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 2018

FINANCIAL HIGHLIGHTS

	2018	2017	Change
	RMB'000	*RMB'000*	+/- (%)
Revenue	**15,120,119**	16,123,895	-6.2%
Gross profit	**1,282,825**	1,603,669	-20.0%
Profit for the year	**125,195**	281,784	-55.6%
Profit attributable to the owners of the Company	**70,673**	173,158	-59.2%
Earnings per share			
Basic	**RMB3.45 cents**	RMB9.42 cents	-63.4%
Diluted	**RMB2.73 cents**	RMB6.19 cents	-55.9%
Final dividend	**HKD0.5 cent**	HKD1.25 cents	-60.0%

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 2018 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 2018

	NOTES	2018 RMB'000	2017 RMB'000
Revenue	4		
Goods and services		**15,119,965**	16,123,739
Rental		**154**	156
		15,120,119	16,123,895
Cost of sales and services		**(13,837,294)**	(14,520,226)
Gross profit		**1,282,825**	1,603,669
Other income	5(a)	**162,115**	141,309
Other gains and losses	5(b)	**48,490**	51,209
Reversal of impairment losses on trade receivables, net of impairment losses		**3,236**	37,123
Selling and distribution costs		**(244,103)**	(274,075)
General and administrative expenses		**(872,377)**	(855,768)
Research and development expenses		**(140,599)**	(162,230)
Share of results of associates		**15,902**	(3,463)
Share of results of joint ventures		**(1,650)**	(7,336)
Finance costs		**(133,105)**	(145,090)
Profit before taxation		**120,734**	385,348
Income tax credit (expense)	6	**4,461**	(103,564)
Profit for the year	7	**125,195**	281,784
Other comprehensive (expenses) income			
Items that will not be reclassified to profit or loss:			
Fair value loss on investment in equity instrument at fair value through other comprehensive income		**(6,952)**	–
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising from translation of foreign operations		**2,920**	(5,641)
Fair value loss on bills receivables at fair value through other comprehensive income		**(13,513)**	–
Other comprehensive expense for the year		**(17,545)**	(5,641)
Total comprehensive income for the year		**107,650**	276,143

	NOTES	2018 RMB'000	2017 RMB'000
Profit for the year attributable to:			
Owners of the Company		**70,673**	173,158
Non-controlling interests		**54,522**	108,626
		125,195	281,784
Total comprehensive income attributable to:			
Owners of the Company		**58,411**	167,517
Non-controlling interests		**49,239**	108,626
		107,650	276,143
Earnings per share	*9*		
Basic		**RMB3.45 cents**	RMB9.42 cents
Diluted		**RMB2.73 cents**	RMB6.19 cents
Dividend	*8*		
Interim dividend		**Nil**	Nil
Final dividend		**HKD0.5 cent**	HKD1.25 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018

	NOTES	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**3,590,089**	3,143,847
Prepaid lease payments		**332,652**	297,550
Premium on prepaid lease payments		**798**	823
Investment properties		**10,277**	9,086
Interest in associates		**237,439**	71,537
Interests in joint ventures		**126,026**	100,660
Deposits paid for acquisition of property, plant and equipment		**248,798**	375,145
Available-for-sale investment		**–**	10,000
Equity instrument at fair value through other comprehensive income		**2,048**	–
		4,548,127	4,008,648
CURRENT ASSETS			
Inventories		**943,230**	1,222,876
Trade and other receivables	*10*	**3,567,957**	4,196,160
Bills receivables at fair value through other comprehensive income		**2,070,542**	–
Prepaid lease payments		**7,840**	7,336
Pledged bank deposits		**1,014,768**	565,840
Bank balances and cash		**974,697**	1,706,780
		8,579,034	7,698,992
CURRENT LIABILITIES			
Trade and other payables	*11*	**8,082,910**	7,955,730
Contract liabilities		**222,082**	–
Provision for warranty	*12*	**119,290**	142,704
Tax payable		**52,701**	108,318
Bank borrowings		**491,779**	491,576
Derivative financial instrument	*13*	**1,224**	50,560
Convertible loan notes	*13*	**8,784**	23,820
Financial liability at fair value through profit or loss		**1,475**	5,303
Advances drawn on bills receivables discounted with recourse		**1,142,306**	277,515
		10,122,551	9,055,526
NET CURRENT LIABILITIES		**(1,543,517)**	(1,356,534)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,004,610**	2,652,114

	NOTES	2018 RMB'000	2017 RMB'000
NON-CURRENT LIABILITIES			
Contract liabilities		**13,872**	–
Deferred income		**–**	15,339
Amount due to an associate		**50,000**	–
Bank borrowings		**268,000**	–
Convertible loan notes	*13*	**170,721**	122,857
Deferred tax liabilities		**23,168**	26,058
		525,761	164,254
		2,478,849	2,487,860
CAPITAL AND RESERVES			
Share capital	*14*	**7,366**	7,366
Reserves		**1,436,273**	1,435,316
Equity attributable to owners of the Company		**1,443,639**	1,442,682
Non-controlling interests		**1,035,210**	1,045,178
		2,478,849	2,487,860

NOTES

FOR THE YEAR ENDED 31 DECEMBER 2018

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 RMB1,544 million (2017: approximately RMB1,357 million) as at 31 December 2018. 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. PRINCIPAL ACCOUNTING POLICIES AND THE APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The accounting policies and methods of computation used in the preparation of the financial information are consistent with those used in the annual financial statements for the year ended 31 December 2017 except for the changes mentioned below.

New and amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, 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.

