final dividend | | **HK0.5 cent** | HK0.5 cent |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AS AT 31 DECEMBER 2012*

| | *NOTES* | **2012** **RMB'000** | 2011 *RMB'000* |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **1,294,854** | 1,078,994 |
| Prepaid lease payments | | **189,918** | 171,907 |
| Premium on prepaid lease payments | | **947** | 972 |
| Investment properties | | **7,024** | 26,217 |
| Intangible assets | | **628** | 628 |
| Goodwill | *10* | **5,252** | – |
| Available-for-sale investments | | **–** | 360 |
| Deposits for acquisition of land use rights | | **25,200** | 10,800 |
| Deposits for acquisition of property, plant and equipment | | **247,172** | 140,584 |
| | | **1,770,995** | 1,430,462 |
| CURRENT ASSETS | | | |
| Inventories | *11* | **710,516** | 551,976 |
| Trade and other receivables | *12* | **6,949,514** | 6,361,318 |
| Prepaid lease payments | | **4,126** | 3,601 |
| Tax recoverable | | **5,756** | 2,033 |
| Held-for-trading investments | | **–** | 5 |
| Pledged bank deposits | | **779,932** | 498,138 |
| Bank balances and cash | | **483,161** | 849,846 |
| | | **8,933,005** | 8,266,917 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | *13* | **7,517,993** | 5,914,080 |
| Amounts due to shareholders | | **170,962** | 577,979 |
| Provision for warranty | *14* | **146,501** | 124,717 |
| Tax payable | | **9,828** | 1,297 |
| Derivative financial instrument | *15* | **7,534** | 18,843 |
| Bank and other borrowings — due within one year | | **953,328** | 1,407,498 |
| Obligations under finance leases — due within one year | | **–** | 74 |
| Bank overdrafts | | **–** | 5,117 |
| | | **8,806,146** | 8,049,605 |
| NET CURRENT ASSETS | | **126,859** | 217,312 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **1,897,854** | 1,647,774 |

| | NOTES | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Amount due to shareholders | | **526,323** | 326,764 |
| Convertible loan notes | *15* | **81,869** | 78,524 |
| Bank borrowings — due after one year | | **1,054** | 23,158 |
| Deferred tax liabilities | | **23,366** | 14,279 |
| | | **632,612** | 442,725 |
| | | **1,265,242** | 1,205,049 |
| CAPITAL AND RESERVES | | | |
| Share capital | *16* | **4,524** | 4,524 |
| Reserves | | **533,673** | 481,965 |
| Equity attributable to owners of the Company | | **538,197** | 486,489 |
| Non-controlling interests | | **727,045** | 718,560 |
| | | **1,265,242** | 1,205,049 |

# NOTES TO THE FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 31 DECEMBER 2012*

## 1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Company is a public limited company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and the head office and principal place of business of the Company in Hong Kong is located at Unit 2403, 24/F., Great Eagle Centre, 23 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 related parts, automotive components and accessories, specialized vehicles, trading of raw materials and the provision of water and power supply.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

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

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

| | |
|---|---|
| Amendments to HKAS 12 | Deferred Tax: Recovery of Underlying Assets; and |
| Amendments to HKFRS 7 | Financial Instruments: Disclosures — Transfers of Financial Assets |
| Amendments to HKAS 1 | As part of the Annual Improvements to HKFRSs 2009–2011 Cycle issued in 2012 |

Except as described below, the application of the amendments to HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

**Amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets***

The Group has applied for the first time the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets* in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property* are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group's investment property portfolios and concluded that none of the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, the directors have determined that the 'sale' presumption set out in the amendments to HKAS 12 is not rebutted.

The application of the amendments to HKAS 12 has resulted in the Group not recognising any deferred taxes on changes in fair value of the investment properties as the Group is not subject to any income taxes on disposal of its investment properties. Previously, the Group recognized deferred taxes on changes in fair value of investment properties on the basis that the entire carrying amounts of the properties were recovered through use.

The amendments to HKAS 12 have been applied retrospectively, the application of the amendments has had no significant impact on the financial statements of the Group as at 1 January 2011, 31 December 2011 and 31 December 2012.

**Amendments to HKFRS 7** ***Disclosures — Transfers of Financial Assets***

The Group has applied for the first time the amendments to HKFRS 7 *Disclosures — Transfers of Financial Assets* in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group has arrangements with various banks to transfer to the banks its contractual rights to receive cash flows from certain bill receivables. The arrangements are made through discounting those receivables to banks on a full recourse basis. Specifically, if the bill receivables are not paid at maturity, the banks have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these bill receivables, it continues to recognize the full carrying amount of the receivables and has recognized the cash received on the transfer as a secured borrowing. The relevant disclosures have been made regarding the transfer of these trade receivables on application of the amendments to HKFRS 7 (see note 12(ii)). In accordance with the transitional provisions set out in the amendments to HKFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

**Amendments to HKAS 1** ***Presentation of Financial Statements***
***(as part of the Annual Improvements to HKFRSs 2009–2011 Cycle issued in June 2012)***

Various amendments to HKFRSs were issued in June 2012, the title of which is Annual Improvements to HKFRSs (2009–2011 Cycle). The effective date of these amendments is annual periods beginning on or after 1 January 2013.

In current year, the Company has applied for the first time the amendments to HKAS 1 in advance of the effective date (annual periods beginning on or after 1 January 2013).

HKAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

In the current year, the Company has applied the amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets for the first time. However, no material effect on the information in the statement of financial position as at 1 January 2011 is resulted. Thus the Company is not required to presented a third statement of financial position as at 1 January 2011 in accordance with the amendments to HKAS 1.

**New and revised HKFRSs issued but not yet effective**

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

| | |
|---|---|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2009–2011 Cycle, except for the amendments to HKAS 1[1] |
| Amendments to HKFRS 7 | Disclosures — Offsetting Financial Assets and Financial Liabilities[1] |
| Amendments to HKFRS 9 and HKFRS 7 | Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3] |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | Investment Entities[2] |
| HKFRS 9 | Financial Instruments[3] |
| 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 19 (as revised in 2011) | Employee Benefits[1] |
| HKAS 27 (as revised in 2011) | Separate Financial Statements[1] |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[1] |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income[4] |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[2] |
| HK(IFRIC)-Int 20 | Stripping Costs in the Production Phase of a Surface Mine[1] |

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 July 2012.

