俊山五菱汽車集團有限公司

DRAGON HILL WULING AUTOMOBILE HOLDINGS LIMITED

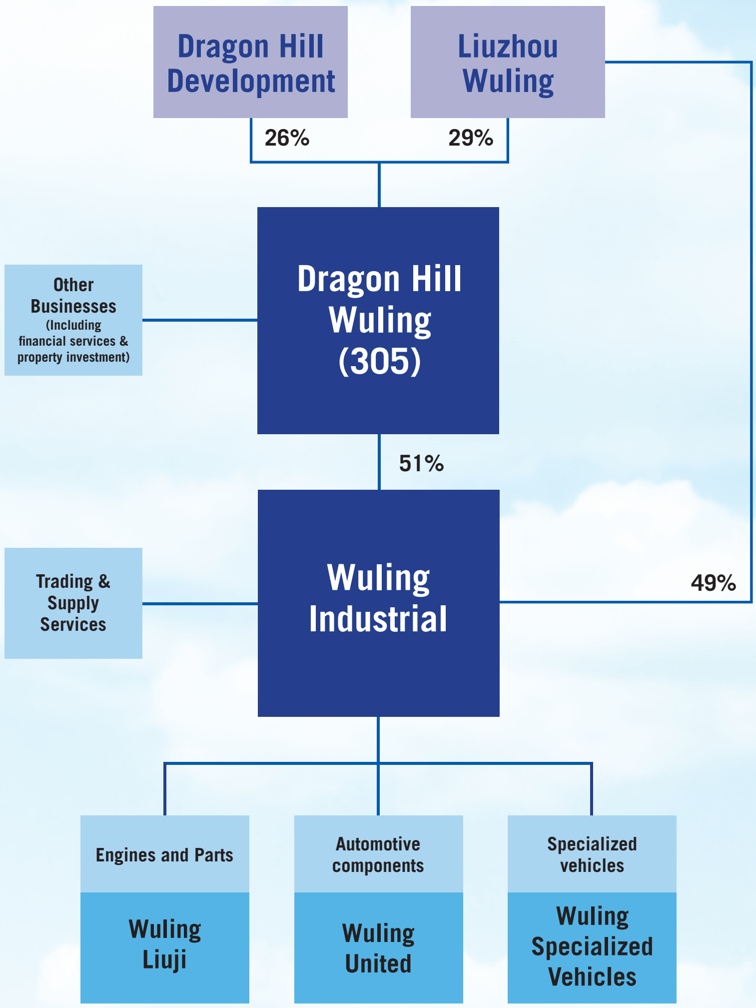
Annual Report 2009

AIMING STRONG

Stock Code: 305

Contents

Group Structure



Engines and Parts

Liuzhou Wuling Liuji Motors Company Limited (“Wuling Liuji”)

- Mainly produces engines and parts for use by mini-vehicles
- Products awarded as “King of Mini-vehicles Engines”
- Annual sale volume in 2009 exceeded 600,000 sets
- Increasing sale volume to new customers

Automotive Components

Liuzhou Wuling Motors United Development Company Limited (“Wuling United”)

- Consists of six specialized facilities which include the car axle factory, the brake factory, the plastic injection factory, the welding parts factory, the car seat factory and the automotive accessories factory
- Products cover 23 main modules with hundreds of standard type of products
- Annual sale volume in 2009 exceeded 1,000,000 units/sets
- Production facilities mainly located in Liuzhou and Qingdao

Specialized Vehicles

Liuzhou Wuling Specialized Vehicles Manufacturing Company Limited (“Wuling Specialized Vehicles”)

- Production of over 100 different types of specialized vehicles, such as multi-purpose mini-van, sightseeing bus, golf cart, electrical truck, electrical community car, police car, mini fire engine, postal van, ambulance, mini-container wagon and refrigerator vehicle etc
- The first qualified enterprise in China for manufacturing electrical truck
- Sale volume increased by 50% in 2009 and reached 30,000

Trading and Supply Services

Liuzhou Wuling Motors Industrial Company Limited (“Wuling Industrial”)

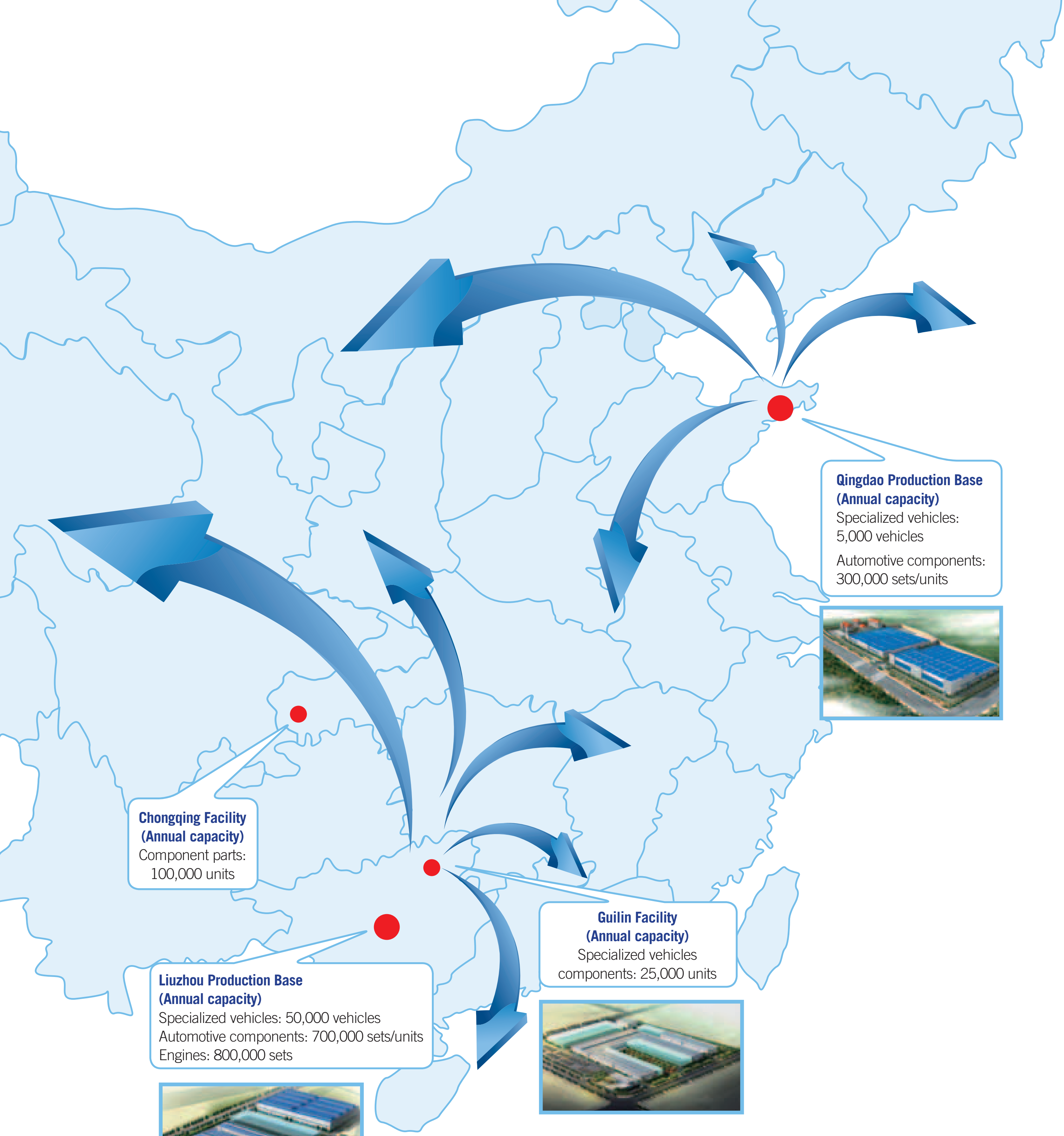
- Holding company of Wuling Liuji, Wuling United and Wuling Specialized Vehicles
- Provision of centralized procurement services to the group companies, customers and suppliers for the supply of raw materials, water and power
- Enhancement of efficiency and competitiveness of the group companies, especially the 3 main manufacturing divisions

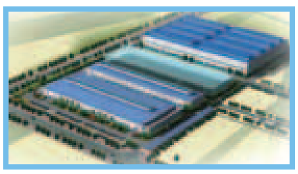
Corporate Profile

Dragon Hill Wuling Automobile Holdings Limited is principally engaged in the businesses of trading and manufacturing of automotive components, engines and specialized vehicles in China. Partnered with Liuzhou Wuling Motors Company Limited, a reputable state-owned enterprise with extensive industry experiences, our Group's corporate goal is to grasp the tremendous business opportunities arising from the rapidly growing automobile industry in China. The Group is the leading commercial-type mini-vehicle's engines and automotive components manufacturer in China with production facilities mainly located in Liuzhou and Qingdao.

Location of Production Facilities

Group's manufacturing operations are currently supported by the two key production bases located in Liuzhou and Qingdao and two production facilities located in Guilin and Chongqing





2009 Review of Major Events

- Achieved RMB 9.8 billion yearly turnover under the development strategy of "Sustain Growth with the Grip of the Market and Project" and favourable market condition

- Launch of new products include: Wuling Weiwei, Wuling mini bus, Wuling electrical community car, Wuling mini electrical truck, Wuling mini fire engine, LJ474Q3E2 engine, 2Z-430 seeding machine, 1Z-31A mini planting machine, registererd with a number of national patents.

- "Wuling" brand recognized as the "Top 500 Most Valuable Brands in China". LJ462QE1 , LJ465QE1, and others in total 10 products marketed under "Liuji" brand recognized as the "Famous Brand in Guangxi".

- Wuling Specialized Vehicles achieved annual growth rate of 50% and sold 30,000 vehicles, becoming one of the leading specialized vehicles manufacturer in China.

- In December, Wuling Specialized Vehicles completed its production facilities expansion project in Liuzhou and achieved annual capacity of 50,000 vehicles. Specialized vehicles production project in Qingdao was also endorsed with a planned capacity of 5,000 vehicles a year.

- Wuling United achieved yearly sale volume of 1,000,000 sets with core production capacity of 1,000,000 sets (700,000 in Liuzhou and 300,000 in Qingdao). Chongqing facility commenced operation with annual capacity of 100,000 sets of key components for chassis.

- Wuling United ranked number 8 of the "Top 50 Automotive Components Enterprise in China" and number 166 of the "Top 500 Machinery Enterprise in China".

- Based on the development strategy of "Two Cores Two Assists, Growth by Diversification", Wuling Liuji commenced construction of the new foundry plant of engine cylinders with a capacity of 600,000 sets, in which the crank axes foundry line was completed and started operational.

- Wuling Industrial became the first qualified enterprise in China for producing electrical mini-truck and the first qualified enterprise in Guangxi for producing new energy vehicle.

- On 28 December, Wuling Industrial held ceremony for the release of new energy vehicle, where production of the two proprietary Wuling electrical mini-truck and Wuling community car were formally launched.


WINNER







Chairman's Statement

2009 is an encouraging year for the China automobile industry.

China automobile industry experienced a rapid growth where total sale volume reached 13,600,000 vehicles for full year. In term of the number, this year marked the first time for China in surpassing the United States to become the number one vehicles consumption country in the world.

From the macro perspective, back by active fiscal and appropriate expansionary monetary policies, and the implementation of favourable measures towards the automobile industry such as the "Automobile Industry Rejuvenation Programme" and the "Rural Subsidy Policy", etc, the tremendous consumption power in the local market was thereby released. Buoyed by this market condition and the conscientious effort of our staff members, Group's turnover continued to increase. During the year, a record turnover of RMB 9,888,856,000 was achieved, representing an impressive increase of 39% as compared to last year.

Meanwhile, our Group's principal subsidiary, Liuzhou Wuling Motors Industrial Company Limited ("Wuling Industrial"), pledged with our persistent corporate principles of innovation and excellence, focused on the development of new products. By end of last year, through its subsidiary, Wuling Industrial became the first qualified enterprise to manufacture new energy truck in China, which is also the first qualified enterprise in Guangxi for new energy vehicles. This essentially represented a major step of the Group in pursuing the great potential new energy vehicle market segment.

Internally, the Company will focus on promoting the spirit of "Unity, Efficiency and Harmony" among our management and the establishment of the strategy of "Refining Structure, Launching New Products and Grasping Market Opportunities", in pursuit of continuous growth. Based on market research, our perspective of the macro national policies and the study of the track record of those prosperous overseas automobile markets, the Group realizes growth in the local economy will cause customers' needs to be more demanding in the individual automobile segment market. For the individual automobile segment market, the Group believes our high variety features of our car assembly division will enhance our competitive strength. Our mini public van, new energy vehicles and mini fire engines products are necessarily the products having such advantages.

Looking forward, apart from continuous investments on strengthening our product research, marketing and technical capability, enrichment of product mix, increasing production capacity and the development of core products, our car assembly division will actively pursue opportunities in the new energy vehicles segment. Through development of products with own proprietary or in co-operation with other enterprises, the Group wishes to grow rapidly its car assembly business by enhancing its capability for the mini-van, new energy vehicle and leisure-type vehicle, and by better control over the technical know-how for the new energy car assembly and electricity supply system businesses. Meanwhile, to facilitate better preparation for entering into the passenger vehicles market segment, capability of our automotive components division will be gradually upgraded to the standard as required for the passenger vehicles through development of core components and our research ability. For the engine business, the Group will keep at enhancing its research and production ability of engines by applying the advance local and overseas technical know-how, and to explore opportunities from new customers in promoting a solid development.

Considering possible fluctuation in the market prices of raw materials may cause uncertainties in the cost control programmes in the coming years, the Group will actively implement measures through better communication with suppliers and customers for sharing risks, reducing costs as well as to improve efficiency, such that the Group's products can stay competitive in this challenging market environment.

To cope with the needs arising from business expansion, in January 2009, when the sentiment in the capital market was yet to improve, the Company issued convertible loan notes with an aggregate value of HK$100,000,000 to Liuzhou Wuling Motors Company Limited ("Liuzhou Wuling"), our substantial shareholder. Subsequent to year end, the Company undertook fund raising activities by issue of new shares, in which Liuzhou Wuling had also been actively participated. The active participation of Liuzhou Wuling in these two fund raising activities essentially demonstrated its support to the Group. The Company views the active support and participation from Liuzhou Wuling as the cornerstone to the future growth and development.

On the back of our well established industry foundation, the comprehensive strength of our business divisions, our stable and harmonious workforce and our determined long term growth strategy, we firmly believe the business performance of the Group will continue to grow and will bring promising return to our shareholders and investors.

Mr. SUN Shaoli
Chairman
26 April 2010

We treasure our team

Harmony

and believe this is the core values of our
corporation that has to be preserved throughout the stage of development

We emphasize our enterprise

Performance

and believe this is the ultimate benchmark of success of our corporate growth strategy


Total Assets

We contemplate our corporate

Strategy

and believe this is the fundamental
means to drive us forward in this challenging business environment


PLUG-IN

Report of the CEO

In 2009, facing the possible adversities which may arise from the financial tsunami happened to the leading financial markets of the world, the Chinese government implemented comprehensive stimulus programs to boost the local economy in China. Policies favourable to the China automobile industry were included in the programs and had effectively stimulated local demands of our customers' products in the year 2009, which in turn benefited the Group with an impressive growth in revenue. During the year, the Group recorded total revenue of RMB 9,888,856,000, representing a significant 39% increase as compared to last year.

Meanwhile, gross profits for the year under review was RMB 871,899,000, representing a 12.9% increase as compared to last year. This lower increase rate was mainly due to the impact of certain undesirable factors caused by a sudden surge in demands coupled with the initial stage operations of certain new facilities of the Group in the year, which drove up cost of production in these facilities.

Taking into account of the loss on fair value adjustment of RMB 65,684,000 relating to the convertible loan note issued by the Company in January 2009 for the purpose of financing the capital injection to Wuling Industrial, the Group recorded net profits of RMB 108,619,000 for the year and a loss attributable to equity holders for the year of RMB 21,928,000.

On the basis of the exclusion of the aforementioned fair value adjustment, net profits and profit attributable to equity holders will be adjusted to RMB 174,303,000 and RMB 43,756,000 respectively, representing respective increases of 27.3% and 34% as compared to last year's results.

On 12 January 2009, the Company issued a convertible note with principal amount of HK$100,000,000 to a substantial shareholder, Wuling (Hong Kong) Holdings Limited ("Wuling HK"), a wholly owned subsidiary of Liuzhou Wuling Motors Company Limited ("Liuzhou Wuling") which bears interest at 6% per annum. Net proceeds amounting to approximately HK$99,000,000 from the issue had been injected into Wuling Industrial subsequently for providing additional working capital for its operations. Subsequent to this capital injection, the percentage of the paid up capital of the Company in Wuling Industrial was increased from 17.2% to 30.5%, which was used as the basis to calculate the profits or loss attributable to the equity holders for the year.

On 12 March 2010, the Company issued a total number of 84,008,000 new shares to Wuling HK and a number of third party investors at HK$0.85 per share. Net proceeds amounting to approximately HK$67,800,000 from the new issue had also been injected into Wuling Industrial subsequently for providing additional working capital for its operations. Subsequent to this capital injection, the percentage of the paid up capital of the Company in Wuling Industrial was further increased from 30.5% to 37.4%.

Strategies

The Board is full of confidence in the long term growth potential in China automobile industry and is determined to meet with the opportunities arisen with appropriate and effective strategies which are summarized below:

a. Technical re-engineering projects such as certain specialization programs in our engines and components divisions through the setup of the new production plants for the parts of the engine's cylinder and other automotive components, which will eventually enhance the efficiency and capability of our core operations;

b. Business expansion programs aiming at other car manufacturers in the PRC to develop a healthy diversification of businesses of our (1) engines and parts; (2) automotive components; and (3) the specialized vehicles division;

c. Various capacity expansion programs in our three main manufacturing segments including engines and parts, automotive components and specialized vehicles divisions through the setup of the new production facilities in Liuzhou and Qingdao with the objectives to enhance productivity and to increase capacity to cope with the increasing demands coming from existing and new customers;

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

e. An effective cost control program under the supervision of Wuling Industrial with the objective to contain cost of production which allows the Group together with its customers to stay highly competitive and to maintain the leading position in the market.

Outlook

The stimulus programs implemented by the government have effectively sustained the momentum of economic growth and benefit the performance of the China automobile industry. In 2009, China surpassed the United States to become the largest motor vehicles manufacturing country in the world.

In response to the encouraging market condition, most of the enterprises in the China automobile industry have optimistically stepped up their annual targets for 2010 and planned to carry out aggressive expansion programs in order to take advantages from this favourable market condition. It is generally expected that the number of vehicles sold in China will continue to increase at a remarkable pace for the year of 2010.

Whilst the short term benefits of the stimulus programs to the China automobile industry are obvious, the potential competitions which may associate with excessive capacities from the aggressive expansion programs should not be underestimated. Therefore, apart from implementing capacity expansions, the Group will continue to undertake quality after-sale services and planned technical re-engineering programs to further our product quality standard and technical capability.

Through conscientious plans and efforts of the Group, the management is confident that our long term business potential in the China automobile industry will be further strengthened.

Lee Shing
Vice-chairman and Chief Executive Officer
26 April 2010

By Business Segments – Engines and Parts

Liuzhou Wuling Liuji Motors Company Limited ("Wuling Liuji")

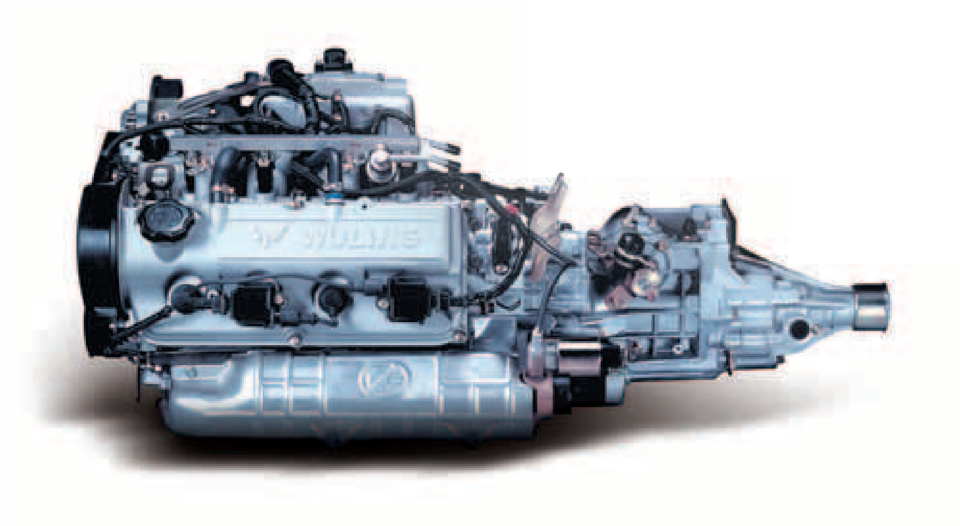
Turnover (based on external sales) of the engines and parts division for the year ended 31 December 2009 was RMB 3,214,228,000, representing an increase of 20.0 % as compared to last year. Operating profits for the year was RMB 211,454,000, representing an increase of 60.2% as compared to last year.

The engines and parts division undertaken by Wuling Liuji continued to be the major contributor to the Group's operating profits for the year 2009.

During this year, Wuling Liuji continued to deliver a set of solid results to the Group. The satisfactory results achieved by Wuling Liuji were mainly attributable to the continuous strong market demands for the main models. Total sale volume exceeded 600,000 units, a record figure in history. The significant volume growth of business of SGMW and increasing orders from other customers in 2009 benefited the business performance of this division. Besides, due to an increase in the volume of sale to other customers, percentage share of the total sale volume by SAIC GM Wuling Automobile Co., Limited ("SGMW") decreased from 90% to 85% in this year. Wuling Liuji is currently supplying its engine products to a number of motor vehicles' manufacturers including SGMW, FAW Haima, Gonow Auto, Ziyang Nanjun Auto, Beiqi Foton and Mianyang Huaxin, etc. In addition, its products have also begun to export to the overseas markets including Columbia and the United States.

