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 2017

FINANCIAL HIGHLIGHTS

	2017 *RMB'000*	2016 *RMB'000*	Change *(%)*
Revenue	**16,123,895**	16,677,695	–3.3%
Gross profit	**1,603,669**	1,879,505	–14.7%
Profit for the year	**281,784**	280,273	+0.5%
Profit attributable to the owners of the Company	**173,158**	140,462	+23.3%
Earnings per share			
Basic	**RMB9.42 cents**	RMB7.67 cents	+22.8%
Diluted	**RMB6.19 cents**	RMB7.63 cents	–18.9%
Final dividend	**HKD1.25 cents**	HKD1.25 cents	No change

RESULTS

The board of directors (the "Board") of Wuling Motors Holdings Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017 together with the comparative figures for the previous year.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTES	**2017** *RMB'000*	2016 *RMB'000*
Revenue	*4&5(a)*	**16,123,895**	16,677,695
Cost of sales		**(14,520,226)**	(14,798,190)
Gross profit		**1,603,669**	1,879,505
Other income	*5(b)*	**141,309**	102,449
Other gains and losses	*5(c)*	**88,332**	(32,031)
Selling and distribution costs		**(274,075)**	(317,635)
General and administrative expenses		**(855,768)**	(802,397)
Research and development expenses		**(162,230)**	(329,433)
Share of result of an associate		**(3,463)**	–
Share of results of joint ventures		**(7,336)**	(11,039)
Finance costs	*6*	**(145,090)**	(89,536)
Profit before taxation		**385,348**	399,883
Income tax expense	*7*	**(103,564)**	(119,610)
Profit for the year	*8*	**281,784**	280,273
Other comprehensive (expenses) income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		**(5,641)**	263
Total comprehensive income for the year		**276,143**	280,536
Profit for the year attributable to:			
Owners of the Company		**173,158**	140,462
Non-controlling interests		**108,626**	139,811
		281,784	280,273

	NOTES	**2017**	2016
		RMB'000	*RMB'000*
Total comprehensive income attributable to:			
Owners of the Company		**167,517**	140,725
Non-controlling interests		**108,626**	139,811
		276,143	280,536
Earnings per share	*10*		
Basic		**RMB9.42 cents**	RMB7.67 cents
Diluted		**RMB6.19 cents**	RMB7.63 cents
Dividend	*9*		
Interim dividend		**Nil**	Nil
Final dividend		**HKD1.25 cents**	HKD1.25 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	NOTES	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**3,143,847**	2,474,743
Prepaid lease payments		**297,550**	244,887
Premium on prepaid lease payments		**823**	848
Investment properties		**9,086**	8,532
Interest in an associate		**71,537**	–
Interests in joint ventures		**100,660**	103,916
Deposits paid for acquisition of property, plant and equipment		**375,145**	304,944
Available-for-sale investment	*11*	**10,000**	10,000
		4,008,648	3,147,870
CURRENT ASSETS			
Inventories	*12*	**1,222,876**	1,468,151
Trade and other receivables	*13*	**4,196,160**	5,898,441
Prepaid lease payments		**7,336**	6,088
Pledged bank deposits		**565,840**	302,630
Bank balances and cash		**1,706,780**	1,559,741
		7,698,992	9,235,051
CURRENT LIABILITIES			
Trade and other payables	*15*	**7,955,730**	8,657,663
Provision for warranty	*16*	**142,704**	162,952
Tax payable		**108,318**	153,553
Bank borrowings	*17*	**491,576**	55,903
Derivative financial instrument	*18*	**50,560**	–
Convertible loan notes	*18*	**23,820**	–
Financial liability at fair value through profit or loss	*19*	**5,303**	–
Advances drawn on bills receivables discounted with recourse	*17*	**277,515**	1,177,555
		9,055,526	10,207,626
NET CURRENT LIABILITIES		**(1,356,534)**	(972,575)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,652,114**	2,175,295

	NOTES	2017 RMB'000	2016 RMB'000
NON-CURRENT LIABILITIES			
Deferred income	*11*	**15,339**	16,805
Convertible loan notes	*18*	**122,857**	–
Deferred tax liabilities		**26,058**	23,319
		164,254	40,124
		2,487,860	2,135,171
CAPITAL AND RESERVES			
Share capital	*20*	**7,366**	6,648
Reserves		**1,435,316**	1,169,497
Equity attributable to owners of the Company		**1,442,682**	1,176,145
Non-controlling interests		**1,045,178**	959,026
		2,487,860	2,135,171

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL INFORMATION

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"). Its immediate parent is Wuling (Hong Kong) Holdings Limited ("Wuling HK") and its ultimate parent is Guangxi Automobile Holdings Limited* 廣西汽車集團有限公司 ("Guangxi Automobile").

The Company acts as an investment holding company and its subsidiaries are engaged in the manufacturing and trading of engines and parts, automotive components and accessories and specialized vehicles, trading of raw materials, and 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. BASIS OF PREPARATION

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity and going concern of the Group in light of the Group's current liabilities exceed its current assets by approximately RMB1,357 million (2016: approximately RMB973 million) as at 31 December 2017. The directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future, after taking into consideration the available banking facilities for issuance of bills payables and bank borrowings, estimated future cash flows of the Group and assets available to pledge for obtaining further banking facilities.

Accordingly, the directors of the Company believe that it is appropriate to prepare the consolidated financial statements on a going concern basis without including any adjustments that would be required should the Group fail to continue as a going concern.

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

Amendments to HKFRSs that are mandatory effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealized Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact 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.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instrument[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensations[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[2]
Amendments to HKAS 40	Transfers of Investment Property[1]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2021.

HKFRS 9 "Financial Instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are described below:

Classification and measurement:

- All recognized financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income ("FVTOCI"). All financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- Equity security classified as available-for-sale investment carried at cost less impairment as disclosed in note 11: the security qualified for designation as measured at FVTOCI under HKFRS 9 and the Group will measure the security at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognized as other comprehensive income and accumulated in the investments revaluation reserve. The directors of the Company anticipate that upon initial application of HKFRS 9, the security might have fair value adjustment that would be adjusted to investments revaluation reserve as at 1 January 2018.

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortized costs upon application of HKFRS 9 by the Group, however, the directors of the Company do not anticipate that the application of HKFRS 9 will have a material impact on the accumulated amount of impairment loss to be recognized by the Group.

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognized in the respective reporting periods.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB47,824,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

Other than the above, the directors of the Company anticipate that the application of the new and amendments to HKFRSs will have no material impact on the Group's consolidated financial statements.

4. 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 organized. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The Group's reportable and operating segments under HKFRS 8 are as follows:

- Engines and related parts — Manufacture and sale of engines and related parts
- Automotive components and other industrial services — Manufacture and sale of automotive components and accessories, trading of raw materials (mainly metals and other consumables), and provision of water and power supply services
- Specialized vehicles — Manufacture and sale of specialized vehicles
- Others — Property investment and others

Segment revenues and results

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

For the year ended 31 December 2017

	Engines and related parts *RMB'000*	Automotive components and other industrial services *RMB'000*	Specialized vehicles *RMB'000*	Others *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
Revenue						
External sales	2,268,200	11,022,262	2,833,277	156	–	16,123,895
Inter-segment sales	70,530	8,717	11	–	(79,258)	–
Total	2,338,730	11,030,979	2,833,288	156	(79,258)	16,123,895
Segment profit (loss)	148,872	331,769	35,216	(11,132)		504,725
Bank interest income						40,426
Change in fair value of derivative financial instrument						46,994
Change in fair value of financial liability at fair value through profit or loss						(5,303)
Central administrative costs						(45,605)
Share of result of an associate						(3,463)
Share of results of joint ventures						(7,336)
Finance costs						(145,090)
Profit before taxation						385,348

For the year ended 31 December 2016

	Engines and related parts *RMB'000*	Automotive components and other industrial services *RMB'000*	Specialized vehicles *RMB'000*	Others *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
Revenue						
External sales	3,869,040	10,542,987	2,265,526	142	–	16,677,695
Inter-segment sales	59,060	5,361	–	–	(64,421)	–
Total	3,928,100	10,548,348	2,265,526	142	(64,421)	16,677,695
Segment profit (loss)	160,992	326,320	33,290	(12,284)		508,318
Bank interest income						45,969
Impairment loss on available-for-sale investment						(12,000)
Impairment loss on intangible assets						(547)
Central administrative costs						(41,282)
Share of results of joint ventures						(11,039)
Finance costs						(89,536)
Profit before taxation						399,883

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, change in fair value of derivative financial instrument, change in fair value of financial liability at fair value through profit or loss, bank interest income, impairment loss on available-for-sale investment, impairment loss on intangible assets, share of result of an associate, share of results of joint ventures 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:

At 31 December 2017

	Engines and related parts *RMB'000*	**Automotive components and other industrial services** *RMB'000*	**Specialized vehicles** *RMB'000*	**Others** *RMB'000*	**Consolidated** *RMB'000*
Assets					
Segment assets	**1,519,660**	**5,990,403**	**1,727,201**	**15,559**	**9,252,823**
Interests in joint ventures					**100,660**
Interest in an associate					**71,537**
Available-for-sale investment					**10,000**
Pledged bank deposits					**565,840**
Bank balances and cash					**1,706,780**
Consolidated assets					**11,707,640**
Liabilities					
Segment liabilities	**1,212,620**	**5,636,337**	**1,538,601**	**3,730**	**8,391,288**
Bank borrowings					**491,576**
Convertible loan notes					**146,677**
Financial liability at fair value through profit or loss					**5,303**
Derivative financial instrument					**50,560**
Tax payable					**108,318**
Deferred tax liabilities					**26,058**
Consolidated liabilities					**9,219,780**

At 31 December 2016

	Engines and related parts RMB'000	Automotive components and other industrial services RMB'000	Specialized vehicles RMB'000	Others RMB'000	Consolidated RMB'000
Assets					
Segment assets	2,927,233	5,702,334	1,758,729	18,338	10,406,634
Interests in joint ventures					103,916
Available-for-sale investment					10,000
Pledged bank deposits					302,630
Bank balances and cash					1,559,741
Consolidated assets					12,382,921
Liabilities					
Segment liabilities	2,584,599	5,674,485	1,750,410	5,481	10,014,975
Bank borrowings					55,903
Tax payable					153,553
Deferred tax liabilities					23,319
Consolidated liabilities					10,247,750

The assets of the Group are allocated based on the operations of the segments. However, interests in joint ventures, interest in an associate, available-for-sale investment, pledged bank deposits and bank balances and cash are not allocated to the segments.

The liabilities of the Group are allocated based on the operations of the segments. However, convertible loan notes, financial liability at fair value through profit or loss, derivative financial instrument, bank borrowings, tax payable and deferred tax liabilities are not allocated to the segments.

Other segment information

For the year ended 31 December 2017

	Engines and related parts *RMB'000*	Automotive components and other industrial services *RMB'000*	Specialized vehicles *RMB'000*	Others *RMB'000*	Consolidated *RMB'000*
Amounts included in the measure of segment profit or loss or segment assets:					
Additions to non-current assets	120,082	855,769	84,389	–	1,060,240
Depreciation of property, plant and equipment	80,131	137,739	7,259	75	225,204
Release of prepaid lease payments	866	6,352	–	–	7,218
Release of premium on prepaid lease payments	–	25	–	–	25
Loss on disposal of property, plant and equipment	3,719	5,007	5	–	8,731
Allowance for inventories	4,815	6,286	36	–	11,137
Impairment loss reversed in respect of trade receivables	(43,752)	(1,093)	–	–	(44,845)
Impairment losses recognized on trade receivables	3,679	4,043	–	–	7,722
Research and development expenses	36,216	93,251	32,763	–	162,230
Gain on revaluation of investment properties	–	–	–	(1,193)	(1,193)

For the year ended 31 December 2016

	Engines and related parts *RMB'000*	Automotive components and other industrial services *RMB'000*	Specialized vehicles *RMB'000*	Others *RMB'000*	Consolidated *RMB'000*
Amounts included in the measure of segment profit or loss or segment assets:					
Additions to non-current assets	46,477	526,819	2,790	–	576,086
Depreciation of property, plant and equipment	70,404	121,019	6,369	99	197,891
Release of prepaid lease payments	866	5,208	–	–	6,074
Release of premium on prepaid lease payments	–	25	–	–	25
Gain on disposal of property, plant and equipment	(7)	(4,736)	(1,414)	–	(6,157)
Allowance for inventories	4,641	626	–	–	5,267
Impairment loss reversed in respect of trade receivables	(3,740)	–	–	–	(3,740)
Impairment losses recognized on trade receivables	17,495	11,070	–	–	28,565
Research and development expenses	27,537	232,511	69,385	–	329,433
Loss on revaluation of investment properties	–	–	–	642	642

Geographical information

(a) Revenue from external customers

The Group's operations are located in the PRC (excluding Hong Kong) and 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.

	2017 ***RMB'000***	2016 *RMB'000*
The PRC (excluding Hong Kong)	**16,064,079**	16,667,256
Hong Kong	**156**	142
Others	**59,660**	10,297
Consolidated	**16,123,895**	16,677,695

(b) Non-current assets

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

	2017 *RMB'000*	2016 *RMB'000*
Hong Kong	**9,187**	8,614
The PRC (excluding Hong Kong)	**3,914,465**	3,077,345
Indonesia	**74,996**	51,911
	3,998,648	3,137,870

Note: Non-current assets excluded financial instruments.

Information about a major customer

Revenue derived from sales to a single customer, which contributed over 10% of the Group's total revenue, in respect of the following operating segments, is as follows:

	2017 *RMB'000*	2016 *RMB'000*
Engines and related parts	**1,709,455**	3,188,445
Automotive components and other industrial services	**9,373,779**	9,890,596
Specialized vehicles	**891**	5,932
	11,084,125	13,084,973

5. REVENUE/OTHER INCOME/OTHER GAINS AND LOSSES

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

	2017 *RMB'000*	2016 *RMB'000*
Sales of:		
— Engines	**2,008,120**	3,741,295
— Engines related parts	**260,080**	127,745
— Automotive components and accessories	**9,896,905**	9,610,336
— Specialized vehicles	**2,833,277**	2,265,526
Trading of raw materials	**939,671**	757,442
Provision of water and power supply	**185,686**	175,209
	16,123,739	16,677,553
Gross property rental income from investment properties	**156**	142
	16,123,895	16,677,695

(b) Details of other income are as follows:

	2017 *RMB'000*	2016 *RMB'000*
Sales of scrap materials and parts	**28,780**	28,306
Compensation income with respect of plant and reconstruction *(note)*	**48,835**	–
Bank interest income	**40,426**	45,969
Service income on repairs and maintenance	**4,044**	7,106
Machinery and other property rental income	**6,545**	3,590
Amortization of deferred income	**1,466**	1,467
Government grants	**6,742**	12,318
Others	**4,471**	3,693
	141,309	102,449

note: On 13 September 2017, Wuling Industrial and Guangxi Automobile entered into compensation agreements. Pursuant to the agreements, Wuling Industrial agreed to demolish and vacate the properties and equipment of the welding parts plant and plastic parts plant situated on the lands parcel located at Liuzhou of PRC to facilitate the surrender of such lands to the municipal government of Liuzhou, Guangxi Zhuang Autonomous Region by Guangxi Automobile, whereas, Guangxi Automobile agreed to compensate Wuling Industrial for (i) the related costs and losses incurred in the relocation in the total amount of approximately RMB41,015,000; and (ii) the reconstruction costs for the punching workshop in the amount of RMB7,820,000. Details of the compensation income were described in the Company's announcement dated 13 September 2017.

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

	2017 *RMB'000*	2016 *RMB'000*
Impairment loss reversed in respect of trade receivables	**44,845**	3,740
Gain (loss) on revaluation of investments properties	**1,193**	(642)
Fair value change on financial liability at fair value through profit of loss	**(5,303)**	–
Fair value change on derivative financial instrument	**46,994**	–
Foreign exchange gain (losses), net	**17,056**	(174)
(Loss) gain on disposal of property, plant and equipment	**(8,731)**	6,157
Impairment losses recognized on trade receivables	**(7,722)**	(28,565)
Impairment loss on available-for-sale investment	**–**	(12,000)
Impairment loss on intangible assets	**–**	(547)
	88,332	(32,031)

6. FINANCE COSTS

	2017	2016
	RMB'000	*RMB'000*
Interests on:		
— bank borrowings	**18,906**	10,724
— advances drawn on bills receivables *(note)*	**97,751**	78,812
— effective interest expenses on convertible loan notes *(note 18)*	**28,433**	–
	145,090	89,536

Note: During the year ended 31 December 2017, interest of RMB47,407,000 (2016: RMB26,062,000) was paid to a shareholder in respect of bills discounted to that shareholder.

7. INCOME TAX EXPENSE

	2017	2016
	RMB'000	*RMB'000*
Tax charge represents:		
PRC Enterprise Income Tax ("EIT")		
Current	**92,811**	111,407
Withholding tax on dividend distribution	**1,177**	298
Underprovision in prior years	**6,837**	1,525
	100,825	113,230
Deferred tax		
Current year	**2,739**	6,380
	103,564	119,610

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 Group's PRC subsidiaries is 25% from 1 January 2008 onwards except that Wuling Industrial and Liuzhou Wuling Liuji Motors Company Limited ("Liuji Motors") are approved as enterprises that satisfied as a High-New Technology Enterprise and entitle the preferential tax rate of 15% in 2016 and 2017.

The EIT Law also requires withholding tax of 5% or 10% upon distribution of profits by the PRC subsidiaries since 1 January 2008 to its overseas (including Hong Kong) shareholders.