## 3. SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of 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 organised. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

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

- Manufacture and sale of engines and related parts
- Manufacture and sale of automotive components and accessories
- Manufacture and sale of specialized vehicles
- Trading of raw materials (mainly metals and other consumables), and provision of water and power supply services
- Others (including property investment, securities dealing and margin finance services)

### Segment revenues and results

The following is an analysis of the Group's revenue and results from reportable and operating segments.

| | Engines and related parts *RMB'000* | Automotive components and accessories *RMB'000* | Specialized vehicles *RMB'000* | Trading of raw materials, and provision of water and power supply *RMB'000* | Others *RMB'000* | Elimination *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|---|---|---|---|
| **For the year ended 31 December 2012** | | | | | | | |
| Revenue | | | | | | | |
| External sales | 3,429,764 | 5,670,782 | 1,696,641 | 1,058,732 | 206 | – | 11,856,125 |
| Inter-segment sales | 558,599 | 440,845 | 105,422 | 298,548 | – | (1,403,414) | – |
| Total | 3,988,363 | 6,111,627 | 1,802,063 | 1,357,280 | 206 | (1,403,414) | 11,856,125 |
| Segment profit (loss) | 112,692 | 71,953 | 50,814 | 24,180 | (10,259) | | 249,380 |
| Bank interest income | | | | | | | 28,034 |
| Change in fair value of derivative financial instrument | | | | | | | 11,309 |
| Share option expenses | | | | | | | (16,819) |
| Central administration costs | | | | | | | (40,125) |
| Gain on disposal of subsidiaries | | | | | | | 1,710 |
| Finance costs | | | | | | | (89,806) |
| Profit before taxation | | | | | | | 143,683 |

| | Engines and related parts *RMB'000* | Automotive components and accessories *RMB'000* | Specialized vehicles *RMB'000* | Trading of raw materials, and provision of water and power supply *RMB'000* | Others *RMB'000* | Elimination *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|---|---|---|---|
| **For the year ended 31 December 2011** | | | | | | | |
| Revenue | | | | | | | |
| External sales | 3,495,062 | 5,049,561 | 1,474,644 | 888,108 | 1,227 | – | 10,908,602 |
| Inter-segment sales | 304,927 | 120,729 | 17,262 | 1,013,514 | – | (1,456,432) | – |
| Total | 3,799,989 | 5,170,290 | 1,491,906 | 1,901,622 | 1,227 | (1,456,432) | 10,908,602 |
| Segment profit (loss) | 146,736 | 19,487 | 46,554 | 22,812 | (9,715) | | 225,874 |
| Bank interest income | | | | | | | 29,105 |
| Change in fair value of derivative financial instrument | | | | | | | 35,526 |
| Share option expenses | | | | | | | (878) |
| Central administration costs | | | | | | | (47,325) |
| Loss on disposal of subsidiaries | | | | | | | (27) |
| Finance costs | | | | | | | (74,354) |
| Profit before taxation | | | | | | | 167,921 |

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit/loss represents the profit earned by/loss incurred by each segment without the allocation of central administrative costs, bank interest income, change in fair value of derivative financial instrument, share option expenses, gain (loss) on disposal of subsidiaries and finance costs. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market prices.

**Segment assets and liabilities**

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

| | **Engines and related parts** *RMB'000* | **Automotive components and accessories** *RMB'000* | **Specialized vehicles** *RMB'000* | **Trading of raw materials, and provision of water and power supply** *RMB'000* | **Others** *RMB'000* | **Consolidated** *RMB'000* |
|---|---|---|---|---|---|---|
| **At 31 December 2012** | | | | | | |
| Assets | | | | | | |
| Segment assets | **2,826,048** | **4,844,189** | **1,030,490** | **725,452** | **8,972** | **9,435,151** |
| Pledged bank deposits | | | | | | **779,932** |
| Bank balances and cash | | | | | | **483,161** |
| Tax recoverable | | | | | | **5,756** |
| Consolidated assets | | | | | | **10,704,000** |
| Liabilities | | | | | | |
| Segment liabilities | **2,388,771** | **3,997,141** | **1,009,264** | **264,614** | **4,704** | **7,664,494** |
| Amounts due to shareholders | | | | | | **697,285** |
| Derivative financial instrument | | | | | | **7,534** |
| Convertible loan notes | | | | | | **81,869** |
| Bank borrowings | | | | | | **954,382** |
| Others | | | | | | **33,194** |
| Consolidated liabilities | | | | | | **9,438,758** |

| | Engines and related parts *RMB'000* | Automotive components and accessories *RMB'000* | Specialized vehicles *RMB'000* | Trading of raw materials, and provision of water and power supply *RMB'000* | Others *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|---|---|---|
| **At 31 December 2011** | | | | | | |
| Assets | | | | | | |
| Segment assets | 2,693,860 | 3,884,436 | 753,475 | 986,958 | 28,633 | 8,347,362 |
| Pledged bank deposits | | | | | | 498,138 |
| Bank balances and cash | | | | | | 849,846 |
| Tax recoverable | | | | | | 2,033 |
| Consolidated assets | | | | | | 9,697,379 |
| Liabilities | | | | | | |
| Segment liabilities | 1,937,456 | 3,270,477 | 780,657 | 278,937 | 4,080 | 6,271,607 |
| Amounts due to shareholders | | | | | | 904,743 |
| Derivative financial instrument | | | | | | 18,843 |
| Convertible loan notes | | | | | | 78,524 |
| Bank borrowings | | | | | | 1,197,920 |
| Bank overdrafts | | | | | | 5,117 |
| Others | | | | | | 15,576 |
| Consolidated liabilities | | | | | | 8,492,330 |

The assets of the Group are allocated based on the operations of the segments. However, pledged bank deposits, bank balances and cash and tax recoverable 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.

