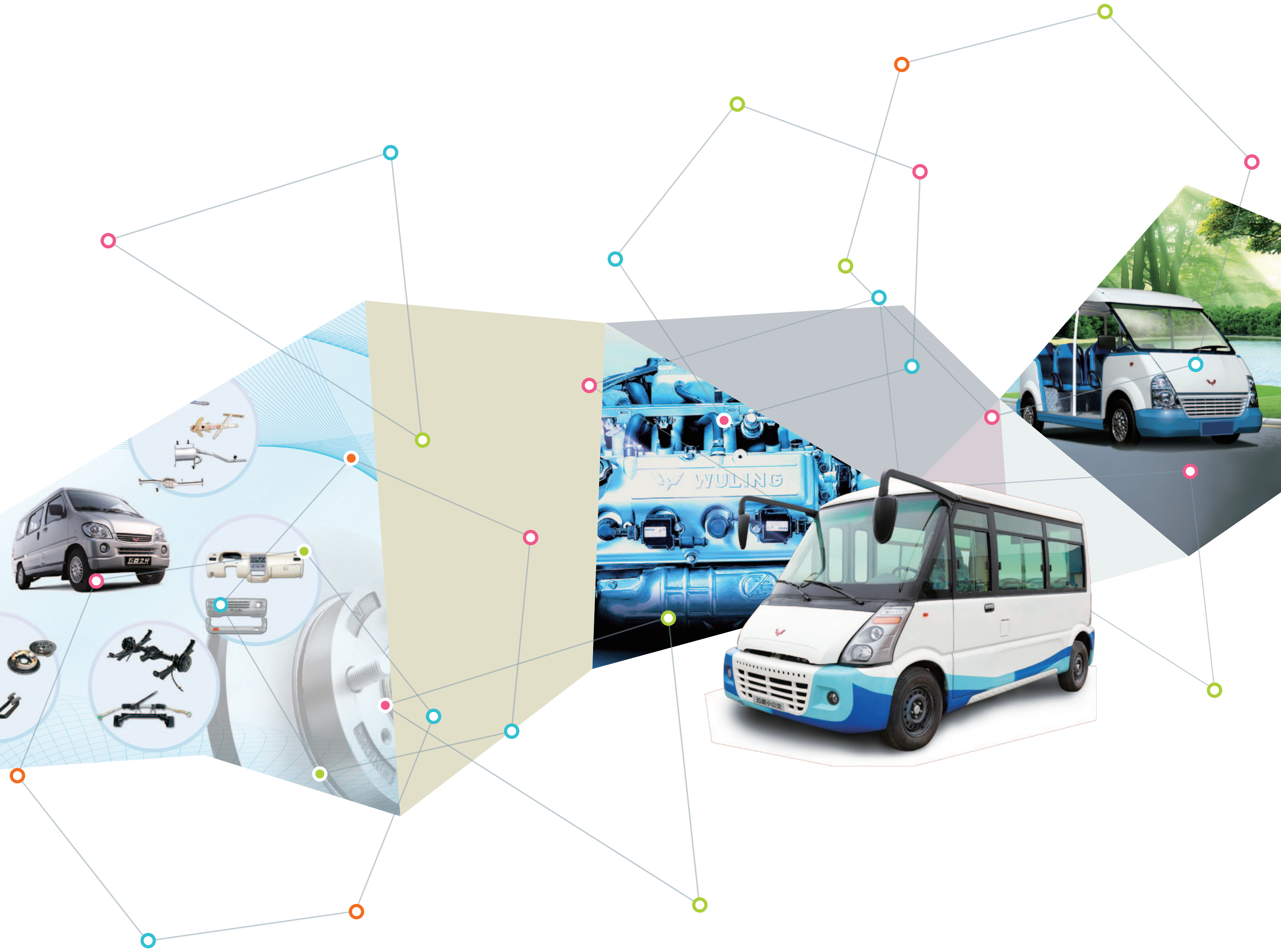
WULING MOTORS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

HKEx Stock Code: 305

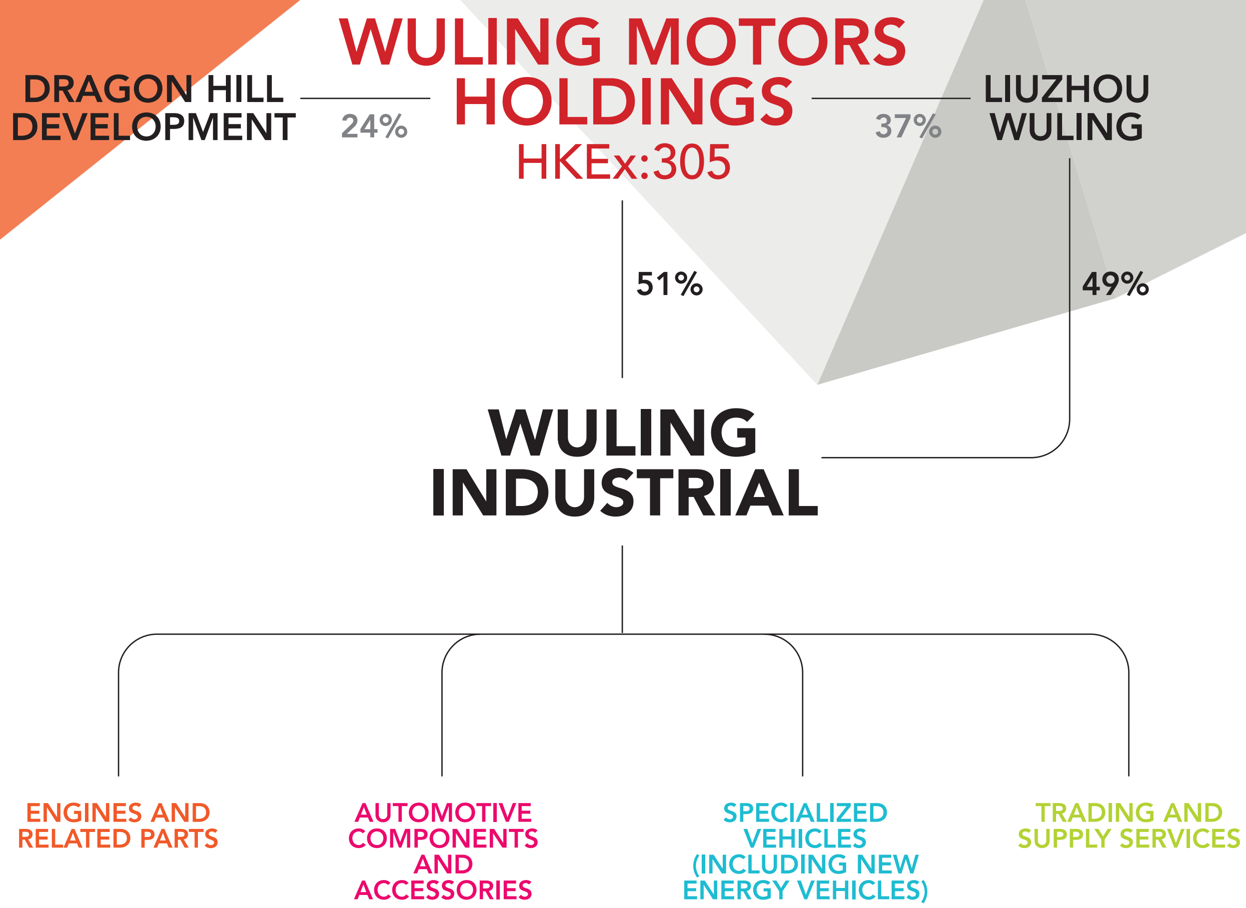


ANNUAL REPORT 2012

CORPORATE PROFILE

Wuling Motors 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 as well as a qualified enterprise for manufacturing electrical mini-truck in China. The Group's main production facilities are located in Liuzhou and Qingdao. In 2011 and 2012, it was ranked as one of the Fortune China 500 Enterprises.

GROUP STRUCTURE



CONTENT

MAJOR PROJECTS

AUTOMOTIVE COMPONENTS AND SPECIALIZED VEHICLES

HEXI INDUSTRIAL PARK IN LIUZHOU

The project will provide the automotive components division with a state-of-the-art designed production facility, in which production capacities for suspension system, frame sets, instrument panel, bumper sets and muffler system will be substantially increased. It is expected full operation will take place upon completion of the project in 2013. The Hexi Industrial Park Project is constructed and designed in accordance with the development plan of our core customer, SGMW in Liuzhou. Besides, additional capacities have also been planned and reserved for potential customers of the automotive components and the vehicle assembly business. Upon completion of the project, the total production capacity of the Liuzhou Production Base can reach 1,200,000 units/sets for principal automotive components, enabling the Group to maintain as the largest automotive components manufacturer in the South-western China region.

VEHICLE ASSEMBLY BUSINESS (INCLUDING NEW ENERGY VEHICLES)

The Group places specific emphasis on the development of the vehicle assembly business and aims at becoming the market leader in this industry. Benefiting from the successful launches of new models meeting the needs of the market in recent years, which include the community mini cars, sight-seeing cars, and mini school buses, etc, the specialized vehicles division achieved prominent growth with a compound average annual growth rate of nearly 30% for the past four years. As regards to the new energy vehicles, The Group was the first company in China to gain the production license of mini electrical truck and has since developed new models, such as the electrical container wagon (H100) and the dual fuel new energy public bus (LNG/CNG) and has began to supply the models to the local and overseas markets. To expedite the growth of the businesses of new energy vehicles, the Group has established the new energy vehicles business office to monitor the functioning and development.