During the year, deferred tax of RMB4,204,000 (2016: RMB6,243,000) has been provided in respect of the undistributed earnings of the Group's PRC subsidiaries and charge to profit or loss accordingly.

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 both years.

8. PROFIT FOR THE YEAR

	2017 *RMB'000*	2016 *RMB'000*
Profit for the year has been arrived at after charging (crediting) the following items:		
Directors' emoluments	**2,444**	2,884
Other staff costs:		
Salaries, bonus and other benefits	**754,045**	750,158
Retirement benefit scheme contributions, excluding directors	**57,866**	51,913
Total staff costs	**814,355**	804,955
Less: staff costs (capitalized in inventories)	**392,940**	415,256
Total staff costs (included in selling and distribution costs, general and administrative expenses and research and development expenses)	**421,415**	389,699
Gross property rental income from investment properties, net of negligible outgoings	**(156)**	(142)
Auditor's remuneration	**1,815**	1,586
Cost of inventories recognized as an expense *(note)*	**14,520,226**	14,798,190
Total depreciation of property, plant and equipment	**225,204**	197,891
Less: Amounts capitalized in inventories	**151,353**	135,463
Total depreciation of property, plant and equipment (included in selling and distribution costs, general and administrative expenses and research and development expenses)	**73,851**	62,428
Release of prepaid lease payments (included in general and administrative expenses)	**7,218**	6,074
Release of premium on prepaid lease payments (included in general and administrative expenses)	**25**	25
Transportation costs (included in selling and distribution costs)	**156,190**	163,208

Note: Included in arriving at cost of inventories is an amount of RMB11,137,000 recognized as allowance for inventories (2016: RMB5,267,000).

9. DIVIDEND

	2017 *RMB'000*	2016 *RMB'000*
Dividends recognized as distribution during the year:		
2016 Final dividend of HKD1.25 cents (2016: 2015 final dividend of HKD0.75 cent) per share	**19,648**	11,790

Subsequent to the end of the reporting period, a final dividend of HKD1.25 cents per share amounting to approximately HKD25,626,000 (or equivalent to RMB21,342,000) in respect of the year ended 31 December 2017 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

10. 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:

	2017 *RMB'000*	2016 *RMB'000*
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	**173,158**	140,462
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	**28,433**	–
Fair value change on derivative financial instrument	**(46,994)**	–
Exchange gain on convertible loan notes and derivative financial instrument	**(19,294)**	–
Earnings for the purpose of diluted earnings per share	**135,303**	140,462

	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,837,583**	1,830,280
Effect of dilutive potential ordinary shares:		
— Convertible loan notes	**347,358**	–
— Share options	**–**	10,172
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,184,941**	1,840,452

11. DEFERRED INCOME/AVAILABLE-FOR-SALE INVESTMENT

On 18 May 2013, the Group entered into an agreement with 福建新龍馬發動機有限公司 ("New Long Ma"), an independent third party, to grant New Long Ma a right to access certain technology knowhow of the Group in a specific region for 15 years at a consideration of RMB22,000,000. The Group concurrently agreed to use the fund received from New Long Ma to acquire 1.83% equity interest in New Long Ma from 龍岩市龍馬汽車工業有限公司, the holding company of New Long Ma at a consideration of RMB22,000,000. As at 31 December 2013, the deposit of RMB22,000,000 paid for the acquisition of the 1.83% equity interest in New Long Ma was recognized as a non-current asset and the consideration received in respect of the access right to the technology knowhow was recognized as a deferred income and amortized over 15 years.

During the year ended 31 December 2014, the Group has obtained the ownership of 1.83% equity interest in New Long Ma and is classified as available-for-sale investment. It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably.

During the year ended 31 December 2016, Upon completion of a restructuring exercise of New Long Ma, the Group's equity interest in New Long Ma has decreased to 1.47%. In addition, New Long Ma suffered loss during the year ended 31 December 2016 and the directors of the Company considered a decline in the fair value of the Group's equity interest in New Long Ma is expected. Accordingly, an impairment loss of RMB12,000,000 was recognized in profit or loss during the year ended 31 December 2016.

12. INVENTORIES

	2017	2016
	RMB'000	*RMB'000*
Raw materials	**472,676**	273,034
Work in progress	**194,029**	202,817
Finished goods	**556,171**	992,300
	1,222,876	1,468,151

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

(i) Trade and other receivables

	Notes	2017 RMB'000	2016 RMB'000
Trade and bills receivables			
— SAIC-GM-Wuling Automobile Co., Limited ("SGMW")	*(a)*	**1,710,905**	3,269,474
— Guangxi Automobile Group	*(b)*	**24,982**	54,357
— Guangxi Weixiang		**91**	3,177
— Qingdao Dianshi		**177**	–
— third parties		**1,452,958**	891,915
		3,189,113	4,218,923
Less: Allowance for doubtful debts		**(42,928)**	(81,485)
		3,146,185	4,137,438
Other receivables:			
Prepayments for expenses		**3,842**	–
Prepayments for purchase of raw materials	*(c)*	**604,342**	331,374
Value-added tax recoverable		**56,630**	153,826
Others		**104,261**	90,443
		769,075	575,643
Bills receivables discounted with recourse *(note 13(ii))*		**280,900**	1,185,360
Total trade and other receivables		**4,196,160**	5,898,441

Notes:

(a) Guangxi Automobile has significant influence over SGMW.

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

(c) Included in the balance was an amount of RMB256,574,000 (2016: RMB22,558,000) 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 RMB3,146,185,000 (2016: RMB4,137,438,000) and an aged analysis of trade receivables (net of allowance for doubtful debts) and bills receivables based on the invoice date are presented as follows:

	2017	2016
	RMB'000	*RMB'000*
0–90 days	**2,875,254**	3,909,308
91–180 days	**196,590**	152,477
181–365 days	**59,266**	69,268
Over 365 days	**15,075**	6,385
	3,146,185	4,137,438

Before accepting any new customer, the Group assesses the potential customer's credit quality by investigating its historical credit record and defines its credit limit. Majority of the trade receivables that are neither past due nor impaired have no default payment history.

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of RMB139,747,000 (2016: RMB135,176,000) which were past due at the end of the reporting period but for which the Group has not provided impairment loss after considering these balances could be recovered based on the repayment history and the current creditworthiness of these customers. The Group does not hold any collateral over these balances.

Aging of trade receivables which were past due but not impaired

	2017	2016
	RMB'000	*RMB'000*
91–180 days	**68,573**	59,523
181–365 days	**57,602**	69,268
Over 365 days	**13,572**	6,385
Total	**139,747**	135,176

Movement in the allowance for doubtful debts

	2017	2016
	RMB'000	*RMB'000*
At 1 January	**81,485**	55,334
Impairment losses recognized on trade receivables	**7,722**	28,565
Amounts recovered during the year	**(44,845)**	(3,740)
Exchange adjustments	**(1,434)**	1,326
At 31 December	**42,928**	81,485

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB42,928,000 (2016: RMB81,485,000), based on the repayment history and the current creditworthiness of these customers that they will not be recovered based on the management's assessment. The Group does not hold any collateral over these balances.

(ii) Bills receivables discounted with recourse

The amounts represent bills receivables discounted to banks with recourse with a maturity period of less than 180 days (2016: 180 days). The Group recognizes the full amount of the discount proceeds as liabilities as set out in note 17.

The aged analysis based on the invoice date is presented as follows:

	2017	2016
	RMB'000	*RMB'000*
91–180 days	**98,000**	685,914
181–365 days	**182,900**	499,446
	280,900	1,185,360

14. TRANSFERS OF FINANCIAL ASSETS

The following are the Group's financial assets as at 31 December 2017 and 2016 that are transferred to banks by discounting those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these 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. These financial assets are carried at amortized cost in the Group's consolidated statement of financial position.

Bills receivables discounted to banks with full recourse:

	2017	2016
	RMB'000	*RMB'000*
Carrying amount of transferred assets	**280,900**	1,185,360
Carrying amount of associated liabilities	**(277,515)**	(1,177,555)
Net position	**3,385**	7,805

15. TRADE AND OTHER PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade and bills payables *(note)*:		
— SGMW	**769,662**	614,923
— Guangxi Automobile Group	**133,259**	168,051
— Qingdao Dianshi	**33,207**	3,478
— third parties	**5,516,520**	6,208,972
	6,452,648	6,995,424
Receipt in advance from customers	**193,839**	381,974
Value added tax payables	**177,936**	128,246
Accrued research and development expenses	**332,110**	378,410
Accrued staff costs	**197,869**	171,686
Other tax payables	**163,046**	245,310
Payables for acquisition of property, plant and equipment	**125,053**	73,356
Deposits received from suppliers	**59,353**	95,497
Other payables	**253,876**	187,760
Total trade and other payables	**7,955,730**	8,657,663

Note: An aged analysis of trade and bills payables based on the invoice date is presented as follows:

	2017	2016
	RMB'000	*RMB'000*
0 to 90 days	**4,192,462**	4,583,935
91 to 180 days	**1,901,095**	2,129,273
181 to 365 days	**125,166**	146,992
Over 365 days	**233,925**	135,224
	6,452,648	6,995,424

16. PROVISION FOR WARRANTY

	RMB'000
At 1 January 2016	151,353
Additional provision in the year	45,795
Utilization of provision	(34,196)
At 31 December 2016	162,952
Additional provision in the year	18,404
Utilization of provision	(38,652)
At 31 December 2017	**142,704**

The warranty provision represents management's best estimate under its 2-3 years' 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 two years.