**Other segment information**

| | **Engines and related parts** *RMB'000* | **Automotive components and accessories** *RMB'000* | **Specialized vehicles** *RMB'000* | **Trading of raw materials, and provision of water and power supply** *RMB'000* | **Others** *RMB'000* | **Consolidated** *RMB'000* |
|---|---|---|---|---|---|---|
| **For the year ended 31 December 2012** | | | | | | |
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | | |
| Addition to non-current assets | **60,262** | **110,647** | **146,107** | **24,221** | **6,078** | **347,315** |
| Depreciation of property, plant and equipment | **44,434** | **55,751** | **5,628** | **15,586** | **127** | **121,526** |
| Release of prepaid lease payments | **1,596** | **299** | **–** | **2,174** | **–** | **4,069** |
| Release of premium on prepaid lease payments | **–** | **25** | **–** | **–** | **–** | **25** |
| (Gain) loss on disposal of property, plant and equipment | **(77)** | **53** | **–** | **–** | **–** | **(24)** |
| (Reversal of) allowance for inventories | **(6,382)** | **1,186** | **–** | **–** | **–** | **(5,196)** |
| Impairment loss reversed in respect of trade receivables | **(1,031)** | **–** | **(223)** | **–** | **–** | **(1,254)** |
| Impairment loss recognized on trade receivables | **6,169** | **242** | **72** | **–** | **–** | **6,483** |
| Research and development expenses | **31,618** | **48,597** | **35,526** | **–** | **–** | **115,741** |
| Change in fair value of investment properties | **–** | **–** | **–** | **–** | **1,534** | **1,534** |
| Loss on disposal of available-for-sale investments | **116** | **116** | **–** | **–** | **–** | **232** |

| | Engines and related parts *RMB'000* | Automotive components and accessories *RMB'000* | Specialized vehicles *RMB'000* | Trading of raw materials, and provision of water and power supply *RMB'000* | Others *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|---|---|---|
| **For the year ended 31 December 2011** | | | | | | |
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | | |
| Addition to non-current assets | 152,089 | 71,840 | 6,118 | 200,772 | 169 | 430,988 |
| Depreciation of property, plant and equipment | 33,106 | 44,304 | 4,472 | 12,386 | 239 | 94,507 |
| Release of prepaid lease payments | 388 | 299 | – | 2,174 | – | 2,861 |
| Release of premium on prepaid lease payments | – | 25 | – | – | – | 25 |
| (Gain) Loss on disposal of property, plant and equipment | (699) | 572 | 37 | (186) | – | (276) |
| Allowance for inventories | 5,872 | – | – | – | – | 5,872 |
| Impairment loss reversed in respect of trade receivable | (1,223) | – | – | – | – | (1,223) |
| Impairment loss recognized on trade receivable | 1,462 | 970 | 262 | – | – | 2,694 |
| Research and development expenses | 36,499 | 8,159 | 8,931 | – | – | 53,589 |

**Geographical information**

*(a) Revenue from external customers*

The Group's operations are located in Hong Kong and the PRC (excluding Hong Kong). Information about the Group's revenue from customers is presented based on the location of customers, irrespective of the origin of the goods and services.

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| The PRC (excluding Hong Kong) | **11,855,919** | 10,907,375 |
| Hong Kong | **206** | 1,227 |
| Consolidated | **11,856,125** | 10,908,602 |

*(b) Non-current assets*

Information about the Group's non-current assets is presented based on the geographical location of the assets.

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Hong Kong | **7,024** | 27,747 |
| Philippines | **628** | 628 |
| The PRC (excluding Hong Kong) | **1,763,343** | 1,401,727 |
| | **1,770,995** | 1,430,102 |

**Information about a major customer**

Revenue derived from sales to a single customer SAIC-GM-Wuling Automobile Co., Limited ("SGMW"), which contributed over 10% of the Group's total revenue, is in respect of the followings:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Engines and parts | **2,308,199** | 3,031,494 |
| Automotive components and accessories | **5,447,926** | 4,792,960 |
| Specialized vehicles | **93,049** | 99,213 |
| Trading of raw materials | **71,204** | 47,174 |
| Provision of water and power supply | **231,220** | 206,669 |
| | **8,151,598** | 8,177,510 |

## 4. REVENUE/OTHER INCOME/OTHER GAINS AND LOSSES

An analysis of the Group's revenue, other income and other gains and losses is as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Sales of: | | |
| — Engines | **3,344,467** | 3,381,918 |
| — Engine related parts | **85,297** | 113,144 |
| — Automotive components and accessories | **5,670,782** | 5,049,561 |
| — Specialized vehicles | **1,696,641** | 1,474,644 |
| Trading of raw materials | **823,616** | 674,317 |
| Provision of water and power supply | **235,116** | 213,791 |
| | **11,855,919** | 10,907,375 |
| Commission and interest income from securities dealing and margin finance | **–** | 549 |
| Gross property rental income | **206** | 678 |
| | **11,856,125** | 10,908,602 |
| Other income *(note(i))* | **63,765** | 83,527 |
| Other gains and losses *(note(ii))* | **10,405** | 38,016 |

*Notes:*

(i) Details of other income are as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Sales of scrap materials and parts | **30,013** | 49,915 |
| Bank interest income | **28,034** | 29,105 |
| Service income on repairs and maintenance | **1,396** | 3,158 |
| Machinery rental income | **525** | 519 |
| Others | **3,797** | 830 |
| | **63,765** | 83,527 |

(ii) Details of other gains and losses are as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Change in fair value of derivative financial instruments | **11,309** | 35,526 |
| Gain (loss) on disposal of subsidiaries | **1,710** | (27) |
| Change in fair value of investments properties | **1,534** | – |
| Foreign exchange (losses) gains, net | **1,288** | 3,714 |
| Impairment loss reversed in respect of trade receivables | **1,254** | 1,223 |
| Gain on disposal of property, plant and equipment | **24** | 276 |
| Impairment loss recognized on trade receivables | **(6,483)** | (2,694) |
| Loss on disposal of available-for-sale investments | **(232)** | – |
| Gain (loss) on change in fair value of held-for-trading investments | **1** | (2) |
| | **10,405** | 38,016 |

## 5. FINANCE COSTS

| | 2012 | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interests on: | | |
| — amount due to a shareholder | **4,517** | 3,737 |
| — borrowings and overdrafts wholly repayable within five years | **50,448** | 23,878 |
| — borrowings not wholly repayable within five years | **212** | 489 |
| — advances drawn on bills receivables | **25,956** | 37,820 |
| — obligations under finance leases | **18** | 18 |
| — convertible loan notes *(note 15)* | **8,655** | 8,412 |
| | **89,806** | 74,354 |

## 6. INCOME TAX EXPENSE

| | 2012 | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Tax charge represents: | | |
| PRC Enterprise Income Tax | | |
| Current | **35,961** | 21,893 |
| Withholding tax paid | **5,808** | 4,094 |
| Underprovision in prior years | **1,723** | 725 |
| | **43,492** | 26,712 |
| Deferred tax | | |
| Current year | **1,614** | 4,754 |
| | **45,106** | 31,466 |