3.1 HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognizes revenue from the following major sources:

- Manufacture and sale of engines and related parts;
- Manufacture and sale of automotive components and accessories, trading of raw materials (mainly metals and other consumables);
- Manufacture and sale of specialized vehicles; and
- Provision of water and power supply services.

Information about the Group's performance obligations resulting from application of HKFRS 15 are disclosed in note 4.

3.2 HKFRS 9 "Financial Instruments"

In the current year, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRS 9. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities; and 2) expected credit loss ("ECL") for financial assets.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognized as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognized in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

4. REVENUE AND SEGMENT INFORMATION

Revenue

For the year ended 31 December 2018

Disaggregation of revenue

	2018
	RMB'000
Types of goods and services	
Sales of engines	**1,176,464**
Sales of engines related parts	**397,091**
Sales of automotive components and accessories	**8,714,748**
Sales of specialized vehicles	**4,197,622**
Trading of raw materials	**490,112**
Provision of water and power supply	**143,928**
Revenue from contracts with customers	**15,119,965**
Revenue from gross rental income	**154**
	15,120,119

For the year ended 31 December 2017

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

	2017
	RMB'000
Sales of:	
— Engines	2,008,120
— Engines related parts	260,080
— Automotive components and accessories	9,896,905
— Specialized vehicles	2,833,277
Trading of raw materials	939,671
Provision of water and power supply	185,686
	16,123,739
Gross property rental income from investment properties	156
	16,123,895

Segment revenues and results

Information reported to the executive 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

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

For the year ended 31 December 2018

	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	**1,573,555**	**9,348,788**	**4,197,622**	**154**	**–**	**15,120,119**
Inter-segment sales	**56,864**	**16,135**	**–**	**–**	**(72,999)**	**–**
Total	**1,630,419**	**9,364,923**	**4,197,622**	**154**	**(72,999)**	**15,120,119**
Segment profit (loss)	**12,926**	**142,902**	**40,391**	**(367)**		**195,852**
Bank interest income						**50,506**
Change in fair value of derivative financial instrument						**50,193**
Change in fair value of financial liability at fair value through profit or loss						**3,860**
Reversal of impairment loss on interest in a joint venture						**8,000**
Central administrative costs						**(59,881)**
Share of results of associates						**15,902**
Share of results of joint ventures						**(1,650)**
Impairment on goodwill						**(8,943)**
Finance costs						**(133,105)**
Profit before taxation						**120,734**

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	(342)		515,515
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						(56,395)
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

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, reversal of impairment loss on interest in a joint venture, impairment on goodwill, share of results of associates, 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 2018

	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	**1,973,586**	**7,544,516**	**1,238,413**	**15,668**	**10,772,183**
Interests in joint ventures					**126,026**
Interest in associates					**237,439**
Equity instrument at fair value through other comprehensive income					**2,048**
Pledged bank deposits					**1,014,768**
Bank balances and cash					**974,697**
Consolidated assets					**13,127,161**
Liabilities					
Segment liabilities	**1,482,565**	**6,952,031**	**1,133,424**	**12,440**	**9,580,460**
Bank borrowings					**759,779**
Amount due to an associate					**50,000**
Convertible loan notes					**179,505**
Financial liability at fair value through profit or loss					**1,475**
Derivative financial instrument					**1,224**
Tax payable					**52,701**
Deferred tax liabilities					**23,168**
Consolidated liabilities					**10,648,312**

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

The assets of the Group are allocated based on the operations of the segments. However, interests in joint ventures, interest in associates, equity instrument at fair value through other comprehensive income, 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, amount due to an associate, 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.

5. OTHER INCOME/OTHER GAINS AND LOSSES

(a) Details of other income are as follows:

	2018	2017
	RMB'000	*RMB'000*
Sales of scrap materials and parts	**45,355**	28,780
Bank interest income	**50,506**	40,426
Service income on repairs and maintenance	**5,607**	4,044
Machinery and other property rental income	**23,808**	6,545
Amortization of deferred income	**–**	1,466
Income on use of technology knowhow	**1,467**	–
Government grants	**28,509**	6,742
Compensation income with respect of plant and reconstruction *(note)*	**–**	48,835
Others	**6,863**	4,471
	162,115	141,309

note: On 13 September 2017 Liuzhou Wuling Motors Industrial Company Limited 柳州五菱汽車工業有限公司 ("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.

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

	2018	2017
	RMB'000	*RMB'000*
Increase in fair value of investments properties	**668**	1,193
Fair value change of financial liability at fair value through profit of loss	**3,860**	(5,303)
Fair value change of derivative financial instrument	**50,193**	46,994
Foreign exchange (loss) gain, net	**(18,108)**	17,056
Gain (loss) on disposal of property, plant and equipment	**12,820**	(8,731)
Reversal of impairment loss on interest in a joint venture	**8,000**	–
Impairment loss on goodwill	**(8,943)**	–
	48,490	51,209

6. INCOME TAX (CREDIT) EXPENSE

	2018 *RMB'000*	2017 *RMB'000*
Tax (credit) charge represents:		
PRC Enterprise Income Tax		
Current	**23,689**	92,811
Withholding tax on dividend distribution	**3,828**	1,177
(Over) underprovision in prior years	**(29,088)**	6,837
	(1,571)	100,825
Deferred tax		
Current year	**(2,890)**	2,739
	(4,461)	103,564

