FUTURE OF THE AUTOMOBILE

ANNUAL REPORT 2010

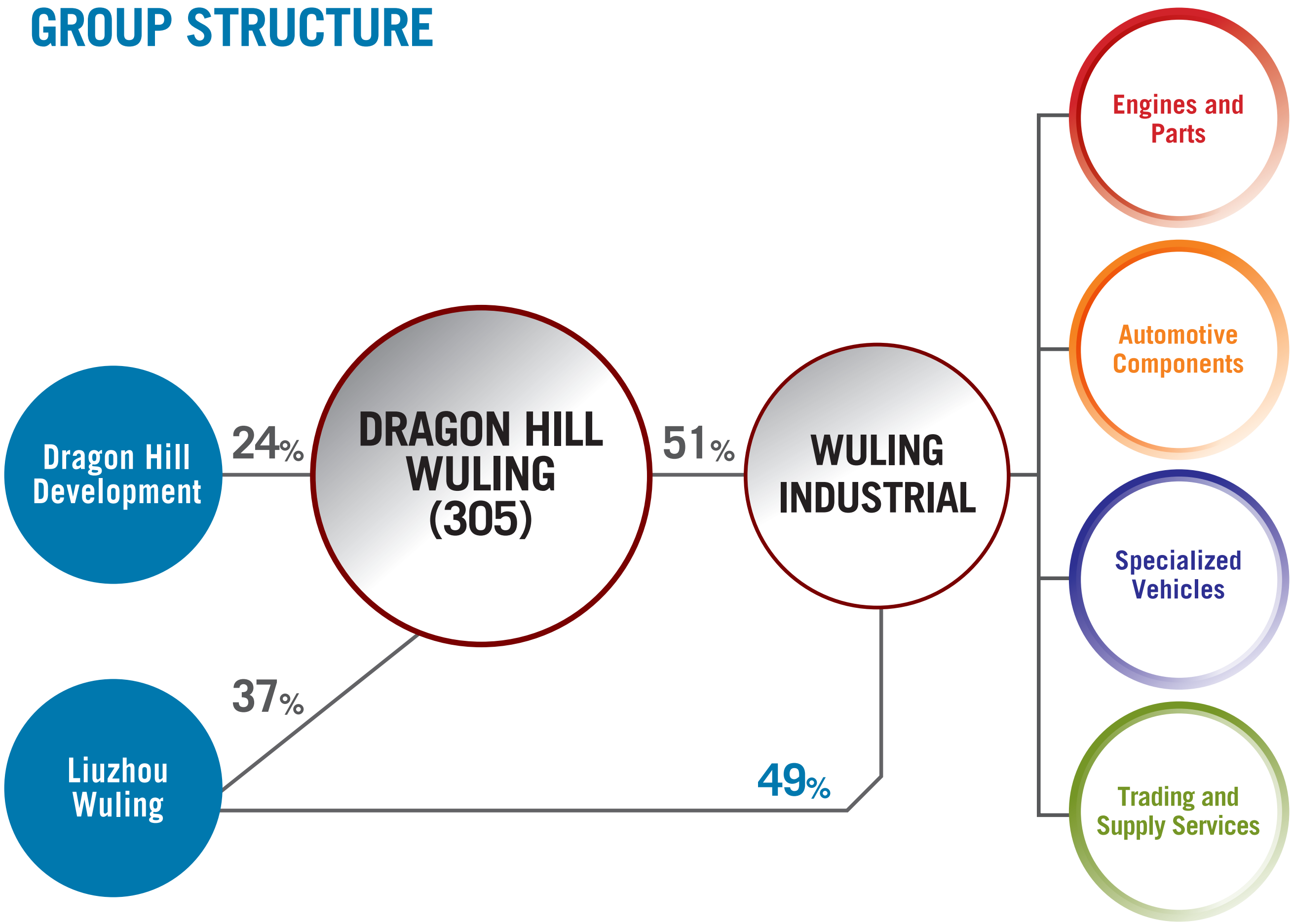
Dragon Hill Wuling Automobile Holdings Limited

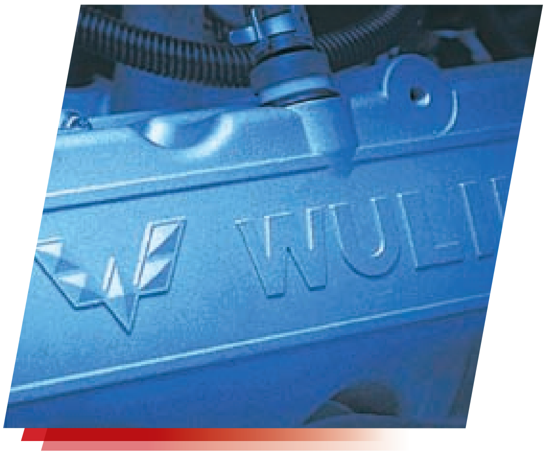
俊山五菱汽車集團有限公司

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 2010 exceeded 700,000 sets
- Increasing sale volume to new customers other than SGMW

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 2010 exceeded 1,200,000 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, sight-seeing 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
- Sales volume increased by more than 30% in 2010 and reached 40,000

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

Qingdao Production Base
(Annual capacity)

Automotive components:
300,000 sets/units

Specialized vehicles:
10,000 vehicles

Chongqing Facility
(Annual capacity)

Component parts:
100,000 units

Guilin Facility
(Annual capacity)

Specialized vehicles components:
25,000 units

Liuzhou Production Base
(Annual capacity)

Engines:
800,000 sets

Automotive components:
900,000 sets/units

Specialized vehicles:
50,000 vehicles

CHAIRMAN'S STATEMENT

With the implementation of a series of active policies focusing stimulation of local demands, refining of economic restructures, promotion for changes, as well as the specific rural subsidies policy in year 2010, the automobile industry in China continued its momentum from 2009 and recorded growth trend in the year under review. Volume of production and consumption increased rapidly with a higher market share from own proprietary branded products. Total number of vehicles sold reached 18,000,000 units, which registered another record breaking year in the world.

On the back of a favourable business environment and the corporate strategy of "Refining Structure, Launching New Products and Grasping Market Opportunities", the Group has been resiliently pursuing market opportunities for growth and expansion, meanwhile accelerating the improvement programmes on product mix and management structure, so as to enhance our competitive strength in the industry. The Group recorded an impressive results for the year 2010 in which total revenue reached RMB11,063,390,000, representing a 11.9% increase as compared to last year.

In line with the business expansion, the Group also envisages the importance of innovation in fostering the growth of an enterprise. It is only by the persistent innovations on the crucial capability can the enterprise's core competitiveness be enhanced and assured. This in term provides the enterprise with the vigorous capacity in strengthening its sustainability in the market. In view of this, the Group has put new product development in a prioritized position in its agenda for growth.

During the year, under the principles of "Visionary, Market-Oriented, Product Application and Value Enhancement" for technological advancement, our principal subsidiary, Liuzhou Wuling Motors Industrial Company Limited ("Wuling Industrial"), undertook consolidation programmes in its technical departments by forming an integrated technical centre to implement the determined corporate policy focusing innovations with own proprietary. For the car assembly segment, emphasis is placed on an accelerated growth through the opening up of new market opportunities by the Group's persistent pursuit of own proprietary products. For the automotive components segment, emphasis is placed on the continuous technical upgrade in achieving the targeted capability standard suitable for the production and development of passenger model vehicles. For the engines segment, emphasis is placed on the expansion of external markets through the pursuit and application of both local and overseas advanced technology in new product development. Besides, the Group has also put emphasis on upgrading its technical and quality standard. Through this year of conscientious effort, the Group has established a comprehensive production and research capability for car assembly, automotive components and engines, which provides an important cornerstone to the Group's future growth and development.

Coupled with the expansion of its existing business, the Group is also actively pursuing groundbreaking opportunities in the new energy vehicles segment through continuous enhancement of its research and production capability. In 2010, supported by a more developed technological knowhow in the new energy vehicles, the Group launched a number of new products which included police car, mini-truck and various types of container wagons. Meanwhile, the Group had also registered certain developments in the electrical systems of electrical vehicles. On 11 December 2010, the Group successfully launched its new energy vehicles to the market and became the first enterprise in the Guangxi Province having the production capability for manufacturing new energy vehicles. The successful launch of the Group's new energy vehicles to the local market essentially demonstrated the Group's determined strategy in collaboration of the results of product development with the market which was itself a groundbreaking event of the Group's business in the specific new energy vehicles segment.

To foster the growth of the business, apart from the enhancement work of its technical and production capability for the products of car assembly, automotive components and engines, the Group has also undertaken certain new product development projects of the automotive components focusing external customers. The successful results of these projects will be beneficial to the profitability of the Group in future.

To keep abreast with the market trend, Wuling Industrial also implemented certain consolidation exercises in the sales division with the aim of developing products serving the needs of the market. In this regard, other than the engines division which maintained the original sales mechanism, a sales office under the supervision of Wuling Industrial was established to perform the selling functions for the Group's other products. The sales office has functioned satisfactorily and effectively since its establishment and achieved remarkable results for the car assembly and automotive components division. This strategic move provides the Group with a new marketing model which will be beneficial to the effectiveness of the Group's product promotion programmes.

Through more active policies of investments, recruitments and training, the Group aims at maintaining a wealth of human resources which is essential for enhancing the Group's potential in product development, manufacturing, management and marketing. With the promotion and development of a number of managers, technicians, engineers and specialists, a solid workforce for the future development of the Group has been ensured.

Looking forward, on the back of the continuous enhancement in the management and operation standard, the co-operative and conscientious effort of the management team, we trust that the future of the Group is encouraging. We firmly believe with the diligence of our team, the business performance of the Group will continue to foster which will bring promising rewards to our shareholders and investors.

Lastly, we wish to express our gratitude to the continuous support offered by our shareholders, suppliers, business partners, employees and customers, which are essential elements for the brilliant results to be achieved by the Group in future.

Sun Shaoli
Chairman
30 March 2011

A WELL ESTABLISHED SUSTAINABLE DEVELOPMENT STRATEGY

IN ALIGNMENT WITH THE INTERESTS OF THE CUSTOMERS AND THE ENVIRONMENT

REPORT OF THE CEO

I am pleased to present the audited results of Dragon Hill Wuling Automobile Holdings Limited for the year ended 31 December 2010.

The automobile market in China continued to grow in 2010 buoyed by the resilient local economy and the vigorous stimulus programs launched by the Chinese government. Favourable policies under the stimulus programs towards the China automobile industry were extended in 2010 and continued to benefit the Group's performance with a satisfactory growth in revenue. During the year ended 31 December 2010, the Group recorded total revenue of RMB11,063,390,000, representing an increase of 11.9% as compared to last year.

Gross profits for the year under review was RMB1,080,156,000, representing an encouraging 23.9% increase as compared to last year. This encouraging result was mainly due to the improvement in the operations of our automotive components division in this year, which segment performance was adversely affected by the initial stage operations of certain new facilities in 2009.

Taking into account of the gain on fair value adjustment of RMB27,152,000 relating to the convertible loan notes issued by the Company, and the share option expenses of RMB25,689,000 relating to the issue of share options to the directors and employees, the Group recorded net profits of RMB182,543,000, representing a significant 68.1% increase as compared to last year. Meanwhile, profit attributable to the owners of the Company turned around from a deficit in last year to a profit of RMB77,648,000 for the year ended 31 December 2010.

On 12 March 2010, the Company issued 58,220,000 and 25,788,000 new shares respectively to independent third party investors and Wuling (Hong Kong) Holdings Limited ("Wuling HK"), a wholly owned subsidiary of Liuzhou Wuling Motors Company Limited ("Liuzhou Wuling") and a substantial shareholder of the Company. Net proceeds amounting to approximately HK$67,800,000 from the issue was injected into Liuzhou Wuling Motors Industrial Company Limited ("Wuling Industrial"), subsidiary of the Company, 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%, which was used as the basis to calculate the profits attributable to the owners of the Company up to 31 August 2010.

In August 2010, the Group obtained additional credit facilities of approximately RMB80,000,000 and RMB87,000,000 from a number of financial institutions and Wuling HK, respectively, and applied the same to pay up the Group's outstanding capital contribution obligations in Wuling Industrial.

Subsequent to this capital injection, the percentage of the paid up capital of the Company in Wuling Industrial was increased from 37.4% to 51%, which was used as the basis to calculate the profits attributable to the owners of the Company commencing from 1 September 2010.

Opportunities and Challenges

With the support of a favourable market and positive regulatory environment, the performance of the China automobile industry continued to grow in 2010. Total motor vehicles sold in 2010 reached 18 million representing a 30% growth as compared to last year, in which local mini-vehicles industry continued to achieve an impressive momentum of growth. Despite the expiry of some of the stimulus programs favourable to our core businesses, i.e. the mini-vehicles industry, by end of 2010, other supportive measures such as direct government subsidies to automobile enterprises for innovation, technical improvement, new energy vehicles and auto parts development, as well as for developing their own brands, and encouraging automobile exports and strengthen automobile financing will prolong the positive impact on the automobile industry in China. In addition, it is also identified the following market trends in China will bring opportunities to the businesses of the Group:

i. Driven by the government policies, mini-vehicles will have greater potential in the rural, second-tier and third-tier cities in China;
ii. The trend of an increase in demand of low emission vehicles due to environmental concern;
iii. Increased popularity of mini-vehicles during the course of development in China which is similar to the track record of other Asian countries, such as Japan; and
iv. Huge growth potential for specialized vehicles due to vast and diversified demands in market.

The Group 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 parts division through the setup of the new production plant for the parts of the engine's cylinder, which not only serves as an vertical integration process for our existing products, but can also extend to supply to the engine products manufactured by our customers, including SAIC-GM-Wuling Automobile Co., Limited ("SGMW");

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

c. Various capacity expansion programs in our automotive components and specialized vehicles divisions through the setup of the new production facilities, such as the recent acquisitions of a factory premises and certain production facilities in Qingdao; and four pieces of industrial land in Liuzhou with a total site area of 415,034 sqm, to enhance productivity and to increase capacity to 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 V2 mini-van, new energy vehicles such as electrical community car, electrical sight-seeing bus and electrical mini-truck for aiming at both the local and international markets for improving the overall profitability of the Group; and

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

Outlook

The year 2009 marked the first time for China to become the number one vehicles consumption country in the world. Another impressive year of growth in 2010 further consolidated the importance of automobile industry in China. With its 1.4 billion population and the continuous economic growth in recent years, such development is not surprising. In fact, taking into account of the number of 18 million vehicles sold in China in 2010, the car ownership ratio is still at a low level, pointing at tremendous growth potential to the China automobile industry. The stimulus programs implemented by the government have essentially sustained the momentum of economic growth and benefited the nation economy, including the automobile sector.

In response to the encouraging market condition since 2009, most of the enterprises in the China automobile industry optimistically carried out aggressive expansion programs in order to promote businesses and to gain market share. Notwithstanding the favourable environment towards the China automobile industry, the potential competitions associated with excessive capacities from the aggressive expansion programs should not be underestimated. A cyclical downturn in sales may cause the enterprise into trouble. 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 so as to stay competitive in the industry.

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. With the continuous supports from Liuzhou Wuling, our substantial shareholder, and our customers, we firmly believe the business prospect of the Group is promising and will bring rewards to our shareholders.