**The PRC**

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

Pursuant to the tax notice, Caishui [2001] No. 202 and the Implementation Regulations of the EIT Law issued by the State Council of the PRC on 6 December 2008, the relevant state policy and the approval obtained from tax authorities in charge, other than Wuling Industrial, all the Group's major PRC operating subsidiaries which are located in specified provinces of Western China and engaged in a specific state-encouraged industry were subject to a preferential tax rate of 15% during the period from 2001 to 2010 when the annual revenue from the encouraged business exceeded 70% of its total revenue in a fiscal year. Pursuant to Caishui [2011] No. 58 issued in 2011, such preferential tax treatment is further extended for a period of ten years from 2011 to 2020 on the condition that the enterprises are engaged in state-encouraged industries as defined under the "Catalogue of Encouraged Industries in the Western Region" (the "Catalogue"), and confirmation notice from the relevant authority on the 15% EIT rate, which for the year 2011 had been obtained, is obtained by the enterprises. The Catalogue will be issued separately. In addition, with reference to the Notice 2011 No. 2 issued by Guangxi Local Tax Bureau and the local practices adopted, for the transition between Caishui [2001] No. 202 and Caishui [2011] No. 58, entities which enjoyed preferential EIT rate for the development of the western regions in Guangxi Province previously, could adopt 15% preferential tax rate when making their quarterly EIT prepayments in 2012. The Catalogue setting out the qualifying industries has not been issued yet up to the end of the reporting periods.

For Wuling Industrial, pursuant to the tax notice, Liuzhou Liunan [2010] No. 001, it was entitled to a preferential income tax rate of 15% until December 2010. In 2011, the tax rate of Wuling Industrial was 25%. Pursuant to a tax notice, Liuzhou Liunan [2012] No. 002 issued on 28 December 2012, Wuling Industrial is entitled to a preferential income tax rate of 15%, effective from 1 January 2012 to 31 December 2014.

In the opinion of the directors of the Company, all the Group's major PRC operating subsidiaries, are located in the specified provinces of Western China and are engaged in industries which qualify them for the preferential tax treatment.

The EIT Law also requires withholding tax upon distribution of profits earned by the PRC subsidiaries since 1 January 2008 to its overseas (including Hong Kong) shareholders at 10% of the distribution. Deferred tax of RMB7,638,000 (2011: RMB8,881,000) 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.

**Hong Kong**

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

No provision for taxation has been made as the Group's income neither arises in, nor is derived from, Hong Kong for the year ended 31 December 2012.

No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2011 since the assessable profits was wholly absorbed by tax losses brought forward.

## 7. PROFIT FOR THE YEAR

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit for the year has been arrived at after charging (crediting) the following items: | | |
| Directors' emoluments | **8,789** | 6,594 |
| Other staff costs: | | |
| Salaries, bonus and other benefits | **607,097** | 591,360 |
| Retirement benefit scheme contributions, excluding directors | **56,246** | 55,348 |
| Equity settled share-based payments excluding directors | **13,684** | 712 |
| Total staff costs | **685,816** | 654,014 |
| Gross property rental income | **(206)** | (678) |
| Less: direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties | **1** | 2 |
| Net rental income | **(205)** | (676) |
| Auditor's remuneration | **1,630** | 1,663 |
| Cost of inventories recognized as an expense *(note)* | **10,621,268** | 9,768,855 |
| Depreciation of property, plant and equipment | **121,526** | 94,507 |
| Release of prepaid lease payments (included in general and administrative expenses) | **4,069** | 2,861 |
| 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) | **115,741** | 53,589 |
| Transportation costs (included in selling and distribution costs) | **217,607** | 133,266 |

*Note:* Included in arriving at cost of inventories is a credit amount of approximately RMB5,196,000 recognized as reversal of allowance for inventories (2011: an amount for allowance for inventories of RMB5,872,000).

## 8. DIVIDEND

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Dividends recognized as distribution during the year: | | |
| 2011 Final — HK0.5 cent (2011: 2010 Final dividend — Nil) | **4,771** | – |
| 2012 Interim — Nil (2011: 2011 Interim dividend HK1 cent per share) | **–** | 9,733 |
| | **4,771** | 9,733 |

Subsequent to the end of the reporting period, a final dividend of HK0.5 cent per share amounting to approximately HK$5,900,000 (or equivalent to approximately RMB4,700,000) in respect of the year ended 31 December 2012 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 9. 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:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Earnings for the purpose of basic earnings per share (profit of the year attributable to owner of the Company) | **40,214** | 69,813 |
| Effect of dilutive potential ordinary shares: | | |
| Interest and exchange difference on convertible loan notes | **8,233** | 5,822 |
| Change in fair value of derivative financial instruments | **(11,309)** | (35,526) |
| Earnings for the purpose of diluted earnings per share | **37,138** | 40,109 |
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,170,605** | 1,132,298 |
| Effect of dilutive potential ordinary shares: | | |
| Convertible loan notes | **136,986** | 136,986 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,307,591** | 1,269,284 |

The computation of diluted earnings per share for both years 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 purposes of basic and diluted earnings per share in 2011 have been adjusted for the bonus element of the Open Offer (as defined in Note 16) on 28 March 2011.

## 10. GOODWILL

| | RMB'000 |
|---|---|
| COST | |
| At 1 January 2012 | **–** |
| Arising on acquisition of a subsidiary | **5,252** |
| At 31 December 2012 | **5,252** |
| IMPAIRMENT | |
| At 1 January 2012 and at 31 December 2012 | **–** |
| CARRYING VALUE | |
| At 31 December 2012 | **5,252** |
| At 31 December 2011 | **–** |

The entire goodwill is attributable to the acquisition of 75% equity interest in Jilin Chuofeng Liuji Motors Company Limited ("Jilin Chuofeng") as a cash generating unit ("CGU").