ENGINES AND RELATED PARTS

CYLINDER BLOCKS FOUNDRY FACILITIES IN YANGHE DISTRICT

The cylinder blocks foundry facilities located in Yanghe District produced approximately 200,000 units in 2012. The major breakthrough was the meeting of our major customer, SGMW's standards for their cylinder block components. Limited production commenced in 2012 set a favorable foundation for full production supply in 2013. At present, the project team is vigorously adjusting and modifying the production technique and facilities, in order to achieve the monthly target production of 60,000 units by the end of 2013.

R&D PROJECTS FOR NEW ENGINES

The three major platform projects for engine model NP10, NP18 and NEP currently undertaken by the Group are expected to gradually commence product commercialization processes during the years from 2013 to 2015. Amongst which, the NP18 engine model platform is mainly developed in coordination with SGMW for their new model vehicles, whereas, the NEP engine model platform is mainly developed in coordination with other manufacturers for their new energy vehicles.

Pursuing Stable Growth
Enhancing Business Structure
Promoting Sustainable Development

Preface

2012 continued to be a challenging year for the automobile industry in China. Last year, the central government lowered the economic growth target and terminated the stimulative policies for the automobile industry, resulting in steady growth of the automobile industry. Customer demand gradually shifted from commercial vehicles and mini vehicles to mid-range passenger cars, while overall sales of commercial vehicles and mini vehicles experienced a decline. Under these tough market conditions, as the leading supplier of automotive components for mini vehicles in China, Wuling Motors Holding Limited ("the Group") tackled these challenges in a determined and confident manner by upholding its corporate goals of "Pursuing Stable Growth, Enhancing Business Structure, Promoting Sustainable Development". Guided by the core strategy of "Adopting Suitable Means and Structures", the Group implemented various operating measures to effectively stabilize sales volumes, develop new business projects and continuously strengthen corporate competitiveness.

The Group's turnover for the year of 2012 was RMB11,856,125,000, representing an increase of 8.7% as compared to the prior year. Net profit of the Group for the year of 2012 was RMB98,577,000. Profits attributable to the owners of the Company was RMB40,214,000. In consideration of the operating results and the financial position of the Group, the Board recommends to maintain the payment of a final dividend of HK0.5 cent per ordinary share for 2012.

Review of the 5th Anniversary of Corporate Transformation

2012 marked the fifth anniversary of the Group's successful transformation. As the Group started its partnership with Liuzhou Wuling in 2007 to form the principal subsidiary and launch the corporate transformation of the listing vehicle, the Group has overcome various challenges, seized new business opportunities and achieved encouraging results in these five years. The Group has successfully transformed itself from a trading and securities broking company to become a leading mini-vehicles' engines and auto parts manufacturer in China, with total annual revenue of over RMB10 billion and the successive recognition as one of the Fortune China 500 companies in 2011 and 2012.

In the last five years, the Group completed total capital injection of approximately RMB490,000,000 of cash in Wuling Industrial, the principal subsidiary, and increased our effective shareholding to 51%. The proceeds were used to support the development and operation of Wuling Industrial and its subsidiaries, proving to be a reliable funding source for its development over the five years.

The engine division of the Group continued to supply engines and related parts for its key customer SAIC-GM-Wuling Automobile Co., Limited ("SGMW") to meet its business growth demands. Meanwhile, we have also successfully extended our businesses to other customers in recent years, such as FAW Haima, Gonow Auto, Ziyang Nanjun Auto, Beiqi Foton and Mianyang Huaxin, laying a solid foundation for pursuing healthy growth through customer diversification.

To expedite the expansion and multi-dimensional development strategy, the Group completed its acquisition of a majority stake in a company located in Jilin and began to supply engines and related parts to the commercial mini-vehicles division of FAW Jilin in 2012.

In addition, to improve efficiency and expedite new product development, the Group has actively undertaken various research and technology enhancement projects. The completion and production of the nonferrous metallic parts and foundry products facilities has further strengthened the production capabilities and product variety of the engine division, and will provide an important strategic positioning for the sustainable development of this division.

The automotive components division continued to be the key supplier of SGMW by providing key automotive components and growing hand in hand with its customer. To cope with the needs from our customer's strong business growth, the division made substantial investments in recent years to implement sizable capacity expansion and production capability enhancement programs. Major projects undertaken by the Group in different stages since 2010 have included the new Qingdao facilities with annual capacity of 600,000 units and the new facilities in Hexi Industrial Park, Liuzhou, with a site area of over 400,000 sqm. The key projects are expected to be fully completed in 2013. Certain phases of the facilities have already started operation and are contributing to the business performance of the division. Upon the completion of these two key projects, the two main production bases in Liuzhou and Qingdao of the automotive components division will have a total annual capacity of 1,600,000 units for the key components. It is also expected that when the new facilities become fully operational, the product quality and production efficiency will be significantly improved due to the specific demands of the new products, for instance, the automotive components for passenger cars can be effectively met. This favorable development can further improve the profitability and the business performance of this division.

In terms of new customers development, the automotive components division has continuously promoted specific individual components to new clients aimed at mitigating the almost dominating condition by our major customer in this division. In recent years, the automotive division has successfully secured substantial orders from other well-known customers, such as Dongfeng Yuan, Beiqi Foton, Hebei Changan and Qirei, and is planning to establish production facilities near the production bases of these customers in preparation for long-term cooperation opportunities.

Paving the way for a strategic transformation, the Group will place specific emphasis on the development of the vehicle assembly business. In terms of financial results, the specialized vehicles division achieved the most significant growth in the past five years. The revenue of the segment in 2012 grew by 2.7 times as compared to that in 2008, representing a compound average annual growth rate of nearly 30% for the past four years. This impressive growth was primarily attributable to the successful launches of new models by the specialized vehicles division meeting the needs of the market in recent years. New and innovative models, such as community mini cars, sight-seeing cars, and mini school buses, have since provided good returns and market recognition for the Group. Each of them has achieved respective prominent market share in their particular market segments.

In addition, as regards to new energy vehicles, the Group has also developed new models to meet with the needs of the specific market segment, such as the electrical container wagon (H100) and the dual fuel new energy public bus (LNG/CNG). Meanwhile, to expedite the growth of the businesses of new energy vehicles, the Group has undertaken appropriate corporate restructuring measures and resource allocation programs. The new energy vehicles business office has also been recently established to monitor the proper functioning of the operations.

The Group was the first company in China to gain the production license of mini electrical trucks in 2009 and has successfully exported some selected products, such as mini electrical trucks and electrical community vehicles, to overseas markets including the United States and Thailand.

The Group has strong confidence in the business prospects of the specialized vehicles division. It is anticipated that this division can achieve higher growth as compared to other divisions and has the potential to surpass other divisions and become a key contributor of revenue as well as profitability to the Group. With this in mind, the Group has developed a long-term strategy for the specialized vehicles division, where the production capacity of the facilities located in Liuzhou and Qingdao facilities has been gradually increased to 60,000 vehicles a year in order to meet with the requirements of the continuous growth of the specialized vehicles division.

For the purpose of streamlining the business structure and improving operational efficiency, Wuling Industrial has also implemented appropriate corporate restructuring programmes. The restructuring programmes have formulated operating systems for the manufacturing, quality control, procurement and logistics functions, and streamlined management functions, such as human resources, finance and administration. Through the integration and merger of businesses of the subsidiaries namely Wuling United and Wuling Specialized Vehicles into Wuling Industrial and the steady restructuring of the organization in recent years, the overall operating efficiency has been significantly improved which has resulted in lower operating costs and an enhancement in our competitive edge.

Strategy and Prospect

We are optimistic about the prospects of the automobile sector in China. The solid foundation established from our last five-year plan will further enhance our strong market position in capturing future business opportunities. Our substantial shareholder, Liuzhou Wuling, has determined goals and strategies for the next development stage of the Group. The Group will actively collaborate with Liuzhou Wuling under the long term growth strategy in achieving our specific business goals, including the creation of satisfactory returns to our shareholders.

Investment in Wuling Industrial as always is the most important asset of the Group. As a controlling shareholder, the Group will fully utilize its role as an overseas fund raising platform to provide stable funding for the development of Wuling Industrial. The Group is also dedicated to be the beachhead of Wuling Industrial in international business.

As an investment holding company and the listing flagship of Liuzhou Wuling, the Group will consistently apply our key principles and strategies into practices through the collaborative processes of "Investment" (identifying and investing in suitable projects), "Integration" (promoting and integrating synergistic elements into the projects), "Development" (formulating and developing business potential for the projects) and "Return" (creating and delivering satisfactory returns from the projects). Furthermore, by maintaining close collaboration with Liuzhou Wuling, the Group will also actively explore other development opportunities such as suitable automobile related mergers and acquisitions aiming to further diversify and expand our businesses on a multi-dimensional basis. We shall strive to promote a sustainable growth to the Group in maximizing our long-term corporate values.