Operating margin improved to 6.6% as compared to 4.9% recorded in last year, which was attributable to the improvement in gross margin resulting from scale operations and stable material costs. Meanwhile, the division incurred research and development expenses of approximately RMB 19,146,000 during the year. The research and development expenses were primarily incurred for the on-going technical development projects for new products and models which will contribute to the profitability of the division in future.

The engines produced by Wuling Liuji are mainly for the economical-typed mini-vehicles. Its products are state-designated products exempt from quality survillance inspection and awarded as the "King



of Mini Vehicles Engines". As the largest mini-vehicles' engines manufacturer in China, in term of sale volume, Wuling Liuji has been the leading enterprise in China for a consecutive of 4 years. In addition, its "LJ" model has also been recognized as a reputable trademark in the Guangxi Province during the year. These products have been properly serviced and supported by approximately 280 after sale service centers across 8 main regions in China.

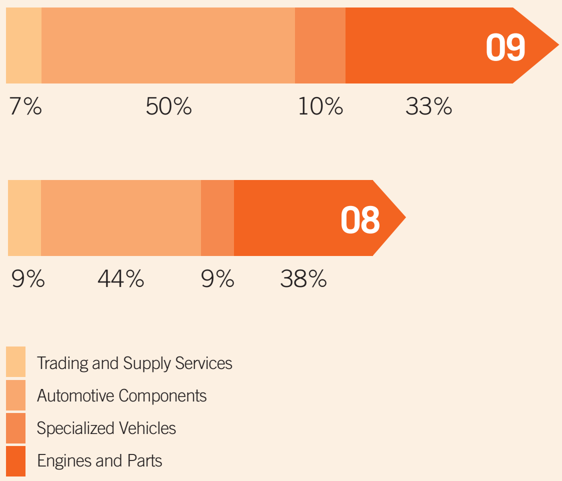
The factories of Wuling Liuji currently occupy a total floor area of nearly 1,000,000 sqm., with a total workforce of approximately 1,840 as at the end of 2009 in which over 310 are technical and management staff. Total production capacity for the assembly functions at present is about 800,000 units a year.

The new production line for the nonferrous metallic parts for the engine's cylinder, which commenced operation last year, had begun to contribute to the business performance of this division. The parts produced by this new production line were primarily applied for the existing models of SGMW. Following the completion of this nonferrous metallic parts project, the Group started another re-engineering project on the foundry of cylinder block and cylinder head further strengthen its capability in the engines business with a targeted capacity of 600,000 units, which is planned to be completed by stage in next 2 years.

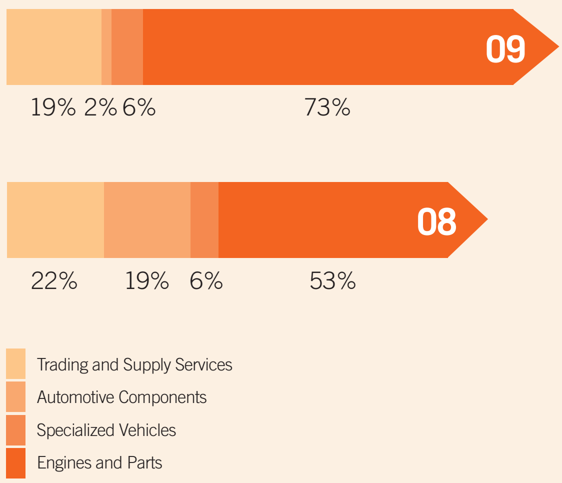
During the year, Wuling Liuji successfully expanded its businesses to other automobile manufactures. Approximately 15% of the total sale volume in 2009 was originated from customers other than SGMW. Meanwhile, the launches of new products such as the generators and the agricultural machinery will also bring in new business opportunities to the division. This strategy, which aims at promoting a more diversified portfolio of products and customers, will further the long term business potential of this division.

The Group expects the strong market demands for SGMW and other customers' models will continue in 2010 which will benefit the business performance in this division.

Turnover



Operating profit



By Business Segments –
Automotive Components

Liuzhou Wuling Motors United Development Limited ("Wuling United")

Turnover (based on external sales) of the automotive components division for the year ended 31 December 2009 was RMB 5,049,408,000, representing a significant increase of 60.6% as compared to last year. Operating profits for the year was RMB 4,742,000.

The automotive components division undertaken by Wuling United experienced a strong growth in revenue in the year 2009 and continued to be the largest contributor to the total revenue of the Group. Wuling United currently operates the largest manufacturing base of automotive components in the south-western part of China and is recognized as the Top 100 Automotive Components Enterprise in China in term of its comprehensive strength of competitiveness.

During this year, Wuling United, being the key supplier supplying a majority portion of the key automotive components to SGMW, registered a successive year of record revenue. This remarkable result was mainly attributable to the continuous strong market demands for the vehicles produced by SGMW. Total sale volume exceeded 1,000,000 units/sets, representing an increase of over 60% as compared to last year, in which sales to SGMW accounted for more than 95% of the total turnover.

Profitability performance was, on the other hand, adversely affected by the loss making situation of the Qingdao factory caused by a sudden surge in demands and the initial stage operations of this new facility which resulted in an undesirable higher cost of production and additional transportation cost.

To cope with the tremendous increases in demands from SGMW, production facilities of the automotive components division were required to be operated at above full capacity level during this year. This overloaded operating environment was in particular undesirable for the new facility in Qingdao, which incurred additional transportation cost and drove up the cost of production, had resulted in a loss making situation in this new plant for the year 2009. With the installation of additional plant and machinery and better operation stability, such undesirable condition has gradually been improved.

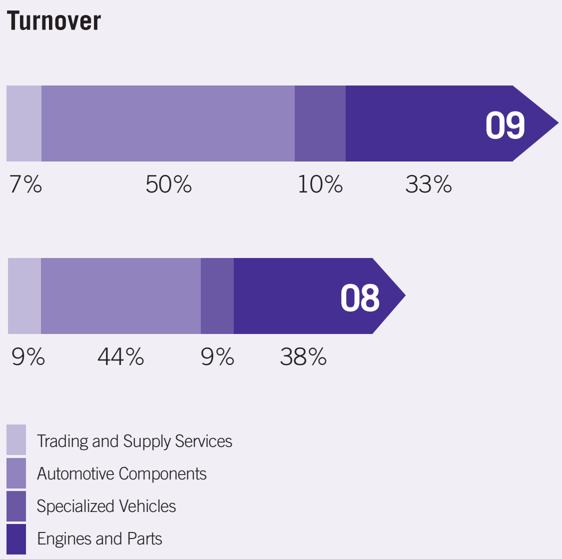
Wuling United operates six specialized facilities which cover the brake, the chassis assembly, automotive accessories, plastic components, welding parts and the seat sets. Its main facilities are

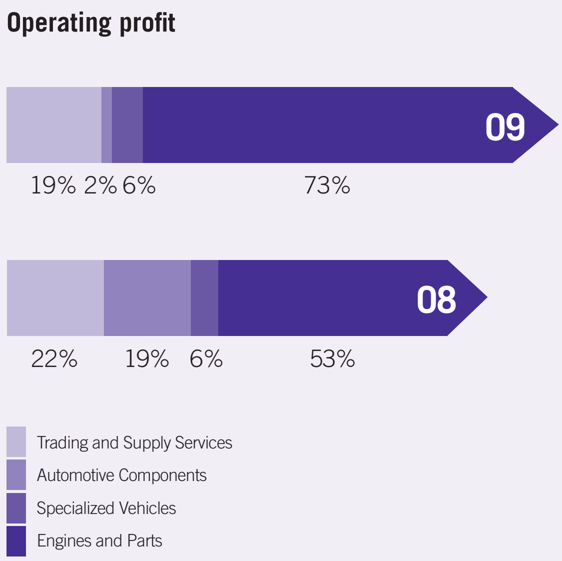
located in Liuzhou and Qingdao which ensure closer proximity to the customer's needs in both the northern and southern part of China. Wuling United supplies a wide range of products which currently comprises twenty-three main modules with hundreds of standard type of products including the main assembly parts of the chassis such as the front suspension, the rear brake swing arm and the brake system, the plastic injection molded parts, other metal stamping and welded parts, seat sets and other automotive accessories, etc. Total capacity at present has exceeded 1,000,000 units/sets a year.

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

The factories of Wuling United currently occupy a total floor area of approximately 280,000 sqm., with a total workforce of 2,410 as at the end of 2009, in which about 570 are technical and management staff.

The Group expects the growth of business of SGMW from the existing models and the launch of new models will continue to boost the revenue of the automotive components and accessories division. At the same time, implementation of appropriate measures in lowering the cost of production of the Qingdao factory will benefit the profitability of the division for the coming years. Going forward, Wuling United will continue to actively upgrade its product standard and capability. Through the implementation of a series of enhancement projects on organization structure, quality control and production management, it is targeted that the production quality will be improved. Strategically, Wuling United will gradually shift from its original focus on supplying to the commercial-typed vehicles to the higher value-added passenger vehicles segment. Meanwhile, to pursue the long term growth potential of the enterprise, the division will continue to undertake various expansion and innovation plans as well as other flexible co-operation projects with the large multinational corporations.





By Business Segments – Specialized Vehicles

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

Turnover (based on external sales) of the specialized vehicles division for the year ended 31 December 2009 was RMB 962,324,000, representing an increase of 56.2% as compared to last year. Operating profits for the year was RMB 16,206,000, representing an increase of 14.8% as compared to last year.

Successful launch of new models continued to benefit the operations of our specialized vehicles division undertaken by Wuling Specialized Vehicles.

During this year, through active marketing and promotion programs, Wuling Specialized Vehicles sold more than 30,000 specialized vehicles, representing an impressive increase of 50% as compared to last year.

Operating margin reduced to 1.7% from 2.3% as recorded in last year as a result of a substantial increase in the distribution costs incurred for the selling of certain specialized vehicles to those provinces located far away from Liuzhou.

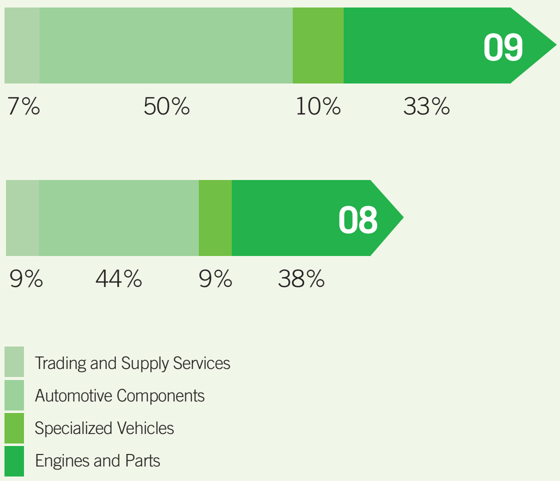
Wuling Specialized Vehicles operates a comprehensive car assembly line which covers the production processes of welding, painting and assembly. Wuling Specialized Vehicles produces more than a hundred different types of specially-designed vehicles which serves the particular needs of customers, such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

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

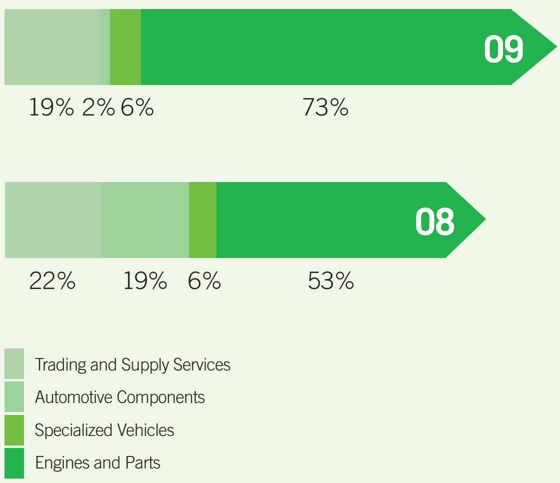
The factories of Wuling Specialized Vehicles in Liuzhou occupy a total floor area of approximately 35,000 sqm., with a total workforce of approximately 360 as at the end of 2009, in which about 90 are technical and management staff. Total capacity at present is about 50,000 vehicles a year. As mentioned above, the Group has plan to establish a new production plant in Qingdao to facilitate geographical diversification. The first phase of the new Qingdao which will start operation in the second quarter of 2010 will provide a capacity of about 5,000 vehicles a year.

Going forward, Wuling Specialized Vehicles will continue to undertake research and development projects for new product, technical and capability improvement focusing on those specialized vehicles with the "neat and smart" quality. The division will continue to consolidate its existing business and at the same time explore opportunities both locally and overseas with an innovative strategy. On the back of our basic business principle of "Supplying Favourite Vehicles to the Ordinary People", the division will diligently and aggressively pursuing opportunities in consistent with the growing pace of China automobile industry, aiming at delivering the top quality specialized vehicles to the general public consumer market.

Turnover



Operating profit



By Business Segments –
Trading and Supply Services

Liuzhou Wuling Motors Industrial Company Limited ("Wuling Industrial")

Turnover (based on external sales) of the trading and supply services division for the year ended 31 December 2009 remained stable at RMB 661,167,000. Inter-segment sales which were primarily contributed from the sales to Wuling United was RMB 3,207,521,000, representing an increase of 43.7% compared to last year. Operating profits for the year kept at RMB 53,435,000.

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

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

Headquartered in Liuzhou in the Guangxi Province and supported by a total number of 5,100 staff members (inclusive of the staff members of the three aforementioned subsidiaries), Wuling Industrial enjoys the close proximity advantage to the key customer and perform a core and effective functions to the key customer and to its subsidiaries.

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

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

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

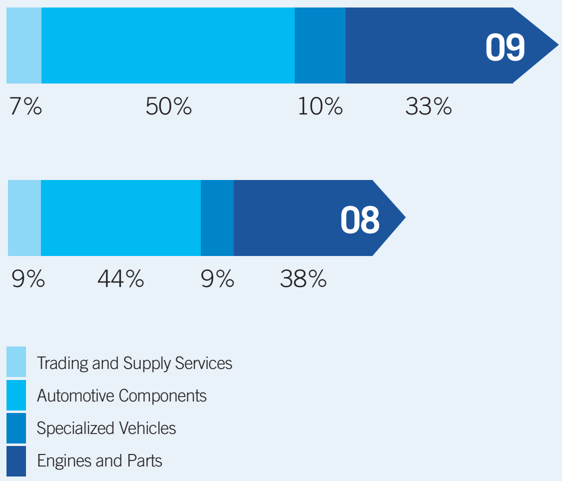
(3) to design and carry out effective procurement and resources allocation programmes to enhance efficiency and competitiveness of the group companies as well as the entities serviced by the Group in the industry.

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

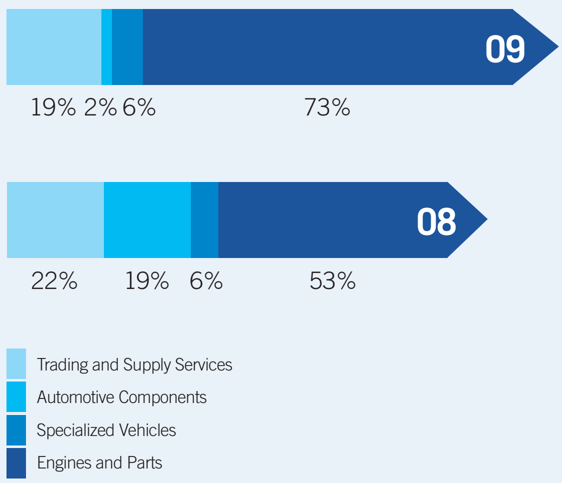
This division incurred approximately RMB 20,737,000 research and development expenses in this year. These research and development expenses were primarily incurred for certain business development projects for new products and models which will contribute to the profitability of the division in future.

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

Turnover



Operating profit



Financial Review

Statement of Comprehensive Income

Group's turnover for the year ended 31 December 2009 was RMB 9,888,856,000 representing a significant 39% increase as compared to last year which was mainly attributable to the continuous strong market demands for the vehicles produced by our key customer, SGMW, and the increasing sales of specialized vehicles on the back of the favourable policies implemented by the government during the year.

Gross profits for the year ended 31 December 2009 was RMB 871,899,000, representing a 12.9% increase as compared to last year. This was a result of certain undesirable effects caused by a sudden surge in demands and the initial stage operations of certain new facilities of the Group in the year which incurred additional transportation costs and drove up the cost of production for this operation. Accordingly, gross margin of the Group was slightly declined to 8.8% in this year. The single digit gross margin condition was also a reflection of the keen competition environment in the automobile industry in China.

Taking into account of the loss on fair value adjustment of RMB 65,684,000 relating to the convertible notes issued by the Company in January 2009 for the purpose of financing the capital injection to Wuling Industrial, the Group recorded net profits of RMB 108,619,000 and a loss attributable to equity holders of RMB 21,928,000.

On the basis of the exclusion of the aforementioned fair value adjustment, net profits and profit attributable to equity holders will be adjusted to RMB 174,303,000 and RMB 43,756,000 respectively, representing respective increases of 27.3% and 34.0% as compared to last year.

On 12 January 2009, the Company issued a convertible loan note with principal amount of HK$100,000,000 to a substantial shareholder, Wuling HK, which bears interest at 6% per annum. Net proceeds amounting to approximately HK$99,000,000 from the issue had been injected into Wuling Industrial subsequently for providing additional working capital for its operations.

Subsequent to this capital injection, the percentage of the paid up capital of the Company in Wuling Industrial was increased from 17.2% to 30.5%, which was used as the basis to calculate the profits or loss attributable to the equity holders for the year 2009.

Other income comprised primarily sales of scrap materials, bank interest income and gain on disposal of the Group's certain properties in Hong Kong was in aggregate RMB 84,758,000 for the year ended 31 December 2009, which was stable as compared to last year. The decrease in the sale values of scrap materials was compensated by the increases in other income items.

Distribution costs comprised primarily transportation costs, warranty expenses and other marketing expenses was in aggregate RMB 256,309,000 for the year ended 31 December 2009, representing an increase of 36.9%, which was in line with the increase in turnover. Besides, the increase was also attributable to the significant increase in the transportation cost incurred by the automotive components and specialized vehicles division as abovementioned.

General and administrative expenses of the Group comprised primarily salary and allowances, various insurance expenses, rental expenses and other administrative expenses was in aggregate RMB 447,800,000 for the year ended 31 December 2009, representing a slight decrease of 3.3% as compared to last year.

Research and development expenses for the year ended 31 December 2009 amounted to RMB 42,735,000. Research and development expenses were mainly for new products and continuing development of new models projects, and certain business development plans.

Finance costs for the year ended 31 December 2009 amounted to RMB 49,210,000, representing an increase of 9.3% as compared to last year. The balances included the finance cost of RMB 7,930,000 incurred for the abovementioned convertible loan note issued by the Company.

Taking into account of the loss on fair value adjustment on the convertible loan note as aforementioned, the Company recorded a loss per share of RMB 2.39 cents for the year ended 31 December 2009. On the basis of the exclusion of the aforementioned fair value adjustment, the Company will record an earnings per share for of RMB 4.77 cents for the year, representing an increase of 34% as compared to last year.

Financial Positions

As at 31 December 2009, total assets and total liabilities of the Group stood at RMB 8,574,218,000 and RMB 7,874,056,000 respectively.

Non-current assets amounted to RMB 790,850,000 comprised mainly property, plant and equipment and prepaid lease payment, etc.

Current assets amounted to RMB 7,783,368,000 comprised mainly inventory of RMB 795,689,000, trade and other receivables and bill receivables discounted with recourse of RMB 5,330,872,000, bank and cash balances (inclusive of pledged bank deposits) of RMB 1,648,178,000. Amount due from SGMW, a related company and a key customer in the engines and automotive components businesses of the Group amounted to RMB 2,490,458,000 was recorded as trade and other receivables in the balance sheet. These receivables balances were subject to normal commercial settlement terms. Total cash and bank balances amounted to RMB 1,648,178,000, in which RMB 835,653,000 were pledged bank deposits to secure the banking facilities offered to the Group. Overall, the Group had cash (excluding pledged bank deposits) net of bank borrowings amounting to RMB 574,425,000 as at 31 December 2009.

Current liabilities amounted to RMB 7,777,244,000 comprised mainly trade and other payables and advances drawn on bill receivables of RMB 6,503,052,000, amount due to related companies of RMB 826,477,000, provision for warranty of RMB 111,739,000, tax payable of RMB 26,180,000, bank borrowings – due within one year of RMB 220,566,000 and derivative financial instrument of RMB 83,861,000. Amount due to Liuzhou Wuling, a substantial shareholder of the Company and the joint venture partner of Wuling Industrial which amounted to RMB of 811,590,000 was recorded under current liabilities. The derivative financial instrument represented the fair value of the conversion option embedded in the convertible notes by an independent valuer as at 31 December 2009.

Net current assets decreased to RMB 6,124,000 as at 31 December 2009 from RMB 82,815,000 as at 31 December 2008, primarily attributable to the inclusion of the derivative financial instrument in relation to the convertible notes.

Non-current liabilities amounted to RMB 96,812,000 comprised mainly bank borrowings of RMB 17,534,000 and the liability component of the convertible notes of RMB 72,287,000.

Liquidity and Capital Structure

As at 31 December 2009, the Group maintained cash and cash equivalents of RMB 802,830,000, which was increased by RMB 206,764,000 as compared to the reporting balances as at 31 December 2008.