## 11. INVENTORIES

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Raw materials | **301,847** | 348,812 |
| Work in progress | **179,811** | 67,368 |
| Finished goods | **228,858** | 135,796 |
| | **710,516** | 551,976 |

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

### (i) Trade and other receivables

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade and bills receivables | | |
| — SAIC-GM-Wuling Automobile Co., Limited ("SGMW") *(note a)* | **3,959,753** | 3,565,886 |
| — Liuzhou Wuling Group *(note b)* | **25,062** | 97,352 |
| — third parties | **1,888,570** | 1,967,133 |
| | **5,873,385** | 5,630,371 |
| Less: Allowance for doubtful debts | **(11,631)** | (6,818) |
| | **5,861,754** | 5,623,553 |
| Other receivables: | | |
| Prepayments for expenses | **106** | 3,847 |
| Prepayments for purchase of raw materials *(note c)* | **492,802** | 454,768 |
| Value-added tax recoverable | **106,192** | 26,025 |
| Others | **63,524** | 20,389 |
| | **662,624** | 505,029 |
| Bills receivables discounted with recourse *(note 12(ii))* | **425,136** | 232,736 |
| Total trade and other receivables | **6,949,514** | 6,361,318 |

*Notes:*

(a) Liuzhou Wuling has significant influence over SGMW.

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

(c) Included in the balance were amounts of approximately RMB319,370,000 (2011: RMB204,166,000) paid to SGMW.

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

Included in trade and other receivables are trade and bills receivables of RMB5,861,754,000 (2011: RMB5,623,553,000) and an aged analysis of trade receivables based on the invoice date (net of allowances for doubtful debts) and an aged analysis of bills receivables based on the issue date of the bills are presented as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0–90 days | **4,088,087** | 5,525,419 |
| 91–180 days | **1,715,720** | 26,713 |
| 181–365 days | **50,616** | 58,020 |
| Over 365 days | **7,331** | 13,401 |
| | **5,861,754** | 5,623,553 |

**(ii) Bills receivables discounted with recourse**

Bills receivable discounted with recourse:

| | 2012 *RMB'000* | 2011 *RMB'000* |
|---|---|---|
| Bills receivables discounted with recourse | | |
| — SGMW | **–** | 148,182 |
| — Liuzhou Wuling Group | **–** | 990 |
| — third parties | **425,136** | 83,564 |
| | **425,136** | 232,736 |

The amounts represent bills receivables discounted to banks with recourse with a maturity period of less than 180 days (2011: 180 days). The Group recognizes the full amount of the discount proceeds as liabilities.

## 13. TRADE AND OTHER PAYABLES

**(i) Trade and other payables**

| | *NOTES* | 2012 *RMB'000* | 2011 *RMB'000* |
|---|---|---|---|
| Trade and bills payables: | | | |
| — SGMW | | **179,821** | 173,187 |
| — Liuzhou Wuling Group | | **30,004** | 47,426 |
| — third parties | | **6,843,362** | 5,151,804 |
| | *(i)* | **7,053,187** | 5,372,417 |
| Consideration payable for acquisition of a subsidiary | | **3,450** | – |
| Other payables and accruals | *(ii)* | **461,356** | 541,663 |
| Total trade and other payables | | **7,517,993** | 5,914,080 |

*Notes:*

(i) Included in trade and other payables are trade and bills payables of RMB7,053,187,000 (2011: RMB5,372,417,000) and an aged analysis based on the invoice date is presented as follows:

| | 2012 *RMB'000* | 2011 *RMB'000* |
|---|---|---|
| 0 to 90 days | **4,872,527** | 4,206,703 |
| 91 to 180 days | **1,998,820** | 1,118,541 |
| 181 to 365 days | **155,726** | 31,492 |
| Over 365 days | **26,114** | 15,681 |
| | **7,053,187** | 5,372,417 |

(ii) The amount represents receipt in advance from customers, accrued staff costs and accruals for operating expenses, payables for acquisition of property, plant and equipment and other miscellaneous payables.

## 14. PROVISION FOR WARRANTY

| | *RMB'000* |
|---|---|
| At 1 January 2011 | **125,665** |
| Additional provision in the year | **64,848** |
| Utilization of provision | **(65,796)** |
| At 31 December 2011 | **124,717** |
| Additional provision in the year | **83,701** |
| Utilization of provision | **(61,917)** |
| At 31 December 2012 | **146,501** |

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 HKD100,000,000 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 HKD0.74 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 on 12 March 2010, the conversion price of CN 2014 was adjusted from HKD0.74 per share to HKD0.73 per share with effect from 12 March 2010.

The convertible loan notes contain two components, liability component and conversion option derivative. The effective interest rate of the liability component is 11.64%. The conversion option derivative is measured at fair value with changes in fair value recognized in profit or loss.

The movement of the liability component of CN 2014 during the year is as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| At the beginning of the year | **78,524** | 77,691 |
| Effective interest expense | **8,655** | 8,412 |
| Interest paid | **(4,888)** | (4,989) |
| Exchange difference | **(422)** | (2,590) |
| At the end of the year | **81,869** | 78,524 |

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

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| At the beginning of the year | **18,843** | 54,369 |
| Changes in fair value during the year | **(11,309)** | (34,526) |
| At the end of the year | **7,534** | 18,843 |

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 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 by Ascent Partners Valuation Services Limited and Vigers Appraisal & Consulting Limited as of 31 December 2012 and 2011, respectively. The inputs into the model as at the respective dates are as follows:

| | **2012** | 2011 |
|---|---|---|
| Share price | **HKD0.53** | HKD0.66 |
| Conversion price | **HKD0.73** | HKD0.73 |
| Expected dividend yield | **1.4151%** | 0.83% |
| Volatility | **56.8138%** | 56.40% |

## 16. SHARE CAPITAL

| | **Number of shares** | **Amount** ***HK$*** |
|---|---|---|
| **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 2011, 31 December 2011 and 31 December 2012 | | 101,521 |
| **Issued and fully paid:** | | |
| Ordinary shares of HK$0.004 each | | |
| As at 1 January 2011 | 1,003,376,049 | 4,013 |
| Issue of new shares upon open offer *(note)* | 167,229,341 | 669 |
| As at 31 December 2011 and 2012 | 1,170,605,390 | 4,682 |
| | | ***RMB'000*** |
| Shown in the consolidated financial statements as — 31 December 2012 and 2011 | | **4,524** |

*Note:*

Pursuant to an ordinary resolution passed at a special general meeting of the Company on 8 March 2011, an issue of shares by the Company at a price of HKD0.90 per share on the basis of one share for every six existing shares then held (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 HKD150,506,000 (equivalent to approximately RMB126,644,000) to the Company. The proceeds from the Open Offer provided additional working capital to finance the Group's daily operations.