17. BANK BORROWINGS/ADVANCES DRAWN ON BILLS RECEIVABLES DISCOUNTED WITH RECOURSE

		2017	2016
	Notes	***RMB'000***	*RMB'000*
Analysis of bank borrowings:			
Secured		**96,423**	55,903
Unsecured		**395,153**	–
		491,576	55,903
Carrying amount repayable on demand or within one year	*(i)*	**490,873**	55,073
Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)		**703**	830
Amount due within one year shown under current liabilities		**491,576**	55,903
Advances drawn on bills receivables discounted with recourse	*(ii)*	**277,515**	1,177,555

Notes:

(i) The amounts due are based on scheduled repayment dates set out in the loan agreements.

(ii) The amount represents the Group's other borrowings secured by the bills receivables discounted to banks with recourse (see note 13(ii)).

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

	2017	2016
	RMB'000	*RMB'000*
Effective interest rate:		
Fixed-rate borrowing	**4.35%**	–
Variable-rate borrowings	**2.13%–7.25%**	5.25%

18. DERIVATIVE FINANCIAL INSTRUMENT/CONVERTIBLE LOAN NOTES

On 23 May 2017, the Company issued convertible loan notes with an aggregate principal sum of HKD400,000,000 at par (equivalent to approximately RMB353,760,000) to Wuling HK ("CN 2020"). Wuling HK is the immediate holding company of the Company. CN 2020 is denominated in Hong Kong dollars and carries interest at 4% per annum with maturity on 23 May 2020. CN 2020 entitles the holder to convert, in whole or in part, the principal sum into ordinary shares of the Company on any business day commencing from 22 November 2017 upto the fifth business days prior to the maturity date, at a conversion price of HKD0.70 per ordinary share, subject to anti-dilutive adjustments. Unless converted, CN 2020 will be redeemed on maturity date at par.

CN 2020 contains two components, being a liability component and a conversion option derivative component. The effective interest rate of the liability component is 22.68%. The conversion option derivative is measured at fair value with changes in fair value recognized in profit or loss.

On 29 December 2017, Wuling HK converted the CN 2020 in the aggregate principal amount of HKD150,000,000 into shares of HKD0.04 each at the conversion price of HKD0.70 per share. Accordingly, an aggregate of 214,285,714 ordinary shares of HKD0.04 each were allotted and issued by conversion of the CN 2020.

The movement of the liability and derivative components of the CN 2020 during the year is set out below:

	2017	
	Liability component	**Derivative component**
	RMB'000	*RMB'000*
Carrying amount at 23 May 2017	**219,602**	**134,158**
Effective interest expense	**28,433**	**–**
Change in fair value recognized in profit or loss during the year	**–**	**(46,994)**
Conversion during the year	**(88,003)**	**(30,665)**
Exchange gain	**(13,355)**	**(5,939)**
At the end of the year	**146,677**	**50,560**
Analyzed as:		
Current	**23,820**	**50,560**
Non-current	**122,857**	**–**
	146,677	**50,560**

The methods and assumptions applied for the valuation of the liability and conversion option derivative components of CN 2020 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 BMI Appraisals Limited ("BMI"), 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 22.68%, which was determined with reference to the credit rating of the Company and remaining time to maturity.

(ii) Valuation of conversion option derivative component

The conversion option derivative component was measured at fair value using the Binomial Option Pricing Model by BMI as of 23 May 2017, 29 December 2017 and 31 December 2017. The inputs into the model at the respective dates were as follows:

	As at 31 December 2017	**As at 29 December 2017**	**As at 23 May 2017**
Share price	**HKD0.57**	**HKD0.57**	**HKD0.65**
Conversion price	**HKD0.70**	**HKD0.70**	**HKD0.70**
Risk free rate *(note a)*	**1.40%**	**1.40%**	**0.85%**
Expected life	**2.39 years**	**2.40 years**	**3.00 years**
Expected dividend yield *(note b)*	**2.19%**	**2.19%**	**1.92%**
Expected volatility *(note c)*	**47.33%**	**47.35%**	**62.10%**

notes:

(a) The risk-free rate was determined with reference to the yield rate of the Hong Kong Government Note with duration similar to the expected life of the option.

(b) The expected dividend yield of the underlying security of the convertible loan notes was determined based on the historical dividend payment record of the Company.

(c) The expected volatility of the underlying security of the convertible loan notes was determined based on the historical volatility of the share prices of the Company.

19. FINANCIAL LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
	RMB'000	*RMB'000*
Foreign currency forward contract	**5,303**	–

Major terms of foreign currency forward contract is as below:

Notional amount	**Maturity**	**Forward exchange rate**
As at 31 December 2017		
USD56 million	November 2018	Buy USD/sell RMB at 6.7365

The above currency forward contract is measured at fair value with reference to discounted cash flow. Future cash flows are estimated based on forward exchange rate (from observable forward exchange rate at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.

20. SHARE CAPITAL

	Number of shares	**Amount**
		HKD'000
Authorized:		
Ordinary shares of HKD0.004 each	25,000,000,000	100,000
Convertible preference shares of HKD0.001 each	1,521,400,000	1,521
Balance at 1 January 2016, 31 December 2016 and 31 December 2017		101,521
Issued and fully paid:		
Ordinary shares of HKD0.004 each		
At 1 January 2016	1,821,591,571	7,286
Exercise of share options *(note)*	14,230,270	57
At 31 December 2016	1,835,821,841	7,343
Conversion of convertible loan notes *(Note 18)*	214,285,714	857
At 31 December 2017	2,050,107,555	8,200

	2017	2016
	RMB'000	*RMB'000*
Shown in the consolidated financial statements at the end of the reporting period as	**7,366**	6,648

note: During the year ended 31 December 2016, 14,230,270 ordinary shares of the Company of HKD0.004 each were issued upon the exercise of 14,230,270 share options with proceeds of HKD6,774,000 (equivalent to RMB5,697,000).

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

21. EVENT AFTER THE END OF THE REPORTING PERIOD

On 18 August 2017, Wuling Industrial entered into an equity transfer agreement (the "Equity Transfer Agreement") with Guangxi Automobile and Wuling Motors (Hong Kong) Company Limited pursuant to which Wuling Industrial conditionally agreed to acquire 50.7% and 49.3% of equity interest in 青島五菱汽車科技有限公司 (Qingdao Wuling Automobile Technology Limited)* ("Qingdao Wuling") from Guangxi Automobile and Wuling Motors at a consideration of RMB71,857,500 and RMB69,873,200. The principal assets of the Qingdao Wuling comprised properties located in south of Songhuajiang Road, west of Jiangshan Road, Huangdao District, Qingdao, the PRC* (中國青島市黃島區江山路西松花江路南側) which was currently leased by the Shandong branch of Wuling Industrial as offices and production plants, cash and bank balances and certain receivable balances from Guangxi Automobile, which would be fully settled upon completion of the Equity Transfer Agreement. Details of Equity Transfer Agreement were disclosed in the Company's announcement dated 18 August 2017 and the Company's circular dated 30 September 2017.

Completion of the Equity Transfer Agreement were taken place on 1 January 2018, upon which Qingdao Wuling became a wholly-owned subsidiary of Wuling Industrial and a non-wholly-owned subsidiary of the Company.

* *for identification purpose only.*

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Review — By Key Business Segments

The business performance and evaluation of the Group's three main business segments namely (1) engines and related parts; (2) automotive components and other industrial services; and (3) specialized vehicles for the year ended 31 December 2017 were detailed below:

Engines and Related Parts

Total revenue (based on external sales) of the engines and related parts division for the year ended 31 December 2017 was RMB2,268,200,000, representing a decrease of 41.4% as compared to previous year. Operating profit for the year was RMB148,872,000, representing a decrease of 7.5% as compared to previous year.

Total number of engines sold by the subsidiary, Liuzhou Wuling Liuji Motors Company Limited ("Wuling Liuji"), for the year 2017 was approximately 280,000 units, representing a decrease of approximately 32% as compared to previous year.