7. PROFIT FOR THE YEAR

	2018 *RMB'000*	2017 *RMB'000*
Profit for the year has been arrived at after charging (crediting) the following items:		
Directors' emoluments	**2,353**	2,444
Other staff costs:		
Salaries, bonus and other benefits	**744,797**	754,045
Retirement benefit scheme contributions, excluding directors	**52,891**	57,866
Total staff costs	**800,041**	814,355
Less: staff costs (capitalized in inventories)	**(436,591)**	(392,940)
Total staff costs (included in selling and distribution costs, general and administrative expenses and research and development expenses)	**363,450**	421,415
Gross property rental income from investment properties, net of negligible outgoings	**(154)**	(156)
Auditor's remuneration	**1,815**	1,815
Total depreciation of property, plant and equipment	**316,757**	225,204
Less: Amounts capitalized in inventories	**(140,221)**	(151,353)
Total depreciation of property, plant and equipment (included in selling and distribution costs, general and administrative expenses and research and development expenses)	**176,536**	73,851
Release of prepaid lease payments (included in general and administrative expenses)	**7,870**	7,218
Release of premium on prepaid lease payments (included in general and administrative expenses)	**25**	25
Transportation costs (included in selling and distribution costs)	**116,620**	156,190

8. DIVIDEND

	2018	2017
	RMB'000	*RMB'000*
Dividends recognized as distribution during the year:		
2017 Final dividend of HKD1.25 cents (2017: 2016 final dividend of HKD1.25 cents) per share	**21,622**	19,648

Subsequent to the end of the reporting period, a final dividend of HKD0.5 cent per share amounting to approximately HKD10,251,000 (or equivalent to RMB9,005,000) in respect of the year ended 31 December 2018 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

9. EARNINGS PER SHARE

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

	2018	2017
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	**70,673**	173,158
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	**35,407**	28,433
Change in fair value of on derivative financial instrument	**(50,193)**	(46,994)
Exchange loss/(gain) on convertible loan notes and derivative financial instrument	**9,800**	(19,294)
Earnings for the purpose of diluted earnings per share	**65,687**	135,303

	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,050,108**	1,837,583
Effect of dilutive potential ordinary shares:		
— Convertible loan notes	**357,143**	347,358
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,407,251**	2,184,941

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

(i) Trade and other receivables

	2018 *RMB'000*	2017 *RMB'000*
Trade and bills receivables		
— SAIC-GM-Wuling Automobile Co., Limited ("SGMW")	**1,617,496**	1,710,905
— Guangxi Automobile Group	**77,300**	24,982
— Guangxi Weixiang	**11**	91
— Qingdao Dianshi	**–**	177
— Faurecia Liuzhou Automotive Seating Co., Limited ("FL Seating")	**146**	–
— Faurecia Liuzhou Automotive Interior Co., Limited ("FL Interior")	**63,984**	–
— third parties	**1,352,963**	562,953
	3,111,900	2,299,108
Less: Allowance for credit losses	**(57,924)**	(42,928)
	3,053,976	2,256,180
Other receivables:		
Prepayments for expenses	**606**	3,842
Prepayments for purchase of raw materials	**391,504**	604,342
Value-added tax recoverable	**51,623**	56,630
Others	**71,549**	104,261
	515,282	769,075
Less: Allowance for credit losses	**(1,301)**	–
	513,981	769,075
Bills receivables	**–**	890,005
Bills receivables discounted with recourse	**–**	280,900
Total trade and other receivables	**3,567,957**	4,196,160

11. TRADE AND OTHER PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade and bills payables:		
— SGMW	**1,028,911**	769,662
— Guangxi Automobile Group	**54,952**	133,259
— FL Seating	**28,521**	–
— FL Interior	**160,536**	–
— Qingdao Dianshi	**–**	33,207
— third parties	**5,584,266**	5,516,520
	6,857,186	6,452,648
Receipt in advance from customers	**–**	193,839
Value added tax payables	**255,050**	177,936
Accrued research and development expenses	**221,480**	332,110
Accrued staff costs	**212,973**	197,869
Other tax payables	**51,496**	163,046
Payables for acquisition of property, plant and equipment	**131,638**	125,053
Deposits received from suppliers	**64,781**	59,353
Other payables	**288,306**	253,876
Total trade and other payables	**8,082,910**	7,955,730

12. PROVISION FOR WARRANTY

	RMB'000
At 1 January 2017	162,952
Additional provision in the year	18,404
Utilization of provision	(38,652)
At 31 December 2017	142,704
Additional provision in the year	10,282
Utilization of provision	(33,696)
At 31 December 2018	119,290

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.

13. 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 HKD 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 up to 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 HKD0.004 each at the conversion price of HKD0.70 per share. Accordingly, an aggregate of 214,285,714 ordinary shares of HKD0.004 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:

	Liability component	**Derivative component**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount at 23 May 2017	219,602	134,158	353,760
Effective interest expense	28,433	–	28,433
Change in fair value recognized in profit or loss	–	(46,994)	(46,994)
Conversion during the year	(88,003)	(30,665)	(118,668)
Exchange adjustments	(13,355)	(5,939)	(19,294)
At 31 December 2017	146,677	50,560	197,237
Effective interest expenses	35,407	–	35,407
Coupon payment	(11,522)	–	(11,522)
Change in fair value recognized in profit or loss	–	(50,193)	(50,193)
Exchange adjustments	8,943	857	9,800
At 31 December 2018	179,505	1,224	180,729

	2018	2017
	RMB'000	*RMB'000*
Analyzed of liability component of convertible loan notes as:		
Current	**8,784**	23,820
Non-current	**170,721**	122,857
	179,505	146,677

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, 31 December 2017 and 31 December 2018. The inputs into the model at the respective dates were as follows:

	As at 31 December 2018	As at 31 December 2017	As at 29 December 2017	As at 23 May 2017
Share price	**HKD0.32**	HKD0.57	HKD0.57	HKD0.65
Conversion price	**HKD0.70**	HKD0.70	HKD0.70	HKD0.70
Risk free rate *(note a)*	**1.75%**	1.40%	1.40%	0.85%
Expected life	**1.39 years**	2.39 years	2.40 years	3.00 years
Expected dividend yield *(note b)*	**2.71%**	2.19%	2.19%	1.92%
Expected volatility *(note c)*	**34.14%**	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.