With hardheaded planning and perseverance, the continuous support from our substantial shareholder — Liuzhou Wuling, and the support from our customers and business partners, we are confident in the prospects of our development, which will bring fruitful returns to our shareholders.

Sun Shaoli
Chairman
28 March 2013

Persistent Steady Growth and Continuous Diversification Strategy Serving the Needs of the Market

Results and Performances

I am pleased to present the results of Wuling Motors Holdings Limited (the "Group") for the financial year ended 31 December 2012.

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

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

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

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

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

In consideration of the operating results and the financial position of the Group, the Board recommends to maintain the payment of a final dividend of HK0.5 cent per ordinary share for the year ended 31 December 2012.

Business Review and Development

The automobile industry in China registered overall stable growth by adopting a steady development strategy in response to the increasing pressure from lower GDP growth in 2012. According to the data released by China Association of Automobile Manufacturers, automobile production reached 19.27 million units with an annual growth rate of 4.6% in 2012, whereas automobile sales reached 19.30 million with an annual growth rate of 4.3%.

SAIC-GM-Wuling Automobile Co., Limited ("SGMW"), the Group's key customer, continued to achieve strong performance in 2012 with annual sales volumes growing by 12.1% over 2011 and approaching the 1.5 million units level. Benefiting from the strong performance of SGMW, the Group's automobile components and accessories business delivered a set of improving results. Meanwhile, a continuous diversification strategy enabled the Group's engines and related parts division to remain stable, whereas the vehicle assembly business, including specialized vehicles, sight-seeing cars, mini vans and school buses etc., posted favorable growth attributable to the launches of successful models to the market.

The vehicle assembly business is recognized as the strategic breakthrough for the Group. In 2012, the Group vigorously developed the vehicle assembly business aimed at significantly increasing the sales volume of self-developed cars in achieving a breakthrough development for the buses and new energy cars businesses. During the year, the Group sold approximately 40,000 vehicles, of which sales of buses were close to 2,300 units, representing an increase of 73.8% over the prior year. Amongst buses, school buses (below 6 meters) gained the largest market share in China. After successfully receiving the first batch endorsement of new international school bus production licences in August 2012, the Group unhesitatingly launched the Q400 model, a new international standard compliant school bus, to the market in September 2012. In addition, the Group has also further expanded the promotion of other new vehicle models to satisfy demand from niche markets and effectively increased sales volumes of the self-developed vehicles.

For the engines and related parts business, the Group faces the challenge caused by the gradual increases in the application of self-produced B series engines by SGMW in its operations which will suppress the sales of engines by the Group to SGMW in the future. In response to this challenge, the Group has implemented various measures, including aggressively developing new markets for the peripheral products related to engines as a new dimension for growth. Meanwhile, the Group has also strengthened research and development and technical enhancement capabilities. It is expected the newly launched foundry facilities of cylinder block and cylinder head which have gradually commenced operation will provide new sources of revenue growth to the engines and related parts business. As regards to the same line engines products market, the Group will further strengthen business relationships with existing customers, such as FAW Haima and Beiqi Foton, in order to develop strategic partnerships so as to increase the range of our services and the sales of products. As for new customers, the Group has begun to supply to other automobile manufacturers, such as Tang Jun Aoulin and Nanjin Yiweike during the year, creating a new growth dimension for the engines and related parts business. The aforementioned measures have effectively compensated for the unfavourable reduction in sales to SGMW for the year. Turnover (based on external sales) of the engines and related parts division was approximately RMB3.4 billion, representing a slight decrease of 1.9% as compared to the prior year. The total number of engines sold in 2012 was 650,000 units, of which 30% were sold to other customers excluding SGMW.

Despite the pricing pressure from SGMW, our key customer, in line with the increasing procurement volume, the automotive components and accessories division of the Group was able to achieve improving profitability as a result of the implementation of various measures including aggressive cost control and production optimization programs. During the year, the division was not only able to satisfy the strong demand of commercial-type mini-vehicle components and accessories from SGMW, but also further enhance the depth of the product ranges, in particular the components and accessories products for the higher value passenger cars through the implementation of appropriate policies for quality enhancement, new products development for clients, as well as flexible selling and pricing strategies. In addition, the Group has also further developed the quality and capability standard of some core products, such as three-way catalytic converter and vacuum booster, in strengthening the competitiveness of the automotive components division through enhancement of the production technology and quality of door panel products for passenger cars and expansion of the capacity to provide high value added automobile sheet metal products. Meanwhile, the Group successfully secured several new customers, namely Changan, Beiqi Yinxiang and Sichuan Nanjun by supplying a wide range of products, such as rear axles, breaks and master cylinder boosters.The Group is optimistic about the growth potential of the components and accessories division based on the aforementioned favorable developments.

During the year, in establishing a solid foundation for satisfying increasing customers' demands and their shifting focus to higher value-added products, the Group augmented the investments in production capacity expansion and technology enhancement programs. Development of the components and accessories production base in Liuzhou Hexi Industrial Park were sped up. The consequential capability upgrading and optimization programs resulting from the relocation exercises of the business units, plus the installation and usage of new production technologies and new equipment, further consolidated the competitive strength of the Group in the industry. Furthermore, the Group completed the capacity expansion program of the Qingdao Production Base which increased the level of localization and promoted production efficiency. In addition, the Group is also actively considering plans to serve the development needs arising from the third production base of SGMW located in the Liudong region. With the benefits of the future development from the implementations of the aforementioned plans, it is expected that the Group will be well equipped to achieve more solid and promising prospects.

Meanwhile, the Group continued to implement organizational restructuring and process optimization in order to enhance corporate management efficiency and operating performance during the year. The measures included the establishment of a client oriented operating management model in guiding better internal resources integration and optimization of organization structure. Under the objective of "Quick Response for High Efficiency", in 2012, the Group completed optimization programs for 50 core operational processes. Through integration and merger of group companies, in which the management functions of Wuling United and Wuling Specialized Vehicle were being consolidated into Wuling Industrial, a new corporate organization with stability and optimization was put into place. The decision making processes of key business units, such as the components and vehicle assembly units, were hence streamlined which resulted in significant improvement of the overall operating efficiency.

Meanwhile, to effectively enhance management quality and operating efficiency in furthering business performance, the Group continued to implement measures in lowering production costs and promoting operating efficiency. For cost containment, the Group implemented the "Three Restraining Measures", which included the restraining of poor quality inventories, poor quality account receivables and costs of production, with an aim to lowering operating costs and improving asset quality. For efficiency enhancement, the Group continued to implement the "Three Defining Measures", which included the designation and delegation of duties and responsibilities to departments, positions and staff members. Through application of automation, skills enhancement, and production line analysis, the Group has effectively enhanced productivity and improved our efficiency in the deployment of human resources, while easing the pressure caused by increasing staff costs in recent years. These measures have effectively streamlined and optimized the business processes and significantly enhanced the operating efficiency of the Group.

Outlook

Looking forward, the Group will continue to follow our determined strategy in promoting "Steady Growth". Guided from the Group's overall planning in establishing product advantages, strengthening human resources, as well as enhancing technological innovation and sales strategy, we aim at further strengthening our foundation in the industry. Moreover, the Group will collaborate closely with the substantial shareholder, Liuzhou Wuling, on development strategies to fully leverage on Liuzhou Wuling's resources in the automobile industry in China. Through consolidation of automobile projects with high growth potential and promising profitability, the Group strives to develop itself to become a strong and resilient automobile industrial platform which brings satisfactory returns to the shareholders and investors.

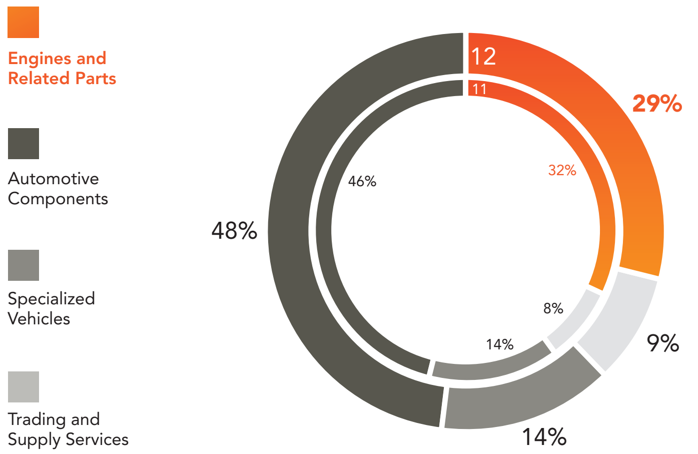
I would like to take this opportunity to thank our shareholders, suppliers, business partners, staff and customers for their continued and invaluable support. We believe that with your support, the Group is looking ahead to more profitable results in the future.