Group's bank borrowings increased slightly from RMB 217,316,000 as at 31 December 2008 to RMB 238,100,000 as at 31 December 2009. Apart from bank borrowings, A five-year convertible notes with maturity date on 12 January 2014 was issued by the Company to a substantial shareholder during the year for financing the capital injection in Wuling Industrial.

Overall, the Group had cash net of bank borrowings amounting to RMB 574,425,000 as at 31 December 2009.

At 31 December 2009, the Group had a gearing ratio of 34.0% calculated based on the Group's total bank borrowings and the Group's net assets, which was slightly increased as compared to the gearing ratio of 30.7% as recorded at 31 December 2008.

Issued capital was RMB 3,659,000 as at 31 December 2009 which was the same as the amount recorded on 31 December 2008.

Total shareholders' equity comprised primarily the share premium account, contributed surplus and after deducting the accumulated losses, amounted to RMB 126,087,000 as at 31 December 2009. Net asset value per share was 13.7 RMB cents as at 31 December 2009.

Pledge of assets

At 31 December 2009, the properties held by the Group in Hong Kong with an aggregate value of RMB 26,537,000 were pledged to secure the bank loans granted to Group. Besides, bank deposits amounting to RMB 835,653,000 and bills receivables discounted with recourse amounting to RMB 1,335,778,000 were pledged to the banks to secure certain banking facilities offered to the member companies of the Wuling Industrial Group

Exposure to fluctuation in exchange rates

At 31 December 2009, the Group maintained foreign currency and Hong Kong dollar bank loans of an aggregate amount of RMB 38,099,000, Hong Kong dollar bank deposits of an aggregate amount of RMB 8,626,000, foreign currency and Hong Kong dollar loan and trade receivable of RMB 2,485,000, Hong Kong dollar trade payable of RMB 9,332,000 and Hong Kong dollar convertible notes with principal values amounting to RMB 77,402,000. In comparison with the relative size of the Group's assets, liabilities and main transactions which are denominated in RMB, the Group regarded its exposure to fluctuations in exchange rates and currencies to be minimal

Commitments

At 31 December 2009, the Group has outstanding commitments, contracted but not provided for in the financial statements, in respect of the acquisitions of construction in progress and property, plant and equipment amounting to RMB 88,704,000.

Contingent liabilities

At 31 December 2009, Wuling Industrial, a subsidiary of the Company provided a corporate guarantee to a financial institution to the extent of RMB 200,000,000 in respect of revolving banking facilities granted to Liuzhou Wuling. The directors do not consider it is probable that a claim will be made against Wuling Industrial under this corporate guarantee.

Human resources and remuneration policy

At 31 December 2009, the Group had approximately 5,100 employees, including directors. Total staff costs for the year ended 31 December 2009 were approximately RMB 412,450,000. The remuneration policy was reviewed in line with the current applicable legislation, market conditions as well as the performance of the Company and the individual.

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

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

Issue of new shares subsequent to year end

On 12 March 2010, the Company issued a total number of 84,008,000 new shares to Wuling HK, a substantial shareholder, and a number of third party investors at HK$0.85 per share. Net proceeds amounting to approximately HK$67,800,000 from the new issue had also been injected into Wuling Industrial subsequently for providing additional working capital for its operations. Subsequent to this capital injection, the percentage of the paid up capital of the Company in Wuling Industrial was increased from 30.5% to 37.4%.

Supplementary notes on the sino-foreign joint venture enterprise with Liuzhou Wuling Motors Company Limited ("Liuzhou Wuling")

On 15 May 2007, the Company entered into the following agreements with Liuzhou Wuling in relation to the proposed formation of a sino-foreign joint venture enterprise for the development of the manufacturing and trading businesses of automotive engines, components and specialized vehicles in the People's Republic of China ("PRC"):

a) an agreement in relation to the increase in the registered capital of Liuzhou Wuling Motors Industrial Company Limited ("Wuling Industrial") and the subscription of 51% of the enlarged registered capital of Wuling Industrial by the Company at the total amount of RMB 391,000,000 ("Subscription Money"); and

b) a joint venture agreement in relation to the establishment of Wuling Industrial as a sino-foreign joint venture enterprise in the PRC.

According to the aforementioned agreements, the Subscription Money shall be payable by the Company in cash in two stages as follows:

i) 20% of the Subscription Money which amounts to RMB 78,200,000 will be payable within 30 days from the set up date of Wuling Industrial as a sino-foreign joint venture enterprise ("First Subscription Money"); and

ii) the remaining 80% of the Subscription Money which amounts to RMB 312,800,000 will be payable within 2 years from the set up date of Wuling Industrial as a sino-foreign joint venture enterprise.

The proposed formation of the sino-foreign joint venture with Liuzhou Wuling has been fully stated in the Company's circular dated 25 June 2007 and was subsequently approved by the independent shareholders in the special general meeting of the Company held on 12 July 2007. On 28 August 2007, the Company further announced that the sino-foreign joint venture enterprise had been formally set up.

On 31 August 2007, the Company remitted the First Subscription Money to the designated bank account of Wuling Industrial in accordance with the aforementioned agreements, representing approximately 17.2% of the current total paid up capital of Wuling Industrial.

On 14 January 2009, utilizing the funds raised from the issue of the convertible notes as aforementioned, the Company further injected approximately RMB 87,000,000 into Wuling Industrial. Subsequent to this capital injection, the percentage of the paid up capital of the Company in Wuling Industrial was increased from 17.2% to 30.5%.

On 17 August 2009, the Company announced the delay in the payment of the outstanding Subscription Money which amounted to approximately RMB 225,800,000, in which the Company, Liuzhou Wuling and Wuling Industrial were in the process of negotiation due to the fact that more time is required for the Company to arrange for the fund raising activities for the purpose of financing the payment of the outstanding balances.

On 12 March 2010, the Company issued a total number of 84,008,000 new shares to Wuling HK, a substantial shareholder, and a number of third party investors at HK$0.85 per share. Net proceeds amounting to approximately HK$67,800,000 from the new issue had been injected into Wuling Industrial subsequently for providing additional working capital for its operations. Subsequent to this capital injection, the percentage of the paid up capital of the Company in Wuling Industrial was increased from 30.5% to 37.4%.

On 12 March 2010, the Company further announced that the balance of the outstanding Subscription Money which amounts to approximately RMB 166,300,000 will be financed by the Company through other financial means, and the Company will make an announcement in relation thereto in compliance with the Listing Rules accordingly.

Directors' and Senior Management's Biographies

Executive Directors

Mr. SUN Shaoli

Mr. Sun, aged 54, chairman of the board of directors, was appointed as executive director on 10 September 2007. Mr. Sun obtained a master degree in business administration from Harbin Industrial University in 1988 and is a senior economist. Mr. Sun has more than 27 years' experience in the automobile manufacturing industry. Mr. Sun is currently the chairman of the board of directors of Liuzhou Wuling Motors Company Limited ("Liuzhou Wuling"), a director of each of Wuling Motors (Hong Kong) Company Limited ("Wuling Motors HK") and Wuling (Hong Kong) Holdings Limited ("Wuling Holdings (HK)"), which are direct and indirect subsidiaries of Liuzhou Wuling. Wuling Holdings (HK) is currently a substantial shareholder of the Company which is beneficially interested in approximately 29.9% of the total issued share capital of the Company. Mr. Sun is also currently the chairman of the board of directors of Liuzhou Wuling Motors Industrial Company Limited ("Wuling Industrial") and Liuzhou Wuling Liuji Motors Company Limited ("Wuling Liuji" , a subsidiary of Wuling Industrial), the former one being a joint venture formed by the Company and Liuzhou Wuling, and director of each of the Liuzhou Wuling Motors United Development Limited ("Wuling United") and Liuzhou Wuling Specialized Vehicles Manufacturing Company Limited ("Wuling Specialized Vehicles"), which are subsidiaries of Wuling Industrial. He is also the vice chairman of the board of directors of SAIC-GM-Wuling Automobile Co., Ltd. ("SGMW"), which is a joint venture formed among Shanghai Automobile Industry (Group) Company, General Motors China and Wuling.

Mr. LEE Shing

Mr. Lee, aged 52, vice-chairman of the board of directors and the chief executive officer, was appointed as executive director of the company on 22 June 2006. Mr. Lee has extensive experience in the trading and manufacturing business in Hong Kong and the PRC. Mr. Lee is also a director of Wuling Industrial. Besides, he is currently a member of the Committee of the Chinese People's Political Consultative Conference of Liuzhou, Guangxi Province , the PRC. Mr. Lee is the sole shareholder and sole director of Dragon Hill Development Limited, a substantial shareholder of the Company, and the chairman of the board of directors of Grand TG Gold Holdings Limited (Stock Code: 8299), a company listed on the GEM board of The Stock Exchange of Hong Kong Limited.

Mr WEI Hongwen

Mr. Wei, aged 47, was appointed as executive director of the Company on 10 September 2007. Mr. Wei obtained a master degree in economics from Sun Yat-Sen University in 1995 and is a professor level senior engineer. Mr. Wei has more than 27 years of experience in the automobile manufacturing industry. He is currently a director and the general manager of Wuling Industrial, our principal subsidiary, and the chairman of the board of directors of Wuling United and Wuling Specialized Vehicles. Mr. Wei is in charge of the daily operations of our specialized vehicles, automotive engines and components manufacturing business. Mr. Wei is also a director of Liuzhou Wuling, Wuling Motors HK and Wuling Holdings (HK), all of them substantial shareholders of the Company, Mr. Wei is also a director of SGMW.

Ms. LIU Yaling

Ms. Liu, aged 34, was appointed as executive director of the Company on 22 June 2006. Ms. Liu has a post graduate education background. She is a qualified accountant in the PRC specializing in financial management. Ms. Liu gains her working experience in the automobile manufacturing industry and has approximately 11 years of experience in the finance and accounting profession in the PRC. Ms. Liu is a member of the International Association of Registered Financial Planners and an associate member of the Institute of Financial Accountants .

Mr. ZHOU Sheji

Mr. Zhou, aged 52, was appointed as executive director of the Company on 10 October 2008. Mr. Zhou holds a bachelor degree in mechanical engineering and a master degree in business administration. Mr. Zhou has more than 21 years of experience in the management of various large-scale projects in China ranging from transportation systems, hotel and information technology projects. He is currently a vice general manager of Wuling Industrial, our principal subsidiary. Mr. Zhou is the sole shareholder and sole director of Gao Bao Development Limited, which has beneficial interests in the Company.

Mr. ZHONG Xianhua

Mr. Zhong, aged 51,was appointed as executive director of the Company on 4 January 2010. Mr. Zhong is currently a director of Wuling Industrial, our principal subsidiary and the vice general manager of Liuzhou Wuling, a substantial shareholder of the Company. Mr. Zhong graduated from Hunan University majoring in mesoporphyrin protection. His profession is senior engineer and has over 22 years of extensive experience in the production, marketing and corporate management of the automotive components industry.

Independent Non-executive Directors

Mr. YU Xiumin

Mr. Yu, aged 49, was appointed as independent non-executive director of the Company on 22 June 2006. Mr. Yu holds a doctorate degree in engineering and has extensive experiences in the research and teaching aspects of the automobile engineering. Mr. Yu is currently a member of the Audit Committee and the Remuneration Committee.

Mr. ZUO Duofu

Mr. Zuo, aged 66, was appointed as independent non-executive director of the Company on 22 June 2006. Mr. Zuo graduated from Department of Journalism of Jinan University. Mr. Zuo has over 26 years of experience in the media industry in the PRC. He is currently a representative of Congress of Writers' Representatives in Guangdong and a member of president group of Guangdong Writer Association. Mr. Zuo is currently the chairman of the Remuneration Committee and a member of the Audit Committee.

Mr. YE Xiang

Mr. Ye, aged 46, was appointed as independent non-executive director of the Company on 10 October 2008. Mr. Ye is the founder and managing director of Vision Gain Capital Limited ("Vision Gain"), a company engages in the fund management and investment advisory business. Mr. Ye is a chartered financial analyst and holds a doctorate degree in finance. He has more than 14 years of experience in the monetary and finance industry and has extensive exposures in the banking and regulatory aspects. Prior to his founding of Vision Gain, Mr. Ye was the Director of China Affairs of the Securities and Futures Commission of Hong Kong. Mr. Ye is currently the chairman of the Audit Committee and a member of the Remuneration Committee.

Senior Management

Mr. LAI Shi Hong, Edward

Mr. Lai, aged 45, our Chief Financial Officer, and was appointed as company secretary of the Company on 31 January 2007. Mr. Lai is responsible for overseeing our finance, accounting and company secretarial functions. Mr. Lai has more than 22 years of experience in finance, accounting and business management. Mr. Lai graduated from the University of Hong Kong. He is currently a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales and a fellow member of the Association of Chartered Certified Accountants.

Mr. KUANG Jiazhen

Mr. Kuang, aged 57, is currently a director of Wuling Industrial, vice general manager of Wuling Liuji, our principal subsidiaries, and a director of Liuzhou Wuling, a substantial shareholder of the Company. Mr. Kuang graduated from Sun Yat-Sen University with a master degree in political economics in 1995 and is an economist. Mr. Kuang has over 41 years of extensive experience in the production, marketing and corporate management of the automotive components industry.

Mr. HUANG Zhicheng

Mr. Huang, aged 59, is currently a director of Wuling Industrial, principal subsidiary of the Company and a director of Liuzhou Wuling, a substantial shareholder of the Company. Mr. Huang graduated from Chinese People University with a master degree in investment economics in 1995 and is a senior economist. Mr. Huang has over 11 years of extensive experience in the production, marketing and corporate management of the automotive components industry.

Mr. WEI Houde

Mr. Wei, aged 56, is currently chairman of the labour union and the supervisor of Wuling Industrial and the chairman of the supervisory board of Wuling Liuji, Wuling United and Wuling Specialized Vehicles, our principal subsidiaries and the supervisor of Liuzhou Wuling, a substantial shareholder of the Company. Mr. Wei graduated from Guangxi Education University with a master degree in investment economics in 1998 and is a senior economist. Mr. Wei has over 41 years of extensive experience in the party administration and corporate management of the automotive components industry.

Mr. YUAN Zhijun

Mr. Yuan, aged 43, is currently a director of Wuling Industrial, principal subsidiary of the Company, and the vice general manager of SGMW. Mr. Yuan graduated from the Huazhong University of Science and Technology with a master degree in business administration in 2003 and is a senior economist. Mr. Yuan has over 23 years of extensive experience in the production, product design and development, human resources and corporate management of the automotive components industry.

Mr. Liu Dexiang

Mr. Liu, aged 47, is currently in charge of the human resources department of Wuling Industrial, a principal subsidiary of the Company, and is the vice general manager of Liuzhou Wuling, a substantial shareholder of the Company. Mr. Liu is a master degree graduate of the Faculty of Industrial Engineering in the Huazhong Polytechnic University. His profession is senior engineer. Mr. Liu has over 17 years of extensive experiences in production, human resources and corporate management of the automotive components industry.

Mr. Yang Jian Yong

Mr. Yang, aged 41, is currently the chief accountant of Wuling Industrial, our principal subsidiary, and is in charge of the accounting and financial management function, and is the vice general manager of Liuzhou Wuling, a substantial shareholder of the Company. Mr. Yang graduated from the Faculty of Accounting in the Central South University. Mr. Yang has been working in the accounting profession for about 20 years, and has extensive experience in cost management and the corporate financial system institutionalization aspects. Prior to his joining the Wuling Industrial, Mr. Yang was the senior finance executive controller of SGMW.

Mr. Wen Daizhi

Mr. Wen, aged 46, is currently the chief engineer of Wuling Industrial and a director and the general manager of Wuling Liuji, both of them principal subsidiaries of the Company. Mr. Wen graduated from the Engineering Thermophysics Department of Tianjin University majoring in combustion engine - internal. His profession is senior engineer. Mr. Wen has over 24 years of extensive experiences in the production, marketing and corporate management of the automotive engines industry.

Mr. LU Xiao

Mr. Lu, aged 40, is currently the vice general manager of Wuling Industrial, a principal subsidiary of the Company. Mr. Lu graduated from Nanjing Polytechnic University with a master degree in industrial engineering. His profession is engineer. Mr. Lu has over 19 years of extensive experiences in the marketing and corporate management of the automotive engines industry.

Mr. LUO Jianguo

Mr. Luo, aged 44, is currently the assistant chief engineer and the supervisor of the technical centre of Wuling Industrial and a principal subsidiary of the Company. Mr. Luo graduated from the Hunan University with a master degree in car engineering. His profession is senior engineer. Mr. Luo has over 20 years of extensive experiences in the technical and corporate management of the automotive engines industry.

Mr. WANG Xu

Mr. Wang, aged 37, is currently the general manager of Wuling United, a principal subsidiary of the Company. Mr. Wang graduated from the Guilin University of Electronics Science specializing in the computer science management and information system. His profession is engineer. Mr. Wang has over 16 years of extensive experiences in the production and corporate management of the automotive engines industry.

Mr. CHEN Xiaofeng

Mr. Chen, aged 35, is currently the acting general manager of Wuling Specialized Vehicles, a principal subsidiary of the Company. Mr. Chen graduated from the Chongqing University specializing in metal pressing and processing. His profession is engineer. Mr. Chen has over 13 years of extensive experiences in the materials purchasing, supply chain and corporate management of the automotive engines industry.

Corporate Governance Report

The board of Directors ("Board") of the Company is pleased to present this corporate governance report in the Company's annual report for the year ended 31 December 2009.

The key corporate governance principles and practices of the Company are summarized as follows:

CORPORATE GOVERNANCE PRACTICES

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

The Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), which has been revised with relevant amendments and became effective on 1 January 2009, sets out the principles of good corporate governance ("Principles") and two levels of corporate governance practices:

(a) code provisions ("Code Provisions") which listed issuers are expected to comply with and to give considered reasons for any deviation; and

(b) recommended best practices ("Recommended Best Practices") for guidance only, which listed issuers are encouraged to comply with or give considered reasons for deviation.

The Company has applied the Principles and the Code Provisions as set out in the CG Code and complied with most of the Code Provisions save for certain deviation from the Code Provisions in respect of A.2.1 which has been complied with since 4 January 2010, details of which will be explained below.

During the year, the Company regularly reviewed its corporate governance practices to ensure compliance with the CG Code.

The Company acknowledges the important role of its Board in providing effective leadership and direction to its business, and ensuring transparency and accountability of its operations.

THE BOARD

Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board takes responsibility for all major decisions of the Company including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational decisions.

The Company has arranged appropriate liability insurance coverage for the directors, which is reviewed by the Board on a regular basis.

All directors have full and timely access to all relevant information, with a view to ensure that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the senior management and the delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to the entered into of any significant transactions by the abovementioned officers.

The Board has the full support of the senior management to discharge its responsibilities.

Composition

The composition of the Board ensures a balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgement.

The Board of the Company currently comprises the following nine directors, namely:

Executive Directors

Mr. Sun Shaoli *(Chairman)*
Mr. Lee Shing *(Vice-chairman and Chief Executive Officer)*
Mr. Wei Hongwen
Mr. Zhong Xianhua
Ms. Liu Yaling
Mr. Zhou Sheji

Independent Non-Executive Directors

Mr. Yu Xiumin
Mr. Zuo Duofu
Mr. Ye Xiang

The biographical details of these directors are set out in the section headed "Directors' & Senior Management's Biographies" in this annual report.

Messrs. Sun Shaoli, Wei Hong Wen and Zhong Xianhua who were appointed on 10 September 2007, 10 September 2007 and 4 January 2010 respectively, were nominated by Liuzhou Wuling Motors Company Limited ("Liuzhou Wuling"), a substantial shareholder of the Company.

Save as abovementioned, none of the members of the Board is related to one another.

The list of Directors (by category) is also disclosed in this annual report and all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors make various contributions to the effective direction of the Company. One of the independent non-executive directors possesses the appropriate professional qualifications, or accounting or related financial management expertise.

Appointment, Re-election and Resignation of Directors

The Company has established formal, considered and transparent procedures and criteria for the appointment and re-election of directors.

Mr. Zhong Xianhua has been appointed as executive director with effect from 4 January 2010. The relevant resolutions relating to the appointment of the new director was approved in a Board meeting. The Board processed the nomination by making reference to his respective skills, experience, professional knowledge, personal integrity and time commitments, the Company's needs and other relevant statutory requirements and regulations. Pursuant to the Company's Bye-laws, Mr. Zhong Xianhua shall retire and being eligible, offer himself for re-election in the forthcoming 2010 annual general meeting.

Mr. Sun Shaoli, being an executive director, has been appointed as chairman of the Company, whereas Mr. Lee Shing, being an executive director, has been re-designated as vice-chairman of the Company, both with effect from 4 January 2010. Mr. Lee Shing remains as chief executive officer of the Company.

Mr. He Shiji, Mr. Pei Qingrong and Mr. Wang Shaohua have reached their retirement age and have resigned from office as executive directors with effect from 4 January 2010.

The Company has entered into service contracts with all the independent non-executive directors for a specific term of three years who are also required to retire by rotation in accordance with the Company's Bye-laws.

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

The Board reviewed its own structure, size and composition regularly to ensure that it has balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

Apart from Mr. Zhong Xianhua who shall retire as abovementioned, in accordance with the Company's Bye-laws, the following directors shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming 2010 annual general meeting:

Mr. Sun Shaoli
Mr. Lee Shing
Mr. Wei Hongwen
Ms. Liu Yaling

The Board recommended the re-appointment of all retiring directors standing for re-election at the forthcoming 2010 annual general meeting of the Company.

The Company's circular dated 30 April 2010 contains detailed information of all retiring directors standing for re-election.