14. 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 2017, 31 December 2017 and 31 December 2018		101,521
Issued and fully paid:		
Ordinary shares of HKD0.004 each		
At 1 January 2017	1,835,821,841	7,343
Conversion of convertible loan notes *(note 13)*	214,285,714	857
At 31 December 2017 and 31 December 2018	2,050,107,555	8,200

	2018	2017
	RMB'000	*RMB'000*
Shown in the consolidated financial statements at the end of the reporting period as	**7,366**	7,366

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

* *for identification purpose only.*

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Review — By Key Business Segments

The business performance and analyses 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 2018 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 2018 was RMB1,573,555,000, representing a substantial decrease of 30.6% as compared to previous year. Operating profit for the year was RMB12,926,000, representing a substantial decrease of 91.3% as compared to previous year.

Total number of engines sold by the subsidiary, Liuzhou Wuling Liuji Motors Company Limited ("Wuling Liuji"), for the year was approximately 130,000 units, representing a substantial decrease of approximately 53.6% as compared to previous year.

During the year, sales to SAIC-GM-Wuling Automobile Co., Limited ("SGMW"), our core customer, amounted to approximately RMB884,089,000, representing a significant drop of 48.3% as compared to previous year. As reported by the Company earlier, the significant drop in revenue was resulted from a substantial reduction in the sale volume of the NP18 model, which was supplied to SGMW for their Capacity 1.8L vehicle models. 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 in this year which amounted to approximately 42,000 units as compared to the sale volume of 120,000 units as achieved in 2017.

Meanwhile, as a long standing industry leader in the manufacturing of engines for the various types of mini-vehicles, Wuling Liuji continued to supply products to other automobile manufacturers in this market segment. Despite the sluggish business environment, sales to other customers, primarily engine sets with capacity range from 1.0L to 1.6L, experienced certain extent of growth and increased to approximately RMB689,466,000 for the year, which accounted for approximately 44% of the total revenue of this division.

Operating margin declined to 0.8% during the year due to the significant reduction in sale volume. However, a decrease in warranty expenses incurred and the continuous improvement of the operations of the foundry facilities helped to slightly alleviate 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 lines at present could reach 800,000 units a year which covers quite an extensive list of products ranging from the lowest capacity 0.6L model to the highest capacity of 3.7L model, in which the models within the 1.0L to 2.0L range are the products where Wuling Liuji is having the competitive edge in the industry. Considering the dynamic business environment and the strengthening of the competitiveness in the market, over the past few years, in implementing the production capacity expansion programmes, special emphasis has been placed by the Group on the scalability of the production facilities such that the production and economic efficiency could be maintained in serving the market demands from different types of customers notwithstanding their different range of models and size of orders.

To further expand the product range and to achieve higher technical capability, Wuling Liuji has also 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, such as the NP18 model which was successfully launched recently. At the back of this successful model, Wuling Liuji has undertaken projects for further enhancement of the NP18 model and for development of new products with greater capacity 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 in relation to the construction of a production-line designated and installed for the production of a new model of automotive engine, namely the NPT20 (Capacity 2.0L). Concurrently, 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 agreement at a gross consideration of RMB170,000,000 in relation to the establishment of two production-lines which are designated for the processing production of cylinder blocks and cylinder heads. The Group considers that completion of the above two projects and the launch of the NPT20 model 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.

Construction of the above highly-automated production lines have been completed in late 2018 and test run of the NPT20 model has also been commenced. Subject to the market launches of the related passenger vehicles of the customer, it is expected that the production of the NPT20 model will be commenced by the end of 2019.

To kick start the business development in the segment of new energy vehicles, in August 2018, Wuling Liuji entered into a joint venture agreement with an independent third party to pursue the business activities in the development and production of motor control system and related components for new energy vehicles. At the back of the competitive strength and knowhow of the co-operative partner in their respective automobile and motor control system industry, the division enjoyed a speedy development in this great potential business segment, where the first model of the Group's motor control system products has been developed and is currently undergoing the preliminary testing processes. In this respect, the division has already outlined a capacity construction plan to cater for the mass production of the Group's motor control system products and related components for new energy vehicles.

Meanwhile, the division has also undertaken a comprehensive test run of its first in-house developed hybrid engine aiming at the sedan, MPV and SUV segments. The successful development of this specific type of products would further strengthen the market position of the Group in the automobile industry by having a comprehensive and diversified range of products which could serve the specific needs of various types of vehicles.

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 2018 was RMB9,348,788,000, representing a decrease of 15.2% as compared to previous year. Operating profits for the year was RMB142,902,000, representing a decrease of 56.9% as compared to previous year.

Apart from the negative effect from a general slowdown of the automobile industry in China during the year, decrease in revenue of this division was to certain extent due to the shift of the car seat products businesses and the automotive interior parts and accessories to the joint venture companies formed between Wuling Industrial and the renowned Faurecia Group, namely Faurecia Liuzhou Automotive Seating Co., Limited ("FL Seating") and Faurecia (Liuzhou) Automotive Interior System Co., Limited ("FL Interior"), which performance in terms of business volume and profitability would be further explained under the section "Performance of Joint Ventures" below.