Lee Shing
Vice Chairman & Chief Executive Officer
28 March 2013

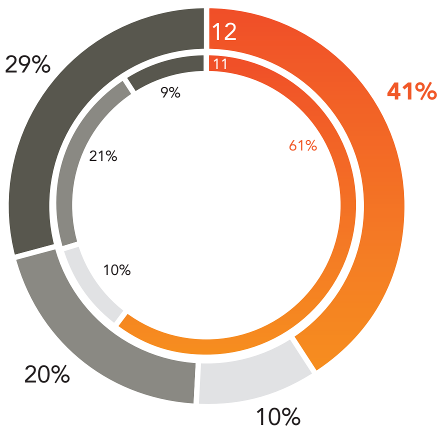
Main Business Segment –

ENGINES AND RELATED PARTS

TURNOVER



OPERATING PROFIT



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

Total number of engines sold by the subsidiary, Liuzhou Wuling Liuji Motors Company Limited ("Wuling Liuji"), for the year 2012 maintained at the level of 650,000 units, representing a decrease of 7.1% as compared to prior year. Revenue generated from sales of products other than engine sets amounted to approximately RMB85,297,000.

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

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

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

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

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

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

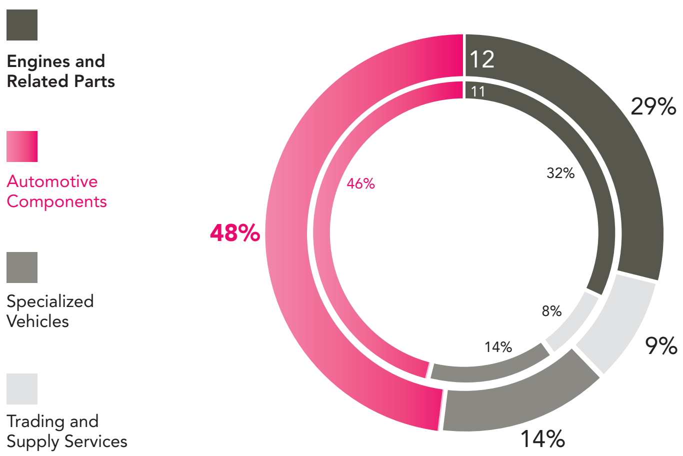
The engines produced by Wuling Liuji are mainly for the economical-typed mini-vehicles. Its products are state-designated products exempt from quality surveillance inspection. The "LJ" model has also been recognized as a reputable trademark in the Guangxi Province. Going forward, Wuling Liuji will continue to focus on the research and development, as well as the marketing programmes of its existing and new products, so as to maintain its competitiveness in this market segment. The Group believes the successful launch of new products will enhance the business potential and the technical capability of Wuling Liuji which will contribute to its profitability in the coming years.

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

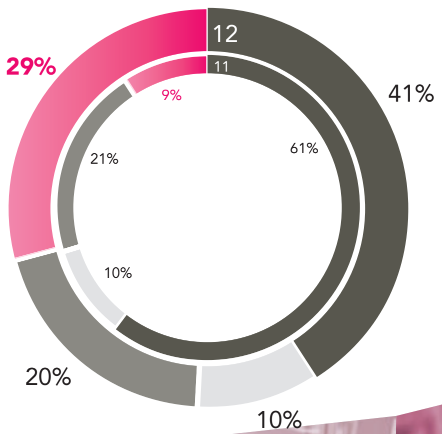
Main Business Segment –

AUTOMOTIVE COMPONENTS AND ACCESSORIES

TURNOVER



OPERATING PROFIT



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

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

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

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

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

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

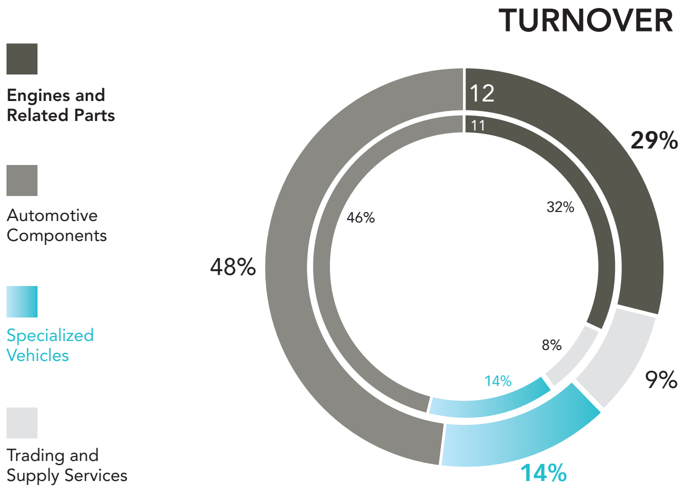
The automotive components and accessories division of the Group currently operates the largest manufacturing base of automotive components in the south-western part of China and is highly recognized for its comprehensive strength of competitiveness. Its specialized facilities cover the products range of the brake, the chassis assembly, automotive accessories, plastic components, welding parts and the seat sets. Main facilities are located in Liuzhou and Qingdao which ensure closer proximity to the customer's needs in both the northern and southern part of China. Maximum capacity for key components, for both Liuzhou and Qingdao in aggregate, at present can reach 1,600,000 units/sets a year.

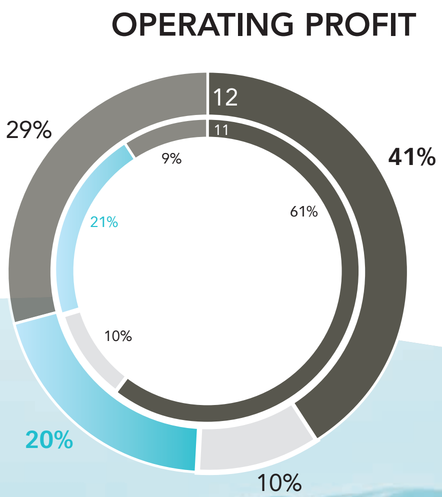
With its long and established industry experiences, the automotive components and accessories division of the Group is particularly strong in product design and development. Its capability in supplying a wide range of products provides a one-stop shop services to the customers, whereas, the scalability of its production facilities ensures the particular needs of our key customer can be properly taken care of. Apart from its well and established commercial-type vehicles production capability, strategically, the automotive components division has progressed gradually to the higher value-added passenger vehicles segment to further the profitability performance for the Group.

Notwithstanding the highly competitive market condition, the Group considers the competitive strength of its key customer, SGMW, in the market on the back of its successful models and the launch of new models will continue to provide strong supports to the operation of the automotive components and accessories division in the years onwards.

Main Business Segment –

SPECIALIZED VEHICLES (INCLUDING NEW ENERGY VEHICLES)





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

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

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

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

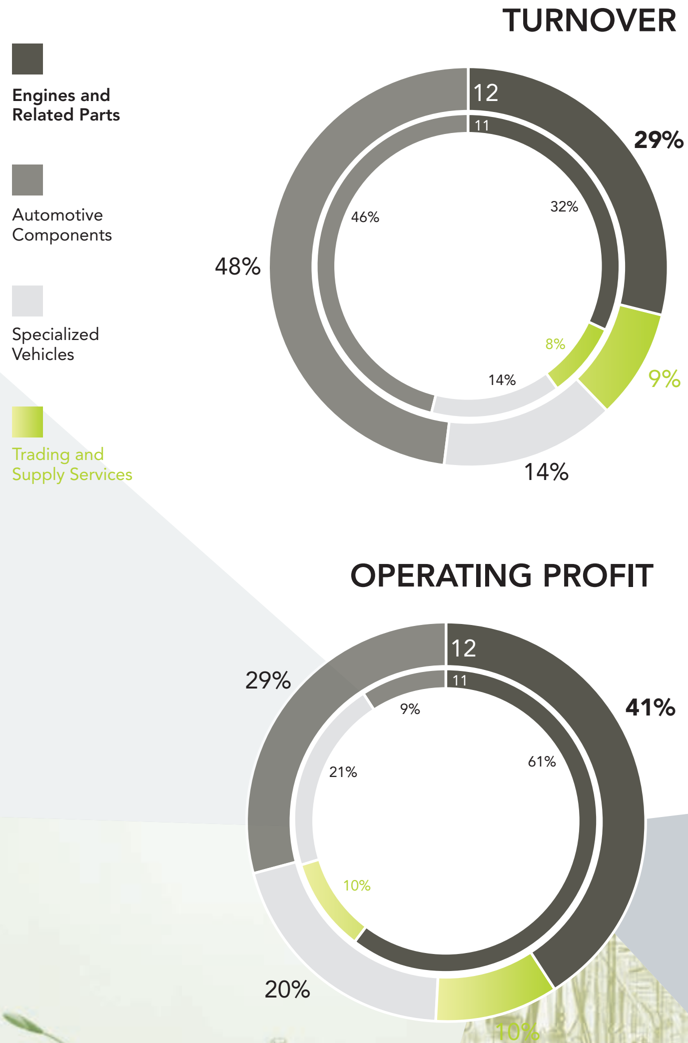
The specialized vehicles division operates a comprehensive car assembly line which covers the production processes of welding, painting and assembly. The division has capability to produce more than a hundred different types of specially-designed vehicles which serves the particular needs of customers,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

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

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

Going forward, the specialized vehicles division will continue to undertake research and development projects for new product, technical and capability improvement with specific focus on the new energy vehicles. Whilst the Group envisages the challenges facing this division, it remains confident in the long term business potential of this business segment. With the benefits of an effective cost control programmes in production and management, the Group will take this chance to continuously consolidate its existing business and at the same time explore opportunities both locally and overseas so as to fostering a breakthrough business performance to this division.