Training for Directors

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

BOARD MEETINGS

Number of Meetings and Directors' Attendance

Regular Board meetings are held at least four times a year at approximate quarterly interval for reviewing and approving financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the year ended 31 December 2009, a total number of 4 regular and 1 ad hoc Board meetings, 2 Audit Committee meetings and 2 Remuneration Committee meetings were held by the Company.

The individual attendance records of each director at the meetings of the Board, the Audit Committee and the Remuneration Committee during the year ended 31 December 2009 are set out below:

Name of Directors		Attendance/Number of Meetings Board Meeting	Audit Committee	Remuneration Committee
Executive directors				
Mr. Sun Shaoli		5/5	N/A	N/A
Mr. Lee Shing		5/5	N/A	N/A
Mr. He Shiji	*(resigned on 4 January 2010)*	5/5	N/A	N/A
Mr. Wei Hongwen		5/5	N/A	N/A
Mr. Zhong Xianhua	*(appointed on 4 January 2010)*	N/A	N/A	N/A
Ms. Liu Yaling		5/5	N/A	N/A
Mr. Pei Qingrong	*(resigned on 4 January 2010)*	5/5	N/A	N/A
Mr. Wang Shaohua	*(resigned on 4 January 2010)*	5/5	N/A	N/A
Mr. Zhou Sheji		5/5	N/A	N/A
Independent non-executive directors				
Mr. Yu Xiumin		5/5	2/2	2/2
Mr. Zuo Duofu		5/5	2/2	2/2
Mr. Ye Xiang		5/5	2/2	2/2
Mr. Cheng Kin Wah Thomas	*(resigned on 31 March 2009)*	N/A	N/A	N/A

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The responsible senior management attend Board meetings and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The responsible senior management or company secretary of the Company take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interest for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Bye-laws also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

During the year ended 31 December 2009, the chairman of the Company, Mr. Lee Shing, also acted as the chief executive officer of the Company. The Board believed that vesting the roles of both chairman and chief executive officer in the same person provided the Company with strong and consistent leadership and allowed for effective and efficient planning and implementation of business decisions and strategies.

However, after taking into account of the Code Provision A.2.1, with effect from 4 January 2010, Mr. Sun Shaoli, being an executive director, was appointed as chairman of the Company, whereas Mr. Lee Shing, being an executive director, was re-designated as vice-chairman of the Company, and remained as chief executive officer of the Company.

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

BOARD COMMITTEES

The Board has established 2 committees, namely, the Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are disclosed in the website of the Company (www.dhwuling.com) and are available to shareholders upon request.

The members of each Board committee at present are all independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" in this annual report.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Remuneration Committee

The Remuneration Committee currently comprises three independent non-executive directors including Mr. Zuo Duofu (chairman of Remuneration Committee), Mr. Yu Xiumin and Mr. Ye Xiang. The biographical details of these directors are set out in the section headed "Directors' & Senior Management's Biographies" in this annual report.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets at least once a year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the directors and the senior management and other related matters. The Human Resources Department is responsible for the collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the chairman of the Company about these recommendations on remuneration policy and structure as well as the remuneration packages.

The Remuneration Committee holds two meetings during the year ended 31 December 2009 for reviewing the performance and remuneration packages of the existing directors. The attendance records of the Remuneration Committee are set out under "Board Meetings" on page 37.

Audit Committee

The Audit Committee currently comprises three independent non-executive directors including Mr. Ye Xiang (chairman of the Audit Committee), Mr. Yu Xiumin and Mr. Zuo Duofu, among them one independent non-executive director possesses the appropriate professional qualifications or accounting or related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors. The biographical details of these members are set out in the section headed "Directors' & Senior Management's Biographies" in this annual report.

The main duties of the Audit Committee include the following:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the responsible staff of accounting and financial report function, compliance officer (if any), internal auditor or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held two meetings during the year ended 31 December 2009 to review the financial results and reports, financial reporting and compliance procedures, the Company's internal control and risk management review and processes and the resignation and appointment of the external auditors. The attendance records of the Audit Committee are set out under "Board Meetings" on page 37.

The Audit Committee acknowledged the new amendments to the terms of reference of the audit committee under the Listing Rules in relation to, inter alia, abolishment of the requirement of appointment of qualified accountant and appropriate actions have been taken by the Board and the Audit Committee accordingly.

MODEL CODE FOR SECURITIES TRANSACTIONS

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 (the "Model Code") as set out in Appendix 10 to the Listing Rules.

In consideration of the new amendments to the Model Code (the "Amendments"), which became effective on the first quarter of 2009, the Board of the Company has revised the Own Code corresponding to the Amendments.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 December 2009.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by relevant employees of the Company who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guideline by the employees was noted by the Company.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2009.

The Board received from the senior management the management accounts, explanation and relevant information which enable the Board to make an informed assessment for approving the financial statements.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 55 and 56.

Apart from the provision of audit services, Deloitte Touche Tohmatsu, the Company's external auditors, also carried out interim review of the Group's results and provided other financial services in compliance with the requirements under the Listing Rules and other statutory requirements.

For the year ended 31 December 2009, Deloitte Touche Tohmatsu, the external auditors received the following remuneration from the Group in connection with the provision of audit and non-audit services to the Group:

	2009 **RMB'000**
Annual audit services	**1,682**
Interim review services	**493**
Other services	**85**

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets, and reviewing the effectiveness of such on an annual basis with participation of the Audit Committee. The review covers all material controls, including financial, operational and compliance controls and risk management functions as well as the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The Group has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management.

The Group which engages in the businesses of the trading and manufacturing of engine, automotive components, and the specialized vehicles, has established budgetary and internal control systems which are designed and structured in accordance with its specific business and operation functions. An internal audit department is also maintained to carry out the internal audit functions to ensure proper compliance with the internal control systems and to identify the potential risks which may arise in the operation for implementation of appropriate measures and policies. The internal audit department executes its functions based on a year plan and prepares reports of their assignments. These reports are submitted to the senior management, the Board and the Audit Committee for review on a regular basis.

During the year under review, the Board, through the Audit Committee, has conducted a review of the effectiveness of the internal control systems and the internal audit functions of Group and confirms that the required procedures and human resources are in place to ensure adequate internal controls within the Group.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company acknowledges the importance of maintaining effective communication with the shareholders and the investment community.

The general meetings of the Company provide a forum for communication between the Board and the shareholders. Code provision E.1.2 stipulates that the chairman of the Board should attend the annual general meeting and arrange for the chairman of Remuneration Committee and Audit Committee, or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting. The chairman of the independent board committee should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

Mr. Lee Shing, the then chairman during the year and the present chief executive officer and vice-chairman of the Board attended all the shareholders' meetings of the Company during the year. Mr. Sun Shaoli, the current chairman, and Mr. Lee Shing, the current vice-chairman will use their endeavours to attend all future shareholders' meetings of the Company.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company's website (www.dhwuling.com) is maintained for the dissemination of the Company's announcements, press releases and other relevant financial and non-financial information on a timely basis.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 45 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on page 57.

The directors do not recommend the payment of a final dividend for the year ended 31 December 2009 (2008: Nil).

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified/restated as appropriate, is set out below. The amounts for each year in the five years' financial summary have been adjusted for: (1) the effects of retrospective changes in accounting policy upon adoption of several new and revised accounting standards as disclosed in note 2 to the financial statements; and (2) to the adoption of RMB as the presentation currency as described in note 1 to the financial statements. This summary does not form part of the audited consolidated financial statements.

	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000 (Restated)	2005 RMB'000 (Restated)
Revenue	**9,888,856**	7,111,911	2,856,456	16,616	12,971
Profit/(loss) before tax	**139,712**	164,769	97,220	22,085	(8,883)
Income tax expense	**(31,093)**	(27,882)	(22,602)	(19)	(342)
Profit/(loss) for the year	**108,619**	136,887	74,618	22,066	(9,225)
Attributable for:					
Equity holders of the Company	**(21,928)**	32,647	11,147	22,066	(9,225)
Minority Interests	**130,547**	104,240	63,471	–	–
	108,619	136,887	74,618	22,066	(9,225)
Total assets	**8,574,218**	5,674,052	4,462,984	71,071	78,859
Total liabilities	**7,874,056**	(4,966,822)	(3,882,295)	(37,707)	(134,888)
Net assets/(liabilities)	**700,162**	707,230	580,689	33,364	(56,029)

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

The Group revalued its investment properties at the year end date. The net increase in fair value of the investment properties, which has been credited directly to consolidated income statement, amounted to RMB2,024,000.

Details of these and other movements during the year in the property, plant and equipment and investment properties of the Group are set out in notes 14 and 17 to the financial statements, respectively.

SHARE CAPITAL

Details of movements during the year in the share capital are set out in note 34 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for the pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 60.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company did not have any reserves available for distribution to shareholders of the Company for each of the year ended 31 December 2008 and 31 December 2009.

BORROWINGS

Details of the bank borrowings of the Group are set out in note 31 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's largest customer and five largest customers taken together accounted for 71.6% and 78.5% of the Group's total turnover for the year.

The aggregate purchases attributable to the Group's largest supplier and the five largest suppliers taken together accounted for 13.5% and 20.8% of the Group's total purchases for the year.

SAIC-GM-Wuling Automobile Co., Ltd.(上汽通用五菱汽車股份有限公司, "SGMW") in which, Liuzhou Wuling, a substantial shareholder of the Company, holds a 15% interests, is the Group's largest customer and largest supplier.

Other than as disclosed above, none of the directors, their respective associates or, so far as the directors are aware, any shareholder who owns more than 5% of the issued share capital of the Company has any interests in any of the aforesaid top five customers and suppliers of the Group for the year.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Sun Shaoli *(Chairman)*	
Mr. Lee Shing *(Vice-chairman & Chief Executive Officer)*	
Mr. Wei Hongwen	
Mr. Zhong Xianhua	(Appointed on 4 January 2010)
Ms. Liu Yaling	
Mr. Zhou Sheji	
Mr. He Shiji	(Resigned on 4 January 2010)
Mr. Pei Qingrong	(Resigned on 4 January 2010)
Mr. Wang Shaohua	(Resigned on 4 January 2010)

Independent Non-Executive Directors:

Mr. Yu Xiumin
Mr. Zuo Duofu
Mr. Ye Xiang
Mr. Cheung Kin Wah, Thomas (Resigned on 31 March 2009)

The biographical details of the directors of the Company are set out on pages 28 to 30 of this report.

Every directors of the Company, including those appointed for a specific term, should be subject to retirement by rotation and re-election at least once every three years.

Mr. Cheng Kin Wah, Thomas resigned as independent non-executive director of the Company due to health reason on 31 March 2009.

In accordance with Bye-law 91 of the Company, Mr. Zhong Xianhua who was appointed as executive director of the Company on 4 January 2010, will retire and being eligible, offer himself for re-election at the forthcoming general meeting of the Company.

In accordance with Bye-law 99(B) of the Company, Messrs. Sun Shaoli, Lee Shing, Wen Hongwen and Ms. Liu Yaling shall retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

Mr. Sun Shaoli, being an executive director, has been appointed as chairman of the Company, whereas Mr. Lee Shing, being an executive director, has been re-designated as vice-chairman of the Company, both with effect from 4 January 2010. Mr. Lee Shing remains as chief executive officer of the Company.

Messrs. He Shiji, Pei Qingrong and Wang Shaohua reached their retirement age and resigned as executive directors with effect from 4 January 2010.

The Company has received from each of its independent non-executive directors of the Company, the respective annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers these directors independent.

The terms of appointment of all independent non-executive directors of the Company have been fixed for a term of three years but will expire when they are required to retire by rotation in accordance with the Company's Bye-laws.

DIRECTORS' EMOLUMENTS

Details of the directors' emoluments disclosed on a named basis are set out in note 10 to the financial statements.

DIRECTORS' SERVICE CONTRACTS

The Company has entered into service contracts with all the three independent non-executive directors of the Company for a specific term of three years who are also required to retire by rotation in accordance with the Company's Bye-laws.

No directors of the Company being proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2009, the interests of the directors of the Company and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), contained in the Listing Rules were as follows:

Long Positions in the Shares of the Company

Name of director	Capacity	Number of issued shares held	Approximate % of the issued share capital
Mr. Lee Shing ("Mr. Lee")	Interest in controlled corporation (Note 1)	259, 959,613	28.34%
Mr. Zhou Sheji ("Mr. Zhou")	Interest in controlled corporation (Note 2)	44,770,000	4.88%

(1) The 259,959,613 Shares are owned by Dragon Hill Development Limited ("Dragon Hill"), a company wholly-owned by Mr. Lee. Reference is made to the circular of the Company issued on 25 June 2007 and unless the context herewith otherwise requires, terms used in this note shall have the same meanings as in the circular dated 25 June 2007. A share charge has been created on 280,959,613 Shares held by Dragon Hill in favour of Liuzhou Wuling pursuant to the execution of the Share Charge Documents on 28 August 2007 in which Dragon Hill has agreed to guarantee and undertake to procure (i) the due performance of the Company under the JV Agreements, and (ii) the Company not to allot and issue any of the new shares of the Company without the prior written consent of Liuzhou Wuling during the Guarantee Period (i.e., the 36 month-period from the date of the Share Charge). According to the Share Sale Agreement, the Share Charge Documents should be executed simultaneously with the completion of the Share Sale Agreement and that if the Company fails to duly perform its obligations pursuant to any of the JV Agreements or if the Company issues any of the new shares in breach of its undertaking, Liuzhou Wuling (or its wholly-owned subsidiary(ies)) shall have the right to acquire the Charged Shares (i.e., the 280,959,613 Shares held by Dragon Hill, being all of the shares of the Company held by Dragon Hill upon completion of the Share Sale Agreement which are agreed to be charged to Liuzhou Wuling (or its wholly-owned subsidiary(ies)) by Dragon Hill under the Share Charge) from Dragon Hill at the price of HK$0.29 per Charged Shares during the Guaranteed Period. With effect from 2 November 2009 and pursuant to the consent letters issued by Liuzhou Wuling, the number of Charged Shares has been reduced to 254,659,613 Shares.

(2) Mr. Zhou is beneficially interested in 44,770,000 Shares, which interests are held by his controlled corporation, Gao Bao Development Limited.

Save as disclosed above and the interests as disclosed under the section headed "Directors' Rights to Acquire Shares and Debentures" below, none of the directors of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2009 which had been entered in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares and Debentures

As at 31 December 2009, the number of outstanding option shares granted by the Company under the option scheme adopted on 11 June 2002 (the "Scheme") for the directors of the Company to subscribe the shares of the Company, as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code is set out below:

Category	Capacity	Granted on (2 January 2008 and as at 1 January 2009)	During the year			As at 31 December 2009	Exercise Period and Exercise price
			Granted (29 December 2009) (Note 1)	Exercised	Lapsed/ Cancelled		
Directors and their associates							
Mr. Sun Shaoli	Beneficial owner	–	900,000	–	–		I
			900,000	–	–		II
			1,800,000			1,800,000	
Mr. Lee Shing	Beneficial owner	–	900,000	–	–		I
			900,000	–	–		II
			1,800,000			1,800,000	
	Interest of spouse		350,000	–	–		I
			350,000	–	–		II
			700,000			700,000	
Mr. Wei Hongwen	Beneficial owner	–	800,000	–	–		I
			800,000	–	–		II
			1,600,000			1,600,000	
Ms. Liu Yaling	Beneficial owner	350,000	–	–	(350,000)		III
			800,000	–	–		I
			800,000	–	–		II
			1,600,000			1,600,000	
Mr. Zhou Sheji	Beneficial owner	–	700,000	–	–		I
			700,000	–	–		II
			1,400,000			1,400,000	
Mr. He Shiji (Note 2)	Beneficial owner	–	900,000	–	–		IV
			900,000	–	–		V
			1,800,000			1,800,000	
Mr. Wang Shaohua (Note 2)	Beneficial owner	350,000	–	–	(350,000)		III
			800,000	–	–		IV
			800,000	–	–		V
			1,600,000			1,600,000	
Mr. Pei Qingrong (Note 2)	Beneficial owner	350,000	–	–	(350,000)		III
			800,000	–	–		IV
			800,000	–	–		V
			1,600,000			1,600,000	
Mr. Yu Xiumin	Beneficial owner	180,000	–	–	(180,000)		III
			600,000	–	–		I
			600,000	–	–		II
			1,200,000			1,200,000	
Mr. Zuo Duofu	Beneficial owner	180,000	–	–	(180,000)		III
			600,000	–	–		I
			600,000	–	–		II
			1,200,000			1,200,000	
Mr. Ye Xiang	Beneficial owner	–	600,000	–	–		I
			600,000	–	–		II
			1,200,000			1,200,000	
Mr. Cheng Kin Wah Thomas (Note 3)	Beneficial owner	180,000	–	–	(180,000)	–	III

Exercise period and exercise price:

I. From 21 January 2010 to 31 December 2012 (both days inclusive) at exercise price of HK$1.07 per share and is vested immediately on the date of acceptance.

II. From 21 January 2011 to 31 December 2013 (both days inclusive) at exercise price of HK$1.07 per share and is vested on the date falling on the first anniversary of the date of acceptance.

III. From 21 January 2008 to 31 December 2009 (both days inclusive) at exercise price of HK$2.318 per share and is vested immediately on the date of acceptance.

IV. From 30 December 2009 to 31 December 2012 (both days inclusive) at exercise price of HK$1.07 per share and is vested immediately on the date of acceptance.

V. From 30 December 2010 to 31 December 2013 (both days inclusive) at exercise price of HK$1.07 per share and is vested on the date falling on the first anniversary of the date of acceptance.

Notes:

1. The closing price of the share immediately before the date on which the options were granted during the year was HK$1.06.

2. Messrs. He Shiji, Wang Shaohua and Pei Qingrong reached their retirement age and resigned as executive directors on 4 January 2010. All of them retained as advisors of the Company, their respective share options remain effective despite their resignation as executive directors.

3. Mr. Cheng Kin Wah Thomas resigned on 31 March 2009 and the exercise period of his share options remained effective until 31 December 2009.

Save as disclosed herein, at no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, or any of its subsidiaries was a party, and in which a director of the Company had a material interest whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SHARE OPTIONS

Particulars of the Company's share option scheme and the movements in the share options therein are set out in the above section "Directors' Rights to Acquire Shares and Debentures" and note 35 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at 31 December 2009, other than the interests disclosed above in respect of the directors of the Company, the following shareholders of the Company had notified the Company of their relevant interests in the issued share capital of the Company:

Long Positions in the Shares of the Company

Substantial Shareholders	Capacity	Nature of Interest	Number of Shares held	Approximate % of the issued share capital
Dragon Hill (Notes 1 and 2)	Beneficial Owner	Corporate	259,959,613	28.34%
五菱(香港)控股有限公司 (Wuling (Hong Kong) Holdings Limited) ("Wuling HK Holdings") (Notes 2, 3 and 4)	Beneficial Owner	Corporate Unlisted derivatives Securities interest in shares Sub-total	274,500,000 135,135,130 254,659,613 664,294,743	29.93% 14.73% 27.76% 72.42%
五菱汽車(香港) 有限公司 Wuling Motors (Hong Kong) Company Limited ("Wuling HK") (Notes 2, 3 and 4)	Interest in controlled corporation	Corporate	664,294,743	72.42%
柳州五菱汽車有限責任公司 (Liuzhou Wuling Motors Company Limited) ("Liuzhou Wuling") (Notes 2, 3 and 4)	Interest in controlled corporation	Corporate	664,294,743	72.42%

Notes:

(1) The entire issued share capital of Dragon Hill is legally and beneficially owned by Mr. Lee Shing, a Director and the controlling Shareholder. Accordingly, this parcel of shares of the Company has also been disclosed as long positions of Mr. Lee Shing under the above section of "Directors' Interests in Shares, Underlying Shares and Debentures".

(2) Reference is made to the circular of the Company issued on 25 June 2007 (the "Circular") and unless the context herewith otherwise requires, terms used in this note shall have the same meanings as in the Circular. A share charge has been created on 280,959,613 Shares held by Dragon Hill in favour of Liuzhou Wuling pursuant to the execution of the Share Charge Documents on 28 August 2007 in which Dragon Hill has agreed to guarantee and undertake to procure (i) the due performance of the Company under the JV Agreements, and (ii) the Company not to allot and issue any of the new shares of the Company without the prior written consent of Liuzhou Wuling during the Guarantee Period (i.e., the 36 month-period from the date of the Share Charge). According to the Share Sale Agreement, the Share Charge Documents should be executed simultaneously with the completion of the Share Sale Agreement and that if the Company fails to duly perform its obligations pursuant to any of the JV Agreements or if the Company issues any of the new shares in breach of its undertaking, Liuzhou Wuling (or its wholly-owned subsidiary(ies)) shall have the right to acquire the Charged Shares (i.e., the 280,959,613 Shares held by Dragon Hill, being all of the shares of the Company held by Dragon Hill upon completion of the Share Sale Agreement which are agreed to be charged to Liuzhou Wuling (or its wholly-owned subsidiary(ies)), by Dragon Hill under the Share Charge) from Dragon Hill at the price of HK$0.29 per Charged Shares during the Guaranteed Period. With effect from 2 November 2009 and pursuant to a consent letter issued by Liuzhou Wuling, the number of Charged Shares has been reduced to 254,659,613 Shares

(3) The entire issued share capital of Wuling HK Holdings is held by Wuling HK, whereas the entire issued share capital of Wuling HK is held by Liuzhou Wuling. Accordingly, Wuling HK and Liuzhou Wuling are deemed to be interested in the Shares in which Wuling HK Holdings is interested under the SFO.

(4) These shares of the Company represent (i) the 274,500,000 Shares beneficially owned by Wuling HK Holdings as at 31 December 2009; (ii) the 254,659,613 Shares held as security interest pursuant to Note 2 above; and (iii) the 135,135,130 shares of the Company issuable to Wuling HK Holdings upon exercise in full of the conversion rights attaching to a convertible notes issued by the Company to Wuling HK Holdings on 12 January 2009 according to the subscription agreement of 28 November 2008, details of which have been fully disclosed in the circular of the Company dated 16 December 2008.