The automotive components and other industrial services division, undertaken by Wuling Industrial together with its subsidiaries and associated companies, continued to be the key supplier for supplying a majority portion of the key automotive components to SGMW. During the year, despite a general slowdown of the automobile industry in China, sales to SGMW through the Group or our associated companies, comprised an extensive range of products including the brake and the chassis assembly components, seat sets, various plastic and welding parts and other automotive accessories, continued to maintain a healthy business volume as driven by the market demands of the existing and new models vehicles of SGMW such as Wuling Hongguang (五菱宏光) and the Baojun series (寶駿).

Operating margin declined to 1.5% as compared to previous year. Apart from the decrease in revenue (partly due to the shift of certain businesses to the joint venture companies as abovementioned), profitability was also adversely affected by the relatively low gross profit margins of certain component products (of which their respective selling prices were fixed, whereas, the prevailing prices of raw material (especially steel) was relatively high) and the operating losses incurred in the production plant in Indonesia. The adverse impact from the decline in gross profit margin was however slightly alleviated by a decrease in the general and administrative expenses and the research and development expenses of the Group due to certain tightening cost control and strategic measures.

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 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 and originally designed 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 were currently leased to the newly formed joint venture companies 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 was strategically located adjacent to the passenger vehicles production base of SGMW, in which the first and second phase had become fully operational gradually since the second half of 2016. To cope with the significant growth of passenger vehicles' components businesses, construction of the third phase of the Liudong Facilities was completed in the second half of 2018 to ensure adequate production capacity could be available to serve the increasing needs from customers on a timely basis. This third phase development which is 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 is now gradually applied for use by the joint venture company formed between Wuling Industrial and American Axle & Manufacturing, Inc., namely Liuzhou AAM Automotive Transmission System Co., Ltd. which would be further explained under the section "Performance of Joint Ventures" below.

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 has also undertaken certain technology advance and capacity expansion projects. Such projects, which involved 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. 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 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. During the year ended 31 December 2018, due to additional cost incurred in its initial operation and the low utilization rate of the operating facilities, the production plant in Indonesia incurred a net operating loss of approximately RMB23,178,000, which had adversely affected the profitability of the division. However, 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 considers that the business performance of the Group's automotive components businesses in Indonesia will be gradually improved in 2019.

Meanwhile, the Group had further expanded its overseas operations by establishing a small scale manufacturing plant in India targeted for the automotive component business of a renowned Chinese car manufacturer in India. The construction of this plant is progressing satisfactorily of which scale operation is expected to commence in second half of 2019.

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

Total revenue (based on external sales) of the specialized vehicles division undertaken by Wuling Industrial for the year ended 31 December 2018 was RMB4,197,622,000, representing an increase of 48.2% as compared to previous year. Operating profit for the year was RMB40,391,000, representing an increase of 14.7%.

During this year, Wuling Industrial sold approximately 110,200 specialized vehicles, representing an increase of 47.5% as compared to previous year. In which, the sale volume of redecorated vans (for goods), redecorated vans (for passengers), non-road vehicles (primarily sight-seeing vehicles) and other types of vehicles (primarily passenger buses and school buses) were approximately 70,100, 34,900, 3,400 and 1,800 respectively, amongst which approximately 1,800 vehicles were new energy vehicles (primarily electric vehicles), comprising a volume mix of approximately 340 electric logistic vehicles, 1,390 electric sight-seeing vehicles and a small volume of electric community passenger buses. 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 (for goods and for passengers) increased impressively and continued to rank as the leading supplier in this market segment. Due to keen market competition, the sale volume of passenger buses and school buses experienced the second consecutive year of decline. Meanwhile, the Group continued to experience a moderate increase in the sale volume of electric vehicles contributed primarily from the electric sight-seeing vehicles and electric logistic vehicles. 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 improved to 1.0% for the year. However, high portion of redecorated vans (for goods and for passengers) having low profit margin, competitive pricing strategy and increasing production costs resulting from product upgrades and improvement continued to limit the profitability performance of the division. Meanwhile, business performance of the division for the year was also adversely affected by the increasing costs of transportation and warranty expenses associated with the implementation of stringent requirements in the industry. Nevertheless, as a leading manufacturer in this niche market, the Group is confident that the profitability of this division will eventually be improved due to the increasing sale volume of higher end products in the market in consequence of the increasing customers' preferences towards higher quality products where the Group is working towards strategically.

The specialized vehicles division operates comprehensive car assembly lines which cover 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 electric vehicles, etc. The customers range from government departments, public institutes, private enterprises with different size of operation to private individuals. Products are mainly sold in the domestic market covering the 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 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, certain electric vehicle products of the Group, including electric logistic vehicle, electric sight-seeing buses and other electric vehicles, have obtained notifications of government approval in 2016 and 2017 and had started to gradually launch to the market.

On the technological and product development aspect, Wuling Industrial has actively undertaken projects by adopting the technical knowhow as developed from the above electric vehicles products as the platform to explore and develop a series of electric specialized vehicles suitable for peculiar business segments, which would cover the car sharing and auto pilot aspects. In co-operation with other reputable business partners, respective trial runs for car sharing and auto pilot projects have been carried out in late 2018 and early 2019 in which initial responses are satisfactory and encouraging.

Over the years, the Group had unremittingly developed new models of specialized vehicles with improved quality and added features in response to market demands and enhanced regulatory standards. The Group is confident the launches 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 60,000 vehicles. Taking the advantage of having an existing operation in Chongqing, the Group has commenced the construction of a production plant for the assembly of specialized vehicles in the production facilities in Chongqing with planned annual capacity of approximately 50,000 vehicles, completion of 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.