Main Business Segment –
TRADING AND SUPPLY SERVICES



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

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

Revenue from the trading and supply services division was mainly generated from SGMW and its suppliers, which relied on Wuling Industrial to provide the necessary factors of production such as the raw materials, water and energy supply through a centralized procurement platform. This centralized procurement model guaranteed benefits from bulk purchases and scale operations to the participated entities and ensured their competitiveness in the industry.

Headquartered in Liuzhou in the Guangxi Province and supported by a total number of about 7,000 staff members and over 4,700 workers (inclusive of the staff members of the subsidiaries), Wuling Industrial enjoys the close proximity advantage to the key customer and perform a core and effective functions to the key customer and to its subsidiaries.

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

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

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

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

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

FINANCIAL REVIEW

Statement of Comprehensive Income

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

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

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

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

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

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

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

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

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

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

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

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

Financial Position

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

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

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

Current liabilities amounted to RMB8,806,146,000, comprised mainly trade and other payables of RMB7,517,993,000, amount due to shareholders of RMB170,962,000, provision for warranty of RMB146,501,000, tax payable of RMB9,828,000, bank borrowings — due within one year (inclusive of advances drawn on bills receivables discounted with recourse) of RMB953,328,000 and derivative financial instrument of RMB7,534,000. Amount due to shareholders recorded under current liabilities refers to the account payable to Liuzhou Wuling, the substantial shareholder of the Company and Wuling Industrial. The derivative financial instrument represented the fair value of the conversion option embedded in the convertible loan notes valued by an independent valuer as at 31 December 2012.

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

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

LIQUIDITY AND CAPITAL STRUCTURE

The operating activities of the Group registered a net cash inflow for the year ended 31 December 2012.

As at 31 December 2012, the Group maintained cash and cash equivalents of RMB483,161,000, which was decreased by RMB361,568,000 as compared to the reporting balances as at 31 December 2011.

Group's bank borrowings (excluding advances drawn on bills receivables discounted with recourse) decreased from RMB1,203,037,000 as at 31 December 2011 to RMB531,521,000 as at 31 December 2012. Apart from bank borrowings, the Company also maintained a five-year convertible loan notes with principal amount of HK$100,000,000 and maturity date on 12 January 2014 and a shareholder loan of HK$100,000,000 owed to Wuling HK, a substantial shareholder of the Company.

As 31 December 2012, the Group had a gearing ratio of 42% calculated based on the Group's total bank borrowings (excluding advances drawn on bills receivables discounted with recourse) and the Group's net assets, which was decreased as compared to the gearing ratio as recorded at 31 December 2011.

Issued capital maintained at RMB4,524,000 as at 31 December 2012.

The Company will closely monitor the financial and liquidity position of the Group, as well as the situation of the financial market from time to time in arriving at an appropriate financing strategy for the Group.

Total shareholders' equity comprised primarily the share premium account, contributed surplus, other reserves and retained profits, amounted to RMB538,197,000 as at 31 December 2012. Net asset value per share was RMB46.0 cents as at 31 December 2012.

DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 23 May 2013 to Tuesday, 28 May 2013, both dates inclusive, during which no transfer of shares will be effected. In order to qualify for attendance of the 2013 AGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 22 May 2013. The time and venue of the 2013 AGM will be advised in due course.

The register of members of the Company will be closed from Monday, 3 June 2013 to Wednesday, 5 June 2013 (both days inclusive), during which no transfer of shares will be effected. In order to qualify for the Final Dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 31 May 2013.

PLEDGE OF ASSETS

At 31 December 2012, the properties held by the Group in Hong Kong with an aggregate value of RMB3,651,000 were pledged to secure the bank loans granted to Group. Besides, bank deposits amounting to RMB779,932,000 was pledged to the banks mainly to secure certain banking facilities offered to the member companies of the Wuling Industrial Group.

As at 31 December 2012, bills receivables discounted with full recourse amounted to RMB425,136,000.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

At 31 December 2012, the Group maintained foreign currency and Hong Kong dollar bank loans of an aggregate amount of RMB16,772,000, Hong Kong dollar shareholder loan of an aggregate amount of RMB81,486,000, Hong Kong dollar bank deposits of an aggregate amount of RMB4,679,000, Hong Kong dollar trade and other payables of RMB4,554,000 and Hong Kong dollar convertible loan notes with principal value amounting to RMB81,869,000. 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 2012, 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 RMB274,223,000, which included primarily the outstanding consideration payable for the acquisition of a factory premise and certain production facilities in Qingdao and construction of production facilities in Liuzhou.

CONTINGENT LIABILITIES

As at 31 December 2012, the Group does not have any contingent liabilities. The corporate guarantee provided by Wuling Industrial, a subsidiary of the Company, to a financial institution to the extent of RMB200,000,000 in respect of revolving banking facilities granted to Liuzhou Wuling was expired during the year.

HUMAN RESOURCES AND REMUNERATION POLICY

At 31 December 2012, the Group had approximately 11,700 employees, including 7,000 staff members and 4,700 workers. Total staff costs for the year ended 31 December 2012 were approximately RMB685,816,000. The remuneration policy was reviewed in line with the current applicable legislation, market conditions as well as the performance of the Company and the individual.

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

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

EXECUTIVE DIRECTORS

Mr. SUN Shaoli
Chairman

Mr. Sun, aged 57, chairman of the board of directors, was appointed as an executive director on 10 September 2007 and is currently a member of the Nomination Committee. 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 30 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"), a director of Wuling Motors (Hong Kong) Company Limited ("Wuling Motors") and Wuling (Hong Kong) Holdings Limited ("Wuling HK"), which are directly and indirectly 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, details of which are disclosed in the report of the directors of this annual report. 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 principal subsidiary of the Company and is established in accordance with the sino-foreign equity joint venture agreements entered into by the Company and Liuzhou Wuling.

Mr. LEE Shing
Vice-chairman and Chief Executive Officer

Mr. WEI Hongwen
Executive Director

Mr. Lee, aged 55, vice-chairman of the board of directors and the chief executive officer, was appointed as an executive director on 22 June 2006 and is currently a member of the Nomination Committee. 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, Liuzhou Wuling Motors United Development Limited ("Wuling United") and Liuzhou Wuling Specialized Vehicles Manufacturing Company Limited ("Wuling Specialized Vehicles"), all 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, details of which are disclosed in the report of the directors of this annual report. Besides, Mr. Lee is an executive director of Grand TG Gold Holdings Limited (Stock Code: 8299), a company listed on the GEM board of The Stock Exchange of Hong Kong Limited and an executive director of Recyctec Holding AB, a company listed on Aktie Torget, Sweden.

Mr. Wei, aged 50, 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 30 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 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, details of which are disclosed in the report of the directors of this annual report. Mr. Wei is also the vice chairman 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
Executive Director

Ms. LIU Yaling
Executive Director

Mr. ZHOU Sheji
Executive Director

Mr. Zhong, aged 54, 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 25 years' of extensive experience in the production, marketing and corporate management of the automotive components industry.

Ms. Liu, aged 37, 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 14 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, aged 55, 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 24 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, details of which are disclosed in the report of the directors of this annual report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. YU Xiumin
Independent Non-executive Director

Mr. ZUO Duofu
Independent Non-executive Director

Mr. YE Xiang
Independent Non-executive Director

Mr. Yu, aged 52, 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 the chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee.

Mr. Zuo, aged 69 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 about 30 years of experience in the media industry in the PRC. He is currently a representative of Congress of Writers' Representatives in the PRC 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 Nomination Committee and the Audit Committee.

Mr. Ye, aged 49, 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 17 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 Nomination Committee and the Remuneration Committee.

SENIOR MANAGEMENT

Mr. LAI Shi Hong, Edward

Mr. Lai, aged 48, currently chief financial officer and company secretary of the Company, is responsible for overseeing our finance, accounting and company secretarial functions. He is also a director of Wuling Industrial. Mr. Lai has more than 25 years' of experience in finance, accounting and business management. Mr. Lai graduated from the University of Hong Kong and the Hong Kong Baptist University and holds a Bachelor of Arts degree and a Master of Science degree in Corporate Governance and Directorship respectively. 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. WEI Houde

Mr. Wei, aged 59, 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 staff-nominated director 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 44 years' of extensive experience in the party administration and corporate management of the automotive components industry.

Mr. YUAN Zhijun

Mr. Yuan, aged 46, 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 professor level senior engineer. Mr. Yuan has over 26 years' of extensive experience in the production, product design and development, human resources and corporate management of the automotive components industry.

Mr. YANG Jianyong

Mr. Yang, aged 44, 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 and holds a master degree in Accountancy from The Chinese University of Hong Kong. His profession is accountant. Mr. Yang has been working in the accounting profession for about 23 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 49, 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 and possessed a postgraduate qualification in Power Machinery and Engineering of Guangxi University. His profession is senior engineer. Mr. Wen has over 27 years' of extensive experience in the production, marketing and corporate management of the automotive engines industry.