During the year, sales to SAIC-GM-Wuling Automobile Co., Limited ("SGMW"), our core customer, amounted to approximately RMB1,709,455,000 and continued to account for the majority portion of the division's revenue. Sales to SGMW were mainly attributable to the contribution from the NP18 model (Capacity 1.8L), the Group's first self-propriety engine which was launched in 2015 for passenger vehicles and were primarily installed in the high capacity SUVs and MPVs of SGMW. During the year, due to the shift of the marketing focus of SGMW in intensively promoting the vehicle models installed with their in-house produced 1.5T engine (Capacity 1.5L), sale volume of the NP18 model experienced a drastic decrease especially in the second half of 2017.

Meanwhile, as a long standing industry leader in the manufacturing of engines for the commercial mini-vehicles, Wuling Liuji continued to supply products to other automobile manufacturers in this market segment. Sales, primarily engine sets with capacity range from 1.0L to 1.6L, to other customers amounted to approximately RMB560,000,000 for the year 2017, representing approximately 25% of the total revenue of this division.

Operating margin improved to 6.6% for the year. Reversal of the bad debt provision made in previous years and an improved gross profit margin and a decrease in warranty expenses incurred resulting from the continuous improvement of the operations of the foundry facilities and gradual improvement in the production efficiency of the NP18 model at an optimal scale operation level helped to offset the negative impact from the drastic reduction in sale volume and total revenue of this division.

The production capacity of Wuling Liuji for the assembly functions at present is about 800,000 units a year, in which approximately 280,000 units are for the NP18 model, whereas the foundry facilities of cylinder block and cylinder head are having a 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.

In the past, engines produced by Wuling Liuji were mainly for the commercial mini-vehicles which had been recognized as a trademark product in this particular market segment. However, to further expand the product range and to achieve higher technical capability, Wuling Liuji has actively undertaken development projects for the production of the upgraded engine products in serving the different needs of the customers, especially targeting at the passenger vehicles segment. Apart from the successfully launched NP18 model as previously mentioned, Wuling Liuji was also undertaking projects in enhancing the NP18 model and in developing new products with greater capacity for extending the range of products in serving the specific needs of the customers of the passenger vehicles segment. In September 2017, Wuling Liuji entered into an equipment purchase agreement at a gross consideration of RMB94,000,000 (inclusive of VAT) in relation to the construction of a production-line designated and installed for the production by Wuling Liuji of a new model of automotive engine, namely the NPT20 (Capacity 2.0L), which had completed the internal technical procedure and was planned to be launched and supplied for passenger vehicles of its customers, including SGMW and other customers commencing from late 2018.

Besides, to ensure adequate supply of foundry components for the existing and the above new model engines and for further upgrading of the quality standard, in November 2017 Wuling Liuji entered into another equipment purchase agreements at a gross consideration of RMB170,000,000 (inclusive of VAT) in relation to the establishment of two production-lines which are designated for the processing production of cylinder blocks and cylinder heads, which are planned to be completed in the second half of 2018. The Group considers that completion of the above two projects and the launch of the NPT20 would further strengthen the market position of Wuling Liuji by having a comprehensive range of products ranging from 1.0L to 2.0L with the essential vertical integration elements, i.e., the in-house manufacturing of the foundry components.

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, including the products applicable for the new energy vehicles, so as to maintain its competitiveness in this market segment. The Group believes the increasing applications of the successfully launched higher end models to the passenger vehicles of SGMW and other new customers and the introduction of other new higher end products will enhance the business potential and the technical capability of Wuling Liuji which will contribute to its profitability in the coming years.

Automotive Components and Other Industrial Services

Total revenue (based on external sales) of the automotive components and other industrial services division for the year ended 31 December 2017 was RMB11,022,262,000, representing an increase of 4.5% as compared to previous year. Operating profits for the year was RMB331,769,000, representing an increase of 1.7% as compared to previous year.

The automotive components and other industrial services division, undertaken by Liuzhou Wuling Motors Industrial Company Limited ("Wuling Industrial"), continued to be the key supplier for supplying a majority portion of the key automotive components to SGMW. During the year, 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, continued to increase. Strong demands for and the impressive market share achieved by the key products of SGMW benefited the business performance of this division during this year. The satisfactory market performance of the passenger vehicles model such as Wuling Hongguang (五菱宏光) and the Baojun series (寶駿) of SGMW essentially contributed to the business performance and provide promising business potential to this division.

Operating margin maintained at 3.0% as compared to previous year. The positive effects from the launches of new models continued to promote business growth of this division. This positive impact was however adversely impeded by the increases in the prices of raw material and the operating losses incurred in the newly set-up plant in Indonesia during the year. Meanwhile, moderate increases in the staff cost in response to the keen competition in the human resources market and the recruitment of the management and administrative workforce for the newly established plants and facilities and other ongoing projects undertaken by Wuling Industrial had also cancelled out the positive impact from a reduction in the research and development expenses of this division.

With its long and established industry experiences, the automotive components and other industrial services 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 traditional well and established commercial mini-vehicles production capability, strategically, the automotive components and other industrial services division has progressed gradually to other higher value added passenger vehicles, such as the sedan, MPV and SUV segments to further the profitability performance for the Group. In term of revenue contribution, the division had since successfully achieved a higher revenue share from the passenger vehicles segment as compared to the commercial mini-vehicles segment.

In view of the anticipated growth of business of SGMW from the existing models and the launch of new models, the Group had actively undertaken capacity expansion and upgrading programmes. With respect to the Liuzhou region, the production facility located in Hexi Industrial Park, Liuzhou which was completed in 2014, primarily for the mini-vehicles' components businesses, had been subject to various upgrading and revamping exercises, which involved the installation of industrial robotic workstations and other automatic machinery, in response to the business strategy and the increasing orders of SGMW for the passenger vehicles, in particular for the SUVs and MPVs. In addition, part of the facilities was planned to be leased to the newly formed joint ventures as mentioned below.

The Group operated another production facility in the eastern district of Liuzhou ("Liudong Facilities"), which was mainly targeted at the passenger vehicles' components businesses and were strategically located in adjacent to the passenger vehicles production base of SGMW, in which the first and second phase had become fully operational since the second half of 2016. Foreseeing a significant growth of passenger vehicles' components businesses and considering that the Liudong Facilities would gradually be fully utilized, Wuling Industrial had decided to expand its Liudong Facilities by undertaking the third phase development through the acquisition of a new industrial site with a site area of approximately 140,500 sqm located adjacent to the Liudong Facilities in 2016, whereas construction work of foundation and infrastructure had been completed during the year to ensure adequate production capacity could be available to serve the increasing needs from customers on a timely basis. This development site had already been designated for the construction of the first "Smart Factory" of the Group targeting for the production of the chassis components of the higher-end passenger vehicles and the related construction contract had been entered into by Wuling Industrial in September 2017, of which construction of the factory premises are expected to be completed by mid-2018.

Apart from the production facilities in the Liuzhou region, Wuling Industrial had also recently formulated development plans for the other two main production facilities in China, i.e. the production facilities located in Qingdao and Chongqing. As for the production facilities in Qingdao, due to the launches of the new passenger vehicles by SGMW manufactured in their production base in Shandong, the production facilities located in Qingdao would be required to undertake certain technology advance and capacity expansion projects. Such projects, which would involve the construction of a new factory premises, the establishment of several large scale plastic injection production lines, as well as other automatic welding and assembly lines and the installation of industrial robots, were progressing satisfactorily, in which part of the facilities had gradually started operational from the second half of 2017. In connection with these technology advance and capacity expansion projects, during the year, Wuling Industrial entered into agreement to acquire the land and the buildings which were leased from Guangxi Automobile for current operation to facilitate a more effective investment planning for the Group in Qingdao, completion of which was taken place subsequent to the year end. With respect to the production facilities in Chongqing which had commenced operation for over a year in supplying automotive components to SGMW, Wuling Industrial is currently reviewing the second phase development in line with the expansion plan of SGMW and would initiate appropriate plans for further expansion of this production facility in due course.

Over the past few years, the Group has taken strategic steps in China to transform from a single production point operation in Liuzhou into an inter-provincial production group with facilities in Guangxi, Shandong and Chongqing, accomplishing a synchronized expansion and improvement in terms of corporate size and core competitiveness, meanwhile establishing a sound foundation for the Group's business growth and sustainable development in the future. These strategic steps, accompanied with the satisfactory growth in the business volume of the SGMW and other customers over the past few years, have benefited the business performance of the Group. Apart from the improvement in business performance, these strategic steps over the past few years have also strengthened the commercial collaboration between the Group and SGMW in pursuing current businesses as well as other future business opportunities. As SGMW has been actively promoting its overseas business activities by establishing its production plant in Indonesia, the Group has kept pace with such development of SGMW and decided to develop its overseas businesses concurrently by establishing our first overseas production base located in Indonesia, which was progressing satisfactorily and had commenced operation in the second half of 2017.

The production plant in Indonesia comprised a number of welding, stamping and assembly production lines for manufacturing of the automotive components for the rear suspension, front axle parts of vehicles, with an initial planned production volume of 100,000 sets/units per annum. Being the fourth largest population country in the world and in consideration of its recent economic development, the Group is of the view that there is great business potential for the automobile industry in Indonesia and consider that the geographical expansion of the Group's automotive components businesses in Indonesia is an appropriate expansion strategy for the Group.