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

**17. EVENTS AFTER THE REPORTING DATE**

In February 2013, the Group completed 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 and Qingdao Liancheng Precision Mold Co. Limited. Details of acquisition are set out in the announcements of the Company dated 30 July 2010, 31 December 2010, 5 August 2011, 29 March 2012 and 30 September 2012.

## 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 related parts; (2) automotive components and accessories; (3) specialized vehicles; and (4) trading and supply services for the year 2012 are detailed below:

***Engines and Related Parts***

Turnover (based on external sales) of the engines and related parts division for the year ended 31 December 2012 was RMB3,429,764,000, representing a slight decrease of 1.9% as compared to prior year. Operating profits for the year was RMB112,692,000, registered a decrease of 23.2% as compared to prior year.

Total number of engines sold by the subsidiary, Liuzhou Wuling Liuji Motors Company Limited ("Wuling Liuji"), for the year 2012 maintained at the level of 650,000 units, representing a decrease of 7.1% as compared to prior year. Revenue generated from sales of products other than engine sets amounted to approximately RMB130,000,000.

During this year, sales to SGMW, our core customer, amounted to approximately RMB2,308,199,000 and continued to account for the majority portion of the division's revenue. Gradual increases in the application of self-produced engines by SGMW in its operations resulted in a reduction in sales to SGMW. Nevertheless, contribution from other customers' sales and additional revenue generated from the sales of the new products other than the engine sets had to certain extent compensated the reduction, such that total sales of this division was able to maintain at a similar level as prior year.

For further expansion and diversification of the Group's engines and related parts businesses, Wuling Liuji has been actively pursuing projects for other automobile manufacturers over the years. Sales, primarily engine sets, to other customers, such as, FAW Haima, Gonow Auto, Ziyang Nanjun Auto, Beiqi Foton and Mianyang Huaxin, etc (一汽海馬、吉奧汽車、資陽南駿汽車、北汽福田、綿陽華鑫等) increased to approximately RMB1,122,000,000 for the year 2012, representing approximately 30% of the total revenue of this division.

To expedite the expansion and diversification programme, the Group completed the acquisition of a majority stake in a company located in Jilin and began to supply engines and parts to the commercial mini-vehicles division of FAW Jilin in 2012. The Group expects the volume of sales to FAW Jilin will gradually increase in the coming years which will help to provide a balanced growth for the engines and parts division.

Meanwhile, sales of agricultural machinery products remained stable during the year.

Operating margin decreased to 3.3% as compared to 4.2% for prior year. During this year, operating margin performance was primarily affected by an increase in the research and development expenses and the adverse effect from the start-up operations of the new foundry facilities in which a net operating loss was incurred. Nevertheless, the Group is confident with the positive effects from these research and development projects and the new foundry facilities in strengthening the capability of and promoting business opportunities to the engines and parts division. As a positive note, the teething problems of the start-up operations of the new foundry facilities have since been actively addressed, in which scale productions are expected to commence gradually in the first half of 2013.

The production capacity of Wuling Liuji for the assembly functions at present is about 800,000 units a year, whereas the new foundry facilities of cylinder block and cylinder head which commenced operation in 2012 is having a targeted capacity of 600,000 units. Wuling Liuji will continue to monitor the growth of customers' businesses volume in order to derive an optimum capacity and utilization level for its operations.

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 existing and new products, so as to maintain its competitiveness in this market segment. The Group believes the successful launch of new products will enhance the business potential and the technical capability of Wuling Liuji which will contribute to its profitability in the coming years.

The Group expects the strong market demands for SGMW and other customers' models will continue in 2013 which will benefit the business performance in this division. In addition, it is expected that scale operation of the new foundry facilities of cylinder block and cylinder head for the full year of 2013 will gradually bring positive effects and will also provide additional business growth to the division.

***Automotive Components and Accessories***

Turnover (based on external sales) of the automotive components and accessories division for the year ended 31 December 2012 was RMB5,670,782,000, representing an increase of 12.3% as compared to prior year. Operating profits for the year was RMB71,953,000, representing a significant increase of 269.2% as compared to prior year.

The automotive components and accessories division continued to be the key supplier for supplying a majority portion of the key automotive components to SGMW. Total sales to SGMW, comprised the range of products including the brake and the chassis assembly components, seat sets, various plastic and welding parts and other automotive accessories, amounted to approximately RMB5,447,926,000, representing an increase of 13.7% as compared to prior year and accounted for over 95% of the total turnover for this business division. Strong demands for and the increasing market share achieved by the key products of SGMW benefited the business performance of this division for this year. The satisfactory reception of the first passenger vehicles model — Baojun 630 (寶駿630) of SGMW from the market also contributed to the business performance and would provide another promising business potential to this division.

Meanwhile, sales to other customers, including Dongfeng Yuan, Beiqi Foton, Hebei Changan and Qirei, etc (東風渝安、北汽福田、河北長安及奇瑞等) comprising specific automotive components amounted to approximately RMB220,000,000, which maintained at a similar level as compared to prior year.

During the year, operating margin experienced a significant improvement but continued to maintain at low level as hindered by the pricing pressures from the key customer on the Group's products and the higher administrative costs, in particular the research and development expenses, incurred for various capacity expansion and upgrading projects.

In view of the anticipated growth of business of SGMW from the existing models and the launch of new models, the Group has been actively undertaken large scale capacity expansion and upgrading programmes which includes: (1) the expansion project for the Qingdao facilities with a target annual capacity of 600,000 units for key automotive components on full completion in 2013; and (2) the new facilities in Hexi Industrial Park, Liuzhou, which has a site area of over 400,000 sqm., in which the first phase has started operational in late 2012. The Group considers these large scale expansion projects are critical to the continuous development of the Group considering the great business potential of the China automobile industry.

Besides actively upgrade its product standard and capability to cope with the needs of the customers, the Group has also implemented appropriate corporate restructure programmes so as to stay competitive in the industry. During the year, the Group has begun the integration exercise of the operation of this division, which was previously undertaken by the subsidiary Liuzhou Wuling Motors United Development Limited ("Wuling United"), into the principal joint venture, Liuzhou Wuling Motors Industrial Company Limited ("Wuling Industrial"). This exercise, which will eventually lead to the dissolution of Wuling United, will be beneficial to the division and the Group in term of cost saving and efficiency enhancement.