Mr. LU Xiao

Mr. Lu, aged 43, is currently the vice general manager of Wuling Industrial, a principal subsidiary of the Company, he is in charge of marketing function, and is also the assistant to chief executive of Liuzhou Wuling. Mr. Lu graduated from Nanjing Polytechnic University with a master degree in industrial engineering in 2002. His profession is engineer. Mr. Lu has over 22 years' of extensive experience in the marketing and corporate management of the automotive engines industry.

Mr. WANG Xu

Mr. Wang, aged 43, is currently the vice general manager of Wuling United, a principal subsidiary of the Company, and is also the assistant to chief executive of Liuzhou Wuling. 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 19 years' of extensive experience in the production and corporate management of the automotive engines industry.

Mr. LUO Jianguo

Mr. Luo, aged 47, is currently the assistant chief engineer and the supervisor of the technical centre of Wuling Industrial, a principal subsidiary of the company. Mr. Luo holds a master degree in business administration from Guangxi University. His profession is senior engineer. Mr. Luo has over 25 years' of extensive experience in the technical and corporate management of the automotive engines industry.

Mr. QIN Qibin

Mr. Qin, aged 50, is currently the assistant chief engineer and the quality control officer 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 28 years' of extensive experience in the product development and the quality management of the automotive components industry.

Mr. CHEN Xiaofeng

Mr. Chen, aged 38, is currently the vice general manager and the general manager of the sale office of Wuling Industrial, a principal subsidiary of the Company. Mr. Chen graduated from the College of Material Science and Engineering of Chongqing University. His profession is engineer. Mr. Chen has been engaged in the automobile industry in China since his joining to Liuzhou Wuling in 1997. He has over 15 years' of extensive experience in the production operation, purchasing and supply chain management of the car assembly and automotive components industry.

Mr. LI Weimin

Mr. Li, aged 50, is currently the senior controller of the production department of Wuling Industrial, a principal subsidiary of the Company. Mr. Li graduated from Nanchang Hangkong University majoring in forging processes and equipment. His profession is senior engineer. Mr. Li has over 27 years' of extensive experience in the production management and quality control of the automotive components industry.

Mr. LI Wenyu

Mr. Li aged 50, is currently the vice general manager of Wuling Industrial and the general manger of Wuling Liuji, both of them principal subsidiaries of the Company. Mr. Li graduated from Wuhan College of Engineering majoring in agricultural machinery and is also a post graduate student of the Department of Mechanical Manufacturing and Automotion of Guangxi University. His profession is senior engineer. Mr. Li has over 27 years' of extensive experience in the automotive engines industry specializing in production management, purchasing and technology research.

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 2012.

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 new 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.

For the period from 1 January 2012 to 31 March 2012, the Company has complied with the principles of the former Code Provisions set out in the CG Code contained in the former Appendix 14 of the Listing Rules. For the period from 1 April 2012 to 31 December 2012, the Company has complied with the principles of the new Code Provisions set out in the CG Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules.

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

THE BOARD

Responsibilities

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 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 in respect of legal action 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.

Since April 2012, all members of the Board have been provided with monthly updates to enable them to discharge their duties.

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 judgment.

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

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

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

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

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, the controlling shareholder of the Company.

Save as abovementioned, the Board members has no financial, business, family or other material/relevant relationships with each other.

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 also maintains on its website (www.wuling.com.hk) and on the Stock Exchange's website an updated listed of its directors (by category) identifying their role and function.

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 and the Nomination Committee consider 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 judgment 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, Messrs. Sun Shaoli, Lee Shing, Wen Hongwen and Liu Yaling retired and were re-elected as executive director respectively in accordance with the Company's Bye-laws by resolution passed by the shareholders of the Company in the general meeting on 25 May 2012.

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 annual general meeting in accordance with the Company's Bye-laws.

Prior to the establishment of the Nomination Committee on 28 March 2012, 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. These functions have been taken up by the Nomination Committee since its establishment.

In accordance with the Company's Bye-laws, Messrs. Zhong Xianhua and Zhou Sheiji, being executive directors, and Yu Xiumin, being independent non-executive director, will retire by rotation and being eligible offer themselves for re-election at the forthcoming annual general meeting. The Board recommended the re-appointment of all retiring directors standing for re-election at the forthcoming annual general meeting of the Company.

Detailed information of all retiring directors standing for re-election will be fully described in the Company's circular to be dispatched to shareholders with this annual report.

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 group structure, Board procedures, business, management and operations of the Company, etc and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Company keeps circulating information and materials to develop and refresh directors' knowledge and skills from time to time. All the information and materials are relevant to the Group's business, the economy, corporate governance, rules and regulations, accounting, financial or professional skills and/or directors' duties and responsibilities. There are also arrangements in place for providing continuing briefing and professional development to each director. All directors are encouraged to attend relevant training courses at the Company's expense. The Company Secretary is responsible to keep records of training taken by each director.

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.

The Board requires Directors to devote sufficient time and attention to discharge their duties and responsibilities, during the year ended 31 December 2012, a total number of four regular Board meetings and one ad hoc Board meeting, three Audit Committee meetings, two Remuneration Committee meetings and one Nomination Committee meeting were held by the Company.

During the year, the Board has regularly reviewed the contributions from the Directors and confirmed that they have spent sufficient time performing their responsibilities. The individual attendance records of each director at the meetings of the Board, the Audit Committee ("AC"), the Remuneration Committee ("RC") and the Nomination Committee ("NC"), as well as the shareholders' meeting(s) (annual general meeting "AGM") during the year ended 31 December 2012 are set out below:

	Attendance record of Directors and Committee Members in 2012				
Name of Directors	**AGM**	**Board**	**AC**	**RC**	**NC**(1)
No. of Meeting(s)	1	5	3	2	1
Executive Directors					
Mr. Sun Shaoli ("Mr. Sun") *(Chairman)*	1/1	5/5(2)	N/A	N/A	1/1(5)
Mr. Lee Shing *(Vice-chairman)*	1/1	5/5	N/A	N/A	1/1
Mr. Wei Hongwen ("Mr. Wei")	0/1	5/5(3)	N/A	N/A	N/A
Mr. Zhong Xianhua ("Mr. Zhong")	0/1	5/5(4)	N/A	N/A	N/A
Ms. Liu Yaling	0/1	5/5	N/A	N/A	N/A
Mr. Zhou Sheji	0/1	5/5	N/A	N/A	N/A
Independent Non-Executive Directors					
Mr. Yu Xiumin	1/1	5/5	3/3	2/2	1/1
Mr. Zuo Duofu	1/1	5/5	3/3	2/2	1/1
Mr. Ye Xiang	1/1	5/5	3/3	2/2	1/1

Notes:

(1) The Nomination Committee was established on 28 March 2012.

(2) Two meetings were attended by Mr. Sun's alternate.

(3) One meeting was attended by Mr. Wei's alternate.

(4) One meeting was attended by Mr. Zhong's alternate.

(5) The meeting was attended by Mr. Sun's alternate.

Practices and Conduct of Meetings

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

Notices and Agenda of regular Board meetings are served to all directors at least 14 days before the meetings. Directors may include any of his concerns in the Agenda. 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 record in sufficient details the matters discussed and resolved, and these minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

Management provide all members of Board with monthly updated financial position of the Group and the progress of the various on-going projects.

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

The Company observes the principle that there should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility of the running of the company's business, so as to ensure a balance of power and authority and to avoid the concentration of power and responsibilities on any one individual.

During the year, the Chairman and the Chief Executive Officer of the Company are Mr. Shun Shaoli and Mr. Lee Shing respectively, who have no relationship with each other. The roles of the Chairman and the Chief Executive Officer are segregated and assumed by them separately such that Mr. Sun Shaoli, the Chairman of the Board, has executive responsibilities and provides leadership to the Board in terms of establishing policies and business directions. He ensures that the Board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. He also ensures all Directors are properly briefed on issues to be discussed at Board meetings. He takes primary responsibility for ensuring that good corporate governance practices and procedures are established. He has encouraged all Directors to make a full and active contributions to the Board's affairs and takes the lead to ensure that the Board acts in the best interest of the Company. Mr. Lee Shing, as the Chief Executive Officer, is delegated with the authorities for the overall management and operations of the Group.

During the financial year ended 31 December 2012, the Chairman has held one meeting with the independent non-executive directors without the other executive directors present. The Chairman has encouraged directors with different views to voice their concerns, allowed sufficient time for discussion of issues and ensured that Board decisions fairly reflect Board consensus.

BOARD COMMITTEES

The Board has established three committees, namely, the Remuneration Committee, the Audit Committee and the Nomination Committee, in which the Nomination Committee was established on 28 March 2012, 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 corporate website of the Company and are available to shareholders upon request.

The members of the Audit Committee and the Remuneration Committee at present are all independent non-executive directors whereas, the majority of Nomination Committee comprises independent non-executive directors. 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 Remuneration Committee normally meets at least once a year. The primary objectives of the Remuneration Committee include making recommendations to the Board on the remuneration policy and structure and remuneration packages of all directors and the senior management of the Company. The Remuneration Committee is also responsible for establishing a formal and transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates be participated in deciding his/her own remuneration, which remuneration be determined by reference to the Board's corporate goals and objectives. 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 and assessment. 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 meetings during the year ended 31 December 2012 for, inter alia, reviewing annually the policy for the remuneration of directors and senior executive and procedures for fixing the remuneration package, assessing the performance of all directors, making recommendation on the remuneration packages of all directors and the senior management, approving the grant of share option, the terms of directors' service contracts and/or other related matters. The attendance records of the Remuneration Committee are set out under "Board Meetings" on page 33.