Lee Shing
Vice-chairman and Chief Executive Officer
30 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

By Business Segments – Engines and Parts

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

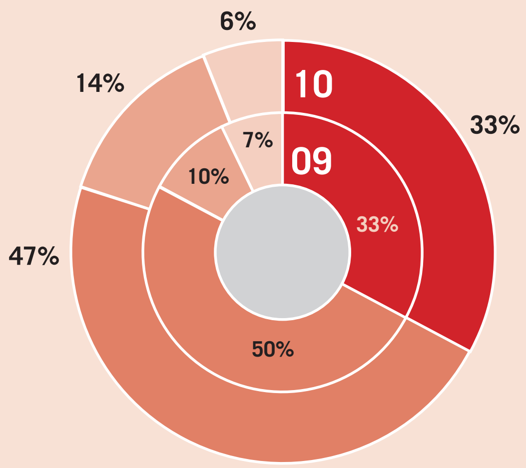
Turnover (based on external sales) of the engines and parts division for the year ended 31 December 2010 was RMB3,589,536,000, representing an increase of 11.7% as compared to last year. Operating profits for the year was RMB214,348,000, representing a slight increase of 1.4% as compared to last year.

The engines and parts division undertaken by Wuling Liuji continued to be the major contributor to the Group's operating profits for the year 2010.

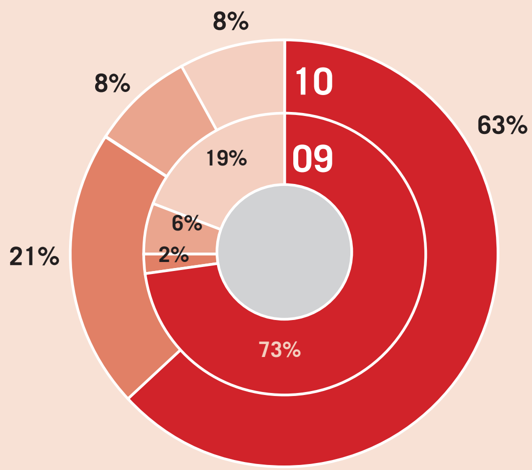
During this year, Wuling Liuji continued to deliver a set of solid results to the Group. The satisfactory results achieved by Wuling Liuji were mainly attributable to the continuous strong market demands for the main models. Total sale volume exceeded 700,000 units, represented a successive year of record number. Growth of business of SGMW and increasing orders from other customers in 2010 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 other than SAIC-GM-Wuling Automobile Co., Limited ("SGMW") increased to more than 20% in this year. Wuling Liuji is currently supplying its engine products to a number of motor vehicle manufacturers including SGMW, FAW Haima, Gonow Auto, Ziyang Nanjun Auto, Beiqi Foton and Mianyang Huaxin (上汽通用五菱、一汽海馬、吉奧汽車、資陽南駿汽車、北汽福田及綿陽華鑫). Wuling Liuji has also exported its product to the overseas markets including Indonesia, Turkey, Pakistan, Thailand and the United States. The successful launch of the agricultural machinery by Wuling Liuji last year has also begun to contribute to the business performance during the year.

Operating margin maintained at 6.0% as compared to 6.6% recorded in last year with a similar gross margin performance as a result of a slightly higher material

Turnover



Operating profit



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costs and a stable scale of operation. Meanwhile, the division incurred research and development expenses of approximately RMB27,460,000, representing an increase of 43.4% as compared last 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.

Total production capacity of Wuling Liuji 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 in 2008, had been fully operational in this year and began to contribute to the business performance of this division. The parts produced by this new production line are primarily applied for the existing models of SGMW and other new customers. The division's second re-engineering project on the foundry of cylinder block and cylinder head was also progressing satisfactorily during the year. This project, which aims at further strengthening the Group's capability in the engines businesses with a targeted capacity of 600,000 units, is expected to commence operation in early 2011.

As mentioned above, Wuling Liuji continued to steadily expand its businesses to other automobile manufacturers during the year. Approximately 25% of the total sale volume in 2010 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 engines produced by Wuling Liuji are mainly for the economical-typed mini-vehicles. Its products are state-designated products exempt from quality surveillance inspection. The "LJ" model has also been recognized as a reputable trademark in the Guangxi Province. Going forward, Wuling Liuji will continue to focus on the research and development, as well as the marketing programmes of its new products, such as the L15, L18 and LJ475 models in maintaining its competitiveness in this market segment.

The Group expects the strong market demands for SGMW and other customers' models will continue in 2011 which will benefit the business performance in this division.

MANAGEMENT DISCUSSION AND ANALYSIS

By Business Segments – Automotive Components

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

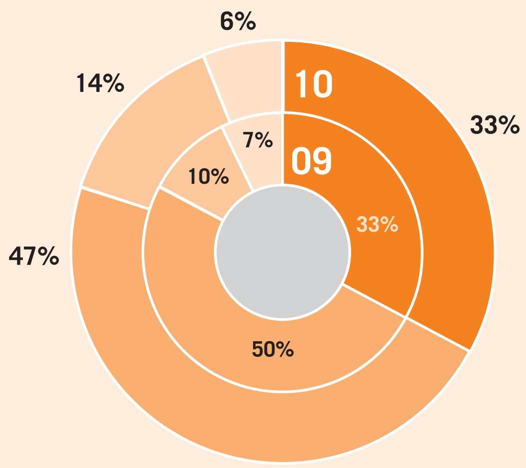
Turnover (based on external sales) of the automotive components division for the year ended 31 December 2010 was RMB5,230,910,000, representing a slight increase of 3.6% as compared to last year. Following steady improvement of the operation of the Qingdao factory, profitability was gradually restored to a reasonable level. Operating profits for the year was RMB65,418,000.

The automotive components division undertaken by Wuling United continued to be the largest contributor to the total revenue of the Group due to the strong market demand in 2010.

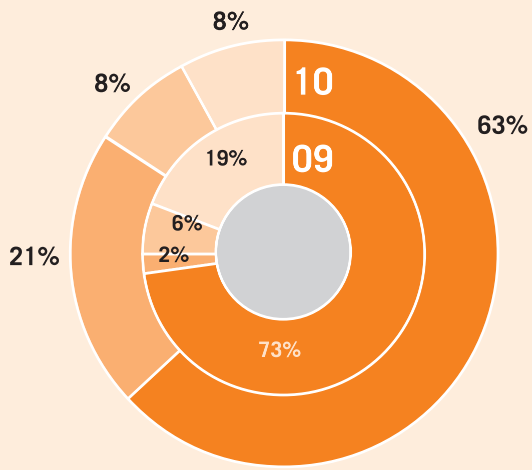
During this year, Wuling United, being the key supplier supplying a majority portion of the key automotive components to SGMW, registered another year of record revenue. This remarkable result was mainly attributable to the continuous strong market demands for the vehicles produced by SGMW. Total sale volume exceeded 1,200,000 units/sets, in which sales to SGMW accounted for more than 90% of the total turnover. Other customers include Dongfeng Yu'an, Bei Qi Foton, Hebei Changan and Chery Automobile etc, where satisfactory growth was achieved in this year.

Meanwhile, profitability performance was also impressively improved as compared to last year, despite the undesirable higher cost of production and transportation continued to adversely affect the operation of the new Qingdao factory. Same as previous years, to cope with the tremendous increase in demands from SGMW, production facilities of the automotive components division were required to be operated at an above full capacity level during this year. This overloaded operating environment was in particular undesirable for the new facility in Qingdao, which drove up the cost of production and resulted in a loss making situation in this new plant in the year 2009. However, with the installation of additional plant and machinery and better operation stability, such undesirable condition has been gradually improved. The division's research and development expenses was substantially increased to approximately RMB32,336,000 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.

Turnover



Operating profit



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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. Its six specialized facilities cover the products range of the brake, the chassis assembly, automotive accessories, plastic components, welding parts and the seat sets. Wuling United's main facilities are located in Liuzhou and Qingdao which ensure closer proximity to the customer's needs in both the northern and southern part of China. Maximum capacity, for Liuzhou and Qingdao in total, at present can reach 1,200,000 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 Group expects the growth of business of SGMW from the existing models and the launch of new models will continue to boost the revenue growth of the automotive components and accessories division in the coming years. As a result, the Group entered into contracts to acquire a factory premise and certain production facilities in Qingdao in July 2010. The Group considers this new facility is a desirable option for the expansion programs due to the close proximity to the existing production facilities of SGMW as well as the Group's existing factory in Qingdao, where immediate capacity can be available to cope with vigorous demands in this region.

Going forward, Wuling United will continue to actively upgrade its product standard and capability. Through the implementation of a series of enhancement projects on organisation 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-type 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2010 was RMB1,555,380,000, representing a significant increase of 61.6% as compared to last year. Operating profits for the year was RMB26,870,000, representing a significant increase of 65.8% as compared to last year.

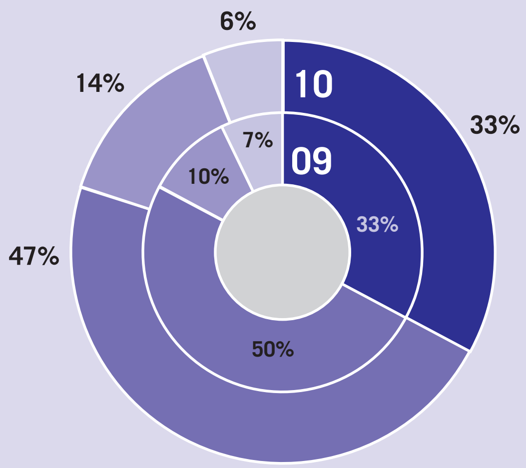
The specialized vehicles division continued to actively launch new models and expand its capacity to cope with the increasing market demands. In 2009, it became the first enterprise possessing the qualification for manufacturing new energy electrical mini-truck in China, which products have been launched in 2010.

During this year, through active marketing and promotion programs, Wuling Specialized Vehicles sold more than 40,000 specialized vehicles, representing an impressive increase of 33.3% as compared to last year.

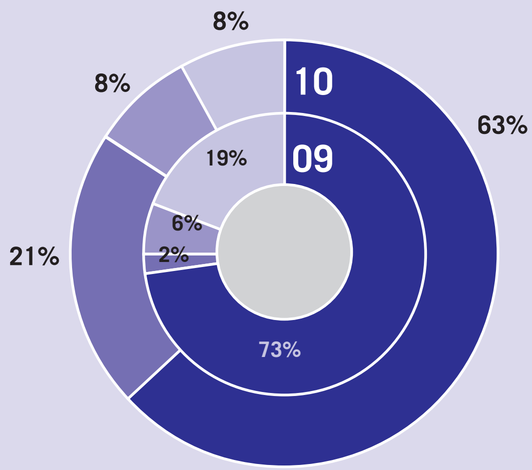
Operating margin slightly increased to 1.73% from 1.68% recorded in last year. High distribution costs incurred for the selling of certain specialized vehicles to those provinces located far away from Liuzhou continued to have an adverse impact on the profitability of this division during the year.

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 sight-seeing bus, golf cart, police car, mini-fire engine, postal van, ambulance, container wagon, refrigerator vehicle, heat preservation vehicle, garbage truck and electrical vehicles, etc. The customers range from government departments, public institutes, private enterprises with different size of operation to private individuals. Products are

Turnover



Operating profit



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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.

Total capacity of Wuling Specialized Vehicles at present is about 60,000 vehicles a year. The Group has established a new production plant in Qingdao currently with a capacity of 10,000 vehicles to facilitate geographical diversification which enables quality services and cost effectiveness. For further expansion, the site of the factory premises in Qingdao recently acquired by Wuling Industrial will also be integrated with certain facilities for the production of specialized vehicles.

Going forward, Wuling Specialized Vehicles will continue to undertake research and development projects for new product, technical and capability improvement with specific focus on the new energy vehicles. More active marketing programmes for the new energy models will be launched in 2011 for promoting its growth potential.

The division will also 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.

MANAGEMENT DISCUSSION AND ANALYSIS

By Business Segments – Trading and Supply Services

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

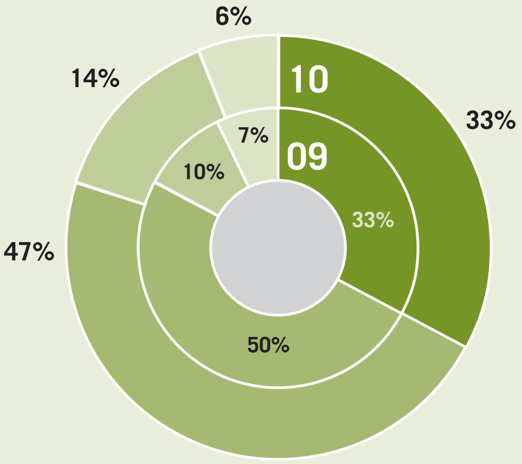
Turnover (based on external sales) of the trading and supply services division for the year ended 31 December 2010 was RMB685,984,000, representing an increase of 3.8% compared to last year. Inter-segment sales which were primarily contributed from the sales to Wuling United was RMB3,394,908,000, representing an increase of 5.8% compared to last year. Operating profits for the year was RMB25,790,000, representing a decrease of 51.7% compared to last year, which was mainly attributable to the increases in general and administration expenses incurred for the various on-going corporate exercises.

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.

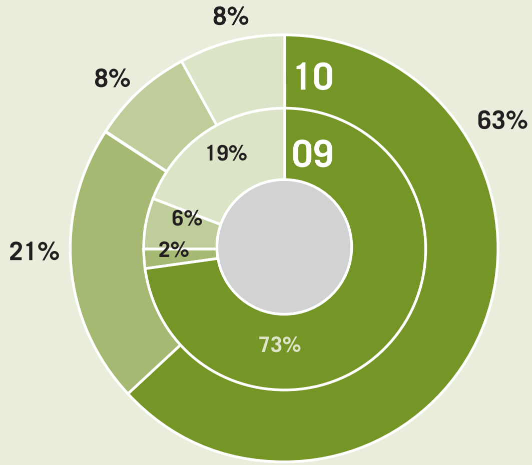
Besides acting as the immediate holding company, Wuling Industrial itself maintains a technical centre, a training centre and two operating arms which provide procurement services to the group companies, customers and suppliers for the supply of raw materials and energy. This centralized procurement 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 5,200 staff members and over 4,200 workers (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.

Turnover



Operating profit



Engines and Parts Automotive Components Specialized Vehicles Trading and Supply Services

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 service 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.

Operating margin experienced a decline in this year due to an increase in general and administrative expenses resulting from the active on-going corporate exercises undertook by the Group. The corporate exercises which pave the ways for capturing future opportunities in the automobile industry in China are essential development which will benefit the Group's long term business potential and profitability.

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.

MANAGEMENT DISCUSSION AND ANALYSIS
Financial Review

Statement of Comprehensive Income

Group's turnover for the year ended 31 December 2010 was RMB11,063,390,000 representing a 11.9% 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 2010 was RMB1,080,156,000, representing an encouraging 23.9% increase as compared to last year. This encouraging increase rate was mainly due to the improvement in the operating results of our automotive components division in 2010 as compared to last year, which segment performance was adversely affected by the initial stage operations of certain new facilities.

Accordingly, gross margin of the Group increased to 9.8% from 8.8% recorded last year. The single digit gross margin condition was, however, a reflection of the keen competition environment in the automobile industry in China.

Taking into account of the gain on fair value adjustment of RMB27,152,000 relating to the convertible loan notes issued by the Company, and the share option expenses of RMB25,689,000 relating to the issue of share options to the directors and employees, the Group recorded net profits of RMB182,543,000, representing a significant 68.1% increase as compared to last year. Meanwhile, profit attributable to the owners of the Company turned around from a deficit in last year to a profit of RMB77,648,000 for the year ended 31 December 2010.

On 12 March 2010, the Company issued 58,220,000 and 25,788,000 new shares respectively to independent third party investors and, Wuling (Hong Kong) Holdings Limited, a wholly owned subsidiary of Liuzhou Wuling and a substantial shareholder of the Company. Net proceeds amounting to approximately HK$67,800,000 from the issue had been injected into Wuling Industrial, a subsidiary of the Company, 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%, which was used as the basis to calculate the profits attributable to the owners of the Company up to 31 August 2010.