In constructing a new frame of enterprise structure endowed with "Multiple Growth Drivers With Diverse Profit Streams", Wuling Industrial had been actively reviewing the product mix within the automotive components and other industrial services division in formulating suitable operating and development strategies for individual product and business components in this division. As for the car seat products, which scale of operation was relatively small and the products are primarily focused on the commercial mini-vehicles market with insignificant contribution to the Group's revenue and profitability, Wuling Industrial had in July 2017 entered into agreement with the renowned Faurecia Group for the establishment of a joint venture enterprise for pursuing the business of car seat products in China. In November 2017, the same joint venture parties further entered into another joint venture agreement for pursuing the businesses in relation to the automotive interior system, its related parts and accessories, including cockpit, instrument panel, auxiliary instrument panel, door trim panel, acoustics and soft trim. Wuling Industrial considers the recent development of SGMW in expanding the production of passenger vehicles would provide business opportunities in the car seat and the interior system products and therefore looked for suitable business partner for enhancing and upgrading its production knowhow in these areas. The cooperation with Faurecia Group, being a global leading manufacturer in the business of automotive parts and components would provide essential technical support to the Wuling Industrial in further promoting its business opportunities in the car seat and the interior system businesses for the existing customers as well as other new customers.

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, and the implementation of the appropriate strategic programmes, will continue to provide strong supports to the operation of the automotive components and other industrial services division in the years onwards.

Specialized Vehicles (Including New Energy Vehicles)

Total revenue (based on external sales) of the specialized vehicles division undertaken by Wuling Industrial for the year ended 31 December 2017 was RMB2,833,277,000, representing an increase of 25.1% as compared to previous year. Operating profit for the year was RMB35,216,000, representing an increase of 5.8%.

During this year, Wuling Industrial sold approximately 74,600 specialized vehicles, representing an increase of 50% as compared to previous year, in which the sale volume of redecorated vans, non-road vehicles, mini-buses (including school buses) were 68,400, 3,100 and 3,100 respectively, amongst which 830 vehicles were new energy vehicles (primarily electric vehicles). Despite the highly competitive business environment, proactive marketing strategies and continuous launches of new models benefited the business performance of the division from which the sale volume of redecorated vans increased impressively and continued to rank as the leading supplier in this market segment. Meanwhile, the Group achieved remarkable breakthroughs in the sale of the military vehicle and the electric vehicles in successfully obtaining sizable orders in this segment. Wuling's electric sight-seeing buses being selected as the designated transport vehicle in some national and international events also helped to upgrade its product image and provided positive feedback from the market.

Operating margin maintained at 1.2% for the year. High portion of low margin products, in particular the redecorated logistic vehicles, market competition and increasing production costs continued to be the primary concerns for the division to tackle. Meanwhile, increasing costs of transportation and warranty expenses also limited the profitability performance of this division. To enhance the profitability of this division, strategically, Wuling Industrial has continued to work towards the direction of reducing the production of those lower margin redecorated logistic vehicles so as to reserve more capacity to other more profitable models, such as mini-school buses, sight-seeing cars and electrical vehicles.

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 sizes of operation to private individuals. Products are mainly sold in the domestic market covering the major provinces and cities across the country and the overseas markets.

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 mainly branded as "Wuling", which is itself a benchmark of quality products and services in the market. Wuling Industrial is also a qualified enterprise which possesses the capability for manufacturing new energy electric logistic vehicles in China. In line with the national policies relating to environment protection and the promotion of clean energy, 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. Being the primary focus of development of the division, electrical vehicle product has recently reached a stage of breakthrough. Certain products, including an electric logistic vehicle, electric sight-seeing buses and other electric vehicles have obtained notifications of government approval in 2016 and 2017. Wuling Industrial planned to adopt the technical knowhow as developed from these electric vehicles products as the platform to explore and develop a series of electric specialized vehicles suitable for particular business segments.

Meanwhile, the Group had also unremittingly developed new models of passenger mini-buses with improved quality and added features in response to market demands and enhanced regulatory standards. The Group expects the business development of these new models will benefit the profitability performance of the division. Currently, production facilities of the specialized vehicles division of the Group are situated in Liuzhou and Qingdao with respective annual capacities of approximately 60,000 vehicles and 30,000 vehicles. Taking the advantages of having an existing operation in Chongqing, the Group has recently decided to establish a production plant for the assembly of specialized vehicles in the production facilities in Chongqing with planned annual capacity of approximately 15,000 vehicles, which will not only expand the capacity of the specialized vehicles division, but also facilitate geographical diversification which enables the benefits of 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.

Performance of Joint Ventures and Associates

Liuzhou Lingte Motor Technology Company Limited ("Liuzhou Lingte"), which was owned as to 51% by Wuling Liuji and formed with IAT Automobile Technology Co., Ltd., in November 2013 for purpose of developing the businesses of our owned proprietary V6 cylinder engine products, continued to making progress as planned during the year. Following the successful completion of the research and development of the 3.0L Advanced Model, Liuzhou Lingte had commenced the construction of the infrastructure and the main assembly line for initial production purpose in last year. During the year, small volume orders had been undertaken for trial run purpose. Upon satisfactory results from the trial run orders, Wuling Liuji and Liuzhou Lingte would work together to formulate appropriate marketing plan for launching the product to targeted customers. The successful development of the V6 products by Liuzhou Lingte will significantly enhance our products range and capability in the industry. Due to its initial operation, Liuzhou Lingte operated at a net loss for the year ended 31 December 2017, in which RMB6,802,000 was attributable to the Group. As at 31 December 2017, the carrying value of the Group's interests in Liuzhou Lingte amounted to RMB80,953,000.

Guangxi Weixiang Machinery Company Limited ("Guangxi Weixiang"), which was owned as to 50% by Wuling Industrial and formed with Guangxi Liugong Machinery Company Limited in August 2013 for developing the businesses of engineering machinery and other industrial vehicles products, had been facing tough business environment since its establishment and continued to register losses for the past few years. The business environment was hence improved in the second half of 2017 in which the net operating losses attributable to the Group had been remarkably reduced to RMB688,000 for the year ended 31 December 2017. After a series of impairment in prior years due to the continuous loss making situation, as at 31 December 2017, the carrying value of the Group's interests in Guangxi Weixiang amounted to RMB5,190,000.

With respect to other interests in joint ventures held by the Group, which were engaged in the automotive components businesses, a small aggregate net profits were attributable to the Group for the year ended 31 December 2017 were RMB154,000, whereas, the aggregate carrying value of the Group's interests amounted to RMB14,517,000 as at 31 December 2017.

On 3 July 2017, Wuling Industrial entered into agreement with the renowned Faurecia Group for the establishment of a joint venture company for pursuing the business of car seat products in China which will be owned as to 50% each by Wuling Industrial and Faurecia Group ("Faurecia Car Seat JV"). As mentioned above, Wuling Industrial considers the recent development of SGMW in expanding the production of passenger vehicles would provide business opportunities in the car seat products, and therefore looks for suitable business partner for enhancing and upgrading its production knowhow in this area. The co-operation with Faurecia Group, being a global leading manufacturer in the business of automotive parts and components will provide essential technical support to the Wuling Industrial in further promoting its business opportunities in the car seat businesses for the existing customers as well as other new customers.

In accordance with the joint venture agreement, Wuling Industrial and Faurecia Group will each contribute cash in the amount of RMB75 million to the newly formed Faurecia Car Seat JV. Meanwhile, pursuant to the joint venture agreement, after the establishment of Faurecia Car Seat JV, Wuling Industrial and Faurecia Car Seat JV shall enter into ancillary agreements in relation to, among other things, the acquisition of the machinery and equipment of Wuling Industrial which are currently used for the production of car seat products located in Liuzhou and Qingdao, the PRC for the purpose of facilitating the business and operation of Faurecia Car Seat JV. Faurecia Car Seat JV was formally established 26 September 2017 and Wuling Industrial and Faurecia Group are now proceeding the necessary procedures in initiating the business operation of Faurecia Car Seat JV.

On 29 November 2017, Wuling Industrial entered into another agreement with the Faurecia Group for the establishment of another joint venture company for pursuing the business of automotive interior system, its related parts and accessories, including cockpit, instrument panel, auxiliary instrument panel, door trim panel, acoustics and soft trim in China which will be owned as to 50% each by Wuling Industrial and Faurecia Group ("Faurecia Interior Parts JV"). Same as above, Wuling Industrial considers the co-operation with Faurecia Group will provide essential technical support to the Wuling Industrial in further promoting its business opportunities in these types of products from SGMW as well as other new customers.