Besides our proactive marketing strategies and continuous launches of new models, our focus on delivery of a high standard of customer services with prompt responsiveness to customers' feedbacks are also important in further promoting our business potential in the specialized vehicles segment. The extensive operations of our current 415 service stations situated in over 19 geographic service areas keep us abreast of market trend and development in the industry for deriving the suitable business strategy for the specialized vehicles division. The consecutive impressive growth in the business volume in 2017 and 2018 essentially demonstrated the positive impact from these multi-dimensional strategy, which enable the Group to head towards the essential breakthrough platform in this segment.

The Group would strive to maintain a prominent market share, and at the same time, explore the opportunity for future growth potential to further improving the profitability of the specialized vehicles segment, through implementation of active business strategies in promoting our products to the regions where Group's products are still having a lower penetration rate.

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 Principal Joint Ventures and Associated Companies

Liuzhou Lingte Motor Technology Company Limited ("Liuzhou Lingte"), which is 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 period. 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 2016. During the year ended 31 December 2018, Wuling Liuji and Liuzhou Lingte continued to 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 registered an annual revenue of RMB5,035,000 and a net operating loss of RMB9,872,000 for the year ended 31 December 2018, in which a loss of RMB5,035,000 was attributable to the Group.

Guangxi Weixiang Machinery Company Limited ("Guangxi Weixiang"), which is 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 since the second half of 2017. At the back of the continuous recovery of businesses, the business performance of Guangxi Weixiang continued to improve during year ended 31 December 2018, from which an annual revenue of RMB557,058,000 and a net operating profit of RMB11,869,000 were achieved for the year, in which a profit of RMB5,935,000 was attributable to the Group. In view of the continuous improvement in profitability, a reversal of impairment amounting to RMB8,000,000 was recorded for the year ended 31 December 2018.

FL Seating which is be owned as to 50% each by Wuling Industrial and Faurecia Group and established on 26 September 2017 for pursuing the business of car seat products in the PRC has commenced operation in January 2018. 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 cooperation 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 RMB75,000,000 to FL Seating. The initial operation of FL Seating is primarily facilitated by the transfer of machinery and equipment of Wuling Industrial which were used for the production of car seat products located in Liuzhou and Qingdao, the re-designation of certain employees of Wuling Industrial and the leasing of certain production premises and facilities of Wuling Industrial located in Liuzhou and Qingdao. During the year ended 31 December 2018, FL Seating achieved an annual revenue of RMB702,615,000 and a net operating profit of RMB14,090,000, in which a profit of RMB7,045,000 was attributable to the Group.

FL Interior which is be owned as to 50% each by Wuling Industrial and Faurecia Group and established on 5 February 2018 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 the PRC has commenced operation in April 2018. 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 RMB150,000,000 to FL Interior within five years where Wuling Industrial had contributed RMB100,000,000 up to 31 December 2018. The initial operation of FL Interior is also primarily facilitated by the transfer of machinery and equipment of Wuling Industrial which were used for the production of automotive interior products located in Liuzhou and Qingdao, the re-designation of certain employees of Wuling Industrial and the leasing of certain production premises and facilities of Wuling Industrial located in Liuzhou and Qingdao. During the year ended 31 December 2018, FL Interior achieved an annual revenue of RMB358,401,000 and a net operating profit of RMB17,714,000, in which a profit of RMB8,857,000 was attributable to the Group.

On 24 October 2018, Wuling Industrial entered into another agreement with the Faurecia Group for the establishment of another joint venture company for pursuing the business of automotive emissions control system products and related parts and components in China which will be owned as to 50% each by Wuling Industrial and Faurecia Group ("FL Emission Control"). Wuling Industrial considers the co-operation with Faurecia Group will provide essential technical support to the Group 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 RMB60,000,000 to the newly formed FL Emission Control. Meanwhile, pursuant to the joint venture agreement, after the establishment of FL Emission Control, Wuling Industrial and FL Emission Control 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 emissions control system products located in Liuzhou, the PRC for the purpose of facilitating the business and operation of FL Emission Control. FL Emission Control was formally established in March 2019 and Wuling Industrial and Faurecia Group are now proceeding the necessary procedures in initiating the business operation of FL Emission Control.

In April 2018, Wuling Industrial entered into a joint venture agreement with American Axle & Manufacturing, Inc. ("AAM International") with respect to the joint establishment of Liuzhou AAM Automotive Transmission System Co., Ltd. ("AAMJV"), which shall be owned as to 50% by Wuling Industrial and 50% by AAM International pursuant to the joint venture agreement, for the purpose of engaging in the development, manufacture and sales of driveline products business, which includes the independent drive axles, propshafts and other driveline products, driveheads for high-end Salisbury axles or banjo axles, e-drive units for new energy vehicles, and other driveline components for motor vehicles. Wuling Industrial considers the co-operation with AAM International will enable faster improvement in the processing technique of vehicle axles to meet the requirements of medium-end and high-end passenger vehicles, from which the joint venture company could serve as a platform to co-operate on and operate vertical rear axles, transmission axles and other business, furthering the technology development of vehicle axle products. In accordance with the joint venture agreement, Wuling Industrial and AAM International will each contribute cash in the amount of RMB69,000,000 to AAMJV. AAMJV has been formally established in July 2018, which will occupy the highly-automated "Smart Factory" under the third phase development of the Liudong Facilities for its operation. During the year ended 31 December 2018, AAMJV recorded a pre-operating loss of RMB5,068,000, in which a loss of RMB2,534,000 was attributable to the Group.