In August 2010, the Group obtained additional credit facilities of approximately RMB80,000,000 and RMB87,000,000 from a number of financial institutions and Wuling HK, respectively, and applied the same to pay up the Group's capital contribution obligations in Wuling Industrial.

Subsequent to this capital injection, the percentage of the paid up capital of the Company in Wuling Industrial was increased from 37.4% to 51%, which was used as the basis to calculate the profits attributable to the owners of the Company commencing from 1 September 2010.

Other income comprised primarily sales of scrap materials and bank interest income was in aggregate RMB108,387,000 for the year ended 31 December 2010, representing an increase of 27.9% as compared to last year. The increase was mainly attributable to an increase in the sale values of scrap materials and the recovery of previously written off trade receivables.

Selling, distribution and warranty expenses of the Group comprised primarily transportation costs, warranty expenses and other marketing expenses was in aggregate RMB289,875,000 for the year ended 31 December 2010, representing an increase of 13.1% as compared to last year. The increase was in line with the revenue growth of the Group.

Administrative expenses of the Group comprised primarily salary and allowances, various insurance expenses, rental expenses and other administrative expenses was in aggregate RMB627,060,000 for the year ended 31 December 2010, representing an increase of 40.0% as compared to last year. The increase was in line with the increasing scale of operation resulting from the continuous business expansion of the Group, as well as the various corporate exercises undertook by the Group to ensure its competitiveness in the automobile industry in China.

Research and development expenses (after deducting the related grants and subsidies from the government of RMB6,606,000) for the year ended 31 December 2010 amounted to RMB83,901,000, representing an increase of 96.3% as compared to last year. 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 2010 amounted to RMB63,912,000, representing an increase of 29.9% as compared to last year. The balances included the finance cost of RMB8,419,000 incurred for the abovementioned convertible notes issued by the Company.

Taking into account of the gain on fair value adjustment on the convertible notes and the share option expenses as aforementioned, the Company recorded an earnings per share (on diluted basis) of RMB5.23 cents for the year ended 31 December 2010.

Financial Position

As at 31 December 2010, total assets and total liabilities of the Group stood at RMB10,073,205,000 and RMB9,172,669,000 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Non-current assets amounted to RMB1,187,232,000 comprised mainly property, plant and equipment, prepaid lease payment and deposits for acquisition of land use rights, property, plant and equipment, etc.

Current assets amounted to RMB8,885,973,000 comprised mainly inventory of RMB895,836,000, trade and other receivables and bill receivables discounted with recourse of RMB6,186,036,000, bank and cash balances (inclusive of pledged bank deposits) of RMB1,797,982,000. Amount due from SGMW, a related company and a key customer in the engines and automotive components businesses of the Group amounted to RMB2,243,699,000 was recorded as trade and other receivables in the consolidated statement of financial position. These receivables balances were subject to normal commercial settlement terms. Total cash and bank balances amounted to RMB1,797,982,000, in which RMB952,549,000 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 RMB602,040,000 as at 31 December 2010.

Current liabilities amounted to RMB8,757,895,000 comprised mainly trade and other payables and advances drawn on bill receivables of RMB7,661,220,000, amount due to shareholders of RMB627,013,000, provision for warranty of RMB125,665,000, tax payable of RMB44,100,000, bank borrowings – due within one year of RMB240,521,000 and derivative financial instrument of RMB54,369,000. Amount due to shareholders recorded under current liabilities refers to the account payable to Liuzhou Wuling, a substantial shareholder of the Company and the joint venture partner to Wuling Industrial. During the year, an amount of RMB244,837,000 due from Wuling Industrial Group to Liuzhou Wuling was agreed by Liuzhou Wuling to be settled after one year and was recorded as the Group's non-current liabilities accordingly. 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 2010.

Net current assets amounted RMB128,078,000 as at 31 December 2010.

Non-current liabilities amounted to RMB414,774,000 comprised mainly bank borrowings of RMB2,872,000 and the liability component of the convertible notes of RMB72,763,000, and the amount due to Liuzhou Wuling and Wuling HK of RMB244,837,000 and RMB84,696,000 respectively.

Liquidity and Capital Structure

The Group was operating under a net cash inflow position for the year ended 31 December 2010, in which net cash from operating activities amounted to RMB449,635,000.

Cash and cash equivalents of the Group amounted to RMB845,433,000 as at 31 December 2010, which was increased by RMB32,908,000 as compared to the reporting balances as at 31 December 2009.

Group's bank borrowings increased slightly from RMB238,100,000 as at 31 December 2009 to RMB243,393,000 as at 31 December 2010. Apart from bank borrowings, a five-year convertible notes with maturity date on 12 January 2014 with a principal of HK$100,000,000 was issued by the Company to a substantial shareholder and a shareholder loan of HK$100,000,000 was provided to the Company for financing the capital injection in Wuling Industrial.

Overall, the Group had cash net of bank borrowings amounting to RMB602,040,000 as at 31 December 2010.

At 31 December 2010, the Group had a gearing ratio of 27.0% calculated based on the Group's total bank borrowings and the Group's net assets, which was lower than the gearing ratio of 34.0% as recorded at 31 December 2009.

Issued capital increased to RMB3,961,000 as at 31 December 2010 from RMB3,659,000 as at 31 December 2009. On 12 March 2010, the Company issued 58,220,000 and 25,788,000 new shares respectively to independent third party investors and, Wuling (Hong Kong) Holdings Limited, a wholly owned subsidiary of Liuzhou Wuling and a substantial shareholder of the Company. Net proceeds amounting to approximately HK$67,800,000 from the issue had been injected into Wuling Industrial subsequently for providing additional working capital for its operations. In addition, a number of 2,080,000 new shares were issued during the year upon exercise of the share options held by certain employees of the Group.

Total shareholders' equity comprised primarily the share premium account, contributed surplus and after deducting the accumulated losses, amounted to RMB301,574,000 as at 31 December 2010. Net asset value per share was RMB30.06 cents as at 31 December 2010.

Pledge of Assets

At 31 December 2010, the properties held by the Group in Hong Kong with an aggregate value of RMB28,512,000 were pledged to secure the bank loans granted to Group. Besides, bank deposits amounting to RMB952,549,000 and bill receivables discounted with recourse of RMB1,418,202,000 were also pledged to the banks to secure certain banking facilities offered to the member companies of the Wuling Industrial Group.

MANAGEMENT DISCUSSION AND ANALYSIS
Financial Review

Exposure to Fluctuation in Exchange Rates

At 31 December 2010, the Group maintained foreign currency and Hong Kong dollar bank loans of an aggregate amount of RMB29,075,000, Hong Kong dollar shareholder loan of an aggregate amount of RMB84,696,000. Hong Kong dollar bank deposits of an aggregate amount of RMB10,205,000, foreign currency and Hong Kong dollar loan and trade receivable of RMB1,679,000, Hong Kong dollar trade payable of RMB6,789,000 and Hong Kong dollar convertible notes with principal values amounting to RMB77,691,000. 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 2010, 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 RMB334,096,000, which included primarily the outstanding consideration payable for the acquisition of a factory premise and certain production facilities in Qingdao and four pieces of industrial land in Liuzhou as announced by the Company in July 2010.

Contingent Liabilities

At 31 December 2010, Wuling Industrial, a subsidiary of the Company provided a corporate guarantee to a financial institution to the extent of RMB200,000,000 in respect of revolving banking facilities granted to Liuzhou Wuling. The directors do not consider it is probable that a claim will be made against Wuling Industrial under this corporate guarantee.

Human Resources and Remuneration Policy

At 31 December 2010, the Group had approximately 9,400 employees, including 5,200 staff members and 4,200 workers. Total staff costs for the year ended 31 December 2010 were approximately RMB537,249,000. The remuneration policy was reviewed in line with the current applicable legislation, market conditions as well as the performance of the Company and the individuals.

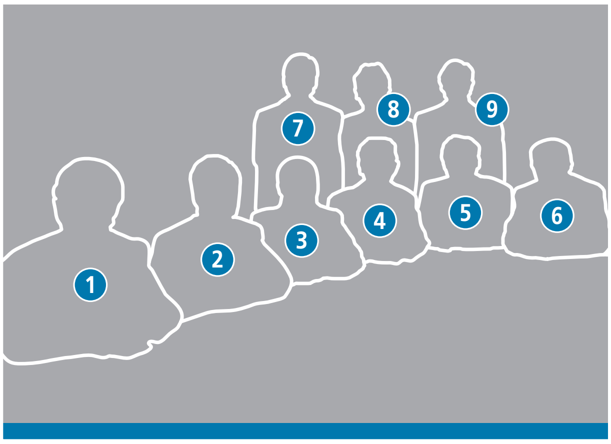
Besides, the Remuneration Committee of the Company, comprising the three independent non-executive directors, namely Mr. Zuo Duofu (Chairman), Mr. Yu Xiumin and Mr. Ye Xiang, established under the Board, will also make recommendations on or give approval to the remuneration policy, structure and remuneration 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 well 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 the Year End

On 4 January 2011, the Company announced an open offer of not less than 167,229,341 shares of the Company (the "Share") to the shareholders on the basis of one offer share for every six Shares held on 8 March 2011 at HK$0.90 per Share (the "Open Offer") , details of which were disclosed in the Company's circular and prospectus dated 15 February 2011 and 9 March 2011 respectively, in which Wuling HK, a substantial shareholder of the Company acted as the underwriter. Net proceeds from the Open Offer is estimated to be approximately HK$147,300,000, where 80% of which is intended to be used for financing the business and operations of the Wuling Industrial Group and the remaining to be used as general working capital of the Group. On 29 March 2011, in accordance with the Open Offer, a total number of 167,229,341 new Shares were issued by the Company.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES



1. Mr. SUN Shaoli
2. Mr. LEE Shing
3. Ms. LIU Yaling
4. Mr. YE Xiang
5. Mr. ZUO Duofu
6. Mr. YU Xiumin
7. Mr. ZHOU Sheji
8. Mr. WEI Hongwen
9. Mr. ZHONG Xianhua

Executive Directors

Mr. SUN Shaoli

Mr. Sun, aged 55, chairman of the Board, was appointed as an 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 28 years of 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"), director of Wuling Motors (Hong Kong) Company Limited ("Wuling Motors") and Wuling (Hong Kong) Holdings Limited ("Wuling HK"), which are direct and indirect wholly-owned subsidiaries of Liuzhou Wuling. Wuling HK is currently a substantial shareholder of the Company which is beneficially interested in approximately 37.05% 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). Wuling Industrial is a joint venture formed by the Company and Liuzhou Wuling and is also a principal subsidiary of the Company.

Mr. LEE Shing

Mr. Lee, aged 53, vice-chairman of the board of directors and the chief executive officer, was appointed as an executive director 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 the vice-chairman of Wuling Industrial, as well as a director of Wuling Liuji, Wuling United and Wuling Specialized Vehicles, which being subsidiaries 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, which is beneficially interested in approximately 24.06% of the total issued share capital of the Company. Besides, Mr. Lee is the chairman of the board of directors and the acting chief executive officer 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 48, was appointed as an executive director 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 28 years of experience in the automobile manufacturing industry. He is currently a director and the general manager of Wuling Industrial and the chairman of the board of directors of each Wuling United and Wuling Specialized Vehicles, and a director of Wuling Liuji, all being subsidiaries of Wuling Industrial. 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 and the chief executive of Liuzhou Wuling, and a director of Wuling Motors and Wuling HK, being substantial shareholders of the Company, which are beneficially interested in approximately 37.05% of the total issued share capital of the Company. Mr. Wei is also a director of SAIC-GM-Wuling Automobile Co., Ltd. ("SGMW"), which is a joint venture formed among Shanghai Automobile Industry (Group) Company, General Motors China and Liuzhou Wuling.

Mr. ZHONG Xianhua

Mr. Zhong, aged 52, was appointed as an executive director on 4 January 2010. Mr. Zhong is currently a director of Wuling Industrial and the vice president of Liuzhou Wuling, a substantial shareholder of the Company. He is also a director of Wuling United and Wuling Specialized Vehicles. Mr. Zhong graduated from Hunan University majoring in mesoporphyrin protection. His profession is senior engineer and has over 23 years of extensive experience in the production, marketing and corporate management of the automotive components industry.

Ms. LIU Yaling

Ms. Liu, aged 35, was appointed as an executive director 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 12 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 53, was appointed as an executive director 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 22 years of experience in the management of a number of business sectors in China such as construction, international trade and information technology sectors. 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 is beneficially interested in approximately 3.82% of the total issued share capital of the Company.

Independent Non-executive Directors

Mr. YU Xiumin

Mr. Yu, aged 50, was appointed as an independent non-executive director on 22 June 2006. Mr. Yu holds a doctorate degree in engineering and has extensive experience 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 67, was appointed as an independent non-executive director 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 47, was appointed as an independent non-executive director 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 15 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 46, 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. He is also a director of Wuling Industrial. Mr. Lai has more than 23 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 58, is currently a director of Wuling Industrial, a director and the vice general manager of Wuling Liuji, our principal subsidiaries. He is also a director of Wuling United and Wuling Specialized Vehicles, 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 a senior economist. Mr. Kuang has over 42 years of extensive experience in the production, marketing and corporate management of the automotive components industry.

Mr. WEI Houde

Mr. Wei, aged 57, 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 political scientist. Mr. Wei has over 42 years of extensive experience in the party administration and corporate management of the automotive components industry.

Mr. YUAN Zhijun

Mr. Yuan, aged 44, is currently a director of Wuling Industrial, principal subsidiary of the Company. He is also a director of Wuling United and Wuling Specialized Vehicles 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 24 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 48, 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 Scientific Management and Industrial Engineering in the Huazhong Polytechnic University in 1998. His profession is senior engineer. Mr. Liu has over 18 years of extensive experience in production, human resources and corporate management of the automotive components industry.

Mr. YANG Jian Yong

Mr. Yang, aged 42, is currently the chief accountant of Wuling Industrial, our principal subsidiary, and is in charge of the accounting and financial management function. He is also a director of Wuling Liuji, Wuling United and Wuling Specialized Vehicles 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. His profession is accountant. Mr. Yang has been working in the accounting profession for about 21 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 47, is currently the chief engineer of Wuling Industrial and a director and the general manager of Wuling Liuji, both of them being principal subsidiaries of the Company. He is also a director of Wuling United and Wuling Specialized Vehicles. 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 25 years of extensive experience in the production, marketing and corporate management of the automotive engines industry.

Mr. LU Xiao

Mr. Lu, aged 41, is currently the vice general manager of Wuling Industrial, a principal subsidiary of the Company, and is in charge of marketing function. Mr. Lu graduated from Nanjing Polytechnic University with a master degree in industrial engineering in 2002. His profession is engineer. Mr. Lu has over 20 years of extensive experience in the marketing and corporate management of the automotive engines industry.

Mr. WANG Xu

Mr. Wang, aged 38, 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 17 years of extensive experience in the production and corporate management of the automotive engines industry.

Mr. LUO Jianguo

Mr. Luo, aged 45, 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 21 years of extensive experience in the technical and corporate management of the automotive engines industry.

Mr. QIN Qibin

Mr. Qin, aged 48, is currently the assistant chief engineer and the quality director of Wuling Industrial, a principal subsidiary of the Company. Mr. Qin graduated from Huazhong University of Science with a master degree in business administration in 2005. His profession is senior engineer. Mr. Qin has been engaged in the automobile industry in China since his joining to Liuzhou Wuling in 1985. He has over 25 years of extensive experience in the product development and the quality management of the automotive components industry.