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 main duties of the Audit Committee include the followings:

(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 and its independence by reference to the work performed and services provided by the external auditors, their fees, their firm's standards and practices 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 three meetings during the year ended 31 December 2012 to review, assess and comment on the financial results and reports, financial reporting and compliance procedures, the Company's internal control and risk management review and processes and the re-appointment of the external auditors in the annual general meeting. The attendance records of the Audit Committee are set out under "Board Meetings" on page 33.

Nomination Committee

The Nomination Committee was established on 28 March 2012. It currently comprises three independent non-executive directors including Mr. Yu Xiumin (Chairman of the Nomination Committee), Mr. Zuo Duofu and Mr. Ye Xiang, as well as Mr. Sun Shaoli, Chairman of the Board, and Mr. Lee Shing, Vice-chairman of the Board and the Chief Executive Officer.

The primary objectives of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board, making recommendations on the any proposed changes to the Board, proposing the selection of individuals nominated for directorships, assessing the independence of independent non-executive directors; and commenting the re-appointment of directors and succession planning for directors in particular the chairman and the chief executive.

Since its establishment, the Nomination Committee has held two meetings, in which one of them was held subsequent to 31 December 2012 to, inter alia, review the policy for the nomination of directors, monitor the composition and effectiveness of the Board, assess the independence of each independent non-executive director, and identify those directors to be retired by rotation and then be re-elected as director in the forthcoming annual general meeting of the Company in accordance with the Company's Bye-laws. The attendance records of the Nomination Committee are set out under "Board Meetings" on page 33.

CORPORATE GOVERNANCE

The Board is responsible for performing the corporate governance duties, which includes developing and reviewing the Company's policy and practices on corporate governance, assessing and monitoring the training and continuous professional development of directors and senior management as well as the code of conduct and compliance manual. During the year ended 31 December 2012, the Board reviewed, monitored and assessed the policy and practices on corporate governance, training and continuous professional development to directors and senior management, policies and practice on compliance with legal and regulatory requirement, the compliance with the Company's securities (own code) on term no less exacting than the Model Code under the Listing Rule and disclosure requirements in this Corporate Government Report.

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 2012 by the auditors about their reporting responsibilities.

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 52 to 53.

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 2012, 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:

	2012 RMB'000
Annual audit services	1,630
Interim review services	520
Other services	49

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company and its subsidiaries 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.

SHAREHOLDERS' RIGHTS

Shareholders holding not less than one-tenth of the paid-up capital of the Company may deposit a requisition to convene a special general meeting and state the purpose therefor at the Company's registered office in Bermuda at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The Company has adopted Communications Policy with Shareholders and Investors that provide ready, equal and timely access to understandable information about the Company, the policy is posted on the Company's website. The Board is welcome to Shareholders for their comments and/or enquiries about the Company. Shareholders may send their comments and/or enquiries to the Board by addressing them to the Company Secretary. Shareholders who wish to put forward proposal for the Company's consideration at the general meetings can send their proposal to the Company Secretary.

Pursuant to Bye-law 89 of the Company, if a shareholder wish to propose a person other than a retiring Director for election as a Director at a general meeting, the shareholder should deposit a written notice of nomination which shall be given to the head office of the Company at the within the 7-day period commencing the day after the despatch of the notice of the meeting (or such other period as may be determined and announced by the Directors from time to time). The relevant procedures is posted on the Company's website.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company acknowledges the importance of maintaining effective communication with the shareholders and the investment community and has established a shareholders' communication policy and review it regularly. Each general meetings of the Company provides a forum for communication between the Board and the shareholders.

During the year either Mr. Sun Shaoli, the chairman or Mr. Lee Shing, the vice-chairman and the chief executive officer attended the shareholders' meetings of the Company held by the Company. Mr. Sun Shaoli and Mr. Lee Shing will use their endeavours to attend all future shareholders' meetings of the Company.

The chairman of the Board did and would arrange for the chairman of Remuneration Committee, Nomination Committee and Audit Committee be available to answer questions at each annual general meeting. The chairman of the independent board committee 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.

The Board did and would arrange auditor to attend every annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor's independence.

An explanation of the detailed procedures for conducting a poll will be explained in every general meeting.

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

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

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 47 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 2012 are set out in the consolidated statement of comprehensive income on page 54.

The directors recommended the payment of a final dividend of HK0.5 cent per share to the shareholders of the Company on the register of members on 5 June 2013, amounting to approximately RMB4,684,000.

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 respective audited consolidated financial statements is set out below. This summary does not form part of the audited consolidated financial statements.

	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
Revenue	**11,856,125**	10,908,602	11,063,390	9,888,856	7,111,911
Profit before tax	**143,683**	167,921	237,663	139,712	164,769
Income tax expense	**(45,106)**	(31,466)	(55,120)	(31,093)	(27,882)
Profit for the year	**98,577**	136,455	182,543	108,619	136,887
Profit/(Loss) for the year attributable to:					
Owner of the Company	**40,214**	69,813	77,648	(21,928)	32,647
Non-controlling interests	**58,363**	66,642	104,895	130,547	104,240
	98,577	136,455	182,543	108,619	136,887
Total assets	**10,704,000**	9,697,379	10,073,205	8,574,218	5,674,052
Total liabilities	**(9,438,758)**	(8,492,330)	(9,172,669)	(7,874,056)	(4,966,822)
Net assets	**1,265,242**	1,205,049	900,536	700,162	707,230
Net assets attributable to:					
Owner of the Company	**538,197**	486,489	301,574	126,087	146,744
Non-controlling interests	**727,045**	718,560	598,962	574,075	560,486
	1,265,242	1,205,049	900,536	700,162	707,230

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

The Group revalued its investment properties at the year end date. The net increase in fair values of the investment properties, which has been credited directly to consolidated statement of comprehensive income, amounted to RMB1,534,000 (2011: Nil).

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

SHARE CAPITAL

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

PRE-EMPTIVE RIGHTS

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

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 57 to 58.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December, 2012, the Company's reserves available for distribution to shareholders were RMB252,588,000, which comprises contributed surplus of RMB94,381,000, other reserve of RMB28,331,000 and retained profits of RMB129,876,000 of the Company.

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

BORROWINGS

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's largest customer and five (5) largest customers taken together accounted for respectively 68.8% and 74.8% of the Group's total turnover for the year.

The aggregate purchases attributable to the Group's largest supplier and the five (5) largest suppliers taken together accounted for respectively 19.5% and 28.6% 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
Ms. Liu Yaling
Mr. Zhou Sheji

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 24 to 28 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.

In accordance with Bye-law 99(B) of the Company, Mr. Zhong Xianhua, Mr. Zhou Sheji and Mr. Yu Xiumin 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.

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 annual general meeting in accordance with the Company's Bye-laws.

DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENT

Details of the directors' and senior management's emoluments disclosed on a named basis and/or by band, respectively, are set out in notes 10 and 11 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 at the annual general meeting of the Company 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, UNDERLYING SHARES AND DEBENTURES

At 31 December 2012, the interests of the directors of the Company and their associates in the shares, underlying shares and debentures of the Company or any of 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

Name of director	Capacity	Number of ordinary shares	Approximate % of the issued share capital
Mr. Lee Shing (" Mr. Lee")	Interest in controlled corporation (Note 1)	281,622,914	24.06%
	Beneficial Owner (Note 2)	3,906,818	0.33%
	Interest held by Spouse (Note 3)	1,952,651	0.17%
	Total	287,482,383	24.56%
Mr. Zhou Sheji ("Mr. Zhou")	Interest in controlled corporation (Note 4)	44,770,000	3.82%
	Beneficial Owner (Note 2)	2,705,303	0.23%
	Total	47,475,303	4.05%
Mr. Wei Hongwen ("Mr. Wei")	Beneficial owner	200,000	0.02%
	Beneficial Owner (Note 2)	3,806,060	0.33%
	Total	4,006,060	0.35%

Notes:

(1) This represents the shares held by Dragon Hill Development Limited ("Dragon Hill"), a company wholly-owned by Mr. Lee.

(2) This represents the outstanding share options held by directors issued under the Share Option (as defined below), which details are described in the section "Directors Rights to Acquire Shares and Debentures" below.

(3) This represents the outstanding share options held by the spouse of Mr. Lee issued under the Share Option (as defined below), which details are described in the section "Directors Rights to Acquire Shares and Debentures" below.

(4) This represents the shares held by Gao Bao Development Limited, a company wholly-owned by Mr. Zhou.

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 2012 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 2012, the number of outstanding option shares granted and offered by the Company under the option scheme adopted on 11 June 2002 (the "Old Share Option Scheme"), which was terminated by the Company on 28 May 2012, and on 28 May 2012 a new share option scheme, which was adopted by the Company on 28 May 2012 (the "New Share Option Scheme"), respectively, (collectively the "Share Option Schemes") for the directors of the Company to subscribe for 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.