Other than as disclosed above as at 31 December 2009, the Company has not been notified of any other relevant interests and short position in the shares capital of the Company or any of its associated corporation, which had been recorded in the register required to be kept under section 336 of the SFO.

DIRECTOR'S INTEREST IN COMPETING BUSINESS

During the year and up to the date of this report, the following directors are considered to have interests in the businesses which compete or are likely to compete with the businesses of the Group pursuant to the Listing Rules as set out below:

1. Mr. Lee Shing ("Mr. Lee"), the vice-chairman and chief executive officer of the Company, is a director of and a substantial shareholder of Shandong Jun Shan Automobile Company Limited (山東俊山汽車有限公司) ("Shandong JS"), a company established in October 2009 in the PRC with principal business scopes of the design, trading and manufacturing of automotive components, engines, and other mould and tool parts. Since its formation and up to the date of this report, Shandong JS has not yet commenced operation and it is expected that its operation will not commence in the near future. There may be a possibility that the business of Shandong JS will compete with that of the Group in the future when Shandong JS commences operation.

   The Directors are satisfied that the Group functions independently of and on arm's lengths basis from Shandong JS on the basis that the majority of the executive Directors, the senior management and operations of the Group are independent of those of Shandong JS. Other than the common director, Mr. Lee, there is no overlap of management personnel for the operations within the Group and Shandong JS. In addition, Mr. Lee also confirmed that he will abstain from voting in the relevant board of directors' meeting if there is any potential conflict of interests.

2. Both Mr. Sun Shaoli ("Mr. Sun"), the chairman and an executive director and Mr. Wei Hongwen ("Mr. Wei"), an executive director of the Company are directors of SAIC-GM-Wuling Automobile Co., Ltd ("SGMW"). SGMW is principally engaged in the manufacturing and trading businesses of motor vehicles, and has recently begun to produce motor vehicles' engines for its own use, which may have direct or indirect competition to the businesses of the Group. Although Mr. Sun and Mr. Wei are taken to have competing interests in SGMW by virtue of their common directorships, they will fulfil their fiduciary duties in order to ensure that they will act in the best interest of the shareholders and the Company as a whole and at all times. Besides, as SGMW is operated and managed under a publicly listed company with independent management and administration, the Directors are satisfied that the Group is capable of carrying its businesses independently of, and at arm's lengths basis from, the businesses of SGMW.

CONTINUING CONNECTED TRANSACTIONS

On 2 July 2008, Liuzhou Wuling Motors Industrial Company Limited (柳州五菱汽車工業有限公司, "Wuling Industrial"), a subsidiary of the Company, and 柳州五菱汽車有限責任公司 (Liuzhou Wuling Motors Company Limited, "Liuzhou Wuling") entered into a undertaking agreement (the "Undertaking Agreement") in relation to the proposed execution of a guarantee agreement to be entered into between Wuling Industrial and China Construction Bank (the "Guarantee Agreement") in relation to the provision of certain revolving banking facilities, including bank loans, bills payable, letters of credit, corporate guarantees and any other indemnities, granted by China Construction Bank to Liuzhou Wuling in a maximum amount of RMB200 million with a maximum term of not more than 3 years from the date of execution of the Guarantee Agreement.

As Liuzhou Wuling is a substantial shareholder, which by virtue of its interests in Wuling HK Holdings, is interested in approximately 29.9% of the total issued share capital of the Company at that time, this transaction constituted a continuing connected transaction under Chapter 14A of the Listing Rules and was approved by the independent shareholders in the special general meeting of the Company held on 7 August 2008.

On 23 June 2009, Wuling Industrial and China Construction Bank entered into the Guarantee Agreement as a pre-requisite of certain banking facilities granted by China Construction Bank to Liuzhou Wuling, in accordance with the terms as set out in the Undertaking Agreement and the Guarantee Agreement.

In order to ensure that the business and operation of Wuling Industrial and its subsidiaries (the "Wuling Industrial Group"), Wuling Industrial entered into the following agreements with the respective parties which are in effect during the year:

(1) a tenancy agreement dated 28 August 2007 with Liuzhou Wuling in relation to the leasing of 11 parcels of land and 82 buildings to Wuling Industrial Group ("Leasing of Properties") for its operation at a monthly rental of RMB2,346,000 for the period from the date of the formal set up of Wuling Industrial ("JV Setup Date") to 31 December 2009;

(2) a patent agreement dated 28 August 2007 with Liuzhou Wuling in relation to the licensing of a total of 158 types of patent rights and know how to be granted to Wuling Industrial Group ("Use of Patent") for its operation at an annual fee of RMB1,300,000 for the period from the JV Setup Date to 31 December 2009;

(3) a trademark agreement dated 28 August 2007 with Liuzhou Wuling in relation to the licensing of certain registered trademarks to Wuling Industrial Group ("Use of Trademark") for its operation at an annual fee of RMB2,000,000 for the period from the JV Setup Date to 31 December 2009;

(4) an agreement dated 2 July 2008 with Liuzhou Guangling Moulds & Tools Technology Limited 柳州廣菱模具技術有限公司 ("Guangling") in relation to the sales of raw materials by the Wuling Industrial Group to Guangling ("GL Sale Transactions"), the maximum aggregate value of the GL Sale Transactions shall be RMB33,000,000, RMB54,000,000 and RMB70,000,000 respectively, for the three years ending 31 December 2008, 2009 and 2010;

(5) an agreement dated 2 July 2008 with Guangling in relation to the purchases of automotive components and other accessories by the Wuling Industrial Group from Guangling ("GL Purchase Transactions"), the maximum aggregate value of the GL Purchase Transactions shall be RMB33,000,000, RMB57,000,000 and RMB76,000,000 respectively, for three years ending 31 December 2008, 2009 and 2010;

(6) a revised agreement dated 15 October 2008 with Guilin Bus Development Co., Ltd 桂林客車發展有限責任公司 ("Guilin Bus") in relation to the sales of parts and raw materials to Guilin Bus by the Wuling Industrial Group ("GB Sale Transactions"), the maximum value of the GB Sale Transactions shall be revised to RMB30,000,000, RMB77,000,000 and RMB110,000,000 respectively, for the three years ending 31 December 2008, 2009 and 2010;

(7) a revised agreement dated 15 October 2008 with Guilin Bus in relation to the purchases of passenger mini-buses from Guilin Bus by the Wuling Industrial Group ("GB Purchase Transactions"), the maximum value of the GB Purchase Transactions shall be revised to RMB22,000,000, RMB35,000,000 and RMB70,000,000 respectively, for the three years ending 31 December 2008, 2009 and 2010;

(8) a renewed agreement dated 23 January 2009 with Liuzhou Wuling Import and Export Company Limited 柳州五菱進出口有限公司 ("Wuling Export") in relation to the sales of cars, engines and parts by the Group to Wuling Export ("WE Sale Transactions") for one year from 1 January 2009 to 31 December 2009, the maximum aggregate value for the transactions shall be RMB8,500,000 for the year ending 31 December 2009;

(9) a renewed agreement dated 23 January 2009 with Guangling in relation to provision of water and power supply services by the Wuling Industrial Group to Guangling ("GL Water and Power Supply Services") for three years from 1 January 2009 to 31 December 2011, the maximum aggregate value of the transaction shall be RMB1,400,000, RMB1,700,000 and RMB2,000,000 respectively for each of the three years ending 31 December 2011; and

(10) a renewed agreement dated 23 January 2009 with Liuzhou Keer Digital Manufacturing Co., Limited 柳州科爾數字化製造技術有限公司 ("KE Digital") in relation to the purchase of certain electronic devices and components by the Wuling Industrial Group from KE Digital ("KE Purchase Transactions") for three years from 1 January 2009 to 31 December 2011, the maximum aggregate value of the transactions shall be RMB2,500,000, RMB5,000,000 and RMB7,000,000 respectively for each of three years ending 31 December 2011.

Liuzhou Wuling, a substantial shareholder of the Company, which by virtue of its interests in Wuling HK Holdings, is interested in approximately 29.9% of the total issued share capital of the Company at that time, is regarded as connected person of the Company pursuant to the Listing Rules.

Guangling, Guilin Bus and KE Digital, as associates of Liuzhou Wuling, are regarded as connected persons to the Company pursuant to the Listing Rules.

Wuling Export, as a wholly owned subsidiary of Liuzhou Wuling, is regarded as a connected person to the Company pursuant to the Listing Rules.

The transactions listed above constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules, in which independent shareholders' approval for items No. 1 to 7 above were obtained in the following special general meetings of the Company:

Item	Particulars	Date of special general meeting
1	Leasing of Properties	12 July 2007
2	Use of Patent	12 July 2007
3	Use of Trademark	12 July 2007
4	GL Sale Transactions	7 August 2008
5	GL Purchase Transactions	7 August 2008
6	GB Sale Transactions	21 November 2008
7	GB Purchase Transactions	21 November 2008

As for items No. 8 to 10 above, approval from independent shareholders of the Company were exempted under the Listing Rules.

The aggregate amounts of each of the abovementioned continuing connected transactions were within the maximum aggregate value as stated in the respective agreements for the year ended 31 December 2009.

Pursuant to rule 14A.38 of the Listing Rules, the board of directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor of the Company has provided a letter to the board of directors confirming that the continuing connected transactions:

(i) have received the approval of the board of directors of the Company;

(ii) have been conducted in accordance with the pricing policies of the Company with reference to similar transactions with independent third parties;

(iii) have not conducted on terms in accordance with the terms of the relevant agreements governing the transactions; and

(iv) have not exceeded the relevant annual cap as disclosed in the relevant announcements issued by the Company.

The independent non-executive directors have reviewed the above connected and continuing connected transactions and confirm that these transactions entered into by the Group were:

a. in the ordinary and usual course of business of the Group;

b. on arm's length basis, on normal commercial terms and on terms that are fair and reasonable as far as the shareholders of the Company are concerned; and

c. in accordance with the terms of the agreements governing such transactions.

Save as disclosed herein, there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

REMUNERATION COMMITTEE

The Remuneration Committee currently comprises three independent non-executive directors of the Company including Mr. Zuo Duofu (Chairman of the Remuneration Committee), Mr. Yu Xiumin and Mr. Ye Xiang.

The primary objectives of the Remuneration Committee is set out in the "Corporate Governance Report" in this annual report.

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.

PENSION SCHEMES

The pension schemes of the Company and its subsidiaries are primarily in form of contributions to the China statutory public welfare fund and Hong Kong's Mandatory Provident Funds.

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, which has been revised pursuant to recent amendments to the Listing Rules. The Directors have confirmed they have complied with the Own Code and the Model Code throughout the year ended 31 December 2009.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with the Rule 3.2.1 of the Listing Rules, for the purposes of, inter alia, reviewing and providing supervision over the Group's financial reporting process and internal controls.

The Audit Committee currently comprises three independent non-executive directors of the Company, one of them possesses the appropriate professional qualifications or accounting or related financial management expertise.

The summary of main duties of the Audit Committee is set out in "Corporate Governance Report" in this annual report.

The consolidated financial statements for the year ended 31 December 2009 have been reviewed by the Audit Committee.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this annual report, based on information that is publicly available to the Company and to the best knowledge of the directors of the Company, the Company maintained sufficient float being 25% of the Company's total issued share capital as required under the Listing Rules.

EVENTS AFTER THE REPORTING DATE

Details of the significant events occurring after the reporting date are set out in note 44 to the financial statements.

AUDITOR

On 10 September 2007, Deloitte Touche Tohmatsu ("Deloitte") were appointed as the auditor of the Company to fill the causal vacancy occasioned by the resignation of Ernst & Young to hold office until the conclusion of the 2008 annual general meeting of the Company.

A shareholder of the Company, pursuant to section 89(3) of the Companies Act 1981 of Bermuda, has given the Company a notice of intention to nominate Deloitte as the auditor of the Company in the 2008 annual general meeting. Accordingly, an ordinary resolution in respect of the appointment of Deloitte as the auditor of the Company was proposed and was duly passed in the 2008 annual general meeting of the Company.

In the forthcoming annual general meeting of the Company, Deloitte will retire and, being eligible, offer themselves for re-appointment. A resolution for re-appointment of Deloitte as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

Sun Shaoli
Chairman

26 April 2010

Independent Auditor's Report

For the year ended 31 December 2009

Deloitte.

德勤

TO THE SHAREHOLDERS OF
DRAGON HILL WULING AUTOMOBILE HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the financial statements of Dragon Hill Wuling Automobile Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 57 to 124, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended 31 December 2009, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of The Companies Act of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

For the year ended 31 December 2009

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended 31 December 2009 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 April 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Revenue	6	**9,888,856**	7,111,911
Cost of sales		**(9,016,957)**	(6,339,666)
Gross profit		**871,899**	772,245
Other income	6	**84,758**	85,057
Distribution costs		**(256,309)**	(187,163)
General and administrative expenses		**(447,800)**	(463,066)
Net gain (loss) on held-for-trading investments		**4**	(245)
Share of results of an associate	19	**30**	802
Change in fair value of derivative financial instrument	30	**(65,684)**	–
Change in fair value of investment properties	17	**2,024**	2,153
Finance costs	7	**(49,210)**	(45,014)
Profit before tax		**139,712**	164,769
Income tax expense	8	**(31,093)**	(27,882)
Profit for the year	9	**108,619**	136,887
Other comprehensive income			
Exchange difference arising from translation of foreign operation		**326**	140
Total comprehensive income for the year		**108,945**	137,027
(Loss) profit for the year attributable to:			
Owners of the Company		**(21,928)**	32,647
Minority interests		**130,547**	104,240
		108,619	136,887
Total comprehensive (expenses) income attributable to:			
Owners of the Company		**(21,602)**	32,787
Minority interests		**130,547**	104,240
		108,945	137,027
(Loss) earnings per share	13		
Basic and diluted		**RMB(2.39) cents**	RMB3.56 cents

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Non-current Assets			
Property, plant and equipment	14	**668,500**	570,065
Prepaid lease payments	15	**44,975**	13,912
Premium on prepaid lease payments	16	**1,022**	1,047
Investment properties	17	**25,141**	6,172
Intangible assets	18	**928**	928
Investment in an associate	19	**2,434**	3,304
Available-for-sale investments	20	**495**	495
Deposits for trading rights		**180**	180
Deposits for acquisition of property, plant and equipment		**47,175**	51,170
		790,850	647,273
Current Assets			
Inventories	21	**795,689**	600,273
Loans receivable	22	**450**	68
Trade and other receivables	23(i)	**3,995,094**	2,861,209
Bills receivables discounted with recourse	23(ii)	**1,335,778**	342,008
Prepaid lease payments	15	**937**	201
Held-for-trading investments	24	**7**	3
Client trust bank accounts	25	**7,235**	2,350
Pledged bank deposits	26	**835,653**	624,601
Bank balances and cash	26	**812,525**	596,066
		7,783,368	5,026,779
Current Liabilities			
Trade and other payables	27(i)	**5,167,274**	3,279,598
Advances drawn on bills receivables discounted with recourse	27(ii)	**1,335,778**	342,008
Amounts due to shareholders	28	**815,106**	989,580
Amount due to an associate	28	**11,371**	20,467
Provision for warranty	29	**111,739**	83,226
Tax payable		**26,180**	31,787
Derivative financial instrument	30	**83,861**	–
Convertible loan notes	30	**5,115**	–
Bank borrowings – due within one year	31	**220,566**	197,028
Obligations under finance leases – due within one year	32	**254**	270
		7,777,244	4,943,964
Net Current Assets		**6,124**	82,815
Total Assets Less Current Liabilities		**796,974**	730,088

	Notes	**2009 RMB'000**	2008 RMB'000
Non-current Liabilities			
Bank borrowings – due after one year	31	**17,534**	20,288
Obligations under finance leases – due after one year	32	**158**	412
Deferred tax liabilities	33	**6,833**	2,158
Convertible loan notes	30	**72,287**	–
		96,812	22,858
		700,162	707,230
Capital and Reserves			
Share capital	34	**3,659**	3,659
Reserves		**122,428**	143,085
Equity attributable to owners of the Company		**126,087**	146,744
Minority interests		**574,075**	560,486
		700,162	707,230

The financial statements on pages 57 to 124 were approved and authorised for issue by the Board of Directors on 26 April 2010 and are signed on its behalf by:

Sun Shaoli
Chairman

Lee Shing
Vice-chairman

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Exchange reserve RMB'000	Contributed surplus RMB'000 (note i)	Share option reserve RMB'000	PRC general reserve RMB'000 (note ii)	Capital reserve RMB'000 (note iii)	Accumulated losses RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2008	3,659	279,305	(3,349)	97,435	–	9,085	18,505	(296,064)	108,576	472,113	580,689
Profit for the year	–	–	–	–	–	–	–	32,647	32,647	104,240	136,887
Exchange difference arising from translation of foreign operation	–	–	140	–	–	–	–	–	140	–	140
Total comprehensive income for the year	–	–	140	–	–	–	–	32,647	32,787	104,240	137,027
Deregistration of subsidiaries (note iv)	–	–	–	–	–	–	–	–	–	(5,292)	(5,292)
Recognition of equity-settled share-based payments	–	–	–	–	5,381	–	–	–	5,381	–	5,381
Transfer to accumulated losses on lapse of share options	–	–	–	–	(88)	–	–	88	–	–	–
Dividend paid to minority interests	–	–	–	–	–	–	–	–	–	(10,575)	(10,575)
Transfers	–	–	–	–	–	29,900	–	(29,900)	–	–	–
Subtotal	–	–	–	–	5,293	29,900	–	(29,812)	5,381	(15,867)	(10,486)
At 31 December 2008	3,659	279,305	(3,209)	97,435	5,293	38,985	18,505	(293,229)	146,744	560,486	707,230
(Loss) profit for the year	–	–	–	–	–	–	–	(21,928)	(21,928)	130,547	108,619
Exchange difference arising from translation of foreign operation	–	–	326	–	–	–	–	–	326	–	326
Total comprehensive income (expense) for the year	–	–	326	–	–	–	–	(21,928)	(21,602)	130,547	108,945
Deregistration of subsidiaries (note v)	–	–	–	–	–	–	–	–	–	(153)	(153)
Recognition of equity-settled share-based payments	–	–	–	–	945	–	–	–	945	–	945
Transfer to accumulated losses on lapse of share options	–	–	–	–	(5,293)	–	–	5,293	–	–	–
Dividend paid to minority interests	–	–	–	–	–	–	–	–	–	(116,805)	(116,805)
Transfers	–	–	–	–	–	13,166	–	(13,166)	–	–	–
Subtotal	–	–	–	–	(4,348)	13,166	–	(7,873)	945	(116,958)	(116,013)
At 31 December 2009	3,659	279,305	(2,883)	97,435	945	52,151	18,505	(323,030)	126,087	574,075	700,162

notes:

(i) The Group's contributed surplus represents (i) the difference between the nominal value of the shares of the subsidiaries acquired pursuant to a group reorganisation on 30 October 1992, over the nominal value of the Company's shares issued in exchange therefore; and (ii) the transfer of the credit arising from a capital reduction on 19 June 2006.

(ii) According to the relevant requirement in the memorandum of association of the subsidiaries in the People's Republic of China ("PRC"), a portion of their profits after taxation, as determined by the board of directors of those subsidiaries, is transferred to PRC general reserve. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The general reserve fund can be used to offset the losses of the previous years, if any.

(iii) The capital reserve represents the deemed capital contribution arising on acquisition of a subsidiary, Liuzhou Wuling Motors Industrial Company Limited ("Wuling Industrial"), from Liuzhou Wuling Motors Company Limited ("Liuzhou Wuling"), a substantial shareholder of the Company, in August 2007.

(iv) During the year ended 31 December 2008, 北京北汽發動機有限公司 and 柳州五菱汽車有限責任公司柳州機械廠無錫分公司, being a 51% owned subsidiary and a branch respectively, were deregistered. No gain or loss was resulted from the deregistration.