Mr. LI Weimin

Mr. Li, aged 47, is currently the general manager of Wuling Industrial (Shandong Branch), a principal subsidiary of the Company. Mr. Li graduated form Guanxi Economic Management Cadre College with a master degree in business administration in 2003. His profession is senior engineer. Mr. Li has been engaged in the automobile industry in China since his joining to Liuzhou Wuling in 1988. He has over 22 years of extensive experience in the automobile operation and management of the car assembly and automotive components 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 2010.

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 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") 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 reviewed regularly 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 any significant transactions entered into 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 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, 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.

During the year, Mr. Zhong Xianhua was 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 retired and re-elected in the 2010 annual general meeting.

During the year, 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, both with effect from 4 January 2010. Mr. Lee Shing remained as chief executive officer of the Company.

During the year, Mr. He Shiji, Mr. Pei Qingrong and Mr. Wang Shaohua reached their retirement age and 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, namely Messrs. Yu Xiumin, Zuo Duofu and Ye Xiang for a specific term of three years who are also required to retire by rotation in accordance with the Company's Bye-laws. All independent non-executive directors shall retire by rotation and are being eligible, offer themselves for re-election in the forthcoming 2011 annual general meeting.

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 the three independent non-executive directors who shall retire as abovementioned, in accordance with the Company's Bye-laws, Mr. Zhou Sheji, being an executive director, shall also retire by rotation and being eligible offer himself for re-election at the forthcoming 2011 annual general meeting.

The Board recommended the re-appointment of all retiring directors standing for re-election at the forthcoming 2011 annual general meeting of the Company.

The Company's circular dated 26 April 2011 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 2010, a total number of 4 regular Board meetings 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 2010 are set out below:

		Attendance/Number of Meetings		
Name of Directors		**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. Wei Hongwen		5/5	N/A	N/A
Mr. Zhong Xianhua	*(appointed on 4 January 2010)*	4/4	N/A	N/A
Ms. Liu Yaling		5/5	N/A	N/A
Mr. Zhou Sheji		5/5	N/A	N/A
Mr. He Shiji	*(resigned on 4 January 2010)*	0/1	N/A	N/A
Mr. Pei Qingrong	*(resigned on 4 January 2010)*	1/1	N/A	N/A
Mr. Wang Shaohua	*(resigned on 4 January 2010)*	1/1	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		4/5	2/2	2/2

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 meeting, 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, Mr. Lee Shing, an executive director, acted as the chairman and the chief executive officer of the Company until 4 January 2010. However, after taking into account of the Code Provision A.2.1 and the future development of the Company, with effect from 4 January 2010, Mr. Sun Shaoli, being an executive director, was appointed to replace Mr. Lee Shing as chairman, whereas Mr. Lee Shing was re-designated as vice-chairman and remained as the 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 committees 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 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 held two meeting(s) during the year ended 31 December 2010 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 36.

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 continued connected party transactions as disclosed in the annual report and confirm that those transactions entered into by the Group were (i) in the ordinary and usual course of business of the Group; (ii) 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 (iii) in accordance with the terms of the agreements governing such transactions.

(d) 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 meeting(s) during the year ended 31 December 2010 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 36.

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 accountants 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, as amended from time to time, (the "Model Code") as set out in appendix 10 to the Listing Rules.

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

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 2010.

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 Auditor and Auditor's Remuneration

The statement of the external auditor 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.

Apartment from the provision of audit services, Deloitte Touche Tohmatsu, the Company's external auditor, 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 2010, Deloitte Touche Tohmatsu, the external auditor received the following remuneration from the Group in connection with the provision of audit and non-audit services to the Group:

	2010 RMB'000
Annual audit services	1,866
Interim review services	546
Other services	113

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 their functions based on a yearly plan and prepares reports for 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. Sun Shaoli, the chairman and Mr. Lee Shing, the vice-chairman and the chief executive officer attended all the shareholders' meetings of the Company during the year. Mr. Sun Shaoli and Mr. Lee Shing 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.

REPORT OF THE DIRECTORS

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2010.

Principal Activities

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 48 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 2010 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 2010 (2009: Nil).

Financial Summary

A summary of the published results and assets and liabilities of the Group for the last five (5) 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.

	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000 (Restated)
Revenue	**11,063,390**	9,888,856	7,111,911	2,856,456	16,616
Profit before tax	**237,663**	139,712	164,769	97,220	22,085
Income tax expense	**(55,120)**	(31,093)	(27,882)	(22,602)	(19)
Profit for the year	**182,543**	108,619	136,887	74,618	22,066
Profit/(loss) for the year attributable to:					
Owners of the Company	**77,648**	(21,928)	32,647	11,147	22,066
Non-controlling interests	**104,895**	130,547	104,240	63,471	–
	182,543	108,619	136,887	74,618	22,066
Total assets	**10,073,205**	8,574,218	5,674,052	4,462,984	71,071
Total liabilities	**(9,172,669)**	(7,874,056)	(4,966,822)	(3,882,295)	(37,707)
Net assets	**900,536**	700,162	707,230	580,689	33,364

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 RMB2,958,000.

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 36 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 pages 60 and 61.

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 2009 and 31 December 2010.

Borrowings

Details of the bank borrowings of the Group are set out in note 33 to the financial statements.

Major Customers and Suppliers

During the year, the aggregate sales attributable to the Group's largest customer and five (5) largest customers taken together accounted for 72.3% and 78.2% 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 17.8% and 29.6% 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 5.8% 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 (5) 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

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.

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, retired and was re-elected at the 2010 general meeting of the Company.

In accordance with Bye-law 99(B) of the Company, Messrs. Zhou Sheji, Yu Xiumin, Zuo Duofu and Ye Xiang 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 (3) years but will expire when they are required to retire by rotation and re-election 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 (3) independent non-executive directors of the Company for a specific term of three (3) 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 and Debentures

At 31 December 2010, 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 Shares Held	Approximate % of the Issued Share Capital (Note 3)
Mr. Lee Shing ("Mr. Lee")	Held by controlled corporation (Note 1)	281,622,914	22.63%
Mr. Zhou Sheji ("Mr. Zhou")	Held by controlled corporation (Note 2)	44,770,000	3.60%

Notes:

(1) Among those 281,622,914 Shares, 259,959,613 Shares are held by Dragon Hill Development Limited ("Dragon Hill"), a company wholly-owned by Mr. Lee, an executive director, the vice-chairman and chief executive officer of the Company, and the remaining 21,663,301 Shares are to be subscribed by Dragon Hill pursuant to the irrevocable undertaking given by Dragon Hill in favour of the Company to subscribe for 50% of the assured entitlement of Dragon Hill in respect of a total of 43,326,602 Shares offered under the Company's proposed open offer of not less than 167,229,341 Offer Shares on the basis of 1 Offer Share for every 6 Shares held on the Record Date (the "Open Offer", details of which are set out in the circular (the "Open Offer Circular") and the prospectus of the Company dated 15 February 2011 and 9 March 2011, respectively). Unless specified otherwise, terms used herein notes (1) to (3) and notes (1) to (5) under the section of "Substantial Shareholders" below shall have the same meanings as those defined in the Open Offer Circular.

(2) Mr. Zhou, an executive director, is beneficially interested in 44,770,000 Shares, which interests are held by Gao Bao Development Limited, a company wholly-owned by Mr. Zhou.

(3) The approximate percentage of the total issued share capital set out in the above table is calculated based on the issued share capital of the Company as enlarged by the allotment and issue of the Offer Shares immediately after completion of the Open Offer, after taking into account the Option Undertaking and assuming all of the Non-Concert Party Held Options are exercised on or before the Record Date.

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 2010 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 2010, 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 29 December 2009 and as at 1 January 2010 (Note 1)	During the year Granted (Exercised)	During the year Reclassified	During the year Lapsed/ Cancelled	As at 31 December 2010	Exercise Period and Exercise Price
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 (Note 2)	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	

Category	Capacity	Granted on 29 December 2009 and as at 1 January 2010 (Note 1)	During the year			As at 31 December 2010	Exercise Period and Exercise Price
			Granted (Exercised)	Reclassified	Lapsed/ Cancelled		
Mr. Zhong Xianhua (Note 3)	Beneficial owner	–	–	700,000	–		I
		–	–	700,000	–		II
		–		1,400,000		1,400,000	
Ms. Liu Yaling	Beneficial owner	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. Yu Xiumin	Beneficial owner	600,000	–	–	–		I
		600,000	–	–	–		II
		1,200,000				1,200,000	
Mr. Zuo Duofu	Beneficial owner	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. He Shiji (Note 4)	Beneficial owner	900,000	–	(900,000)	–		III
		900,000	–	(900,000)	–		IV
		1,800,000		(1,800,000)		–	
Mr. Wang Shaohua (Note 4)	Beneficial owner	800,000	–	(800,000)	–		III
		800,000	–	(800,000)	–		IV
		1,600,000		(1,600,000)		–	
Mr. Pei Qingrong (Note 4)	Beneficial owner	800,000	–	(800,000)	–		III
		800,000	–	(800,000)	–		IV
		1,600,000		(1,600,000)		–	

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 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.

IV. 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 Shares immediately before the date on which the options were granted was HK$1.06.

(2) The spouse of Mr. Lee Shing, an executive director of the Company, is an employee of the Group.

(3) Mr. Zhong Xianhua was appointed as executive directors of the Company on 4 January 2010, his share options were reclassified during the year.

(4) Messrs. He Shiji, Wang Shaohua and Pei Qingrong reached their retirement age and resigned as executive directors of the Company on 4 January 2010. All of them retained as advisors of the Company, their respective share options were reclassified during the year.

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 and Debentures" and note 37 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 2010, 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

Name of Substantial Shareholders	Capacity	Nature of Interest (Note 5)	Number of Shares held	Approximate % of the Issued Share Capital (Note 5)
Dragon Hill (Note 1)	Beneficial Owner	Corporate	281,622,914	22.63%
五菱(香港)控股有限公司 (Wuling (Hong Kong) Holdings Limited) ("Wuling HK") (Notes 2, 3 and 4)	Beneficial Owner	Corporate	456,815,707	36.71%
		Unlisted derivatives	136,986,300	11.01%
		Sub-total	593,802,007	47.72%
五菱汽車(香港)有限公司 Wuling Motors (Hong Kong) Company Limited ("Wuling Motors") (Notes 2, 3 and 4)	Interested in controlled corporation	Corporate	456,815,707	36.71%
		Unlisted derivatives	136,986,300	11.01%
		Sub-total	593,802,007	47.72%
柳州五菱汽車有限責任公司 (Liuzhou Wuling Motors Company Limited) ("Liuzhou Wuling") (Notes 2, 3 and 4)	Interested in controlled corporation	Corporate	456,815,707	36.71%
		Unlisted derivatives	136,986,300	11.01%
		Sub-total	593,802,007	47.72%

Notes:

(1) The entire issued share capital of Dragon Hill is legally and beneficially owned by Mr. Lee Shing, an executive director. Accordingly, this parcel of Shares 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) The entire issued share capital of Wuling HK is held by Wuling Motors, whereas the entire issued share capital of Wuling Motors is held by Liuzhou Wuling. Accordingly, Wuling Motors and Liuzhou Wuling are deemed to be interested in the Shares in which Wuling HK is interested under the SFO.

(3) Among the 456,815,707 Shares, (i) 300,288,000 Shares are held by Wuling HK as at 31 December 2010; (ii) 50,048,000 Shares are to be subscribed by Wuling HK pursuant to the Irrevocable Undertaking 1 under the Open Offer; (iii) 106,496,707 Shares are to be allotted and issued under the Open Offer which have been underwritten by Wuling HK, as the Underwriter pursuant to the underwriting agreement dated 29 December 2010. The number of underwritten Shares was subsequently adjusted to 106,063,040 Shares pursuant to a supplemental agreement dated 4 January 2011.

(4) The unlisted derivatives referred to 136,986,300 Shares issuable to Wuling HK upon exercise in full of the conversion rights attached to the Existing Convertible Notes with a principal amount of HK$100,000,000 at the existing conversion price of HK$0.73 per Share (subject to adjustment).

(5) The approximate percentage of the total issued share capital set out in the above table is calculated based on the issued share capital of the Company as enlarged by the allotment and issue of the Offer Shares immediately after completion of the Open Offer, after taking into account the Option Undertaking and assuming all assuming all of the Non-Concert Party Held Options are exercised on or before the Record Date.

Other than as disclosed above as at 31 December 2010, 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

1. Mr. Lee, an executive director, is also a director 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 formed 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 next year. 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. Mr. Wei Hongwen ("Mr. Wei"), an executive director is also a director of SAIC-GM-Wuling Automobile Co., Ltd ("SGMW"). SGMW is principally engaged in the manufacturing and trading businesses of motor vehicles and engines, which may have direct or indirect competition to the businesses of the Group. Although Mr. Wei is taken to have competing interests in SGMW by virtue of his common directorships, he will fulfil his fiduciary duty in order to ensure that he will act in the best interest of the Shareholders and the Company as a whole 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.

Connected Transactions

On 21 January 2010, the Company and Wuling HK, a substantial shareholder of the Company, entered into a subscription agreement (the "Subscription Agreement") pursuant to which the Company issued to Wuling HK 25,788,000 new Shares of the Company at HK$0.85 per Share on 12 March 2010, details of which were set out in the Company's announcements dated 21 January 2010, 4 March 2010 and 12 March 2010, and the Company's circular dated 8 February 2010. The Subscription Agreement and the transactions contemplated thereon were approved by the independent shareholders of the Company at a special general meeting held on 4 March 2010. Net proceeds from the issue of new shares of the

Company amounting to HK$21,100,000 was applied by the Company to settle part of the subscription money payable by the Company to Wuling Industrial in respect of the Company's investment in 51% shareholding interests in Wuling Industrial.

On 29 December 2010, the Company and Wuling HK (as underwriter), a substantial shareholder of the Company, entered into an underwriting agreement (which were amended and supplemented by two supplemental agreements and a side letter dated 4 January 2011, 12 January 2011 and 14 February 2011 (the "Underwriting Agreement")) respectively, pursuant to a proposed open offer of new Shares by the Company on the basis of one Offer Share for every six Shares held on the Record Date at the subscription price of HK$0.90 per Share (the "Open Offer", details of which and terms herein used are set out in the circular and the prospectus of the Company dated 15 February 2011 and 9 March 2011 respectively). The Underwriting Agreement, the Open Offer, their respective transactions contemplated thereon, together with a whitewash waiver in relation thereto, were approved by the independent shareholders of the Company at a special general meeting held on 10 March 2011. The Open Offer was completed on 29 March 2011 whereby a total number of 133,363,975 new Shares were issued to Wuling HK (including a number of 50,048,000 Shares, being the assured entitlements of Wuling HK in the Open Offer), at a gross consideration of HK$120,028,000.