In accordance with the joint venture agreement, Wuling Industrial and Faurecia Group will each contribute cash in the amount of RMB150 million to the newly formed Faurecia Interior Parts JV. Meanwhile, pursuant to the joint venture agreement, after the establishment of Faurecia Interior Parts JV, Wuling Industrial and Faurecia Interior Parts JV shall enter into ancillary agreements in relation to, among other things, the acquisition of the machinery and equipment of Wuling Industrial which are currently used for the production of automotive interior parts products located in Liuzhou and Qingdao, the PRC for the purpose of facilitating the business and operation of Faurecia Interior Parts JV. Wuling Industrial and Faurecia Group are now proceeding the necessary procedures for the establishment of Faurecia Interior Parts JV.

Financial Review

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Group's turnover for the year ended 31 December 2017 was RMB16,123,895,000, representing a decrease of 3.3% as compared to previous year. Growth of businesses in the passenger vehicles segment from the new products of the automotive components and other industrial services division and the impressive growth in the business volume in the specialized vehicles division helped to maintain a stable business volume of the Group for the year, despite a drastic slowdown of the businesses in the engines and parts division. Overall, strong market presence and increasing demands to our products of our key customer's products ensured a relatively stable performance of the Group in the automobile industry in China.

Gross profit for the year under review was RMB1,603,669,000, representing a decrease of 14.7%. Gross margin of the Group declined to 9.9% for the year. As mentioned above, growth of businesses in relation the passenger vehicles segment of the automotive components and the specialized vehicles helped to maintain a stable business volume of the Group for the year. However, such positive impact was adversely impeded by the increases in the prices of raw material, the operating losses incurred in the newly set-up plant in Indonesia and the drastic reduction in the businesses of the engine and parts division during the year. Besides, the relatively low gross margin condition continued to reflect the keen competition environment in the automobile industry in China.

Meanwhile, profitability of the Group's operation was maintained due to the positive factors of the reversal of bad debt provision made in previous years, the one-off compensation income received on relocation and demolition of certain old plants and facilities, and a reduction in the research and development expenses during the year.

Net profit of the Group for the year ended 31 December 2017 which had taken into account of the other income of RMB46,994,000 from the effect of changes in fair value of the convertible loan notes was RMB281,784,000, representing a slight increase of 0.5% as compared to previous year. Profit attributable to the owners of the Company was RMB173,158,000, representing an increase of approximately 23.3%, while the profit attributable to the owners of the Company netting off of the related effective interest expenses incurred, the related foreign exchange gain and the effect of changes in fair value from the convertible loan notes during the year for the purpose of computation of the earnings per share on a fully diluted basis, was RMB135,303,000, representing a decrease of approximately 3.7%.

On 23 May 2017, the Company issued a convertible loan notes of a principal amount of HKD400,000,000 to Wuling (Hong Kong) Holdings Limited ("Wuling HK"), our controlling shareholder, as approved by the independent shareholders of the Company at a special general meeting held on 16 December 2016. The convertible loan notes which bear interest at 4% per annum would be eligible to be converted into a total number of 571,428,571 fully paid up shares of the Company (the "Shares") at an initial conversion price of HKD0.70 per share on any business day commencing from 22 November 2017 up to the fifth business days prior to the maturity date (being 23 May 2020). Among which, the convertible loan notes of a principal amount of HKD150,000,000 were converted by Wuling HK into a total of 214,285,714 Shares on 29 December 2017.

In connection with the issue of these convertible loan notes and as approved by the independent shareholders of the Company at the abovementioned special general meeting, the Company had also completed the first instalment of capital injection into Wuling Industrial, our non-wholly owned subsidiary, by contributing an additional sum of RMB340,000,000 in cash to Wuling Industrial of which RMB161,126,100 was contributed to the registered capital of Wuling Industrial and RMB178,873,900 was contributed to the capital reserves of Wuling Industrial. Upon completion of this capital injection, the registered capital of Wuling Industrial was increased from RMB1,042,580,646 to RMB1,203,706,746 and the Company's equity interest in Wuling Industrial on an enlarged basis was increased by approximately 6.04% to approximately 60.90%. Completion of the capital injection in Wuling Industrial enabled the Company to have a greater equity share of the business operation of Wuling Industrial, our principal operating arm in the automobile industry, whereas, the issue of the convertible loan notes to Wuling HK, as well as the exercise of the relevant conversion rights to increase the controlling interest in the company, demonstrated the long term commitment of the ultimate controlling shareholder Guangxi Automobile Holdings Limited ("Guangxi Automobile") in the Company.

Other income comprised primarily bank interest income, sales of scrap materials and parts, compensation income from relocation of factory premises, government subsidies and other services income was in aggregate RMB141,309,000 for the year ended 31 December 2017, representing an increase of 37.9% as compared to previous year due to an increase of interest income and the one-off compensation income received, which amounted to RMB48,835,000 during the year.

Other gains and losses amounted to a net gain of RMB88,332,000 for the year ended 31 December 2017, which comprised primarily loss on disposals of certain property, plant and machinery, exchange gain and effect of changes in fair value on the convertible loan notes and the impairment loss reversed in respect of trade receivables during the year.

Share of results of joint ventures registered a total losses of RMB7,336,000 for the year ended 31 December 2017 primarily attributable to the net operating losses of Liuzhou Lingte incurred for the year, whereas, the operation of Guangxi Weixiang had been recovered in the second half of 2017.

Share of result of an associate represented the pre-operating losses of Faurecia Car Seat JV incurred for the year.

Selling and distribution costs of the Group comprised primarily transportation costs, warranty expenses and other marketing expenses were in aggregate RMB274,075,000 for the year ended 31 December 2017, representing a decrease of 13.7% as compared to previous year due to the gradual decrease in warranty expenses as benefited from an improvement in production efficiency of the engines and parts division during the year.

General and administrative expenses of the Group comprised primarily salary and allowances, various insurance expenses, rental expenses and other administrative expenses were in aggregate RMB855,768,000 for the year ended 31 December 2017, representing an increase of 6.7% as compared to previous year. Moderate increases in the staff cost in response to the keen competition in the human resources market and the recruitment of the management and administrative workforce for the newly established plants and facilities and other ongoing projects undertaken by the Group together with the increases in the related project expenses resulted in an increase in the administrative expenses during the year despite the positive impact from a reduction in the research and development expenses.

Research and development expenses for the year ended 31 December 2017 amounted to RMB162,230,000, representing a decrease of 50.8% as compared to previous year. 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 2017 amounted to RMB145,090,000, representing an increase of 62.0% as compared to previous year due to an increase in the interest rates during the year and the finance cost of RMB28,433,000 incurred for the abovementioned convertible loan notes issued by the Company, calculated on the effective interest rates method. Besides, the balances had also included the finance costs of RMB47,407,000 which were the interest expenses payable to Guangxi Automobile. To contain finance costs of the Group, Guangxi Automobile provided various sources of finance to the Group through borrowings and/or bills discounting activities at the most favourable terms offered in the market.

Basic earnings per share for the year ended 31 December 2017 was RMB9.42 cents, representing an increase of approximately 22.8% as compared to previous year. Earnings per share on fully diluted basis, in which the adjustments in relation to the convertible loan notes issued by the Company had been accounted for, was RMB6.19 cents, representing a decrease of approximately 18.9%.

Consolidated Statement of Financial Position

As at 31 December 2017, total assets and total liabilities of the Group stood at RMB11,707,640,000 and RMB9,219,780,000 respectively.

Non-current assets amounted to RMB4,008,648,000 comprised mainly property, plant and equipment, prepaid lease payments, deposits paid for acquisition of property, plant and equipment, interest in an associate, interests in joint ventures, etc., which were increased as compared to previous year due to the capital expenditures of approximately RMB1.1 billion incurred in this year in relation to the acquisition cost of plant and machinery, construction in progress, prepaid lease payments, RMB75 million of the cost of investment in an associate and approximately RMB4 million of the cost of investment in joint ventures.

Current assets amounted to RMB7,698,992,000 comprised mainly inventories of RMB1,222,876,000, trade and other receivables and bill receivables of RMB4,196,160,000 (inclusive of bills receivables discounted with recourse but not yet matured amounting to RMB280,900,000), pledged bank deposits of RMB565,840,000 and bank balances and cash of RMB1,706,780,000. Amount due from SGMW, a related company and a key customer in the engines and automotive components businesses of the Group amounted to RMB1,710,905,000 was recorded as trade and other receivables in the condensed consolidated statement of financial position. These receivables balances were subject to normal commercial settlement terms.

Current liabilities amounted to RMB9,055,526,000, comprised mainly trade and other payables of RMB7,955,730,000, provision for warranty of RMB142,704,000, tax payable of RMB108,318,000, derivative financial instrument in relation to the outstanding convertible loan notes issued by the Company of RMB50,560,000, current portion of the convertible loan notes of RMB23,820,000, bank and other borrowings — due within one year of RMB491,576,000 and advances drawn on bills receivables discounted with recourse of RMB277,515,000. The corresponding bills receivables discounted with recourse to these advances amounting to RMB280,900,000 were recorded as trade and other receivables which would be offset against upon maturity.