(v) During the year ended 31 December 2009, 柳州五菱柳機汽車零部件工貿有限公司, being a 95% owned subsidiary, was deregistered. No gain or loss was resulted from the deregistration.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
Operating Activities		
Profit before tax	**139,712**	164,769
Adjustments for:		
Change in fair value of derivative financial instrument	**65,684**	–
Depreciation of property, plant and equipment	**65,485**	58,309
Finance costs	**49,210**	45,014
Recognition of equity-settled share-based payments	**945**	5,381
Impairment losses recognised on trade receivables	**574**	3,233
Release of prepaid lease payments	**129**	49
Release of premium on prepaid lease payments	**25**	25
Interest income	**(20,553)**	(13,249)
(Reversal of) allowance for inventories	**(11,865)**	16,104
Gain on disposal of property, plant and equipment	**(5,070)**	(565)
Increase in fair value of investment properties	**(2,024)**	(2,153)
Dividend income from held-for-trading investments	**(52)**	(16)
Share of results of an associate	**(30)**	(802)
Net (gain) loss on held-for-trading investments	**(4)**	245
Operating cash flows before movements in working capital	**282,166**	276,344
Increase in trade and other payables	**1,887,523**	1,066,877
Increase in provision for warranty	**28,513**	18,947
Increase in trade and other receivables	**(1,134,459)**	(318,509)
Increase in bills receivables discounted with recourse	**(993,770)**	(306,809)
Increase in inventories	**(183,551)**	(183,774)
(Decrease) increase in amount due to an associate	**(9,096)**	12,171
(Increase) decrease in client trust bank accounts	**(4,885)**	3,315
(Increase) decrease in loans receivable	**(382)**	2,371
Decrease in held-for-trading investments	**–**	758
Cash (used in) generated from operations	**(127,941)**	571,691
Income tax paid	**(30,411)**	(61,556)
Withholding tax paid	**(1,614)**	–
Net Cash (Used in) from Operating Activities	**(159,966)**	510,135

	2009 RMB'000	2008 RMB'000
Investing Activities		
Interest received	**20,553**	13,249
Proceeds from disposal of property, plant and equipment	**17,911**	3,889
Proceeds from disposal of investment properties	**6,455**	14,701
Dividend received from an associate	**900**	–
Dividend received from held-for-trading investments	**52**	16
Increase in pledged bank deposits	**(211,052)**	(322,567)
Purchase of property, plant and equipment	**(125,603)**	(128,974)
Deposits paid for purchase of property, plant and equipment	**(47,175)**	(51,170)
Increase in prepaid lease payments	**(31,928)**	(12,091)
Purchase of investment properties	**(23,400)**	–
Net Cash Used in Investing Activities	**(393,287)**	(482,947)
Financing Activities		
New bank loans raised	**217,440**	195,920
Advance drawn on bills receivables discounted with recourse	**993,770**	306,809
Proceeds from issue of convertible loan notes	**88,069**	–
Advance from a shareholder	**3,516**	–
Repayment of bank loans	**(206,332)**	(63,266)
Repayment to a shareholder	**(177,990)**	(416,115)
Dividend paid to minority shareholders	**(116,805)**	(10,575)
Interest paid	**(41,280)**	(45,014)
Repayment of obligations under finance leases	**(270)**	(294)
Net Cash from (Used in) Financing Activities	**760,118**	(32,535)
Net Increase (Decrease) in Cash And Cash Equivalents	**206,865**	(5,347)
Cash and Cash Equivalents at Beginning of Year	**596,066**	601,617
Effect of Foreign Exchange Rate Changes, Net	**(101)**	(204)
Cash and Cash Equivalent at End of Year	**802,830**	**596,066**
Cash and Cash Equivalents at End of Year, representing		
bank balances and cash	**812,525**	596,066
bank overdraft (included in bank borrowings)	**(9,695)**	–
	802,830	596,066

1. GENERAL INFORMATION

The Company is a limited company incorporated in Bermuda under The Companies Act 1981 (as amended) of Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the head office and principal place of business of the Company are located at 35th Floor, Morrison Plaza, 9 Morrison Hill Road, Wanchai, Hong Kong.

The Company acts as an investment holding company and its subsidiaries are engaged in the manufacturing and trading of engines and parts, automotive components and accessories, specialized vehicles and the procurement services of raw materials, water and power supply. The details of its principal subsidiaries are disclosed in Note 45.

The Group's principal operations are conducted in the People's Republic of China (the "PRC"). The consolidated financial statements are presented in Renminbi dollars ("RMB"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)")

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

Hong Kong Accounting Standard ("HKAS") 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
Hong Kong (International Financial Reporting Interpretations Committee) ("HK(IFRIC)") – Interpretation ("Int") 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group and the financial statements of the Company for the current or prior accounting periods.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") (continued)

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments. The amendments also expand and amend the disclosures required in relation to liquidity risk. Maturity analysis of the Group's and the Company's maximum exposure to financial guarantee contracts are disclosed. The expanded disclosure is applied retrospectively by the Group and the Company.

HKAS23 (Revised 2007) Borrowing Costs

In previous years, the Group expenses all borrowings costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS 23 (Revised 2007) removes the option previously available to expense all borrowing costs when incurred. The adoption of HKAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalize all such borrowing costs as part of the cost of the qualifying asset. The Group has applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009 in accordance with the transitional provision in HKAS 23 (Revised 2007). As the revised accounting policy has been applied prospectively from 1 January 2009, this change in accounting policy has not resulted in restatement of amounts reported in respect of prior accounting periods. In the current year, there was no impact to the Group's financial statements as no borrowing costs have been capitalized.

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

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 July 2010.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 January 2013.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") (continued)

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

HKFRS 9 "Financial Instruments" ("HKFRS 9") introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognized financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's and the Company's financial assets.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements of the Group and the financial statements of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except that certain properties and financial instruments are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts, value-added tax and other sales related taxes.

Revenue from sale of goods is recognized when goods are delivered and title has been passed.

Service income is recognized when services are provided.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Commission income on securities dealing is recognised on a trade date basis.

Revenue on trading in securities is recognised on the transaction date when the relevant contract notes have been exchanged.

Dividend income is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments represented the land use rights which are stated at cost less accumulated amortisation. The cost of land use rights are amortised on a straight line basis over the periods of the rights.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are properties held to earn rentals and for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in the profit or loss for the period in which they arise.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income, including rentals involved in advance from property, plant and equipment and investment properties let under operating leases is recognised in profit or loss on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Operating lease payments are recognised as an expense on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in the consolidated statement of comprehensive income for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates of the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale for which the commencement date for capitalization is on or after 1 January 2009, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government grants

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognized as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefits costs

Payments under the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profit against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Intangible assets acquired separately

Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

The intangible assets of the Group, representing the eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited and The Philippine Stock Exchange, Inc., have indefinite useful lives.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date. Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Research and development expenditures

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Impairment loss on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment loss on tangible and intangible assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted-average method.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at FVTPL

Financial assets at FVTPL represent financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Effective interest method (continued)

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including loans receivable, trade and other receivables, bills receivables discounted with recourse, client trust bank accounts, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 to 180 days and observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, advances drawn on bills receivables discounted with recourse, amount due to an associate, amounts due to shareholders, obligations under finance leases and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Convertible loan notes

Convertible loan notes issued by the Group that contain both liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Equity instruments

Equity instruments, including shares and warrants, issued by the Company are recorded at the proceeds received, net of direct issue cost.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and the Company not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows where the effect is material.

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period or recognised as an expense in full at the grant date which the share options granted vest immediately, with a corresponding increase in share options reserve.

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future and the key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight line basis over their estimated useful lives, after taking into account their estimated residual value. The Group assesses annually the residual value and the useful lives of the property, plant and equipment. If the expectation differs from the original estimate, such difference will impact the depreciation and the amortisation charged in the year in which such estimate is changed.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2009, the carrying amount of trade receivable is approximately RMB3,828,064,000 (net of allowance for doubtful debts of approximately RMB7,080,000) (2008: carrying amount of approximately RMB2,691,796,000, net of allowance for doubtful debts of approximately RMB8,647,000).

Provision for warranty

The Group makes warranty provision based on information available prior to the issuance of the consolidated financial statements indicating that it is probable that the Group will be required to settle the present obligations. As disclosed in Note 29, the Group estimates the provision based on past experience. The actual settlement of these warranty costs may differ from the estimation made by management. If the costs are settled for an amount greater than management's estimation, a future charge to the profit or loss will result. Likewise, if the costs are settled for an amount that is less that the estimation, a future credit to the profit or loss will result.

5. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" ("HKFRS 8") with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. In contrast, the predecessor standard (HKAS 14 "Segment Reporting" ("HKAS 14")) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as a starting point for the identification of such segments. In the past, the Group's primarily reporting format was business segment. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segment as compared with the primary operating segment determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment of profit or loss.

The Group is organized into the following five operating segments:

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

Segment profit represents the profit caused by each segment without the allocation of central administrative costs, bank interest income, change in fair value of investment properties, change in fair value of derivative financial instrument, net gain or loss on held-for-trading investments, share option expenses, share of results of an associate and finance costs. This is the measure reported to the chief operating decision makers for the purpose of resource allocation and assessment of segment performance.

The assets of the Group are allocated based on the operations of the segments. However, investment in an associate, pledged bank deposits, and bank balances and cash, are not entirely allocated to the segments.

The liabilities of the Group are allocated based on the operations of the segments. However, amounts due to shareholders, derivative financial instrument, convertible loan notes, bank borrowings, tax payables and deferred tax liabilities (included in others), are not entirely allocated to the segments.

Inter-segment sales are charged at prevailing market prices.

5. SEGMENT INFORMATION (continued)

An analysis of the Group's reportable segment profit before tax by operating segment is as follows:

	Engines and parts RMB'000	Automotive components and accessories RMB'000	Specialized vehicles RMB'000	Trading of raw materials, water and power supply RMB'000	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
For the year ended 31 December 2009							
Revenue							
External sales	3,214,228	5,049,408	962,324	661,167	1,729	–	9,888,856
Inter-segment sales	338,678	62,776	115,100	3,207,521	–	(3,724,075)	–
Total	3,552,906	5,112,184	1,077,424	3,868,688	1,729	(3,724,075)	9,888,856
Segment profit (loss)	211,454	4,742	16,206	53,435	(10,221)		275,616
Bank interest income							20,553
Change in fair value of investment properties							2,024
Change in fair value of derivative financial instrument							(65,684)
Net gain (loss) on held-for-trading investments							4
Share option expenses							(945)
Central administration costs							(42,676)
Share of results of an associate							30
Finance costs							(49,210)
Profit before tax							139,712
Other information							
Capital additions	44,312	97,153	4,175	31,042	87		176,769
Depreciation of property, plant and equipment	24,868	26,096	3,089	10,455	977		65,485
Release of prepaid lease payments	–	129	–	–	–		129
Release of premium on prepaid lease payments	–	25	–	–	–		25
Impairment of trade receivables	254	309	–	–	11		574
(Gain) loss on disposal of property, plant and equipment	165	(780)	2	(77)	(4,380)		(5,070)
(Reversal of) allowance for inventories	14,152	(26,017)	–	–	–		(11,865)

5. SEGMENT INFORMATION (continued)

	Engines and parts RMB'000	Automotive components and accessories RMB'000	Specialized vehicles RMB'000	Trading of raw materials, water and power supply RMB'000	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
At 31 December 2009							
Assets							
Segment assets	2,019,546	3,344,288	393,983	1,126,143	39,646		6,923,606
Investment in an associate							2,434
Pledged bank deposits							835,653
Bank balances and cash							812,525
Consolidated assets							8,574,218
Liabilities							
Segment liabilities	1,811,342	2,428,386	208,806	2,162,029	16,011		6,626,574
Amounts due to shareholders							815,106
Derivative financial instrument							83,861
Convertible loan notes							77,402
Bank borrowings							238,100
Others							33,013
Consolidated liabilities							7,874,056

5. SEGMENT INFORMATION (continued)

	Engines and parts RMB'000	Automotive components and accessories RMB'000	Specialized vehicles RMB'000	Trading of raw materials, water and power supply RMB'000	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
For the year ended 31 December 2008							
Revenue							
External sales	2,678,898	3,143,504	615,919	671,288	2,302	–	7,111,911
Inter-segment sales	365,015	49,495	173,184	2,232,155	–	(2,819,849)	–
Total	3,043,913	3,192,999	789,103	2,903,443	2,302	(2,819,849)	7,111,911
Segment profit (loss)	131,959	46,290	14,113	54,127	(7,710)		238,779
Bank interest income							13,249
Change in fair value of investment properties							2,153
Net gain (loss) on held-for-trading investments							(245)
Central administration costs							(44,955)
Share of results of an associate							802
Finance costs							(45,014)
Profit before tax							164,769
Other information							
Capital additions	30,003	135,252	666	21,616	531		188,068
Depreciation of property, plant and equipment	21,344	22,669	3,004	6,741	4,551		58,309
Release of prepaid lease payments	–	201	–	–	–		201
Release of premium on prepaid lease payments	–	25	–	–	–		25
Impairment of trade receivables	1,305	840	1,075	–	13		3,233
(Gain) loss on disposal of property, plant and equipment	(937)	288	–	(104)	188		(565)
Allowance for inventories	16,104	–	–	–	–		16,104

5. SEGMENT INFORMATION (continued)

	Engines and parts RMB'000	Automotive components and accessories RMB'000	Specialized vehicles RMB'000	Trading of raw materials, water and power supply RMB'000	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
At 31 December 2008							
Assets							
Segment assets	1,472,501	2,209,577	323,172	396,459	48,372		4,450,081
Investment in an associate							3,304
Pledged bank deposits							624,601
Bank balances and cash							596,066
Consolidated assets							5,674,052
Liabilities							
Segment liabilities	1,091,201	1,347,475	140,894	1,135,075	11,336		3,725,981
Amount due to a shareholder							989,580
Bank borrowings							217,316
Others							33,945
Consolidated liabilities							4,966,822

Geographical information

(a) Revenue from external customers

The Group's operations are located in Hong Kong and the PRC (excluding Hong Kong). The following table provides an analysis of the Group's revenue by geographical market based on the location of customers, irrespective of the origin of the goods and services.

	Revenue by geographical market **2009 RMB'000**	2008 RMB'000
The PRC (excluding Hong Kong)	**9,887,127**	7,109,609
Hong Kong	**1,729**	2,302
Consolidated	**9,888,856**	7,111,911

5. SEGMENT INFORMATION (continued)

Geographical information (continued)

(b) Non-current assets

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

	Carrying amount of non-current assets	
	2009 **RMB'000**	2008 RMB'000
Hong Kong	**28,493**	18,870
Philippines	**180**	180
The PRC (excluding Hong Kong)	**761,682**	627,728
	790,355	646,778

Information about a major customer

Revenue of approximately RMB302,375,000, RMB3,414,082,000 and RMB5,098,896,000 (2008: RMB338,519,000, RMB2,898,253,000 and RMB3,694,035,000) was derived from sales to a single customer in respect of the trading of raw materials, water and power supply's segment, engines and parts' segment and automotive components and accessories' segment respectively.

6. REVENUE AND OTHER INCOME

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

	2009 **RMB'000**	2008 RMB'000
Sales of goods	**9,887,127**	7,109,609
Commission and interest income from securities dealing and margin finance	**1,453**	1,561
Gross property rental income	**276**	741
	9,888,856	7,111,911
Other income	**84,758**	85,057
	9,973,614	7,196,968

6. REVENUE AND OTHER INCOME (continued)

Details of other income are as follows:

	2009 RMB'000	2008 RMB'000
Sales of scrap materials and parts	**47,514**	55,965
Bank interest income	**20,553**	13,249
Service income on repairs and maintenance	**2,784**	7,381
Foreign exchange gains, net	**–**	819
Machinery rental income	**1,083**	505
Dividend income from held-for-trading investments	**52**	16
Project income	**5,606**	3,466
Gain on disposal of property, plant and equipment	**5,070**	565
Others	**2,096**	3,091
	84,758	85,057

7. FINANCE COSTS

	2009 RMB'000	2008 RMB'000
Interests on:		
– borrowings wholly repayable within five years	**9,385**	12,515
– borrowings not wholly repayable within five years	**239**	866
– advances drawn on bills receivables	**31,606**	31,582
– obligations under finance leases	**50**	51
– convertible loan notes (Note 30)	**7,930**	–
	49,210	45,014

8. INCOME TAX EXPENSE

	2009 RMB'000	2008 RMB'000
Tax charge represents:		
PRC Enterprise Income Tax		
Current	**34,119**	36,741
Tax deduction in respect of the acquisition of qualified assets in the PRC	**(5,351)**	(2,139)
Overprovision in prior years	**(2,350)**	(8,677)
	26,418	25,925
Deferred tax (Note 33)		
Current year	**4,675**	1,964
Attributable to a change in tax rate	**–**	(7)
	4,675	1,957
	31,093	27,882

Hong Kong

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

No provision for Hong Kong Profits Tax has been made for both years as the Group has available tax losses brought forward from prior years to offset the estimated assessable profits arising in Hong Kong.

The PRC

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

Pursuant to the tax notice, Caishui [2001] No. 202, and the Implementation Regulations of the New Law issued by the State Council of the PRC on 6 December 2008, other than Liuzhou Wuling Motors Industrial Company Limited ("Wuling Industrial") which was subject to PRC income tax rate of 25% for the year ended 31 December 2008, all the Group's major PRC operating subsidiaries would continue to enjoy a preferential income tax rate of 15% until 2010 because (i) they were located in the western region of the PRC; (ii) their main business fell into the National Key Encouraged Industry and Technology Catalogue; and (iii) their sale revenue generated from their main business exceeded 70% of their total income.

For the year ended 31 December 2009, pursuant to the tax notice, Liuzhou Liunan [2010] No. 001, Wuling Industrial, also became entitled to a preferential income tax rate of 15% in 2009 and 2010.

8. INCOME TAX EXPENSE (continued)

The PRC (continued)

The New Law also requires withholding tax upon distribution of profits earned by the PRC subsidiaries since 1 January 2008. Deferred tax of RMB4,595,000 (2008: RMB2,133,000) has been provided in full in respect of the undistributed earnings of the Group's PRC subsidiaries as a charge to the consolidated statement of comprehensive income.

The income tax expense for the year can be reconciled to the profit before tax as follows:

	2009 RMB'000	2008 RMB'000
Profit before tax	**139,712**	164,769
Tax at the domestic income tax rate of 15% (2008: 15%) (Note)	**20,957**	24,715
Tax effect of share of results of an associate	**5**	(120)
Tax effect of expenses not deductible for tax purposes	**11,705**	4,052
Tax effect of income not taxable for tax purposes	**(72)**	–
Tax effect of tax losses not recognized	**1,973**	854
Tax effect of utilisation of tax losses previously not recognized	**(369)**	(594)
Tax effect of different tax rate used by certain subsidiaries	**–**	7,665
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	**–**	(7)
Tax effect of undistributed profits of PRC subsidiaries	**4,595**	2,133
Overprovision in prior years	**(2,350)**	(8,677)
Tax deduction in respect of the acquisition of qualified assets in the PRC	**(5,351)**	(2,139)
Income tax expense	**31,093**	27,882

Note: This represents the domestic income tax rate of the jurisdiction where a substantial portion of the Group's operation is based.

Details of movement in deferred tax are set out in Note 33.

9. PROFIT FOR THE YEAR

	2009 RMB'000	2008 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments (Note 10)	**5,176**	4,342
Other staff costs	**360,827**	311,447
Retirement benefit scheme contributions, excluding directors	**46,447**	52,285
Equity-settled share-based payments – others staff	**–**	4,814
Total staff costs	**412,450**	372,888
Gross property rental income	**276**	741
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	**(11)**	(79)
Net rental income	**265**	662
Auditor's remuneration	**2,207**	2,226
Cost of inventories recognised as an expense	**9,016,957**	6,339,666
Depreciation of property, plant and equipment	**65,485**	58,309
Gain on disposal of property, plant and equipment	**(5,070)**	(565)
Impairment losses recognised on trade receivables	**574**	3,233
Release of prepaid lease payments (included in general and administrative expenses)	**129**	49
Release of premium on prepaid lease payments (included in general and administrative expenses)	**25**	25
Research and development expenses	**42,735**	40,259
(Reversal of) allowance for inventories (included in cost of sales)	**(11,865)**	16,104

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the directors are as follows:

		Other emoluments			
	Fees RMB'000	Salaries and allowances RMB'000	Contributions to retirement benefits schemes RMB'000	Equity-settled share-based payments RMB'000	Total emoluments RMB'000
2009					
Lee Shing	**1,056**	**141**	**11**	**–**	**1,208**
He Shiji	**106**	**324**	**106**	**341**	**877**
Sun Shaoli	**106**	**334**	**102**	**–**	**542**
Wei Hongwen	**106**	**283**	**90**	**–**	**479**
Liu Yaling	**106**	**14**	**–**	**–**	**120**
Wang Shaohua	**106**	**14**	**–**	**302**	**422**
Pei Qingong	**106**	**14**	**–**	**302**	**422**
Yu Xiumiu	**92**	**5**	**–**	**–**	**97**
Zuo Duofu	**92**	**5**	**–**	**–**	**97**
Cheng Kin Wah, Thomas	**26**	**–**	**–**	**–**	**26**
Ye Xiang	**145**	**5**	**–**	**–**	**150**
Zhou Sheji	**106**	**619**	**11**	**–**	**736**
	2,153	**1,758**	**320**	**945**	**5,176**
2008					
Lee Shing	1,069	196	11	–	1,276
He Shiji	107	668	103	–	878
Sun Shaoli	107	14	–	–	121
Wei Hongwen	107	550	83	–	740
Liu Yaling	107	14	–	125	246
Wang Shaohua	107	14	–	125	246
Pei Qingong	107	14	–	125	246
Yu Xiumiu	53	3	–	64	120
Zuo Duofu	53	3	–	64	120
Cheng Kin Wah, Thomas	107	5	–	64	176
Ye Xiang	24	1	–	–	25
Zhou Sheji	24	121	3	–	148
	1,972	1,603	200	567	4,342

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2008: three) were directors of the Company whose emoluments are included in the disclosure in Note 10 above. The emolument of the remaining one (2008: two) individual is as follows:

	2009 RMB'000	2008 RMB'000
Salaries and other benefits	**915**	1,044
Bonus	**70**	85
Equity-settled share-based payments	**–**	3,718
Contributions to retirement benefits schemes	**11**	20
Total emoluments	**996**	4,867

Their emoluments were within the following bands:

	2009 Number of employees	2008 Number of employees
HK$ nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$3,000,000	**–**	–
HK$3,000,001 to HK$3,500,000	**–**	1

No emoluments were paid by the Group to the directors of the Company or the above individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during each of the two years ended 31 December 2009.