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 Industrial 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, 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) 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;

(2) 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;

(3) 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;

(4) 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;

(5) 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 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;

(6) a renewed agreement dated 23 January 2009 with Liuzhou Keer Digital Manufacturing Co., Limited 柳州市科爾數位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 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;

(7) a renewed tenancy agreement entered into between Wuling Industrial (as tenant) and Liuzhou Wuling (as landlord) on 13 November 2009, as extended from the then existing tenancy agreement, in connection with the leasing of 12 parcels of land and 69 buildings located in Liuzhou, Guangxi, the PRC, by Liuzhou Wuling to Wuling Industrial ("Leasing of Properties") for the occupancy of such parcels of land and buildings by the Wuling Industrial Group for its business and operations for a period of three years ending on 31 December 2012 at an annual rental of not more than RMB30,205,000, details of which were disclosed in the announcement of the Company made on 13 November 2009;

(8) a renewed patent agreement entered into between Wuling Industrial (as lessee) and Liuzhou Wuling (as lessor) on 21 December 2009, as extended from the then existing patent agreement, in relation to the grant of a total number of 167 types of patent rights and know-how of Liuzhou Wuling for use by the Wuling Industrial Group in its trading and manufacturing activities of engines, automotive components and specialized vehicles, and other related businesses for a term of three years ending on 31 December 2012 at an annual license fee of RMB1,300,000, details of which were disclosed in the announcement of the Company made on 21 December 2009;

(9) a renewed trademark agreement entered into between Wuling Industrial (as lessee) and Liuzhou Wuling (as lessor) on 21 December 2009, as extended from the then existing trademark agreement, in relation to the

licensing of 2 registered trademarks of Liuzhou Wuling to Wuling Industrial for use by the Wuling Industrial Group for a term of three years ending on 31 December 2012 at an annual license fee of RMB2,000,000, details of which were disclosed in the announcement of the Company made on 21 December 2009;

(10) a renewed agreement dated 21 December 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 2010 to 31 December 2010, the maximum aggregate value for the transactions shall be RMB10,000,000 for the year ending 31 December 2010;

(11) a agreement dated 12 November 2010 with Liuzhou Wuling Baomali Automotive Air-Conditioner Co., Limited 柳州五菱寶馬利汽車有限公司("Baomali") in relation to the purchase of certain automobile air-conditioning parts and accessories by Wuling Industrial Group from Baomali ("Baomali Purchase Transactions"), the maximum aggregate value of the Baomali Purchase Transactions shall be RMB4,200,000 for the year ending 31 December 2010.

Liuzhou Wuling is a substantial shareholder of the Company, by virtue of its interests in Wuling HK, is regarded as connected person of the Company pursuant to the Listing Rules.

Guangling, Guilin Bus, KE Digital and Baomali, 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 4 and 7 above were obtained in the following special general meetings of the Company:

Item	Particulars	Date of Special General Meeting
1	GL Sale Transactions	7 August 2008
2	GL Purchase Transactions	7 August 2008
3	GB Sale Transactions	21 November 2008
4	GB Purchase Transactions	21 November 2008
7	Leasing of Properties	18 December 2009

As for items No. 5, 6 and 8 to 11 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 2010.

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.

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 executive directors and the senior management of the Company and other related matters. The Human Resources Department is responsible for 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 and remuneration packages.

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 (2009: Nil).

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 2010.

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 duties and works 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 2010 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.

Event After the Reporting Date

Details of a significant event occurring after the reporting date are set out in note 47 to the financial statements.

Auditor

Deloitte Touche Tohmatsu ("Deloitte"), being the auditor of the Company, will retire and, being eligible, offer themselves for re-appointment in the forthcoming annual general meeting of the Company. A resolution for the 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
30 March 2011

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated 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 136, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 Bermuda Companies Act, 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 of the consolidated financial statements that give a true and fair view 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, as well as evaluating the overall presentation of the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

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

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 2010 and of the Group's profit and cash flows for the year then ended 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
30 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Revenue	6	**11,063,390**	9,888,856
Cost of sales		**(9,983,234)**	(9,016,957)
Gross profit		**1,080,156**	871,899
Other income	6	**108,387**	84,758
Distribution costs		**(289,875)**	(256,309)
General and administrative expenses		**(627,060)**	(447,800)
Net gain on held-for-trading investments		**–**	4
Gain on disposal of an associate	19	**1,572**	–
Share of results of an associate	19	**(1,715)**	30
Change in fair value of derivative financial instrument	32	**27,152**	(65,684)
Change in fair value of investment properties	17	**2,958**	2,024
Finance costs	7	**(63,912)**	(49,210)
Profit before tax		**237,663**	139,712
Income tax expense	8	**(55,120)**	(31,093)
Profit for the year	9	**182,543**	108,619
Other comprehensive income			
Exchange differences arising from translation of foreign operation		**8,664**	326
Total comprehensive income for the year		**191,207**	108,945
Profit (loss) for the year attributable to:			
Owners of the Company		**77,648**	(21,928)
Non-controlling interests		**104,895**	130,547
		182,543	108,619
Total comprehensive income (expenses) Attributable to:			
Owners of the Company		**86,312**	(21,602)
Non-controlling interests		**104,895**	130,547
		191,207	108,945
Earnings (loss) per share	13		
Basic		**7.84 cents**	(2.38) cents
Diluted		**5.23 cents**	(2.38) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000 Restated	2008 RMB'000 Restated
NON-CURRENT ASSETS				
Property, plant and equipment	14	**891,537**	668,500	570,065
Prepaid lease payments	15	**32,104**	44,975	13,912
Premium on prepaid lease payments	16	**997**	1,022	1,047
Investment properties	17	**27,103**	25,141	6,172
Intangible assets	18	**928**	928	928
Investment in an associate	19	**–**	2,434	3,304
Available-for-sale investments	20	**360**	495	495
Deposits for trading rights		**174**	180	180
Deposits for acquisition of land use rights	21	**50,800**	–	–
Deposits for acquisition of property, plant and equipment	22	**183,229**	47,175	51,170
		1,187,232	790,850	647,273
CURRENT ASSETS				
Inventories	23	**895,836**	795,689	600,273
Loans receivable	24	**50**	450	68
Trade and other receivables	25(i)	**4,767,834**	3,995,094	2,861,209
Bills receivables discounted with recourse	25(ii)	**1,418,202**	1,335,778	342,008
Prepaid lease payments	15	**689**	937	201
Held-for-trading investments	26	**7**	7	3
Client trust bank accounts	27	**5,373**	7,235	2,350
Pledged bank deposits	28	**952,549**	835,653	624,601
Bank balances and cash	28	**845,433**	812,525	596,066
		8,885,973	7,783,368	5,026,779
CURRENT LIABILITIES				
Trade and other payables	29(i)	**6,243,018**	5,167,274	3,279,598
Advances drawn on bills receivables discounted with recourse	29(ii)	**1,418,202**	1,335,778	342,008
Amounts due to shareholders	30	**627,013**	815,106	989,580
Amount due to an associate	30	**–**	11,371	20,467
Provision for warranty	31	**125,665**	111,739	83,226
Tax payable		**44,100**	26,180	31,787
Derivative financial instrument	32	**54,369**	83,861	–
Convertible loan notes	32	**4,928**	5,115	–
Bank borrowings – due within one year	33	**240,521**	233,686	198,104
Obligations under finance leases – due within one year	34	**79**	254	270
		8,757,895	7,790,364	4,945,040
NET CURRENT ASSETS (LIABILITIES)		**128,078**	(6,996)	81,739
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,315,310**	783,854	729,012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000 Restated	2008 RMB'000 Restated
NON-CURRENT LIABILITIES				
Amount due to shareholders	30	**329,533**	–	–
Convertible loan notes	32	**72,763**	72,287	–
Bank borrowings – due after one year	33	**2,872**	4,414	19,212
Obligations under finance leases – due after one year	34	**79**	158	412
Deferred tax liabilities	35	**9,527**	6,833	2,158
		414,774	83,692	21,782
		900,536	700,162	707,230
CAPITAL AND RESERVES				
Share capital	36	**3,961**	3,659	3,659
Reserves		**297,613**	122,428	143,085
Equity attributable to owners of the Company		**301,574**	126,087	146,744
Non-controlling interests		**598,962**	574,075	560,486
		900,536	700,162	707,230

The financial statements on pages 57 to 136 were approved and authorised for issue by the Board of Directors on 30 March 2011 and are signed on its behalf by:

Sun Shaoli	**Lee Shing**
Chairman	*Vice-chairman and Chief Executive Officer*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	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	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2009	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 iv)	–	–	–	–	–	–	–	–	–	(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 non-controlling 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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	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	Non-controlling interests RMB'000	Total equity RMB'000
Profit for the year	–	–	–	–	–	–	–	77,648	77,648	104,895	182,543
Exchange difference arising from translation of foreign operation	–	–	8,664	–	–	–	–	–	8,664	–	8,664
Total comprehensive income for the year	–	–	8,664	–	–	–	–	77,648	86,312	104,895	191,207
Issue of new shares (note 36)	295	62,343	–	–	–	–	–	–	62,638	–	62,638
Cost of issuing new shares	–	(1,088)	–	–	–	–	–	–	(1,088)	–	(1,088)
Recognition of equity settled share-based payments	–	–	–	–	25,689	–	–	–	25,689	–	25,689
Exercise of share options	7	2,582	–	–	(653)	–	–	–	1,936	–	1,936
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(80,008)	(80,008)
Transfers	–	–	–		–	21,456	–	(21,456)	–	–	–
Subtotal	302	63,837	–	–	25,036	21,456	–	(21,456)	89,175	(80,008)	9,167
At 31 December 2010	3,961	343,142	5,781	97,435	25,981	73,607	18,505	(266,838)	301,574	598,962	900,536

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 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 2010

	2010 RMB'000	2009 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**237,663**	139,712
Adjustments for:		
Depreciation of property, plant and equipment	**79,634**	65,485
Finance costs	**63,912**	49,210
Recognition of equity-settled share-based payments	**25,689**	945
Impairment losses recognised on trade receivables	**2,554**	574
Share of result of an associate	**1,715**	(30)
Allowance (reversal of allowance) for inventories	**1,186**	(11,865)
Release of prepaid lease payments	**751**	129
Loss (gain) on disposal of property, plant and equipment	**523**	(5,070)
Release of premium on prepaid lease payments	**25**	25
Change in fair value of derivative financial instrument	**(27,152)**	65,684
Bank interest income	**(18,766)**	(20,553)
Change in fair value of investment properties	**(2,958)**	(2,024)
Gain on disposal of an associate	**(1,572)**	–
Gain on disposal of available-for-sale investments	**(813)**	–
Dividend income from held-for-trading investments	**–**	(52)
Net gain on held-for-trading investments	**–**	(4)
Operating cash flows before movements in working capital	**362,391**	282,166
Increase in trade and other payables	**1,076,180**	1,887,523
Increase in provision for warranty	**13,926**	28,513
Decrease (increase) in client trust bank accounts	**1,711**	(4,885)
Decrease (increase) in loans receivable	**400**	(382)
Increase in trade and other receivables	**(775,342)**	(1,134,459)
Increase in inventories	**(101,333)**	(183,551)
Increase in bills receivables discounted with recourse	**(82,424)**	(993,770)
Decrease in amount due to an associate	**(11,371)**	(9,096)
Cash generated from (used in) operations	**484,138**	(127,941)
Income tax paid	**(30,232)**	(30,411)
Withholding tax paid	**(4,271)**	(1,614)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**449,635**	(159,966)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
INVESTING ACTIVITIES		
Proceeds from government grants	32,168	–
Bank interest income received	18,766	20,553
Proceeds from disposal of property, plant and equipment	11,862	17,911
Proceeds from disposal of an associate	2,291	–
Proceeds from disposal of available-for-sale investments	948	–
Purchase of property, plant and equipment	(287,607)	(125,603)
Deposits paid for purchase of property, plant and equipment	(183,229)	(47,175)
Increase in pledged bank deposits	(116,835)	(211,052)
Deposits paid for acquisition of land use rights	(50,800)	–
Proceeds from disposal of investment properties	–	6,455
Dividend received from an associate	–	900
Dividend received from held-for-trading investments	–	52
Increase in prepaid lease payments	–	(31,928)
Purchase of investment properties	–	(23,400)
NET CASH USED IN INVESTING ACTIVITIES	(572,436)	(393,287)
FINANCING ACTIVITIES		
New bank loans raised	234,998	217,440
Advance from shareholders	184,399	3,516
Advance drawn on bills receivables discounted with recourse	82,424	993,770
Proceeds from issue of new shares, net of share issue costs	61,550	–
Proceeds from exercise of share options	1,936	–
Repayment of bank loans	(219,019)	(206,332)
Dividend paid to minority shareholders	(80,008)	(116,805)
Interest paid	(60,713)	(41,280)
Repayment to shareholders	(42,959)	(177,990)
Repayment of obligations under finance leases	(244)	(270)
Proceeds from issue of convertible loan notes	–	88,069
NET CASH FROM FINANCING ACTIVITIES	162,364	760,118
NET INCREASE IN CASH AND CASH EQUIVALENTS	39,563	206,865
CASH AND CASH EQUIVALENTS AT 1 JANUARY	802,830	596,066
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET	3,040	(101)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	845,433	802,830
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, representing		
bank balances and cash	845,433	812,525
bank overdrafts (included in bank borrowings)	–	(9,695)
	845,433	802,830

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

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 Unit 2805-2806, 28th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

The Company acts as an investment holding company and its subsidiaries are engaged in the manufacturing and trading of engines and 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 48.

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 (“HKFRSs”)/CHANGES IN ACCOUNTING POLICIES

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”).

HKFRS 2 (Amendments)	Group Cash-settled Shared-based Payment Transactions
HKFRS 3 (As revised in 2008)	Business Combinations
HKAS 27 (As revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvement to HKFRSs issued in 2008
HK (IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 5	Presentation of Financial Statements– Classification by the Borrower of a Team Loan that Contains a Repayment on demand clause

Except as described below, the application of the new and revised HKFRSs in the current year has had no material effect on the amount report in these consolidated financial statements and disclosures set out in these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")/CHANGES IN ACCOUNTING POLICIES (continued)

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 Presentation of Financial Statements– Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ('HK int 5') clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ('repayment on demand clause') should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

As a result, bank borrowings that contain a repayment on demand clause with the aggregate carrying amounts of approximately RMB13,120,000 and RMB1,076,000 have been reclassified from non-current liabilities to current liabilities as at 31 December 2009 and 1 January 2009 respectively. As at 31 December 2010, bank borrowings (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of approximately RMB69,543,000 have been classified as current liabilities. The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities (see note 33 for details).

The effects of the above changes in accounting policies on the financial positions of the Group as at 1 January 2009 and 31 December 2009 is as follows:

	As at 1.1.2009 (originally stated) RMB'000	Adjustments RMB'000	As at 1.1.2009 (restated) RMB'000	As at 31.12.2009 (originally stated) RMB'000	Adjustments RMB'000	As at 31.12.2009 (restated) RMB'000
Bank borrowings – due within one year	197,028	1,076	198,104	220,566	13,120	233,686
Bank borrowings – due after one year	20,288	(1,076)	19,212	17,534	(13,120)	4,414
	217,316	–	217,316	238,100	–	238,100

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")/CHANGES IN ACCOUNTING POLICIES (continued)

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First– time Adopters[2]
HKFRS 7 (Amendments)	Disclosures– Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKFRS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK (IFRIC) –Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]
HKFRS 1 (Amendments)	Severe hyperinflation and removal of fixed dates for first-time adopters[3]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 July 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 February 2010.

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial instruments* (as revised in November 2010) adds requirement for financial liabilities and for derecognition.

Under HKFRS 9, all recognized financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flow, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")/CHANGES IN ACCOUNTING POLICIES (continued)

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that application of the new Standard may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments are measured at revalued amounts or fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange of goods.

The principal accounting policies are set out below.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

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 recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with its associate of profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related for the Group.

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 the sale of goods is recognised when the goods are delivered and title passed at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income is recognised when services are provided.

Interest income from a financial assets is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

Net 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 provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can measured reliably.

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any charges in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are stated at costs less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are 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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

Investment properties are initially 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.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. 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 asset) is included in the profit or loss in the period in which the item is derecognised.

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 recognised 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 expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Operating lease payments are recognised as an expense on a straight line basis over the term of the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

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.

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 exchange reserve).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 capitalisation 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 capitalisation.

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised 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 recognised as deferred income/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.

Taxation

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

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is recognised on temporary 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. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised 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 recognised 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 recognized 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 recognised 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 (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

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 recognised 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.

Inventories

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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; or
- 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Effective interest method (continued)

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 of 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 of 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; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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.

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 instruments

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

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 from on bills receivables discounted with recourse, amounts due to shareholders, amount due to an associate and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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".