The Group recorded net current liabilities of RMB1,356,534,000 as at 31 December 2017, which had been increased as compared to the net current liabilities of RMB972,575,000 as at 31 December 2016 as a result of the substantial capital expenditure incurred during the year.

Non-current liabilities amounted to RMB164,254,000 comprised mainly convertible loan notes of RMB122,857,000, deferred income of RMB15,339,000 and deferred tax liability of RMB26,058,000.

Liquidity and Capital Structure

During the year ended 31 December 2017, the operating and investing activities of the Group were mainly satisfied by the financing activities of the Group through the drawdown of bank borrowings, the bill receivables discounted and the funds raised from the issue of the convertible loan notes as detailed below.

The Group considers the application of alternative means of financing, i.e. bank borrowings and bill discounting activities in terms of the respective finance cost consideration. Besides, to contain finance costs of the Group, Guangxi Automobile provided sources of finance to the Group through bill discounting activities at the most favourable terms offered in the market.

As at 31 December 2017, total bank balances and cash maintained by the Group amounted to RMB1,706,780,000. Besides, pledged bank deposits amounting to RMB565,840,000 were also maintained to secure the banking facilities offered to the Group.

The Group's bank borrowings (other than advances drawn on bill receivables discounted with recourse) amounted to RMB491,576,000 as at 31 December 2017, which were increased substantially since last year to serve as an alternative source of finance due to an increase in the interest rates charged on the bill receivables discount activities during the years, which included a lower interest rate foreign currency one year term loan amounting to US$55,000,000. The Group had entered into appropriate forward contract to hedge against the currency risk of this foreign currency bank loan. Meanwhile the outstanding advances drawn on bill receivables discounted with resource as at 31 December 2017 were RMB277,515,000 which were decreased during the year. The corresponding bill receivables discounted with recourse to these advances amounting to RMB280,900,000 were recorded as trade and other receivables which would be off set against upon maturity. The Company will closely monitor the financial and liquidity position of the Group, as well as the situation of the financial market from time to time in arriving at an appropriate financing strategy for the Group.

Apart from the bank borrowings and the advances drawn on bill receivables discounted with recourse on 23 May 2017, the Company raised certain longer term financing through the issue convertible loan notes of a principal amount of HKD400,000,000 to Wuling HK, our controlling shareholder, as approved by the independent shareholders of the Company at a special general meeting held on 16 December 2016. The convertible loan notes which bear interest at 4% per annum would be eligible to be converted into a total number of 571,428,571 Shares at an initial conversion price of HKD0.70 per share on any business day commencing from 22 November 2017 up to the fifth business days prior to the maturity date (being 23 May 2020). Among which, the convertible loan notes of a principal amount of HKD150,000,000 were converted by Wuling HK into a total of 214,285,714 Shares on 29 December 2017. As a result of the conversion, the percentage of shareholding of Wuling HK in the Company was increased from 56.04% to 60.64%.

Subsequent to the above conversion, the aggregate principal amount of convertible loan notes remained outstanding was HKD250,000,000, which would be eligible to be converted into a total number of 357,142,857 Shares according to the abovementioned terms and conditions.

In view of the current financial and liquidity position of the Group as at 31 December 2017, the Board considers the Group has adequate financial resources in meeting the redemption obligations of the outstanding convertible loan notes which have an expiry date on 23 May 2020.

Assuming full conversion of the outstanding convertible loan notes which are currently held by Wuling HK, the controlling shareholder of the Company, the number of issued shares of the Company would be increased by approximately 17.42% from 2,050,107,555 Shares to 2,407,250,412 Shares, from which the percentage shareholding of the controlling shareholder, Wuling HK, would be increased from 60.64% to 66.48%, whereas, the percentage of shareholding of the second largest shareholder of the Company, Dragon Hill Development Limited would be decreased from 13.74% to 11.70%. However, there are restrictions on the convertible loan notes such that no conversion would be made if it will cause the Company to be in breach of the public float requirement under the Listing Rules.

In addition, having considered the closing market price of the Share as at 31 December 2017 which was traded below the conversion price of the convertible loan notes and the abovementioned restriction such that no material conversion could be made as at 31 December 2017, the Board considers there would not be any significant impact on the market price of the Shares upon the entire and/or partial conversion of the outstanding convertible loan notes of the Company.

In connection with the issue of the abovementioned convertible loan notes and as approved by the independent shareholders of the Company at the abovementioned special general meeting, the Company had also completed the first instalment of capital injection into Wuling Industrial, our non-wholly owned subsidiary, by contributing an additional sum of RMB340,000,000 in cash to Wuling Industrial of which RMB161,126,100 was contributed to the registered capital of Wuling Industrial and RMB178,873,900 was contributed to the capital reserves of Wuling Industrial. Upon completion of this capital injection, the registered capital of Wuling Industrial was increased from RMB1,042,580,646 to RMB1,203,706,746 and the Company's equity interest in Wuling Industrial on an enlarged basis was increased by approximately 6.04% to approximately 60.90%. Completion of the capital injection in Wuling Industrial strengthened the capital base of Wuling Industrial, our principal operating arm in the automobile industry, and at the same time, enabled the Company to have a greater equity share of the business operation of Wuling Industrial. Meanwhile, the issue of the convertible loan notes to Wuling HK, as well as the exercise of the relevant conversion rights to increase the controlling interest in the company, also demonstrated the long term commitment of the ultimate controlling shareholder Guangxi Automobile in the Company.

Total equity attributable to the shareholders of the Company, comprised primarily the share premium, PRC general reserve, contributed surplus, capital reserve, other reserves and retained profits, amounted to RMB1,442,682,000 as at 31 December 2017, which had taken into account of the above conversion of the convertible loan notes of a principal amount of HKD150,000,000 on 29 December 2017. Net asset value per share was approximately RMB70.4 cents as at 31 December 2017.

DIVIDEND

The Directors recommended the payment of a final dividend of HKD1.25 cents per ordinary share of the Company (the "Share(s)") for the year ended 31 December 2017 (the "Final Dividend") (2016: HKD1.25 cents) to the shareholders of the Company (the "Shareholder(s)"), whose names shall be on the register of members of the Company on 21 June 2018, amounting to approximately HKD25,626,000 (equivalent to approximately RMB21,342,000), subject to the approval by the Shareholders in the forthcoming annual general meeting of the Company to be held on Friday, 8 June 2018 (the "2018 AGM"), dividend warrants of the Final Dividend will be dispatched to shareholders of the Company on or about 30 June 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 5 June 2018 to Friday, 8 June 2018 (both dates inclusive), for the purpose of determining the Shareholders' eligibility to attend and vote at the 2018 AGM and during which period no transfer of the Shares will be effected. In order to qualify for attendance of the 2018 AGM, all completed transfer forms accompanied by the relevant share certificates of the Company must be lodged with the Company's branch share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Monday, 4 June 2018. The time and venue of the 2018 AGM will be advised in due course.

The register of members of the Company will be closed from Friday, 15 June 2018 to Thursday, 21 June 2018 (both days inclusive), for the purpose of determining the Shareholders' entitlement to the Final Dividend and during which period no transfer of the Shares will be effected. In order to qualify for the Final Dividend, all completed transfer forms accompanied by the relevant share certificates of the Company must be lodged with the Company's branch share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 14 June 2018.

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 2017 (2016: 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. During the year ended 31 December 2017, the Company confirmed that it has fully applied and complied with all the code provisions and certain recommended best practices as set out in Code on Corporate Governance ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange.

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 to all of the directors of the Company. All of them have confirmed that they have complied with the Own Code and the Model Code throughout the year.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee"), comprising the three independent non-executive directors of the Company, namely Mr. Ye Xiang (the Chairman), Mr. Wang Yuben and Mr. Mi Jianguo, has been established in accordance with the requirements of the Listing Rules, for the purpose of reviewing and providing, inter alia, supervision over the Group's financial reporting system, risk management and internal control system. The terms of reference of the Audit Committee are disclosed on the websites of the Company and Hong Kong Exchange and Clearing Limited respectively.

The Audit Committee reviewed the accounting principles and practices adopted by the Company for the year ended 31 December 2017 before such documents were tabled for the Board's review and approval, discussed matters relating to audit, internal control system and financial reporting processes and reviewed the audited financial statements and this preliminary announcement for the year ended 31 December 2017 of the Group. The Audit Committee is of the opinion that such documents complied with all the applicable accounting standards, the Listing Rules and other applicable legal requirements and that adequate disclosures have been made, if required.

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2017. 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 2017 containing all information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites 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. Yuan Zhijun (Chairman), Mr. Lee Shing (Vice-chairman and Chief Executive Officer), Mr. Zhong Xianhua, Ms. Liu Yaling and Mr. Yang Jianyong as executive Directors and Mr. Ye Xiang, Mr. Wang Yuben and Mr. Mi Jianguo as independent non-executive Directors.

On behalf of the Board
Yuan Zhijun
Chairman

Hong Kong, 29 March 2018