Financial Review

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Group's total revenue for the year ended 31 December 2018 was RMB15,120,119,000, representing a decrease of 6.2% as compared to previous year. The decrease was mainly attributable to a substantial reduction in the volume of businesses of the engines and related parts division. As mentioned earlier, owing to the shift of the marketing focus of the major customer in intensively promoting the vehicle models installed with their in-house produced 1.5T engine (Capacity 1.5L), purchase volume of our Group supplied NP18 model experienced a drastic decrease during the year, which resulted in a substantial decrease in the revenue of the engines and related parts division for the year. Meanwhile, Revenue from the automotive components and other industrial services division also registered a moderate decrease due to a general slowdown of the automobile industry in China during the year and the shift of certain automotive components businesses (i.e. the car seat and the automotive interior parts and accessories products) to the joint venture companies formed with Faurecia Group, which commenced operations during the year. At the same time, benefited from the continuous launches of new models and the proactive marketing programmes, revenue from the specialized vehicles division continued to grow steadily.

Gross profit for the year under review was RMB1,282,825,000, representing a decrease of 20.0%. Apart from the decrease in revenue of the engines and related parts division and the automotive components and other industrial services division, profitability was also adversely affected by the relatively low gross profit margins of certain component products (of which their respective selling prices were fixed, whereas, the prevailing prices of raw material (especially steel) was relatively high) and the operating losses incurred in the production plant in Indonesia. For the year ended 31 December 2018, Group's gross profit margin eased to 8.5% as compared to the 9.9% as recorded in previous year.

The adverse impact from the decline in gross profit margin was however slightly alleviated by a decrease in the general and administrative expenses and the research and development expenses of the Group due to certain tightening cost control and strategic measures. Taking into account of an income tax credit of RMB4,461,000 resulting from the reversal of overprovision in prior years, net profit of the Group for the year ended 31 December 2018 was RMB125,195,000, representing a decrease of 55.6% as compared to previous year.

Profit attributable to the owners of the Company was RMB70,673,000, representing a decrease of approximately 59.2%, while profit attributable to the owners of the Company netting off of the related effective interest expenses incurred, the related foreign exchange loss and the effect of changes in fair value from the convertible loan notes for the purpose of computation of the earnings per share on a fully diluted basis, was RMB65,687,000, representing a decrease of approximately 51.5% as compared to previous year.

Other income comprised primarily bank interest income, sales of scrap materials and parts, government subsidies, rental income and other services income was in aggregate RMB162,115,000 for the year ended 31 December 2018, representing an increase of 14.7% as compared to previous year due to increases of sales of scrap materials, interest income, rental income and government grants.

Other gains and losses amounted to a net gain of RMB48,490,000 for the year ended 31 December 2018, which comprised primarily net gain on disposals of certain property, plant and machinery amounting to RMB12,820,000, the reversal of impairment amounting to RMB8,000,000 on investments in joint venture company, Guangxi Weixiang, the effect of changes in fair value on the convertible loan notes amounting to RMB50,193,000 and the exchange losses on the foreign currency position of the Group amounting to RMB18,108,000 which were arisen primarily from the Hong Kong dollars convertible loan notes and certain foreign currency bank borrowings.

Share of results of joint ventures registered an aggregate net losses of RMB1,650,000 for the year ended 31 December 2018 primarily attributable to the net operating profits of Guangxi Weixiang which operations had been gradually recovered since the second half of 2017. Meanwhile, Liuzhou Lingte and AMMJV were both incurred net operating losses in their initial stage of operations.

Share of result of associates contributed mainly from the net operating profits attributable to the two joint venture companies formed with the Faurecia Group, namely FL Seating and FL Interior. These two joint venture companies were able to register a good start by delivering sets of solid operating results in their first year of operation due to the smooth transfer of facilities and manpower for kick starting their operations.

Selling and distribution costs of the Group comprised primarily transportation costs, warranty expenses and other marketing expenses were reduced to RMB244,103,000 for the year ended 31 December 2018, representing a decrease of 10.9% as compared to previous year which was in line with the decrease in revenue.

General and administrative expenses of the Group comprised primarily salary and allowances, various insurance expenses, rental expenses and other administrative expenses were in aggregate RMB872,377,000 for the year ended 31 December 2018, representing a slight increase of 1.9% as compared to previous year due to an increase of depreciation charges. Facing the tough and highly competitive business environment, the Group had implemented various cost control measures in containing the general and administrative expenses of the Group aiming at alleviating the adverse impact from a tightening gross profit margin and promoting competitiveness and efficiency.

Research and development expenses for the year ended 31 December 2018 amounted to RMB140,599,000, representing a decrease of 13.3% as compared to previous year. The strategic move of expanding and pursuing future business activities through the formation of joint venture companies with prominent enterprises helped to reduce the significant research and development expenses of the Group. The Group will continue to prudently carry out research and development projects in accordance with the strategic plan in furthering its future business opportunities.

Finance costs for the year ended 31 December 2018 amounted to RMB133,105,000, representing a decrease of 8.3% as compared to previous year, which amount had included the finance cost of RMB35,407,000 incurred for the convertible loan notes issued by the Company, calculated on the effective interest rates method.

Basic earnings per share for the year ended 31 December 2018 was RMB3.45 cents, representing a decrease of approximately 63.4% as compared to previous year. Apart from the decrease in the profit attributable to the owners of the Company, the decrease was also partly due to the increase in the number of issued shares subsequent to the conversion of the convertible loan notes of the Company in December 2017.