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 in its entirety, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

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 (other than construction in progress) 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 2010, the carrying amount of trade receivable is approximately RMB4,281,562,000 (net of allowance for doubtful debts of approximately RMB5,551,000) (2009: carrying amount of approximately RMB3,828,064,000, net of allowance for doubtful debts of approximately RMB7,080,000).

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 31, 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 consolidated statement of comprehensive income will result.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

5. SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of the resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. This is also the basis upon which the Group is organized.

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

- 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 earned 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, gain on disposal 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 allocated to the segments.

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

Inter-segment sales are charged at prevailing market prices.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

5. SEGMENT INFORMATION (continued)

An analysis of the Group's profit before tax and assets and liabilities 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 2010							
Revenue							
External sales	3,589,536	5,230,910	1,555,380	685,984	1,580	–	11,063,390
Inter– segment sales	291,393	109,716	109,857	3,394,908	–	(3,905,874)	–
Total	3,880,929	5,340,626	1,665,237	4,080,892	1,580	(3,905,874)	11,063,390
Segment profit (loss)	214,348	65,418	26,870	25,790	(14,634)		317,792
Bank interest income							18,766
Change in fair value of investment properties							2,958
Change in fair value of derivative financial instrument							27,152
Share option expenses							(25,689)
Central administration costs							(39,261)
Share of result of an associate							(1,715)
Gain on disposal of an associate							1,572
Finance costs							(63,912)
Profit before tax							237,663

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

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
Other information							
Capital additions	109,518	123,311	11,849	70,072	380		315,130
Depreciation of property, plant and equipment	27,053	37,413	3,920	10,579	669		79,634
Release of prepaid lease payments	–	751	–	–	–		751
Release of premium on prepaid lease payments	–	25	–	–	–		25
Loss (gain) on disposal of property, plant and equipment	580	5	112	(424)	250		523
Allowance of inventories	–	–	1,186	–	–		1,186

At 31 December 2010

	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
Assets							
Segment assets	2,574,426	3,666,478	509,953	1,486,009	38,357		8,275,223
Pledged bank deposits							952,549
Bank balances and cash							845,433
Consolidated assets							10,073,205
Liabilities							
Segment liabilities	2,297,215	3,066,878	516,779	1,891,798	13,549		7,786,219
Amounts due to shareholders							956,546
Derivative financial instrument							54,369
Convertible loan notes							77,691
Bank borrowings							243,393
Others							54,451
Consolidated liabilities							9,172,669

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

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 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 on held-for-trading investments							4
Share option expenses							(945)
Central administration costs							(42,676)
Share of result of an associate							30
Finance costs							(49,210)
Profit before tax							139,712

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

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
Other information							
Capital additions	97,153	44,312	31,042	4,175	87		176,769
Depreciation of property, plant and equipment	26,096	24,868	10,455	3,089	977		65,485
Release of prepaid lease payments	129	–	–	–	–		129
Release of premium on prepaid lease payments	25	–	–	–	–		25
Impairment recognized on trade receivables	309	254	–	–	11		574
(Gain) loss on disposal of property, plant and equipment	(780)	165	(77)	2	(4,380)		(5,070)
(Reversal of allowance) allowance of inventories	(26,017)	14,152	–	–	–		(11,865)
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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

5. SEGMENT INFORMATION (continued)

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	
	2010	2009
	RMB'000	RMB'000
The PRC (excluding Hong Kong)	**11,061,810**	9,887,127
Hong Kong	**1,580**	1,729
Consolidated	**11,063,390**	9,888,856

(b) Non-current assets

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

	Carrying amount of non-current assets	
	2010	2009
	RMB'000	RMB'000
Hong Kong	**29,844**	28,493
Philippines	**174**	180
The PRC (excluding Hong Kong)	**1,157,214**	762,177
	1,187,232	790,850

Information about a major customer

Revenue derived from sales to a single customer, SGMW (as defined in note 25) in respect of:

	2010	2009
	RMB'000	RMB'000
Engines and parts' segment	**2,667,317**	2,736,383
Automotive components and accessories' segment	**4,765,864**	4,613,021
Specialized vehicles' segment	**234,138**	–
Trading of raw materials, water and power supply's segment	**330,723**	302,375
	7,998,042	7,651,779

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. REVENUE AND OTHER INCOME

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

	2010 RMB'000	2009 RMB'000
Sales of goods	**11,061,810**	9,887,127
Commission and interest income from securities dealing and margin finance	**980**	1,453
Gross property rental income	**600**	276
	11,063,390	9,888,856
Other income	**108,387**	84,758
	11,171,777	9,973,614

Details of other income are as follows:

	2010 RMB'000	2009 RMB'000
Sales of scrap materials and parts	**62,155**	47,514
Bank interest income	**18,766**	20,553
Project income	**8,993**	5,606
Recovery of trade receivables previously written off	**8,097**	–
Service income on repairs and maintenance	**5,016**	2,784
Machinery rental income	**1,380**	1,083
Gain on disposal of available-for-sale investments	**813**	–
Foreign exchange gains, net	**522**	–
Gain on disposal of property, plant and equipment	**–**	5,070
Dividend income from held-for-trading investments	**–**	52
Others	**2,645**	2,096
	108,387	84,758

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

7. FINANCE COSTS

	2010 RMB'000	2009 RMB'000
Interests on:		
– amount due to a shareholder (note 30)	**1,453**	–
– borrowings wholly repayable within five years	**7,265**	9,385
– borrowings not wholly repayable within five years	**383**	239
– advances drawn on bills receivables	**46,345**	31,606
– obligations under finance leases	**47**	50
– convertible loan notes (Note 32)	**8,419**	7,930
	63,912	49,210

8. INCOME TAX EXPENSE

	2010 RMB'000	2009 RMB'000
Tax charge represents:		
PRC Enterprise Income Tax		
Current	**52,704**	34,119
Tax deduction in respect of the acquisition of qualified assets in the PRC	**–**	(5,351)
Overprovision in prior years	**(281)**	(2,350)
	52,423	26,418
Deferred tax (note 35)		
Current year	**2,697**	4,675
	55,120	31,093

Hong Kong

Hong Kong Profit 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 relevant companies in the Group has available tax losses brought forward from prior years to offset the estimated assessable profits arising in Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

8. INCOME TAX EXPENSE (continued)

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 Motor Industrial Company Limited ("Wuling Industrial") , all the Group's major PRC operating subsidiaries would continue to enjoy a preferential income tax rate of 15% until 2010 because (i) they are located in the western region of the PRC; (ii) their main business falls 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.

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.

The New Law also requires withholding tax upon distribution of profits earned by the PRC subsidiaries since 1 January 2008. Deferred tax of RMB7,003,000 (2009: RMB6,209,000) has been provided in respect of the undistributed earnings of the Group's PRC subsidiaries as a charge to the consolidated statement of comprehensive income.

The income tax expense for the year can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

	2010 RMB'000	2009 RMB'000
Profit before tax	**237,663**	139,712
Tax at the domestic income tax rate of 15% (note)	**35,650**	20,957
Tax effect of share of results of an associate	**(257)**	5
Tax effect of expenses not deductible for tax purposes	**9,623**	10,091
Tax effect of deductible temporary difference not recognised	**4,915**	–
Tax effect of income not taxable for tax purposes	**(4,430)**	(72)
Tax effect of tax losses not recognised	**2,994**	1,973
Tax effect of utilisation of tax losses previously not recognised	**(97)**	(369)
Tax effect of undistributed profits of PRC subsidiaries	**7,003**	6,209
Overprovision in prior years	**(281)**	(2,350)
Tax deduction in respect of the acquisition of qualified assets in the PRC	**–**	(5,351)
Income tax expense for the year	**55,120**	31,093

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 35.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

9. PROFIT FOR THE YEAR

	2010 RMB'000	2009 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments (note 10)	10,519	5,176
Other staff costs	445,968	360,827
Retirement benefit scheme contributions, excluding directors	59,849	46,447
Equity-settled share-based payments, excluding directors	20,913	–
Total staff costs	537,249	412,450
Gross property rental income	(600)	(276)
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	3	11
Net rental income	(597)	(265)
Auditor's remuneration	1,966	2,207
Cost of inventories recognized as an expense (note)	9,983,234	9,016,957
Depreciation of property, plant and equipment	79,634	65,485
Loss (gain) on disposal of property, plant and equipment	523	(5,070)
Impairment loss recognized on trade receivables	2,554	574
Release of prepaid lease payments (included in general and administrative expenses)	751	129
Release of premium on prepaid lease payments (included in general and administrative expenses)	25	25
Research and development expenses (included in general and administrative expenses)	83,901	42,735
Recovery of trade receivables previously written off	(8,097)	–

note: Included in cost of inventories recognised as an expense is an amount of approximately RMB1,186,000 and (RMB11,865,000) as allowance and reversal of allowance for inventories for the year ended 31 December 2010 and 2009, respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

10. DIRECTORS' EMOLUMENTS

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

	Fees RMB'000	Other emoluments: Salaries and allowances RMB'000	Other emoluments: Contributions to retirement benefits schemes RMB'000	Share-based payments RMB'000	Total emoluments RMB'000
2010					
Sun Shaoli	**104**	**1,077**	**379**	**678**	**2,238**
Lee Shing	**1,044**	**331**	**10**	**678**	**2,063**
Wei Hongwen	**104**	**587**	**105**	**603**	**1,399**
Zhong Xianhua (note ii)	**104**	**436**	**110**	**459**	**1,109**
Zhou Sheji	**104**	**699**	**10**	**528**	**1,341**
Liu Yaling	**104**	**16**	**–**	**603**	**723**
Yu Xiumin	**104**	**7**	**–**	**405**	**516**
Zuo Duofu	**104**	**7**	**–**	**405**	**516**
Ye Xiang	**157**	**7**	**–**	**405**	**569**
He Shiji (note i)	**1**	**30**	**–**	**4**	**35**
Wang Shaohua (note i)	**1**	**–**	**–**	**4**	**5**
Pei Qingrong (note i)	**1**	**–**	**–**	**4**	**5**
	1,932	**3,197**	**614**	**4,776**	**10,519**
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 Qingrong	106	14	–	302	422
Yu Xiumin	92	5	–	–	97
Zuo Duofu	92	5	–	–	97
Cheng Kin Wah, Thomas (note iii)	26	–	–	–	26
Ye Xiang	145	5	–	–	150
Zhou Sheji	106	619	11	–	736
	2,153	1,758	320	945	5,176

notes:

(i) Messors. He Shiji, Wang Shaohua and Pei Qingrong resigned as executive directors of the Company on 4 January 2010. All of them are retained as advisors of the Company.

(ii) Mr. Zhong Xianhua was appointed as executive director of the Company on 4 January 2010.

(iii) Mr. Cheng King Wah, Thomas resigned as independent non-executive director of the Company on 31 March 2009.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2009: four) were directors of the Company whose emolument is included in the disclosure in note 10 above. The emoluments of the remaining one (2009: one) individual is as follows:

	2010 RMB'000	2009 RMB'000
Salaries and other benefits	**846**	915
Bonus	**71**	70
Share-based payments	**459**	–
Contributions to retirement benefits schemes	**10**	11
Total emoluments	**1,386**	996

Their emoluments were within the following bands:

	2010 Number of employees	2009 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	**–**	–

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 2010.

12. DIVIDENDS

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

13. EARNINGS (LOSS) PER SHARE

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

Earnings (Loss)	2010 RMB'000	2009 RMB'000
Earnings (loss) for the purpose of basic earnings (loss) per share	**77,648**	(21,928)
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	**8,419**	–
Change in fair value of derivative financial instruments	**(27,152)**	–
	58,915	(21,928)

Number of shares	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	**990,095**	921,535
Effect of dilutive potential ordinary shares:		
Convertible loan notes	**136,986**	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**1,127,081**	921,535

The computation of diluted loss per share 2009 does not assume the conversion of the company's outstanding convertible loan notes issued in 2009 since their exercise would result in a decrease in loss per share.

The computation of diluted earnings (loss) per share in 2010 and 2009 does not assume the exercise of the outstanding share options as the exercise price is higher than the average market price of the Company's shares during the relevant year.

The weighted average number of ordinary shares for the purpose of basic earnings (loss) per share in 2010 and 2009 has been adjusted for the Open Offer (as defined in note 47) on 8 March 2011.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

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 2009	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
Exchange realignment	(54)	(22)	–	(23)	(43)	(44)	–	(186)
Additions	156	269	61,415	3,638	3,148	4,041	242,463	315,130
Disposals	–	(122)	(17,843)	(1,394)	(574)	(2,595)	–	(22,528)
Transfer	27,409	–	126,872	–	–	–	(154,281)	–
At 31 December 2010	143,131	620	665,612	15,525	10,885	16,282	213,329	1,065,384
DEPRECIATION AND AMORTISATION								
At 1 January 2009	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
Exchange realignment	(4)	(13)	–	(20)	(38)	(37)	–	(112)
Provided for the year	6,214	127	64,857	3,679	1,532	3,225	–	79,634
Eliminated on disposals	–	(70)	(6,188)	(1,124)	(452)	(2,309)	–	(10,143)
At 31 December 2010	9,833	369	147,491	7,476	3,528	5,150	–	173,847
CARRYING VALUE								
At 31 December 2010	133,298	251	518,121	8,049	7,357	11,132	213,329	891,537
At 31 December 2009	111,997	170	406,346	8,363	5,868	10,609	125,147	668,500

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

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 RMB1,317,000 (2009: RMB1,396,000) 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.

During the year, the Group received government subsidy of RMB19,800,000 (2009: nil) as a result of its expansion of production capacity in the heavy industry. The subsidy was deducted from the costs of property, plant and equipment.

The carrying value of properties shown above comprises:

	2010 RMB'000	2009 RMB'000
Land in Hong Kong:		
Long leases	1,317	1,396
Land in the PRC:		
Medium term leases	131,981	110,601
	133,298	111,997

The carrying value of motor vehicles held under finance leases amounted to RMB92,000 (2009: RMB455,000).

Property, plant and equipment of approximately RMB1,409,000 (2009: RMB1,851,000) at the end of the reporting period have been pledged to secure banking facilities granted to the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

15. PREPAID LEASE PAYMENTS

	2010 RMB'000	2009 RMB'000
Balance at the beginning of the year	**45,912**	14,113
Additions	**–**	31,928
Released to the consolidated statement of comprehensive income	**(751)**	(129)
Government grant	**(12,368)**	–
Balance at the end of the year	**32,793**	45,912
Current portion of non-current assets	**(689)**	(937)
Non-current portion	**32,104**	44,975

During the year, the Group received government subsidy of RMB12,368,000 (2009: nil) as a result of its investment in a developing industrial zone of Liuzhou. The subsidy was deducted from the costs of prepaid lease payments.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

17. INVESTMENT PROPERTIES

	2010 RMB'000	2009 RMB'000
Fair value at 1 January	**25,141**	6,172
Exchange realignment	**(996)**	–
Addition	**–**	23,400
Net increase in fair value recognised in profit or loss	**2,958**	2,024
Disposal	**–**	(6,455)
Far value at 31 December	**27,103**	25,141

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 2010 was arrived at on the basis of a valuation carried out as of that day by Vigers Appraisal & Consulting Limited ("Vigers"), 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 2009 and 31 December 2009 and 2010	9,212
IMPAIRMENT	
At 1 January 2009 and 31 December 2009 and 2010	(8,284)
CARRYING VALUE	
At 31 December 2010 and 2009	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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

19. INTEREST IN AN ASSOCIATE

	2010 RMB'000	2009 RMB'000
Cost of investment in an associate		
– unlisted equity investment in the PRC	–	2,282
Share of post-acquisition profits, net-off dividend received	–	152
	–	2,434

At 31 December 2009, the Group held a 30% interest in 柳州五菱物流有限公司 ("Wuling Logistics") which is a limited liability company established in the PRC and is engaged in the business of logistic services.