12. DIVIDENDS

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

13. (LOSS) EARNINGS PER SHARE

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

	2009 RMB'000	2008 RMB'000
(Loss) earnings		
(Loss) earnings for the purpose of basic and diluted (loss) earnings per share	**(21,928)**	32,647

	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share	**917,288**	917,288

The computation of diluted (loss) earnings per share for either year does not include (i) the assumed exercise of the outstanding share options as the exercise price was higher than the market price of the Company's shares throughout each of the two years ended 31 December 2009 and (ii) the assumed conversion of the Company's convertible loan notes issued in 2009.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Computers RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At Cost								
At 1 January 2008	24,957	1,006	338,135	9,312	7,307	10,982	63,537	455,236
Exchange realignment	(688)	(85)	–	(60)	(71)	(75)	–	(979)
Additions	2,478	124	65,805	3,020	1,742	2,802	112,097	188,068
Disposals	–	–	(10,887)	(478)	(2,624)	(1,234)	–	(15,223)
Transfer	8,168	–	8,019	–	–	–	(16,187)	–
At 31 December 2008	34,915	1,045	401,072	11,794	6,354	12,475	159,447	627,102
Exchange realignment	(7)	–	–	(1)	(1)	(1)	–	(10)
Additions	–	4	51,751	2,228	2,876	3,771	116,139	176,769
Disposals	(10,843)	(554)	(16,539)	(717)	(875)	(1,365)	–	(30,893)
Transfer	91,555	–	58,884	–	–	–	(150,439)	–
At 31 December 2009	115,620	495	495,168	13,304	8,354	14,880	125,147	772,968
Depreciation and Amortisation								
At 1 January 2008	1,032	183	7,105	587	1,312	572	–	10,791
Exchange realignment	(45)	(24)	–	(42)	(47)	(6)	–	(164)
Provided for the year	1,610	249	49,540	2,538	1,329	3,043	–	58,309
Eliminated on disposals	–	–	(8,645)	(274)	(1,875)	(1,105)	–	(11,899)
At 31 December 2008	2,597	408	48,000	2,809	719	2,504	–	57,037
Exchange realignment	(1)	–	–	–	–	(1)	–	(2)
Provided for the year	2,253	181	54,648	2,791	2,601	3,011	–	65,485
Eliminated on disposals	(1,226)	(264)	(13,826)	(659)	(834)	(1,243)	–	(18,052)
At 31 December 2009	3,623	325	88,822	4,941	2,486	4,271	–	104,468
Carrying Value								
At 31 December 2009	111,997	170	406,346	8,363	5,868	10,609	125,147	668,500
At 31 December 2008	32,318	637	353,072	8,985	5,635	9,971	159,447	570,065

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight line basis at the following rates per annum:

Leasehold land and buildings	Over the shorter of 20 years or the remaining lease terms
Leasehold improvements	Over the shorter of the lease terms and the useful life of 5 years
Plant and machinery	10%
Furniture, fixtures and equipment	15% – 20%
Computers	10% – 33%
Motor vehicles	16% – 25%

Included in leasehold land and buildings are certain owner-occupied leasehold land and buildings of approximately RMB1,396,000 (2008: RMB9,735,000) in Hong Kong, where in the opinion of the directors of the Company, allocation between the land and building elements could not be made reliably.

The carrying value of properties shown above comprises:

	2009 RMB'000	2008 RMB'000
Land in Hong Kong:		
Long leases	**1,396**	9,735
Land in the PRC:		
Medium term leases	**110,601**	22,583
	111,997	32,318

The net book value of motor vehicles held under finance leases amounted to RMB455,000 (2008: RMB807,000).

Property, plant and equipment of approximately RMB1,851,000 (2008: RMB9,735,000) at the ended of reporting period have been pledged to secure banking facilities granted to the Group.

15. PREPAID LEASE PAYMENTS

	2009 RMB'000	2008 RMB'000
Analysed for reporting purposes as:		
Current assets	**937**	201
Non-current assets	**44,975**	13,912
	45,912	14,113

The amounts represent upfront payments for the right to use land in the PRC for periods between 40 to 50 years.

16. PREMIUM ON PREPAID LEASE PAYMENTS

The amount represents the fair value adjustment on the prepaid lease payments and is amortised over the lease term of the related prepaid lease payments on a straight line basis.

17. INVESTMENT PROPERTIES

	2009 RMB'000	2008 RMB'000
Fair value at 1 January	**6,172**	19,737
Exchange adjustment	**–**	(1,017)
Addition	**23,400**	–
Net increase in fair value recognised in profit or loss	**2,024**	2,153
Disposal	**(6,455)**	(14,701)
Fair value at 31 December	**25,141**	6,172

All of the Group's investment property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties. The Group's investment properties are all situated in Hong Kong and are held under long leases.

The fair value of the Group's investment properties at 31 December 2009 was arrived at on the basis of a valuation carried out as of that day by Vigers Appraisal & Consulting Limited, independent qualified professional valuers not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar transactions.

All of the Group's investment properties have been pledged to secure banking facilities granted to the Group.

18. INTANGIBLE ASSETS

	Stock exchange trading rights RMB'000
Cost	
At 1 January 2008 and 31 December 2008 and 2009	9,212
Impairment	
At 1 January 2008 and 31 December 2008 and 2009	8,284
Carrying Value	
At 31 December 2009 and 2008	928

In the opinion of the directors of the Company, the carrying amounts of the stock exchange trading rights, which are considered to have indefinite lives, approximate to their recoverable amounts which are based on their market values.

19. INTEREST IN AN ASSOCIATE

	2009 RMB'000	2008 RMB'000
Cost of investment in an associate		
– unlisted equity investment in the PRC	**2,282**	2,282
Share of post-acquisition profits, net-off dividend received	**152**	1,022
	2,434	3,304

The Group holds a 30% interest in 柳州五菱物流有限公司 which is a limited liability company established in the PRC and is engaged in the business of logistic services.

19. INTEREST IN AN ASSOCIATE (continued)

The summarised financial information in respect of the Group's associate is set out below:

	2009 RMB'000	2008 RMB'000
Total assets	**46,295**	37,857
Total liabilities	**(38,182)**	(26,844)
Net assets	**8,113**	11,013
Group's share of net assets of an associate	**2,434**	3,304
Revenue	**128,285**	90,277
Profit for the year	**100**	2,673
Group's share of results of an associate for the year	**30**	802

20. AVAILABLE-FOR-SALE INVESTMENTS

These investments represent unlisted equity securities issued by private entities established in the PRC. They are 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 their fair values cannot be measured reliably.

21. INVENTORIES

	2009 RMB'000	2008 RMB'000
Raw materials	**403,044**	251,371
Work in progress	**65,271**	122,809
Finished goods	**327,374**	226,093
	795,689	600,273

22. LOANS RECEIVABLE

Loans receivable comprise margin clients accounts receivable of RMB450,000 (2008: RMB68,000).

The margin clients accounts receivable are secured by the underlying pledged securities, repayable on demand and bear interest at annual effective rates of 10% to 11% (2008: 10% to 11%) per annum. No aged analysis is disclosed, as in the opinion of the directors of the Company, an aged analysis is not relevant in view of the nature of the business of securities margin financing.

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

(i) Trade and other receivables

	2009 RMB'000	2008 RMB'000
Trade and bills receivables		
– related party (Note a)	**2,490,458**	2,062,678
– Liuzhou Wuling Group (Note b)	**74,465**	70,082
– third parties	**1,270,221**	567,683
	3,835,144	2,700,443
Less: Allowance for doubtful debts	**(7,080)**	(8,647)
	3,828,064	2,691,796
Other receivables:		
Prepayments paid for expenses	**5,348**	4,153
Prepayments paid for purchase of raw materials	**137,800**	110,256
Value-added tax recoverable	**8,415**	3,962
Others	**15,467**	51,042
	167,030	169,413
	3,995,094	2,861,209

Notes:

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

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

23. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLES DISCOUNTED WITH RECOURSE (continued)

(i) Trade and other receivables (continued)

The aged analysis of the Group's trade and bills receivables based on the invoice date (net of allowance for doubtful debts) as at the end of the reporting period is as follows:

	2009 **RMB'000**	2008 RMB'000
0 – 90 days	**3,693,060**	2,676,893
91 – 180 days	**48,095**	14,474
181 – 365 days	**86,873**	117
Over 365 days	**36**	312
	3,828,064	2,691,796

Aging of trade receivables which are past due but not impaired

	2009 **RMB'000**	2008 RMB'000
181 – 365 days	**86,873**	117
Over 365 days	**36**	312
Total	**86,909**	429

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

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.

The settlement term of trade receivables arising from the Group's securities dealing and brokerage business is two days after the trade date.

It is the Group's policy to provide fully for all receivables which are past due, i.e. those over 180 days, because historical experience is such that receivables that are past due beyond 180 days are generally not recoverable. However, included in the Group's trade receivable balance are debtors with an aggregate carrying amount of RMB86,909,000 (2008: RMB429,000) which were past due at the reporting date but for which the Group has not provided impairment loss because the Group believes that the amounts are still recoverable as there has not been a significant deterioration in credit quality of these customers and there are continuing subsequent settlements. The Group does not hold any collateral over these balances.

23. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLES DISCOUNTED WITH RECOURSE (continued)

(i) Trade and other receivables (continued)

Movement in the allowance for doubtful debts

	2009 RMB'000	2008 RMB'000
Balance at beginning of the year	**8,647**	6,204
Exchange realignment	**–**	(626)
Amounts recovered during the year	**(2,097)**	–
Impairment losses recognised on trade receivables	**574**	3,233
Amounts written off as uncollectible	**(44)**	(164)
Balance at end of the year	**7,080**	8,647

The amounts of the Group's trade and other receivables denominated in a currency other than the functional currency of the relevant group entities are set out below:

	2009 RMB'000	2008 RMB'000
Trade and other receivables – Hong Kong Dollars ("HKD")	**3,278**	2,866

(ii) Bills receivables discounted with recourse

The amounts represent bills receivables already discounted to banks with recourse with a maturity period of less than 180 days. The Group retains all the risks and rewards of such bills and accordingly, the Group recognises the full amount of the discount proceeds as liabilities as set out in Note 27(ii).

24. HELD-FOR-TRADING INVESTMENTS

	2009 RMB'000	2008 RMB'000
Listed equity investments, at market value:		
Hong Kong	**7**	3

25. CLIENT TRUST BANK ACCOUNTS

These represent clients' trust monies kept in the trust bank accounts of a subsidiary engaged in the securities dealing business. The application of amounts maintained in such trust bank accounts is prescribed by the Securities and Futures Ordinance. The Group has classified the clients' monies as client trust bank accounts under the current assets section of the consolidated statement of financial position and recognised the corresponding accounts payable to respective clients on the ground that it is liable for any loss or misappropriation of clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

The amount in the Group's client trust bank accounts are all denominated in HKD.

26. PLEDGED BANK DEPOSITS AND BANK BALANCES

The pledged bank deposits are used to secure the bills payable and short-term bank borrowings which are payable within one year. Accordingly, the pledged bank deposits are classified as current assets. Bank balances and cash comprise cash held by the Group with the original maturity of three months or less.

The pledged bank deposits and bank balances carried variable interest rates as follows:

	2009	2008
Pledged deposits	**0.66% to 1.98%**	0.72% to 1.98%
Bank balances	**0.1% to 1.17%**	0.1% to 0.72%

The amounts of the Group's bank balances and cash denominated in a currency other than the functional currency of the relevant group entities are set out below:

	2009 RMB'000	2008 RMB'000
Bank balances and cash – HKD	**8,626**	5,998

27. TRADE AND OTHER PAYABLES AND ADVANCES DRAWN ON BILLS RECEIVABLES DISCOUNTED WITH RECOURSE

(i) Trade and other payables

The aged analysis of the Group's trade and bills payables at the end of the reporting period is as follows:

	2009 RMB'000	2008 RMB'000
Trade and bills payables:		
– third parties	**4,633,420**	2,992,433
Trade and bills payables:		
0 – 90 days	**4,508,295**	2,965,190
91 – 180 days	**95,714**	8,125
181 – 365 days	**8,603**	15,075
Over 365 days	**20,808**	4,043
	4,633,420	2,992,433
Other payables and accruals	**533,854**	287,165
	5,167,274	3,279,598

27. TRADE AND OTHER PAYABLES AND ADVANCES DRAWN ON BILLS RECEIVABLES DISCOUNTED WITH RECOURSE (continued)

(i) Trade and other payables (continued)

The settlement terms of the trade payables arising from the Group's securities dealing and brokerage business is two days after the trade date. The Group is granted average credit period of 90 days to 180 days by its trade suppliers for purchase of goods.

The amount of the Group's trade and other payables denominated in a currency other than the functional currency of the relevant group entities are set out below:

	2009 RMB'000	2008 RMB'000
Trade and other payables – HKD	**15,599**	5,291

(ii) Advances drawn on bills receivables discounted with recourse

The amounts represent the Group's bank borrowings secured by bills discounted to banks with recourse (see Note 23(ii)). The ranges of effective interest rates per annum in respect of these bank borrowings are as follows:

	2009	2008
Effective interest rates per annum	**1.50% to 2.82%**	3.50% to 6.24%

28. AMOUNTS DUE TO SHAREHOLDERS/AN ASSOCIATE

	2009 RMB'000	2008 RMB'000
Liuzhou Wuling (Note ii)	**811,590**	989,580
Dragon Hill Development Limited (Note iii)	**3,516**	–
	815,106	989,580
柳州五菱物流有限公司(Note i and ii)	**11,371**	20,467
	826,477	1,010,047

Notes:

(i) 柳州五菱物流有限公司 is a 30% associate of the Group. The amount is trade in nature and aged within the credit period of 90 days.

(ii) Both balances are unsecured, non-interest bearing and repayable on demand.

(iii) Dragon Hill Development Limited is a substantial shareholder of the Company. The amount is unsecured, bearing interest at 5% per annum and repayable on demand.

29. PROVISION FOR WARRANTY

	RMB'000
At 1 January 2008	64,279
Additional provision in the year	84,123
Utilization of provision	(65,176)
At 31 December 2008	83,226
Additional provision in the year	87,153
Utilization of provision	(58,640)
At 31 December 2009	111,739

The warranty provision represents management's best estimate, with reference to prior experience and industry averages for defective products, of the Group's liabilities under its 2-year product warranty granted to its specialized vehicles, automobile components and engines customers.

30. DERIVATIVE FINANCIAL INSTRUMENT/CONVERTIBLE LOAN NOTES

On 12 January 2009, the Company issued convertible loan notes with principal sum of HK$100,000,000 at par (equivalent to approximately RMB88,069,000) to Wuling (Hong Kong) Holdings Limited ("Wuling HK"), a substantial shareholder of the Company ("CN 2014"). CN 2014 is denominated in Hong Kong dollars and carries interest at 6% per annum with maturity on 12 January 2014. CN 2014 entitles the holder to convert, in whole or in part, the principal sum into ordinary shares of the Company on any business days commencing from 12 January 2010 upto the fifth business days prior to the maturity date, at a conversion price of HK$0.74 per ordinary share, subject to anti-dilutive adjustments. If not converted, CN 2014 will be redeemed on the maturity date at par.

The fair values at initial recognition of the liability component and conversion option component of HK$79,248,000 (approximately RMB69,755,000) and HK$20,752,000 (approximately RMB18,314,000) respectively are determined based on the valuation provided by Grant Sherman Appraisal Limited, independent professional qualified valuers not connected with the Group. Subsequent to initial recognition, the liability component is carried at amortised cost using the effective interest method at an interest rate of 11.64%.

30. DERIVATIVE FINANCIAL INSTRUMENT/CONVERTIBLE LOAN NOTES (continued)

The movement of the liability and the conversion option components of CN 2014 during the year is as follows:

	Liability component RMB'000	**Conversion option component** RMB'000
At date of issue	69,755	18,314
Effective interest expense	7,930	–
Change in fair value during the year	–	65,684
Exchange difference	(283)	(137)
At 31 December 2009	77,402	83,861
Less: Amount included in current liabilities	(5,115)	(83,861)
Amount due after one year	72,287	–

The methods and assumptions applied for the valuation of CN 2014 are as follows:

(i) Valuation of liability component

The fair value of the liability component on initial recognition was calculated based on the present value of contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the credit rating of the Company and remaining time to maturity.

(ii) Valuation of conversion option component

The conversion option component is measured at fair value using the Binomial Option Pricing Model, at initial recognition and at the end of the reporting period. The inputs into the model as at the respective dates are as follows:

	At 31 December 2009	At date of issue
Share price	HK$1.18	HK$0.49
Conversion price	HK$0.74	HK$0.74
Expected dividend yield	0%	0%
Volatility	63.00%	46.64%

31. BANK BORROWINGS

	2009 RMB'000	2008 RMB'000
Bank overdrafts	**9,695**	–
Bank loans	**228,405**	217,316
	238,100	217,316
Secured	**32,430**	30,488
Unsecured	**205,670**	186,828
	238,100	217,316
Amounts repayable:		
On demand or within one year	**220,566**	197,028
More than one year, but not exceeding two years	**2,099**	3,841
More than two years, but not exceeding five years	**5,355**	9,085
More than five years	**10,080**	7,362
	238,100	217,316
Less: Amount due within one year shown under current liabilities	**(220,566)**	(197,028)
	17,534	20,288

The exposure of the Group's borrowings and the contractual maturity dates are as follows:

	2009 RMB'000	2008 RMB'000
Fixed-rate borrowings		
On demand or within one year	**201,254**	181,106
More than one year, but not exceeding two years	**1,255**	1,106
More than two years, but not exceeding five years	**3,159**	3,318
More than five years	**–**	1,298
	205,668	186,828
Variable-rate borrowings		
On demand or within one year	**19,312**	15,921
More than one year, but not exceeding two years	**844**	2,735
More than two years, but not exceeding five years	**2,196**	5,767
More than five years	**10,080**	6,065
	32,432	30,488
Total borrowings	**238,100**	217,316

31. BANK BORROWINGS (continued)

At 31 December 2009, except for bank loans for RMB32,430,000 (2008: RMB30,488,000) and RMB5,669,000 (2008: RMB6,828,000) which were denominated in Hong Kong dollars and Euro, respectively, all the Group's bank borrowings were denominated in RMB.

The collaterals for the Group's secured bank borrowings are:

(i) mortgages over the Group's investment properties situated in Hong Kong, which had an aggregate carrying amount of RMB25,141,000 (2008: RMB6,172,000) as set out in Note 17.

(ii) a mortgage over the Group's property, plant and equipment which had a carrying value at the end of the reporting period of RMB1,851,000 (2008: RMB9,735,000) as set out in Note 14.

(iii) a pledged bank deposit of RMB4,395,000 (2008: Nil).

The Group's unsecured bank borrowings are supported by:

(i) A personal guarantee to the extent of HK$15,000,000 (2008: HK$20,000,000) given by Mr. Lee Shing, a director of the Company.

(ii) Corporate guarantees to the extent of RMB400,000,000 (2008: RMB400,000,000) given by Liuzhou Wuling.

(iii) An unlimited deed of guarantee by Mr. Lee Shing in respect of the bank overdraft.

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

	2009 **%**	2008 %
Effective interest rate:		
Fixed rate borrowings	**4.5 to 5.31**	4.5 to 6.39
Variable-rate borrowings	**1.87 to 5.75**	1.87 to 4.8

32. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is five years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates from 4.8% to 5.5%.

	Minimum lease payments		Present value of minimum lease payments	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Amounts payable under finance leases				
Within one year	**302**	320	**254**	270
In more than one year but not more than two years	**98**	302	**79**	254
In more than two years but not more than five years	**98**	196	**79**	158
	498	818	**412**	682
Less: Future finance charges	**(86)**	(136)	**–**	–
Present value of lease obligations	**412**	682	**412**	682
Less: Amount due for settlement with 12 months			**(254)**	(270)
Amount due for settlement after 12 months			**158**	412

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

33. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation RMB'000	Revaluation of properties RMB'000	Tax losses RMB'000	Withholding tax on undistributed earnings of the PRC subsidiaries RMB'000	Total RMB'000
At 1 January 2008	131	884	(805)	–	210
Effect of change in tax rate	–	(15)	8	–	(7)
Charge (credit) to profit or loss	61	205	(435)	2,133	1,964
Disposal of an investment property	–	(946)	946	–	–
Exchange differences	(7)	(43)	41	–	(9)
At 31 December 2008	185	85	(245)	2,133	2,158
(Credit) charge to profit or loss	(97)	270	(93)	4,595	4,675
Disposal of investment properties	–	(85)	85	–	–
At 31 December 2009	88	270	(253)	6,728	6,833

At the end of the reporting period, the Group had unused tax losses of approximately RMB214,804,000 (2008: RMB203,480,000). A deferred tax asset has been recognised in respect of tax losses of RMB1,687,000 (2008: RMB1,633,000), no deferred tax assets has been recognised in respect of the remaining tax losses of RMB213,117,000 (2008: RMB201,847,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation amounting to RMB6,728,000 (2008: RMB2,133,000) has been provided for in the consolidated financial statements in respect of withholding tax on undistributed earnings of the PRC subsidiaries.

34. SHARE CAPITAL

	2009 & 2008 RMB'000
Authorised:	
25,000,000,000 ordinary shares of HK$0.004 each	100,000
1,521,400,000 convertible preference shares of HK$0.001 each	1,521
	101,521
Issued and fully paid:	
917,288,049 ordinary shares of HK$0.004 each	3,659

35. SHARE OPTION SCHEME

On 11 June 2002, the Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

(i) A summary of the share option scheme of the Group is as follows:

Purpose

Provide incentives and rewards to eligible participants.

Participants

Eligible participants include:

(a) any employee(s) (whether full-time or part-time employee(s), including any executive director but not any non-executive director) of the Company and its subsidiaries;

(b) any non-executive director (including independent non-executive directors) of the Company and its subsidiaries;

(c) any supplier of goods or services to any member of the Group;

(d) any customer of the Group;

(e) any person or entity that provides research, development or other technological support to the Group; and

(f) any shareholder of any member of the Group or any holder of any securities issued by any member of the Group.

Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of the annual report

91,728,804 (2008: 91,728,804) ordinary shares, being 10% (2008: 10%) of the issued share capital.

35. SHARE OPTION SCHEME (continued)

(i) A summary of the share option scheme of the Group is as follows: (continued)

Maximum entitlement of each participant

The maximum number of ordinary shares shall not exceed 1% of the issued ordinary share capital of the Company in issue in any 12-month period.