The automotive components and accessories division of the Group currently operates the largest manufacturing base of automotive components in the south-western part of China and is highly recognized for its comprehensive strength of competitiveness. Its specialized facilities cover the products range of the brake, the chassis assembly, automotive accessories, plastic components, welding parts and the seat sets. 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 key components, for both Liuzhou and Qingdao in aggregate, at present can reach 1,600,000 units/sets a year.

With its long and established industry experiences, the automotive components and accessories division of the Group is particularly strong in product design and development. Its 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. Apart from its well and established commercial-type vehicles production capability, strategically, the automotive components division has progressed gradually to the higher value-added passenger vehicles segment to further the profitability performance for the Group.

Notwithstanding the highly competitive 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 years onwards.

***Specialized Vehicles***

Turnover (based on external sales) of the specialized vehicles division for the year ended 31 December 2012 was RMB1,696,641,000, representing an increase of 15.1% as compared to prior year. Operating profits for the year was RMB50,814,000, representing an increase of 9.2% as compared to prior year. The specialized vehicles division was able to maintain the momentum of growth since last year through the launch of new models serving the needs of the market.

During this year, the Group sold approximately 40,000 specialized vehicles, representing an increase of 8.1% as compared to prior year. Its main products comprised various types of multi-purpose mini-vans, redecorated vans and mini-container wagons, etc. Besides, the specialized vehicles division continued to actively promote new models to expand its product range and business volume in this year. Amongst them, the most remarkable are the sight-seeing cars and mini school buses, which have gradually achieved respective prominent market share in their particular market segment since last year.

Operating margin maintained at 3.0% for the year. High portion of low margin products, market competition and increasing production costs continued to be the primary concerns for the division to tackle. Meanwhile, increasing costs of research and development and warranty incurred for the launches of new products also limited the profitability performance of this division. To enhance the profitability of this division, strategically, the Group has planned to reduce the production of the lower margin redecorated vans and mini-container wagons products so as to reserve more capacity to other more profitable models, such as the sight-seeing cars and mini school buses as abovementioned and expects the business development costs incurred for these new models will benefit the profitability performance in the near future.

Meanwhile, the specialized vehicles division is also undertaking certain integration programmes similar to the automotive components and accessories division aiming at a better control over the production and marketing which helps to promote cost effectiveness and production efficiency. Together with the undertaking of the essential research and development projects as well as the marketing programmes for new product, with specific focus on the new energy vehicles, the Group believes the division is better positioned in entering into the breakthrough stage for improving the profitability of the division.

The specialized vehicles division operates a comprehensive car assembly line which covers the production processes of welding, painting and assembly. The division has capability to produce 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 all 24 provinces and major cities across the country, and the overseas markets such as USA, Korea, Saudi Arabia, South Africa, UAE and Vietnam, etc

The capability of the specialized vehicles division in the car assembly industry is originated from the long-standing industry experiences of Wuling. In fact, the models designed and developed by the Group are branded as “Wuling”, which is itself a benchmark of quality products and services in the market. The Group is also a qualified 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 mini-truck, etc. The new energy vehicle is an important part of the corporate strategic plan.

Total capacity of the specialized vehicles division at present is about 60,000 vehicles a year, primarily located in Liuzhou. The Group has also operated a small production facility in Qingdao with a capacity of 20,000 vehicles to facilitate geographical diversification which enables quality services and cost effectiveness.

Going forward, the specialized vehicles division will continue to undertake research and development projects for new product, technical and capability improvement with specific focus on the new energy vehicles. Whilst the Group envisages the challenges facing this division, it remains confident in the long term business potential of this business segment. With the benefits of an effective cost control programmes 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 this division.

***Trading and Supply Services***

Turnover (based on external sales) of the trading and supply services division for the year ended 31 December 2012 was RMB1,058,732,000, representing an increase of 19.2% as compared to prior year. Operating profits for the year was RMB24,180,000, representing an increase of 6.0% as compared to prior year.

In line with strong market performances of our core customers, the trading and supply services division experienced an increase in business volume during this year and continued to provide a steady income stream to the Group.

Revenue from the trading and supply services division 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.

Headquartered in Liuzhou in the Guangxi Province and supported by a total number of about 7,000 staff members and over 4,700 workers (inclusive of the staff members of the 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.

Overall, the Group is confident in the business prospect of SGMW as supported by its successful models in the market. Besides, the launch of new models will continue to benefit the trading and supply services division in the coming years which will contribute to the business performance of the division.

**Financial Review**

***Statement of Comprehensive Income***

Group's turnover for the year ended 31 December 2012 was RMB11,856,125,000, representing an increase of 8.7% as compared to prior year, which was mainly attributable to the continuous growth of business volume of our key customers and was in line with the overall moderate growth of the automobile industry in China during the year.

Gross profit for the year was RMB1,234,857,000, representing an increase of 27.1% as compared to prior year. Increases in revenue and the gradual improvement in the operations represented by a lower cost of production of the automotive components and specialized vehicles divisions benefited the margin performance of this year, in spite of the adverse effects from a steadily lower selling price of the Group's products and the operating losses incurred in the new foundry facilities of the engines and parts division.

Gross margin of the Group improved to 10.4% during the year as compared to 8.9% recorded in prior year. However, the relatively low gross margin condition continued to reflect the keen competition environment in the automobile industry in China.

Net profit of the Group for the year of 2012 was RMB98,577,000, representing a decrease of 27.8% as compared to prior year. The decrease was primarily the result of the fair value adjustments of the convertible loan notes issued by the Company for the two reporting years, in which a gain of RMB11,309,000 was recorded for the year ended 31 December 2012, whereas for prior year, a more prominent gain of RMB35,526,000 was recorded, as well as the one-off share option expenses of approximately RMB16,819,000 recognized for the issue of share options to the directors and employees during the year. In addition, increase in the transportation costs and warranty expenses as included in the selling and distribution costs and the research and development expenses as included in the general and administrative expenses in response to the growth of business volume and the new business projects also flattened profitability of the Group. Meanwhile, the operating losses incurred for the start-up operations of the new foundry facilities where scale operations were not able to commence due to certain compliance procedures required by the customer had also adversely affected the business performance of the engines and parts division during the year.