On 21 May 2010, the Group disposed of its 30% interest in Wuling Logistics to an independent third party for a consideration of approximately RMB2,291,000 and a gain on disposal of approximately RMB1,572,000 was recognised in profit or loss.

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

	2010 RMB'000	2009 RMB'000
Total assets	–	46,295
Total liabilities	–	(38,182)
Net assets	–	8,113
Group's share of net assets of an associate	–	2,434
Revenue	**43,976**	128,285
(Loss) profit for the year	**(5,718)**	100
Group's share of results of an associate for the year	**(1,715)**	30

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

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.

During the year ended 31 December 2010, an investment of RMB135,000 was disposed at a consideration of approximately RMB948,000 and a gain on disposal of approximately RMB813,000 was recognised in profit or loss.

21. DEPOSITS FOR ACQUISITION OF LAND USE RIGHTS

The related capital commitments of approximately RMB114,950,000 has been disclosed in Note 38.

22. DEPOSITS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The related capital commitments of approximately RMB96,158,000 has been disclosed in Note 38.

23. INVENTORIES

	2010 **RMB'000**	2009 RMB'000
Raw materials	**589,926**	403,044
Work in progress	**100,005**	65,271
Finished goods	**205,905**	327,374
	895,836	795,689

24. LOANS RECEIVABLE

Loans receivable comprise margin clients accounts receivable of RMB50,000 (2009: RMB450,000).

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% (2009: 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

(i) Trade and other receivables

	2010 RMB'000	2009 RMB'000
Trade and bills receivables		
– related party (note a)	**2,243,699**	2,490,458
– Liuzhou Wuling Group (note b)	**76,414**	74,465
– third parties	**1,967,000**	1,270,221
	4,287,113	3,835,144
Less: Allowance for doubtful debts	**(5,551)**	(7,080)
	4,281,562	3,828,064
Other receivables:		
Prepayment for expenses	**10,958**	5,348
Prepayment for purchase of raw materials (note c)	**459,677**	137,800
Value-added tax recoverable	**–**	8,415
Others	**15,637**	15,467
	486,272	167,030
	4,767,834	3,995,094

notes:

(a) The related party is SAIC-GM-Wuling Automobile Co., Limited ("SGMW") in which Liuzhou Wuling, a substantial shareholder of the Company, holds a 5.8% (2009: 15%) equity interest.

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

(c) Included in the balance were amounts of approximately RMB244,663,000 (2009: nil) paid to SGMW.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

25. 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:

	2010 RMB'000	2009 RMB'000
0 – 90 days	**4,197,390**	3,693,060
91 – 180 days	**52,135**	48,095
181 – 365 days	**20,011**	86,873
Over 365 days	**12,026**	36
	4,281,562	3,828,064

Ageing of trade receivables which are past due but not impaired

	2010 RMB'000	2009 RMB'000
181 – 365 days	**20,011**	86,873
Over 365 days	**12,026**	36
Total	**32,037**	86,909

The Group generally allows its trade customers, including related parties 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. Such trade receivables were not material as at 31 December 2010 and 2009.

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 approximately RMB32,037,000 (2009: RMB86,909,000) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

(i) Trade and other receivables (continued)

Movement in the allowance for doubtful debts

	2010 RMB'000	2009 RMB'000
Balance at the beginning of the year	**7,080**	8,647
Exchange realignment	**(94)**	–
Amounts recovered during the year	**(2,786)**	(2,097)
Impairment losses recognised on trade receivables	**2,554**	574
Amounts written off as uncollectible	**(1,203)**	(44)
Balance at the end of the year	**5,551**	7,080

(ii) Bills receivables discounted with recourse

The amounts represent bills receivables discounted to banks with recourse with a maturity period of less than 180 days. The Group recognizes the full amount of the discount proceeds as liabilities as set out in note 29(ii).

26. HELD-FOR-TRADING INVESTMENTS

	2010 RMB'000	2009 RMB'000
Listed equity investments, at market value:		
Hong Kong	**7**	7

27. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

28. 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:

	2010	2009
Pledged deposits	**1.17% to 2.35%**	0.66% to 1.98%
Bank balances	**0.1% to 1.17%**	0.1% to 1.17%

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

	2010 **RMB'000**	2009 RMB'000
HKD	**10,205**	8,626

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

29. 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:

	2010 RMB'000	2009 RMB'000
Trade and bills payables:		
– third parties	**5,704,634**	4,633,420
Trade and bills payables:		
0 – 90 days	**5,667,643**	4,508,295
91 – 180 days	**7,777**	95,714
181 – 365 days	**16,416**	8,603
Over 365 days	**12,798**	20,808
	5,704,634	4,633,420
Others payables and accruals	**538,384**	533,854
	6,243,018	5,167,274

The settlement terms of the trade payables arising from the Group's securities dealing and brokerage business is two days after the trade date. Such trade payables were not material as at 31 December 2010 and 2009. 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:

	2010 RMB'000	2009 RMB'000
Trade and other payables – HKD	**12,114**	15,599

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

(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 25(ii)). The ranges of effective interest rates per annum in respect of these bank borrowings are as follows:

	2010	2009
Effective interest rates per annum	**1.80% to 2.25%**	1.50% to 2.82%

30. AMOUNTS DUE TO SHAREHOLDERS/AN ASSOCIATE

	2010 RMB'000	2009 RMB'000
Liuzhou Wuling (note i)	**871,850**	811,590
Wuling (Hong Kong) Holdings Limited (note ii)	**84,696**	–
Dragon Hill Development Limited (note iii)	**–**	3,516
	956,546	815,106
Wuling Logistics (note iv)	**–**	11,371
	956,546	826,477
Carrying amount repayable:		
On demand or within one year	**627,013**	826,477
More than one year, but not exceeding two years	**329,533**	–
	956,546	826,477
Less: Amount due within one year shown under current liabilities	**(627,013)**	(826,477)
Amount shown under non-current liabilities	**329,533**	–

NOTES TO THE FINANCIAL STATEMENTS

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30. AMOUNTS DUE TO SHAREHOLDERS/AN ASSOCIATE (continued)

notes:

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

(ii) Wuling (Hong Kong) Holdings Limited ("Wuling HK") is a substantial shareholder of the Company. The amount is unsecured, bearing interest at 4.5% per annum and repayable one year after the end of the reporting period.

(iii) Dragon Hill Development Limited is a substantial shareholder of the Company. The balance at 31 December 2009 was unsecured, bearing interest at 5% per annum and repayable on demand. It was fully repaid during 2010.

(iv) As at 31 December 2009, Wuling Logistics was a 30% associate of the Group. The amount is trade in nature and aged within the credit period of 90 days. During the year ended 31 December 2010, the amount was fully repaid and the Group disposed of its entire interest in Wuling Logistics as disclosed in note 19.

31. PROVISION FOR WARRANTY

	RMB'000
At 1 January 2009	83,226
Additional provision in the year	87,153
Utilization of provision	(58,640)
At 31 December 2009	111,739
Additional provision in the year	87,466
Utilization of provision	(73,540)
At 31 December 2010	125,665

The warranty provision represents management's best estimate, under its 2-year product warranty granted to its specialized vehicles, automobile components and engines customers. However, based on prior experience and industry averages for defective products, it is expected that the majority of this expenditure will be incurred in the next financial year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

32. DERIVATIVE FINANCIAL INSTRUMENT/CONVERTIBLE LOAN NOTES

On 12 January 2009, the Company issued convertible loan notes with an aggregate principal sum of HK$100,000,000 at par (equivalent to approximately RMB88,069,000) to Wuling HK ("CN 2014"). CN 2014 is denominated in HKD and carries interest at 6% per annum with maturity on 12 January 2014. CN 2014 entitles the holder to convert, in whole or in part, the principal sum into ordinary shares of the Company on any business days commencing from 12 January 2010 upto the fifth business days prior to the maturity date, at a conversion price of 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.

As a result of the share placement and subscription at a discount as set out in note 16, the conversion price of CN 2014 was adjusted from HK$0.74 per share to HK$0.73 per share with effect from 12 March 2010.

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

	2010 **RMB'000**	2009 RMB'000
At the beginning of the year	**77,402**	69,755
Effective interest expense	**8,419**	7,930
Interest paid	**(5,220)**	–
Exchange difference	**(2,910)**	(283)
At the end of the year	**77,691**	77,402
Less: Amount included in current liabilities	**(4,928)**	(5,115)
Amount due after one year	**72,763**	72,287

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

	2010 **RMB'000**	2009 RMB'000
At the beginning of the year	**83,861**	18,314
Changes in fair value during the year	**(27,152)**	65,684
Exchange difference	**(2,340)**	(137)
At the end of the year	**54,369**	83,861

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

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 a valuation provided by Grant Sherman Appraisal Limited, a firm of independent professional valuers not connected with the Group, calculated using the present value of contractually determined stream of future cash flows discounted at the required yield of 11.64%, which was determined with reference to the credit rating of the Company and remaining time to maturity.

(ii) Valuation of conversion option component

The conversion option component was measured at fair value using the Binomial Option Pricing Model, at initial recognitions and at the end of the reporting period by Vigers Appraisal and Consulting Limited, a firm of independent professional valuers not connected with the Group. The inputs into the model as at the respective dates are as follows:

	At 31 December 2010	At 31 December 2009
Share price	**HKD0.92**	HKD1.18
Conversion price	**HKD0.73**	HKD0.74
Expected dividend yield	**0%**	0%
Volatility	**68.90%**	63.00%

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For the year ended 31 December 2010

33. BANK BORROWINGS

	2010 RMB'000	2009 RMB'000 Restated	2008 RMB'000 Restated
Bank overdrafts	–	9,695	–
Bank loans	243,199	228,405	217,316
	243,199	238,100	217,316
Secured	28,426	32,430	30,488
Unsecured	214,967	205,670	186,828
	243,393	238,100	217,316
Carrying amount repayable*:			
Within one year	170,978	220,566	197,028
More than one year, but not exceeding two years	1,095	1,255	3,841
More than two years, but not exceeding five years	1,777	3,159	15,371
	173,850	224,980	216,240
Carrying amount of bank borrowings that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities) (note)	69,543	13,120	1,076
	243,393	238,100	217,316
Less: Amount due within one year shown under current liabilities	(240,521)	(233,686)	(198,104)
Amount shown under non-current liabilities	2,872	4,414	19,212

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

note:

As at 31 December 2010, the Group had bank borrowings of approximately RMB69,543,000 (2009: RMB13,120,000) which were not repayable within one year but contain a repayment on demand clause. Subsequent to the end of the reporting date, the relevant banks have agreed to waive the repayment on demand clause on all such bank borrowings. Accordingly, these bank borrowings will be repaid according to their scheduled repayment dates set out in the loan agreements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

33. BANK BORROWINGS (continued)

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

	2010 RMB'000	2009 RMB'000
Fixed-rate borrowings		
On demand or within one year	**150,095**	201,254
More than one year, but not exceeding two years	**1,094**	1,255
More than two years, but not exceeding five years	**1,778**	3,159
	152,967	205,668
Variable-rate borrowings		
On demand or within one year	**20,883**	19,312
Carrying amount of bank borrowings that are not repayable within one year from the end of the reporting period but contain a repayment of demand clause (shown under current liabilities)	**69,543**	13,120
	90,426	32,432
Total borrowings	**243,393**	238,100

At 31 December 2010, except for bank borrowings of RMB25,108,000 (2009: RMB32,432,000) and RMB3,967,000 (2009: RMB5,669,000) which were denominated in HKD 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 RMB27,103,000 (2009: RMB25,141,000) 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 RMB1,409,000 (2009: RMB1,851,000) as set out in note 14.

(iii) a pledged bank deposit of RMB4,235,000 (2009: RMB4,395,000).

The Group's unsecured bank borrowings are supported by:

(i) A personal guarantee to the extent of HKD15,000,000 (2009: HKD15,000,000) given by Mr. Lee Shing, a director of the Company.

(ii) Corporate guarantees to the extent of RMB400,000,000 (2009: RMB400,000,000) given by Liuzhou Wuling.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

33. BANK BORROWINGS (continued)

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

	2010 %	2009 %
Effective interest rate:		
Fixed rate borrowings	**4.5 to 5.31**	4.5 to 5.31
Variable-rate borrowings	**1.87 to 5.75**	1.87 to 5.75

34. 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	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Amounts payable under finance leases				
Within one year	**98**	302	**79**	254
In more than one year but not more than two years	**98**	98	**79**	79
In more than two years but not more than five years	**–**	98	**–**	79
	196	498	**158**	412
Less: Future finance charges	**(38)**	(86)	**–**	–
Present value of lease obligations	**158**	412	**158**	412
Less: Amount due for settlement with 12 months			**(79)**	(254)
Amount due settlement after 12 months			**79**	158

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

35. 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 2009	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
Exchange realignment	(2)	(15)	14	–	(3)
(Credit) charge to profit or loss	(64)	205	(176)	2,732	2,697
At 31 December 2010	22	460	(415)	9,460	9,527

At the end of the reporting period, the Group had unused tax losses of approximately RMB235,841,000 (2009: RMB214,804,000). A deferred tax asset has been recognised in respect of tax losses of approximately RMB2,766,000 (2009: RMB1,687,000), no deferred tax assets has been recognised in respect of the remaining tax losses of approximately RMB233,075,000 (2009: RMB213,117,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

At the end of the reporting period, the Group also had the unrecognised deferred tax assets in relation to deductible temporary differences of RMB32,767,000 (2009: nil).

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 has been fully provided for in the consolidated financial statements in respect of withholding tax on undistributed earnings of the PRC subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

36. SHARE CAPITAL

	2010 & 2009 RMB'000
Authorized:	
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

	Number of shares		Share capital	
	2010	2009	**2010** HK$'000	2009 HK$'000
Issued and fully paid:				
At beginning of the year	**917,288,049**	917,288,049	**3,669**	3,669
Issue of new shares (note)	**84,008,000**	–	**336**	–
Exercise of share options (note 37)	**2,080,000**	–	**8**	–
At end of the year	**1,003,376,049**	917,288,049	**4,013**	3,669

	RMB'000	**RMB'000**
Shown in the financial statements as	3,961	3,659

note:

On 21 January 2010, the Company entered into conditional share placement agreements with two placing agents, pursuant to which the placing agents agreed to place for the Company, on a best effort basis, up to a maximum of 220,000,000 new ordinary shares in the Company at a placing price of HKD0.85 per share (the "Placing Agreements") on or before 31 March 2010. The placing price represents a discount of approximately 23.42% to the closing price of the Company's shares on 20 January 2010, being the last trading day before the date of the Placing Agreements.

Also on the same date, the Company entered into a conditional share subscription agreement with Wuling HK, a substantial shareholder of the Company, pursuant to which Wuling HK would subscribe ordinary shares in the Company at a subscription price of HKD0.85 per share up to a maximum of 95,100,000 shares. The final number of shares subscribed was to be determined with reference to the number of shares ultimately placed under the Placing Agreements.