Earnings per share on fully diluted basis, in which the adjustments in relation to the potential issue of additional shares of the Company on conversion of the outstanding convertible loan notes had been accounted for, was RMB2.73 cents, representing a decrease of approximately 55.9%.

Consolidated Statement of Financial Position

As at 31 December 2018, total assets and total liabilities of the Group stood at RMB13,127,161,000 and RMB10,648,312,000 respectively.

Non-current assets amounted to RMB4,548,127,000 comprised mainly property, plant and equipment, prepaid lease payments, deposits paid for acquisition of property, plant and equipment, interests in joint ventures and associates, etc., which were increased as compared to previous year due to the capital expenditures of approximately RMB911,772,000 incurred in this year in relation to the acquisition cost of plant and machinery, construction in progress, prepaid lease payments, RMB150,000,000 of the cost of investment in an associate and approximately RMB24,779,000 of the cost of investment in joint ventures.

Current assets amounted to RMB8,579,034,000 comprised mainly inventories of RMB943,230,000, trade and other receivables of RMB3,567,957,000, bills receivables at fair value through other comprehensive income of RMB2,070,542,000 (inclusive of bills receivables discounted with recourse but not yet matured amounting to RMB1,129,660,000), pledged bank deposits of RMB1,014,768,000 and bank balances and cash of RMB974,697,000. Amount due from SGMW, a related company and a key customer in the engines and automotive components businesses of the Group amounted to RMB1,617,496,000 was recorded as trade and other receivables in the consolidated statement of financial position. These receivables balances were subject to normal commercial settlement terms.

Current liabilities amounted to RMB10,122,551,000, comprised mainly trade and other payables of RMB8,082,910,000, contract liabilities of RMB222,082,000, provision for warranty of RMB119,290,000, tax payable of RMB52,701,000, derivative financial instrument in relation to the convertible loan notes issued by the Company of RMB1,224,000, current portion of the convertible loan notes of RMB8,784,000, financial liability at fair value through profit or loss of RMB1,475,000, bank borrowings — due within one year of RMB491,779,000 and advances drawn on bills receivables discounted with recourse of RMB1,142,306,000. The corresponding bills receivables discounted with recourse to these advances amounting to RMB1,129,660,000 were recorded as trade and other receivables which would be offset against upon maturity.

The Group recorded net current liabilities of RMB1,543,517,000 as at 31 December 2018, which had been increased as compared to the net current liabilities of RMB1,356,534,000 as at 31 December 2017 as a result of the substantial capital expenditure incurred during the year.

Non-current liabilities amounted to RMB525,761,000 comprised mainly bank borrowings — due after one year of RMB268,000,000, convertible loan notes of RMB170,721,000, contract liabilities (which was previously recorded as deferred income) of RMB13,872,000, deferred tax liability of RMB23,168,000 and amount due to an associate of RMB50,000,000.

Liquidity and Capital Structure

During the year ended 31 December 2018, the operating and investing activities of the Group were mainly satisfied by the financing activities of the Group through the drawdown of bank borrowings and the bill receivables discounted.

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 2018, total bank balances and cash maintained by the Group amounted to RMB974,697,000. Besides, pledged bank deposits amounting to RMB1,014,768,000 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 RMB759,779,000 as at 31 December 2018, which were increased moderately since last year to serve as an alternative source of finance, which included a lower interest rate foreign currency one year term loan amounting to US$50,000,000. The Group had entered into appropriate forward contract to hedge against the currency risk of this foreign currency bank loan. Meanwhile, to strengthen the liquidity position of the Group, a three year installment bank loan of an amount of RMB400,000,000 was also drawn down during the year in which RMB132,000,000 will be repayable within one year.

As at 31 December 2018, the outstanding advances drawn on bill receivables discounted with resource were RMB1,142,306,000 which were increased during the year. The corresponding bill receivables discounted with recourse to these advances amounting to RMB1,129,660,000 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 number 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 2018, 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 (Hong Kong) Holdings Limited ("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 2018 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 2018, 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.

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 RMB1,443,639,000 as at 31 December 2018. Net asset value per share was approximately RMB70.4 cents as at 31 December 2018.

DIVIDEND

The Directors recommended the payment of a final dividend of HKD0.5 cent per ordinary share of the Company (the "Share(s)") for the year ended 31 December 2018 (the "Final Dividend") (2017: HKD 1.25 cents) to the shareholders of the Company (the "Shareholder(s)"), whose names shall be on the register of members of the Company on 27 June 2019, amounting to approximately HKD10,251,000 (equivalent to approximately RMB9,005,000), subject to the approval by the Shareholders in the forthcoming annual general meeting of the Company to be held on Friday, 14 June 2019 (the "2019 AGM"), dividend warrants of the Final Dividend will be dispatched to shareholders of the Company on or before 31 July 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 11 June 2019 to Friday, 14 June 2019 (both dates inclusive), for the purpose of determining the Shareholders' eligibility to attend and vote at the 2019 AGM and during which period no transfer of the Shares will be effected. In order to qualify for attendance of the 2019 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, 10 June 2019. The time and venue of the 2019 AGM will be advised in due course.

The register of members of the Company will be closed from Monday, 24 June 2019 to Thursday, 27 June 2019 (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 Friday, 21 June 2019.

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 2018 (2017: 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 2018, 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 2018 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 2018 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 2018 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 consolidated financial statements for the year ended 31 December 2018. 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 2018 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), Ms. Liu Yaling, Mr. Yang Jianyong and Mr. Wang Zhengtong 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 2019