Profits attributable to the owners of the Company was RMB40,214,000, representing a significant decrease of 42.4% as compared to prior year. Again, the decrease was primarily the result of the fair value adjustments of the convertible loan notes issued and the one-off share option expenses as aforementioned. On the basis of excluding these fair value adjustments and the share option expenses, profit attributable to the owners of the Company would be adjusted to RMB45,724,000 for the year, registering an increase as compared to the adjusted figures of prior year.

Other income comprised primarily sales of scrap materials and bank interest income was in aggregate RMB63,765,000 for the year ended 31 December 2012, representing a decrease of 23.7% as compared to prior year primarily as a result of a decrease in the sales of scrap materials during the year.

During the year, the Group completed the disposal of certain non-core business related assets in Hong Kong to reduce its debt positions and to generate working capital to the Group, which resulted in a net gain on disposal of approximately RMB1,710,000.

Selling and distribution costs of the Group comprised primarily transportation costs, warranty expenses and other marketing expenses were in aggregate RMB353,229,000 for the year ended 31 December 2012, representing a significant increase of 43.9% as compared to prior year. Apart from the increases corresponding to the growth in business volume and the launches of new models for the year, bearing of the transportation costs for a supplier of the specialized vehicles division had also driven up the selling and distribution costs. However, the Group was able to lower the purchasing price of such components to compensate such increase in cost.

General and administrative expenses of the Group comprised primarily salary and allowances, various insurance expenses, rental expenses and other administrative expenses were in aggregate RMB722,309,000 for the year ended 31 December 2012, representing an increase of 19.3% as compared to prior year. The increase was mainly attributable to the share option expenses of RMB16,819,000 relating to the issue of share options to the directors and employees, the increases in other staff costs and the research and development expenses during the year.

Research and development expenses for the year ended 31 December 2012 amounted to RMB115,741,000, representing a significant increase of 116% as compared to prior year. Such increase was primarily due to launches and development projects of new products undertaken by the Group. The Group will continue to prudently carry out research and development projects in accordance with the strategic plan in furthering its future business opportunities.

Finance costs for the year ended 31 December 2012 amounted to RMB89,806,000, representing an increase of 20.8% as compared to prior year, which was mainly due to the increases in borrowings during the year. The balances had also included the finance cost of RMB8,655,000 incurred for the convertible loan notes issued by the Company.

Basic earnings per share for the year ended 31 December 2012 was RMB3.44 cents, representing a decrease of 44.2% as compared to prior year, whereas, earnings per share on fully diluted basis was RMB2.84 cents, representing a decrease of 10.1%, in which the effect arising from the fair value adjustment on the convertible loan notes issued by the Company was excluded in the calculation.

***Financial Position***

As at 31 December 2012, total assets and total liabilities of the Group stood at RMB10,704,000,000 and RMB9,438,758,000 respectively.

Non-current assets amounted to RMB1,770,995,000 comprised mainly property, plant and equipment, prepaid lease payments, deposits paid for acquisition of non-current assets and goodwill on acquisition of a subsidiary, etc.

Current assets amounted to RMB8,933,005,000 comprised mainly inventories of RMB710,516,000, trade and other receivables of RMB6,949,514,000, cash and cash equivalents (inclusive of pledged bank deposits) of RMB1,263,093,000. Amount due from SGMW, a related company and a key customer in the engines and automotive components businesses of the Group amounted to RMB3,959,753,000 was recorded as trade and other receivables in the statement of financial position. These receivables balances were subject to normal commercial settlement terms. Total cash and bank balances amounted to RMB1,263,093,000, in which RMB779,932,000 were pledged bank deposits to secure the banking facilities offered to the Group. Overall, the Group had cash (including pledged bank deposits) net of bank borrowings (inclusive of advances drawn on bills receivable discounted with recourse) amounting to RMB308,711,000 as at 31 December 2012.

Current liabilities amounted to RMB8,806,146,000, comprised mainly trade and other payables of RMB7,517,993,000, amount due to shareholders of RMB170,962,000, provision for warranty of RMB146,501,000, tax payable of RMB9,828,000, bank borrowings — due within one year (inclusive of advances drawn on bills receivables discounted with recourse) of RMB953,328,000 and derivative financial instrument of RMB7,534,000. Amount due to shareholders recorded under current liabilities 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 31 December 2012.

Net current assets decreased to RMB126,859,000 as at 31 December 2012 from RMB217,312,000 as at 31 December 2011.

Non-current liabilities amounted to RMB632,612,000 comprised mainly bank borrowings of RMB1,054,000, the liability component of the convertible loan notes of RMB81,869,000 and the amount due to Liuzhou Wuling and Wuling HK of RMB443,327,000 and RMB82,996,000 respectively.

## DIVIDEND

The Board recommend the payment of a final dividend of HK0.5 cent per ordinary share in respect of the year ended 31 December 2012 (the "Final Dividend") to shareholders whose names appear on the register of members of the Company on Wednesday, 5 June 2013. (2011: 0.5 HK cent). Subject to the approval by the shareholders of the Final Dividend at the forthcoming annual general meeting of the Company to be held on Tuesday, 28 May 2013 (the "2013 AGM"), dividend warrants will be dispatched to shareholders on or about 14 June 2013.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 23 May 2013 to Tuesday, 28 May 2013, both dates inclusive, during which no transfer of shares will be effected. In order to qualify for attendance of the 2013 AGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch 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 Wednesday, 22 May 2013. The time and venue of the 2013 AGM will be advised in due course.

The register of members of the Company will be closed from Monday, 3 June 2013 to Wednesday, 5 June 2013 (both days inclusive), during which no transfer of shares will be effected. In order to qualify for the Final Dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch 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 Friday, 31 May 2013.

## 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 ended 31 December 2012.

## 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. For the period from 1 January 2012 to 31 March 2012, the Company has complied with the former code provisions set out in the Code on Corporate Governance Practices contained in the former Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules"). For the period from 1 April 2012 to 31 December 2012, the Company has complied with the new code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules.

## 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 of the Company and the directors of the Company 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, has been 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 Audit Committee has reviewed the audited financial statements for the year ended 31 December 2012 before such documents were tabled for the Board's review and approval, and is of the opinion that such documents complied with the applicable accounting standards, the Listing Rules and other applicable legal requirements and that adequate disclosures have been made.

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2012 as set out in the Preliminary Announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

## ANNUAL REPORT

The annual report of the Company for the year ended 31 December 2012 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.wuling.com.hk 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, 28 March 2013