The above placement and issuance of shares were inter-conditional and their respective conditions precedent was satisfied on 12 March 2010. As a result, these transactions were completed on 12 March 2010 whereby 58,220,000 and 25,788,000 ordinary shares of the Company were issued to independent placees and Wuling HK, respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

37. 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

100,129,604 (2009: 91,728,804) ordinary shares, being 10% (2009: 10%) of the issued share capital.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

37. SHARE OPTION SCHEME (continued)

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

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

37. SHARE OPTION SCHEME (continued)

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

For the year ended 31 December 2010

Date of grant	Vesting period	Exercise period	Exercise price per share	Notes	Number of share options: As at 1 January 2010	Reclassified during the year	Exercised during the year	As at 31 December 2010
Directors								
29 December 2009	Nil	From 30 December 2009 to 31 December 2012	HKD1.070	(i)(iii)	2,500,000	(2,500,000)	–	–
29 December 2009	Nil	From 21 January 2010 to 31 December 2012	HKD1.070	(ii)(iv)	5,900,000	700,000	–	6,600,000
29 December 2009	From 30 December 2009 to 29 December 2010	From 30 December 2010 to 31 December 2013	HKD1.070	(i)(iii)	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	HKD1.070	(ii)(iv)	5,900,000	700,000	–	6,600,000
					16,800,000	(3,600,000)	–	13,200,000
Advisors								
29 December 2009	Nil	From 30 December 2009 to 31 December 2012	HKD1.070	(i)	–	2,500,000	–	2,500,000
29 December 2009	From 30 December 2009 to 29 December 2010	From 30 December 2010 to 31 December 2013	HKD1.070	(i)(iii)	–	2,500,000	–	2,500,000
					–	5,000,000	–	5,000,000
Employees (Continuous Contracts)								
29 December 2009	Nil	From 21 January 2010 to 31 December 2012	HKD1.070	(ii)(iv)(v)	31,050,000	(700,000)	(2,080,000)	28,270,000
29 December 2009	From 21 January 2010 to 20 January 2011	From 21 January 2011 to 31 December 2013	HKD1.070	(ii)(iv)	31,050,000	(700,000)	–	30,350,000
					62,100,000	(1,400,000)	(2,080,000)	58,620,000
Total					78,900,000	–	(2,080,000)	76,820,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

37. SHARE OPTION SCHEME (continued)

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

notes:

(i) Messors. He Shiji, Wang Shaohua and Pei Qingrong resigned as executive directors of the Company on 4 January 2010. All of them are retained as advisors of Dragon Hill, which provide advises on the Group's operation directions and their respective share options have been reclassified from the Directors' category to the Advisors' category. During the year ended 31 December 2010, the fair value of the share options grant to these advisors which has been charged to the consolidated statement of comprehensive income amounted to RMB1,023,000.

(ii) Mr. Zhong Xianhua was an employer of Dragon Hill prior to 4 January 2010 and has been appointed as an executive director of the Company on 4 January 2010. All his share options have been reclassified from the Employees' category to the Directors' category.

(iii) The granted options were accepted and becoming effective on 30 December 2009

(iv) The granted options were accepted and becoming effective on 21 January 2010.

(v) the weighted average closing price of the Shares immediately before the date on which the options were exercised was HK$1.41.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

37. SHARE OPTION SCHEME (continued)

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

For the year ended 31 December 2009

Date of grant	Vesting period	Exercise period	Exercise price per share	Notes	Number of share options: As at 1 January 2009	Reclassified during the year	Exercised during the year	As at 31 December 2009
Directors								
2 January 2008	Nil	From 21 January 2008 to 31 December 2009	HKD2.318		1,590,000	–	(1,590,000)	–
29 December 2009	Nil	From 30 December 2009 to 31 December 2012	HKD1.070	(i)	–	2,500,000	–	2,500,000
29 December 2009	Nil	From 21 January 2010 to 31 December 2012	HKD1.070	(ii)	–	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	HKD1.070	(i)	–	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	HKD1.070	(ii)	–	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	HKD2.318		13,480,000	–	(13,480,000)	–
29 December 2009	Nil	From 21 January 2010 to 31 December 2012	HKD1.070	(ii)	–	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	HKD1.070	(ii)	–	31,050,000	–	31,050,000
					13,480,000	62,100,000	(13,480,000)	62,100,000
					15,070,000	78,900,000	(15,070,000)	78,900,000

Notes:

(i) The granted options were accepted and becoming effective on 30 December 2009.

(ii) The granted options were accepted and becoming effective on 21 January 2010.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

37. SHARE OPTION SCHEME (continued)

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

On 29 December 2009, 78,900,000 share options were granted, of which 5,000,000 share options were accepted by the grantees on 30 December 2009 while the balance of 73,900,000 share options were accepted by the grantees on 21 January 2010.

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

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

	21 January 2010	29 December 2009
Share price	HKD1.060	HKD1.030
Exercise price	HKD1.070	HKD1.070
Expected life	3 to 4 years	3 to 4 years
Standard deviation	63.0% to 65.2%	63.0% to 65.2%
Dividend yield	0%	0%
Risk-free interest rate	1.117% to 1.547%	1.117% to 1.547%
Fair value per option	HKD0.3606 to HKD0.4708	HKD0.3993 to HKD0.4703

Expected volatility of 63.0% to 65.2% 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 RMB25,689,000 (2009: RMB945,000) for the year ended 31 December 2010 in relation to 73,900,000 share options (2009: 5,000,000 share options) granted on 29 December 2009 and accepted during the year. The amount was charged in the consolidated statement of comprehensive income with a corresponding credit to share option reserve.

The closing price of the Company's share immediately before 29 December 2009 and 21 January 2010, the relevant dates of grant or acceptance, were HKD1.030 and HKD1.060 respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

38. CAPITAL COMMITMENTS

	2010 RMB'000	2009 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of:		
– construction in progress	**115,828**	81,273
– property, plant and equipment	**103,318**	7,431
– land use rights	**114,950**	–
	334,096	88,704

39. 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:

	2010 RMB'000	2009 RMB'000
Bank deposits	**952,549**	835,653
Property, plant and equipment	**1,409**	1,851
Investment properties	**27,103**	25,141
Bills receivables discounted with recourse	**1,418,202**	1,335,778
	2,399,263	2,198,423

40. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

41. NON-CASH TRANSACTIONS

During the year ended 31 December 2010, deposits paid for acquisition of property, plant and equipment of RMB47,175,000 (2009: RMB51,170,000) were transferred to property, plant and equipment.

42. 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 RMB600,000 (2009: RMB276,000). 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:

	2010 RMB'000	2009 RMB'000
Within one year	**185**	689

The Group as lessee

Minimum lease payments made under operating leases during the year was RMB36,505,000 (2009: RMB31,373,000).

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:

	2010 RMB'000	2009 RMB'000
Within one year	**35,616**	35,287
In the second to fifth year inclusive	**35,970**	55,543
	71,586	90,830

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

43. RELATED PARTY DISCLOSURES

(i) Related party transactions

Company	Transactions	2010 RMB'000	2009 RMB'000
SGMW	Sales of goods	**7,514,397**	7,519,495
	Purchases of materials	**1,805,315**	1,776,753
	Sales of raw materials	**483,645**	132,284
	Warranty expense	**61,448**	38,265
	Project income	**–**	5,606
Liuzhou Wuling Group	Sales of raw materials and automobile components	**72,770**	80,598
	Sales of Specialized vehicles	**9,381**	5,766
	Purchases of automotive components and other accessories	**40,875**	48,304
	Purchases of mini passenger buses	**49,050**	23,496
	Purchase of air-conditioning parts and accessories	**1,101**	–
	License fee paid	**3,300**	3,300
	Rental expense	**30,204**	28,150
	Procurement services of water and power	**1,188**	1,149
	Purchases of electronic devices and components	**2,782**	1,759
	Research and development expense	**–**	96
Wuling Logistics	Transportation expense	**28,021**	85,154
	Rental expense	**198**	489

(ii) Related party balances

Details of the Group's outstanding balances with related parties are set out in notes 25 and 30 respectively.

(iii) Guarantees provided

(a) Pursuant to an undertaking agreement entered in 2008, Wuling Industrial agreed to provide corporate guarantee to a financial institution to the extent of RMB200,000,000 in respect of revolving banking facilities granted to Liuzhou Wuling.

As at 31 December 2010, Liuzhou Wuling utilised approximately RMB113,186,000 of such banking facilities (2009: RMB125,879,000). 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 33.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

43. RELATED PARTY DISCLOSURES (continued)

(iv) Compensation of key management personnel

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

	2010 RMB'000	2009 RMB'000
Short-term benefits	**6,046**	4,896
Post-employment benefits	**624**	331
Equity-settled share-based payments	**5,235**	945
	11,905	6,172

(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 32.

(vi) Share subscription

Details of share subscription by Wuling HK are set out in note 36.

44. 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 33, and equity attributable to owners 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

45. FINANCIAL INSTRUMENTS

(i) Categories of financial instruments

	2010 RMB'000	2009 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**7,518,473**	6,843,587
Available-for-sale financial assets	**360**	495
Held-for-trading investments	**7**	7
Financial liabilities		
Amortised cost	**8,672,050**	7,418,460
Fair value through profit or loss	**54,369**	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, available-for-sale financial assets, held-for-trading investments, derivative financial instrument 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

45. FINANCIAL INSTRUMENTS (continued)

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

(a) Currency risk

The Group mainly operates in the PRC and the exposure in exchange rate risks mainly arises from fluctuations in 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:

	Assets		Liabilities	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
HKD	**15,629**	16,310	**194,084**	120,057
Euro	**–**	–	**3,967**	5,669

The following table details the Group's sensitivity to a 5% increase and decrease in RMB 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 RMB strengthens against Euro and HKD and vice versa.

	2010	2009
	RMB'000	RMB'000
Impact on post-tax profit or loss		
– HKD	**7,584**	7,879
– Euro	**169**	241
	7,753	8,120

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

45. FINANCIAL INSTRUMENTS (continued)

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

(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 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 2010 would decrease by RMB452,000 (2009: decrease by RMB162,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

(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 and the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 43.

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 and the amount of contingent liabilities in relation to financial guarantee issued by the Group 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

45. FINANCIAL INSTRUMENTS (continued)

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

(c) Credit risk (continued)

The Group has no significant concentration of credit risk other than in relation to the amount due from SGMW (note 25) which represents 43% (2009: 65%) of the total trade and bills receivables as at 31 December 2010. 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.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

45. FINANCIAL INSTRUMENTS (continued)

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

(d) Liquidity risk (continued)

	Weighted average effective interest rate %	On demand or less than 1 month RMB'000	1-3 months RMB'000	3 months to 1 year RMB'000	1-5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
2010							
Non-derivative financial liabilities							
Trade and other payables	–	5,487,435	451,634	36,991	–	5,976,060	5,976,060
Advances drawn on bills receivables discounted with recourse	2.25	1,450,112	–	–	–	1,450,112	1,418,202
Amounts due to shareholders							
– fixed rate	4.50	–	–	–	88,507	88,507	84,696
– non-interest bearing	–	627,013	–	–	244,837	871,850	871,850
Bank borrowings							
– fixed rate	5.04	34,662	69,324	53,668	3,017	160,671	152,967
– variable rate	2.47	91,286	385	990	–	92,661	90,426
Obligations under finance leases	4.80	7	14	62	83	166	158
Convertible loan notes	6.00	5,224	–	–	77,128	82,352	77,691
		7,695,739	521,357	91,711	413,572	8,722,379	8,672,050
Financial guarantee contracts		113,186	–	–	–	113,186	–
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	15,493	3,387	15,230	–	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
		6,629,850	489,854	299,105	113,657	7,532,466	7,418,460
Financial guarantee contracts		125,879	–	–	–	125,879	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

45. FINANCIAL INSTRUMENTS (continued)

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

(d) Liquidity risk (continued)

Bank borrowings with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. As at 31 December 2010 and 31 December 2009, the aggregate undiscounted principal amounts of these bank loans amounted to RMB69,543,000 and RMB13,120,000 respectively. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank borrowings will be repaid 2 to 5 years after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to RMB71,304,000.

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

45. FINANCIAL INSTRUMENTS (continued)

(iii) Fair value (continued)

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 31.12.2010			
	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	–	–	54,369	54,369

	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 32.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

46. STATEMENT OF FINANCIAL POSITION

The statement of financial position of the Company as at 31 December 2010 and 31 December 2009 are as follows:

	NOTE	2010 RMB'000	2009 RMB'000
TOTAL ASSETS			
Property, plant and equipment		**79**	12
Interests in subsidiaries		**365,943**	395,487
Prepayments and deposits		**754**	314
Amounts due from subsidiaries		**4**	–
Cash and cash equivalents		**6,055**	4,476
		372,835	400,289
TOTAL LIABILITIES			
Other payables and accruals		**3,816**	2,908
Amounts due to subsidiaries		**102,399**	97,779
Capital subscription money payable to a subsidiary		**–**	225,857
Amount due to shareholders		**84,696**	3,516
Derivative financial instrument		**54,369**	83,861
Convertible loan notes		**77,691**	77,402
Bank borrowings		**66,041**	10,062
		389,012	501,385
		(16,177)	(101,096)
CAPITAL AND RESERVES			
Share capital		**3,961**	3,659
Reserves	(i)	**(20,138)**	(104,755)
		(16,177)	(101,096)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

46. STATEMENT OF FINANCIAL POSITION (continued)

Note:

(i) Reserves

	Share premium account RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2009	279,305	156,053	5,293	(413,074)	27,577
Recognition of equity settled share-based payments	–	–	945	–	945
Share issue expenses	–	–	(5,293)	5,293	–
Loss for the year	–	–	–	(133,277)	(133,277)
At 31 December 2009	279,305	156,053	945	(541,058)	(104,755)
Issue of new shares	62,343	–	–	–	62,343
Cost of issuing new shares	(1,088)	–	–	–	(1,088)
Recognition of equity settled share-based payments	–	–	8,577	–	8,577
Exercise of share options	2,582	–	(653)	–	1,929
Profit for the year	–	–	–	12,856	12,856
At 31 December 2010	343,142	156,053	8,869	(528,202)	(20,138)

The Company's contributed surplus represents (i) the excess of the fair values of the shares of the subsidiaries acquired pursuant to the reorganisation on 30 November 1992, over the nominal value of the Company's shares issued in exchange therefore; and (ii) the transfer of the credit arising from the cancellation of the paid-up capital in the reduction of the par value of each issued ordinary share. Under The Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances, but is not presently qualified to do so.

47. EVENTS AFTER THE REPORTING DATE

On 4 January 2011, the Company announced an open offer of rights shares on the basis of 1 offer share for every 6 shares held on 8 March 2011 (the "Open Offer"). The Open Offer involves the issue of not less than 167,229,341 offer shares but not more than 177,774,341 offer shares at a price of HKD0.90 per offer share.

Further details of the Open Offer are set out in a circular of the Company dated 15 February 2011.

On 8 March 2011, the shareholders of the Company approved the Open Offer in a special general meeting of the Company.

On 29 March 2011, the Open Offer was completed as set out in the announcement of the Company of the same date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

48. SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2010 and 2009 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 sales of motor vehicles
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
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$2,500,000	100	–	Investment holding
Dragon Hill Credit Limited	Hong Kong	HKD10,000,000	–	100	Money lending and property investment

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

48. SUBSIDIARIES (continued)

Name of subsidiary	Place and date of establishment/ incorporations	Nominal value of issued capital/ registered capital/ fully paid capital	Interest holdings Direct %	Indirect %	Principal activities
Dragon Hill Financial Services Limited	Hong Kong	HKD44,000,000	–	100	Securities dealing and margin finance
Dragon Hill (HK) Limited	Hong Kong	HKD10	–	100	Trading of marketable securities
DH Corporate Services Limited	Hong Kong	HKD2	–	100	Provision of administrative services
Jenpoint Limited	Hong Kong	HKD2	–	100	Property investment

notes:

(i) In accordance with the sino-foreign equity joint venture agreements entered by the Company and Liuzhou Wuling in 2007, the Company has control on Wuling Industrial, and the Company shares profit or loss of Wuling Industrial according to the amount of its paid up capital contribution in Wuling Industrial. The profit sharing ratio at 31 December 2010 was 50.98% (2009: 30.52%).

(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 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

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

AUDITORS

Deloitte Touche Tohmatsu

SOLICITOR

Sidley Austin

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PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Stock Exchange of Hong Kong: 305

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