Period within which the securities must be taken up under an option

Subject to the discretion on issuance of board of directors.

Minimum period for which an option must be held before it can be exercised

Not applicable.

Amount payable on acceptance

HK$1.00

Period within which payments/calls/loans must be made/repaid

Not applicable.

Basis of determining the exercise price

Determined by the directors of the Company at their discretion and shall not be lower than the highest of:

(a) the closing price of the ordinary shares on the Stock Exchange at the offer date, which must be a trading day;

(b) the average closing price of the ordinary shares on the Stock Exchange for the five business days immediately preceding the offer date; and

(c) the nominal value of an ordinary share.

The remaining life of the scheme

The Scheme will be valid and effective until 7 July 2012, after which no further options will be granted but the provisions of the Scheme shall remain in full force and effect in all other respects. Options complying with the provisions of the Listing Rules which are granted during the duration of the Scheme and remain unexercised immediately prior to 7 July 2012 shall continue to be exercisable in accordance with their terms of grant within the option period for which such options are granted, notwithstanding the expiry of the Scheme.

35. SHARE OPTION SCHEME (continued)

(ii) The following table discloses details of the Company's share options held by directors and employees and movements in such holding during the current and prior years:

For the year ended 31 December 2009

				Number of share options			
Date of grant	Vesting period	Exercise period	Exercise price per share	As at 1 January 2009	Granted during the year	Lapsed/ cancelled during the year	As at 31 December 2009
Directors							
2 January 2008	Nil	From 21 January 2008 to 31 December 2009	HK$2.318	1,590,000	–	(1,590,000)	–
29 December 2009	Nil	From 30 December 2009 to 31 December 2012	HK$1.070	–	2,500,000	–	2,500,000
29 December 2009	Nil	From 21 January 2010 to 31 December 2012	HK$1.070	–	5,900,000	–	5,900,000
29 December 2009	From 30 December 2009 to 29 December 2010	From 30 December 2010 to 31 December 2013	HK$1.070	–	2,500,000	–	2,500,000
29 December 2009	From 21 January 2010 to 20 January 2011	From 21 January 2011 to 31 December 2013	HK$1.070	–	5,900,000	–	5,900,000
				1,590,000	16,800,000	(1,590,000)	16,800,000
Employees							
(Continuous Contracts)							
2 January 2008	Nil	From 21 January 2008 to 31 December 2009	HK$2.318	13,480,000	–	(13,480,000)	–
29 December 2009	Nil	From 21 January 2010 to 31 December 2012	HK$1.070	–	31,050,000	–	31,050,000
29 December 2009	From 21 January 2010 to 20 January 2011	From 21 January 2011 to 31 December 2013	HK$1.070	–	31,050,000	–	31,050,000
				13,480,000	62,100,000	(13,480,000)	62,100,000
Total				15,070,000	78,900,000	(15,070,000)	78,900,000

35. SHARE OPTION SCHEME (continued)

(ii) The following table discloses details of the Company's share options held by directors and employees and movements in such holding during the current and prior years: (continued)

For the year ended 31 December 2008

Date of grant	Exercise date	Exercise price per share	Number of share options: As at 1 January 2008	Granted during the year	Lapsed during the year	As at 31 December 2008
Directors						
2 January 2008	From 21 January 2008 to 31 December 2009	HK$2.318	–	1,590,000	–	1,590,000
Employees						
(Continuous Contracts)						
2 January 2008	From 21 January 2008 to 31 December 2009	HK$2.318	–	13,730,000	(250,000)	13,480,000
Total			–	15,320,000	(250,000)	15,070,000

On 29 December 2009, 78,900,000 share options were granted in which 39,450,000 share options may be exercisable commencing from the date of acceptance until 31 December 2012 and the remaining 39,450,000 share options shall be exercisable commencing from the date falling on the first anniversary of the date of acceptance until 31 December 2013. A number of 5,000,000 share options were accepted by the grantees before 31 December 2009. The remaining 73,900,000 were accepted by the grantees subsequent to 31 December 2009. The estimated fair values of the 78,900,000 options granted on that date are ranged from HK$0.3606 to HK$0.4701 per share.

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

On 2 January 2008, 15,320,000 share options were granted and were subsequently accepted by the grantees. The share options were vested immediately on the date of acceptance.

The fair values of the share options were calculated using the Binominal Option Pricing Model (the "Model") by Vigers Appraisal & Consulting Limited, an independent third party. The Model is one of the commonly used models to estimate the fair value of the options. The value of an option varies with different variables of certain subjective assumptions. Any changes in the variables so adopted may materially affect the estimation of the fair value of an option. The inputs into the Model were as follows:

Grant date	29 December 2009	2 January 2008
Share price	HK$1.030	HK$2.07
Exercise price	HK$1.070	HK$2.318
Expected life	3 to 4 years	1.2 to 1.4 years
Standard deviation	63.0% to 65.2%	50%
Dividend yield	0%	0%
Risk-free interest rate	1.117% to 1.547%	1.769%

35. SHARE OPTION SCHEME (continued)

(ii) The following table discloses details of the Company's share options held by directors and employees and movements in such holding during the current and prior years: (continued)

Expected volatility of 63.0% to 65.2% (2008: 50%) was determined by comparing to companies in similar industry. The expected life used in the Model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised a total expense of RMB945,000 (2008: RMB5,381,000) for the year ended 31 December 2009 in relation to 5,000,000 share options granted and accepted during the year.

36. CAPITAL COMMITMENTS

	2009 RMB'000	2008 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of construction in progress	**81,273**	18,214
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**7,431**	120,569
	88,704	138,783

37. PLEDGE OF ASSETS

At the respective end of the reporting period, the Group's bank borrowings and credit facilities from financial institutions were secured by the following:

	2009 RMB'000	2008 RMB'000
Bank deposits	**835,653**	624,601
Property, plant and equipment	**1,851**	9,735
Investment properties	**25,141**	6,172
Bills receivables discounted with recourse	**1,335,778**	342,008
	2,198,423	982,516

38. RETIREMENT BENEFITS PLANS

The Group's subsidiaries in the PRC participate in state-managed retirement plans pursuant to which the Group pays a fixed percentage of its qualifying staff's wages as contributions to the plans. The contributions payable to the retirement plans in respect of the year are charged to profit or loss when employees have rendered service entitling them to the contribution.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

39. NON-CASH TRANSACTIONS

During the year ended 31 December 2008, purchase of property, plant and equipment of RMB1,030,000 was acquired through inception of finance lease.

During the year ended 31 December 2009, deposits paid for acquisition of property, plant and equipment of RMB51,170,000 was transferred to property, plant and equipment.

40. OPERATING LEASES

The Group as lessor

Machinery rental income earned during both years are as disclosed in Note 6. All machineries held have committed lessees for the next year.

Properties rental income earned during the year was RMB276,000 (2008: RMB741,000). All of the properties held have committed tenants for the next one year.

At the end of the reporting period, the Group had contracted with lessees for the following future minimum lease receipts:

	2009 **RMB'000**	2008 RMB'000
Within one year	**689**	127
In the second to fifth year inclusive	**–**	4
	689	131

40. OPERATING LEASES (continued)

The Group as lessee

Minimum lease payments made under operating leases during the year was RMB31,373,000 (2008: RMB33,220,000).

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2009 **RMB'000**	2008 RMB'000
Within one year	**35,287**	29,884
In the second to fifth year inclusive	**55,543**	94
	90,830	29,978

Operating lease payments represent rental payable by the Group for certain of its office and warehouse properties with fixed monthly rentals for an average term of three years.

41. RELATED PARTY DISCLOSURES

(i) Related party transactions

Company	Transactions	**2009** **RMB'000**	2008 RMB'000
SGMW	Sales of goods	**8,683,069**	6,831,300
	Purchases of materials	**1,776,753**	1,527,130
	Sales of raw materials	**132,284**	99,507
	Warranty expense	**38,265**	60,458
	Project income	**5,606**	3,466
Liuzhou Wuling Group	Sales of raw materials and automobile components	**80,598**	55,465
	Sales of specialized vehicles	**5,766**	7,333
	Purchases of automotive components and other accessories	**48,304**	27,081
	Purchases of mini passenger buses	**23,496**	16,009
	License fee paid	**3,300**	3,300
	Rental expense	**28,150**	28,150
	Procurement services of water and power	**1,149**	956
	Purchases of electronic devices and components	**1,759**	1,106
	Research and development expense	**96**	–
柳州五菱物流有限公司	Transportation expense	**85,154**	44,066
	Rental expense	**489**	465

41. RELATED PARTY DISCLOSURES (continued)

(ii) Related party balances

Details of the Group's outstanding balances with related parties are set out in Notes 23 and 28 respectively.

(iii) Guarantees provided

(a) During the year ended 31 December 2008, Wuling Industrial entered into an undertaking agreement with Liuzhou Wuling, pursuant to which Wuling Industrial agreed to provide corporate guarantee to a financial institution to the extent of RMB200,000,000 in respect of revolving banking facilities to be granted to Liuzhou Wuling. The respective corporate guarantee was executed on 23 June 2009 by Wuling Industrial.

As at 31 December 2009, Liuzhou Wuling utilised approximately RMB125,879,000 of such banking facilities (2008: Nil). In the opinion of the directors of the Company, the fair value of the financial guarantee contract is insignificant.

(b) The guarantees provided to the Group by a director of the Company and by Liuzhou Wuling are set out in Note 31.

(iv) Compensation of key management personnel

The remuneration of other members of key management for the Group during the year was as follows:

	2009 RMB'000	2008 RMB'000
Short-term benefits	4,896	4,704
Post-employment benefits	331	220
Equity-settled share-based payments	945	4,285
	6,172	9,209

(v) Convertible loan notes

Details of convertible loan notes issued to Wuling HK during the year ended 31 December 2009 are set out in Note 30.

42. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from that of prior year.

The capital structure of the Group consists of debts, which includes the bank borrowings as disclosed in Note 31, and equity attributable to equity holders of the Company, comprising issued capital and various reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as issue of new debts.

43. FINANCIAL INSTRUMENTS

(i). Categories of financial instruments

	2009 **RMB'000**	2008 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**6,843,587**	4,307,931
Available-for-sale financial assets	**495**	495
Held-for-trading investments	**7**	3
Financial liabilities		
Amortised cost	**7,418,460**	4,582,924
Fair value through profit or loss	**83,861**	–

(ii). Financial risk management objectives and policies

The Group's major financial instruments include loans receivable, trade and other receivables, bills receivables discounted with recourse, client trust bank accounts, pledged bank deposits, bank balances, trade and other payables, amounts due to shareholders, amount due to an associate, bank borrowings, advances drawn on bills receivables discounted with recourse, obligations under finance leases and convertible loan notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Currency risk

The Group mainly operates in the PRC and the exposure in exchange rate risks mainly arises from fluctuations in Hong Kong dollars ("HKD") and Euro against the functional currency of the relevant group entities. Exchange rate fluctuations and market trends have always been the concern of the Group. The Group currently does not enter into any derivative contracts aimed at minimising the currency risk exposure. However, the management will consider hedging significant currency risk should the need arise.

The carrying amount of the Group's monetary assets and liabilities denominated in currencies other than the relevant group entities' functional currency at the end of the reporting period is as follows:

	Liabilities		**Assets**	
	2009 **RMB'000**	2008 RMB'000	**2009** **RMB'000**	2008 RMB'000
HKD	**120,057**	35,779	**18,535**	11,214
Euro	**5,669**	6,828	**–**	–

43. FINANCIAL INSTRUMENTS (continued)

(ii). Financial risk management objectives and policies (continued)

(a) Currency risk (continued)

The following table details the Group's sensitivity to a 5% increase and decrease in Renminbi against Euro and HKD. 5% is the sensitivity rate used by management for the assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. There will be an increase in post-tax profit where Renminbi strengthens against Euro and HKD and vice versa.

	2009 RMB'000	2008 RMB'000
Impact on post-tax profit or loss		
– HKD	**7,879**	1,044
– Euro	**241**	290
	8,120	1,334

(b) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings due to the fluctuation of the prevailing market interest rate, and exposed to fair value interest rate risk in relation to a fixed-rate bank borrowings and convertible loan notes. The directors of the Company consider the Group's exposure of the bank balances to cash flow interest rate risk is not significant as interest bearing bank balances are within short maturity periods. It's the Group's policy to keep its borrowings at a mixture of floating rate and fixed rate of interest so as to minimise the fair value interest rate risk.

The Group currently does not have any interest rate hedging policy in relation to fair value and cash flow interest rate risks. The directors of the Company monitor the Group's exposure on an ongoing basis and will consider hedging interest rate risk should the need arise.

The sensitivity analysis below have been determined based on the exposure to interest rates on its variable rate borrowings and bank balances at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout both years in the case of instruments that have floating rates. A 50 basis point increase or decrease is used by the management for the assessment of the possible change in interest rates.

If interest rates had been 50 basis point higher and all other variables were held constant, the Group's profit for the year ended 31 December 2009 would decrease by RMB162,000 (2008: decrease by RMB152,000). This is mainly attributable to the Group's exposure to interest rates on its bank balances and variable rate borrowings.

43. FINANCIAL INSTRUMENTS (continued)

(ii). Financial risk management objectives and policies (continued)

(c) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team of staff members responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk other than in relation to the amount due from SGMW (Note 23) which represents 65% (2008: 77%) of the total trade and bills receivables as at 31 December 2009. In view of the significant balance due from SGMW, the Group has kept regular contact with SGMW for updated information. In addition, as Liuzhou Wuling has representation in the board of directors of SGMW, the Group can access the up-to-date information of SGMW through Liuzhou Wuling. In this regard, the Group believes that it can take prompt action to recover the trade debt due from SGMW should the need arise.

The credit risk on liquid funds is limited because the counterparties are banks in the PRC with good reputation.

(d) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on advances from a shareholder and also bank borrowings as significant sources of liquidity.

43. FINANCIAL INSTRUMENTS (continued)

(ii). Financial risk management objectives and policies (continued)

(d) Liquidity risk (continued)

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	0-30 days RMB'000	31-90 days RMB'000	91-365 days RMB'000	1-5 years RMB'000	5 + years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
2009								
Non-derivative financial liabilities								
Trade and other payables	–	4,363,976	451,190	125,125	–	–	4,940,291	4,940,291
Advances drawn on bills receivables discounted with recourse	4.87	1,400,830	–	–	–	–	1,400,830	1,335,778
Amounts due to shareholders								
– fixed rate	5.00	3,531	–	–	–	–	3,531	3,516
– non-interest bearing	–	811,590	–	–	–	–	811,590	811,590
Amount due to an associate	–	11,371	–	–	–	–	11,371	11,371
Bank borrowings								
– fixed rate	5.04	17,616	35,233	158,549	4,636	–	216,034	205,668
– variable rate	5.18	1,693	3,387	15,230	3,195	10,605	34,110	32,432
Obligations under finance leases	5.15	22	44	201	166	–	433	412
Convertible loan notes	6.00	5,421	–	–	108,855	–	114,276	77,402
		6,616,050	489,854	299,105	116,852	10,605	7,532,466	7,418,460
Financial guarantee contracts		125,879	–	–	–	–	125,879	–

43. FINANCIAL INSTRUMENTS (continued)

(ii). Financial risk management objectives and policies (continued)

(d) Liquidity risk (continued)

	Weighted average effective interest rate %	0-30 days RMB'000	31-90 days RMB'000	91-365 days RMB'000	1-5 years RMB'000	5 + years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
2008								
Non-derivative financial liabilities								
Trade and other payables	–	1,250,708	813,913	948,250	–	–	3,012,871	3,012,871
Advances drawn on bills receivables discounted with recourse	4.87	162,971	119,969	68,242	–	–	351,182	342,008
Amount due to a shareholder	–	989,580	–	–	–	–	989,580	989,580
Amount due to an associate	–	20,467	–	–	–	–	20,467	20,467
Bank borrowings								
– fixed rate	5.67	–	30,391	157,399	5,161	1,618	194,569	186,828
– variable rate	3.03	228	458	15,722	9,505	7,214	33,127	30,488
Obligations under finance leases	5.15	27	53	240	498	–	818	682
		2,423,981	964,784	1,189,853	15,164	8,832	4,602,614	4,582,924

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers it is not probable that the amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of reporting period.

43. FINANCIAL INSTRUMENTS (continued)

(iii). Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices;
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transaction as input; and
- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	At 31.12.2009			
	Level 1 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000	**Total** RMB'000
Financial assets at FVTPL				
Held-for-trading investments	7	–	–	7
Financial liabilities at FVTPL				
Derivative financial instrument	–	–	83,861	83,861

The reconciliation of level 3 fair value measurement financial liability has been disclosed in note 30.

44. EVENTS AFTER THE REPORTING DATE

In March, 2010, the Company issued and allotted 58,220,000 and 25,788,000 shares to independent third party and Wuling HK respectively, raising net proceeds of approximately HK$67.8 million (RMB59.7 million). Details of such issue and allotment of shares of the Company were set out in the Company's announcements dated 21 January 2010 and 12 March 2010, and the Company's circular dated 8 February 2010. The net proceeds were subsequently injected into Wuling Industrial as partial settlement of the outstanding subscription money payable to Wuling Industrial, which in turn were used by Wuling Industrial as additional working capital.

As a result of the aforementioned issue and allotment of new shares, the conversion price of the convertible loan note as detailed in note 30 was adjusted from HK$0.74 to HK$0.73 with effect from 12 March 2010.

45. SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2009 and 2008 are as follows:

Name of subsidiary	Place and date of establishment/ incorporations	Nominal value of issued capital/ registered capital/ fully paid capital	Interest holdings Direct %	Interest holdings Indirect %	Principal activities
Wuling Industrial	The PRC 30 October 2006 (note iii)	RMB767,000,000	50.98 (note i)	–	Investment holding and trading of raw materials, water and power supply
柳州五菱柳機動力有限公司 Liuzhou Wuling Liuji Motors Company Limited	The PRC 16 June 1993 (note iii)	RMB100,120,000	–	50.98 (note ii)	Manufacture and sale of petrol engines and motor cycles engines
柳州五菱汽車聯合發展有限公司 Liuzhou Wuling Motors United Development Company Limited	The PRC 25 December 2001 (note iii)	RMB100,000,000	–	50.97 (note ii)	Manufacture and sale of automobiles spare parts
柳州五菱專用汽車製造有限公司 Liuzhou Wuling Specialized Vehicles Manufacturing Company Limited	The PRC 10 December 2003 (note iii)	RMB15,000,000	–	49.98 (note ii)	Manufacture and sale of special vehicles
無錫五菱動力機械有限責任公司	The PRC 15 July 2005 (note iii)	RMB6,000,000	–	26 (note ii)	Manufacture and sale of accessories of motor vehicles

45. SUBSIDIARIES (continued)

Name of subsidiary	Place and date of establishment/ incorporations	Nominal value of issued capital/ registered capital/ fully paid capital	Interest holdings Direct %	Interest holdings Indirect %	Principal activities
泰興市菱迪機械有限公司	The PRC 28 March 2004 (note iii)	RMB3,000,000	–	26 (note ii)	Manufacture and sale of engines
Hilcrest Limited	British Virgin Islands/ Hong Kong	US$1	100	–	Property investment
Watary Investments Limited	British Virgin Islands/ Hong Kong	US$36,000	100	–	Investment holding
Dragon Hill Financial Services Holdings Limited	British Virgin Islands/ Hong Kong	US$2	100	–	Investment holding
Dragon Hill Credit Limited	Hong Kong	HK$10,000,000	–	100	Money lending
Dragon Hill Financial Services Limited	Hong Kong	HK$40,000,000	–	100	Securities dealing and margin finance
Dragon Hill (HK) Limited	Hong Kong	HK$10	–	100	Trading of marketable securities
DH Corporate Services Limited	Hong Kong	HK$2	–	100	Provision of administrative services
Jenpoint Limited	Hong Kong	HK$2	–	100	Property investment

45. SUBSIDIARIES (continued)

Notes:

(i) Although the Company has agreed to subscribe for a 50.98% of the registered capital of Wuling Industrial for RMB391,000,000, only RMB78,200,000 of the subscription money was paid at 31 December 2008. On 13 January 2009, the Company paid an additional amount of RMB86,942,000 of the subscription money. According to the relevant joint venture agreement, the balance of the subscription money will be paid within two years from the date of the establishment of Wuling Industrial and the Company is entitled to share the profit of Wuling Industrial based on the percentage of its actual subscription money paid, the Company shared 30.52% (2008: 17.22%) on profit of Wuling Industrial in 2009.

(ii) This represents the effective interest held by the Company. These subsidiaries are held by the Group through Wuling Industrial.

(iii) The subsidiaries are all sino-foreign equity joint ventures.

(iv) None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Sun Shaoli (Chairman)
Mr. Lee Shing
(Vice-chairman & Chief Executive Officer)
Mr. Wei Hongwen
Mr. Zhong Xianhua
Ms. Liu Yaling
Mr. Zhou Sheji

Independent Non-Executive Directors
Mr. Yu Xiumin
Mr. Zuo Duofu
Mr. Ye Xiang

AUDIT COMMITTEE

Mr. Ye Xiang (Chairman)
Mr. Yu Xiumin
Mr. Zuo Duofu

REMUNERATION COMMITTEE

Mr. Zuo Duofu (Chairman)
Mr. Yu Xiumin
Mr. Ye Xiang

COMPANY SECRETARY

Mr. Lai Shi Hong Edward

PRINCIPAL BANKERS

Bank of Communications
China Construction Bank
Bank of China
The Hong Kong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited

AUDITORS

Deloitte Touche Tohmatsu

SOLICITORS

Sidley Austin Brown & Wood
K & L Gates

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