Name of director	Capacity	Granted and offered on 29 December 2009 and as at 1 January 2012 (Note 1)	During the year: Granted and offered on 15 June 2012 (Note 2)	During the year: Exercised/ Lapsed/ Cancelled*	As at 31 December 2012	Exercise Period and Exercise Price
Mr. Sun Shaoli	Beneficial owner	906,818	–	(906,818)	–	I
		906,818	–	–	906,818	II
		–	3,000,000	–	3,000,000	III
	Total	1,813,636	3,000,000	(906,818)	3,906,818	
Mr. Lee	Beneficial owner	906,818	–	(906,818)	–	I
		906,818	–	–	906,818	II
		–	3,000,000	–	3,000,000	III
	Total	1,813,636	3,000,000	(906,818)	3,906,818	
	Interest of spouse (Note 3)	352,651	–	(352,651)	–	I
		352,651	–	–	352,651	II
		–	1,600,000	–	1,600,000	III
	Total	705,302	1,600,000	(352,651)	1,952,651	
Mr. Wei	Beneficial owner	806,060	–	(806,060)	–	I
		806,060	–	–	806,060	II
		–	3,000,000	–	3,000,000	III
	Total	1,612,120	3,000,000	(806,060)	3,806,060	
Mr. Zhong Xianhua	Beneficial owner	705,303	–	(705,303)	–	I
		705,303	–	–	705,303	II
		–	2,000,000	–	2,000,000	III
	Total	1,410,606	2,000,000	(705,303)	2,705,303	
Ms. Liu Yaling	Beneficial owner	806,060	–	(806,060)	–	I
		806,060	–	–	806,060	II
		–	2,000,000	–	2,000,000	III
	Total	1,612,120	2,000,000	(806,060)	2,806,060	
Mr. Zhou	Beneficial owner	705,303	–	(705,303)	–	I
		705,303	–	–	705,303	II
		–	2,000,000	–	2,000,000	III
	Total	1,410,606	2,000,000	(705,303)	2,705,303	
Mr. Yu Xiumin	Beneficial owner	604,545	–	(604,545)	–	I
		604,545	–	–	604,545	II
		–	1,000,000	–	1,000,000	III
	Total	1,209,090	1,000,000	(604,545)	1,604,545	
Mr. Zuo Duofu	Beneficial owner	604,545	–	(604,545)	–	I
		604,545	–	–	604,545	II
		–	1,000,000	–	1,000,000	III
	Total	1,209,090	1,000,000	(604,545)	1,604,545	
Mr. Ye Xiang	Beneficial owner	604,545	–	(604,545)	–	I
		604,545	–	–	604,545	II
		–	1,000,000	–	1,000,000	III
	Total	1,209,090	1,000,000	(604,545)	1,604,545	

Exercise period and exercise price:

I. From 21 January 2010 to 31 December 2012 (both days inclusive) at exercise price of HK$1.062 (adjusted on 28 March 2011 and effective from 29 March 2011, details of which may refer to Note 4 below) 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$1.062 (adjusted on 28 March 2011 and effective from 29 March 2011, details of which may refer to Note 4 below) per share and is vested on the date falling on the first anniversary of the date of acceptance.

III. From 6 October 2012 to 30 June 2016 (both days inclusive) at exercise price of HK$0.49 per share and is vested on the date immediately after three months from the date of acceptance.

Notes:

(1) The closing price of the Shares immediately before the date on which the options were granted and offer was HK$1.06 and those option shares have been granted and offer under the Old Share Option Scheme.

(2) The closing price of the Shares immediately before the date on which the options were granted and offer was HK$0.475 and those option shares were granted and offer under the New Share Option Scheme.

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

(4) Pursuant to the terms of the Old Share Option Scheme, the exercise price and the number of the of the Shares entitled to be subscribed for under the outstanding options have been adjusted as a result of the completion of the Open Offer, details of which may refer to the announcement of the Company dated 29 March 2011.

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 Schemes and the movements in the share options therein are set out in the above section "Directors' Rights to Acquire and Debentures" and note 35 to the financial statements.

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

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at 31 December 2012, the following shareholders of the Company had notified the Company of their relevant interests in the issued share capital of the Company:

Long positions

Name of Shareholder	Capacity	Nature of interest	Number of Ordinary shares	Approximate % of the issued share capital
Dragon Hill (Note 1)	Beneficial Owner	Corporate	281,622,914	24.06%
Mr. Lee	Interest in controlled corporation (Note 1)	Corporate	281,622,914	24.06%
	Beneficial Owner	Options	3,906,818	0.33%
	Interest held by Spouse	Family/Options	1,952,651	0.17%
		Sub-total	287,482,383	24.56%
Wuling Motors (Hong Kong) Holdings Limited ("Wuling HK") (Notes 2 and 3)	Beneficial Owner	Corporate	433,651,975	37.05%
		Unlisted derivatives	136,986,300	11.69%
		Sub-total	570,638,275	48.74%
Wuling Motors (Hong Kong) Company Limited ("Wuling Motors") (Notes 2 and 3)	Interested in controlled corporation	Corporate	570,638,275	48.74%
Liuzhou Wuling (Notes 2 and 3)	Interest in controlled corporation	Corporate	570,638,275	48.74%

Notes:

(1) Mr. Lee is beneficially interested in 281,622,914 shares, which interests are held by Dragon Hill, a company wholly-owned by Mr. Lee. This parcel of shares has also been disclosed as long position of Mr. Lee under the above section of "Directors' Interests in Shares and 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) 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 adjustments).

Other than as disclosed above, as at 31 December 2012, the Company has not been notified of any other relevant interests and short position in the shares and underlying shares 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

Mr. Wei Hongwen, 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 fulfills his fiduciary duty in order to ensure that he acts 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 length basis from, the businesses of SGMW.

CONNECTED TRANSACTIONS

On 16 May 2012, the Company entered into an agreement with Dragon Hill Holdings Limited, a company beneficially owned by Mr. Lee Shing, an executive Director, to dispose of its 100% equity interest in Jenpoint Limited ("Jenpoint") and Dragon Hill Financial Services Holdings Limited ("DHFS") together with the related shareholder's advances for an aggregate consideration of HK$6,000,000 (the "Disposals"), which were subsequently completed in June 2012. Jenpoint and DHFS were then subsidiaries of the Company which were principally engaged in property holding and investment. Details of the Disposals have been fully disclosed in the announcement of the Company dated 16 May 2012.

CONTINUING CONNECTED TRANSACTIONS

On 2 July 2008, Wuling Industrial and 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. On expired of the related banking facilities, the respective guarantee under the Guarantee Agreement was lapsed during the year.

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

(1) a 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 Zhuang Autonomous Region, 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 RMB 30,205,000, details of which were disclosed in the announcement of the Company made on 13 November 2009;

(2) 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 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;

(3) 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;

(4) a renewed agreement dated 31 January 2011 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 RMB3,200,000, RMB4,000,000 and RMB5,800,000 for the three years ending 31 December 2011, 2012 and 2013, details of which were disclosed in the announcement of the Company made on 31 January 2011;

(5) a renewed agreement dated 31 January 2011 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 RMB75,000,000, RMB80,000,000 and RMB82,000,000 respectively, for the three years ending 31 December 2011, 2012 and 2013, details of which were disclosed in the announcement of the Company made on 31 January 2011;

(6) a renewed agreement dated 31 January 2011 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 RMB62,000,000, RMB74,000,000 and RMB96,000,000 respectively, for three years ending 31 December 2011, 2012 and 2013, details of which were disclosed in the announcement of the Company made on 31 January 2011;

(7) a revised agreement dated 9 September 2011 with Guilin Bus in relation to the sales of parts and raw materials to Guilin Bus by the Wuling Industrial Group ("Revised GB Sale Transactions"), the maximum value of the Revised GB Sale Transactions shall be revised to RMB80,000,000, RMB110,000,000 and RMB150,000,000 respectively, for the three years ending 31 December 2011, 2012 and 2013, details of which were disclosed in the announcement of the Company made on 9 September 2011;

(8) a revised agreement dated 9 September 2011 with Guilin Bus in relation to the purchases of passenger mini-buses and its related accessories from Guilin Bus by the Wuling Industrial Group ("Revised GB Purchase Transactions"), the maximum value of the Revised GB Purchase Transactions shall be revised to RMB120,000,000, RMB160,000,000 and RMB220,000,000 respectively, for the three years ending 31 December 2011, 2012 and 2013, details of which were disclosed in the announcement of the Company made on 9 September 2011;

(9) an agreement dated 30 December 2011 with Nanging Wuling-Guihua Vehicle Co., Limited 南寧五菱桂花車輛有限公司 ("Guihua") in relation to the sales of raw materials to Guihua by the Wuling Industrial Group ("Guihua Sale Transactions") for the three years ending 31 December 2014, the maximum value of the Guihua Sale Transactions shall be RMB7,000,000 for each of the three years ending 31 December 2014, details of which were disclosed in the announcement of the Company made on 30 December 2011;

(10) an agreement dated 30 December 2011 with Guihua in relation to the purchases of automotive components and related accessories by the Wuling Industrial Group from Guihua ("Guihua Purchase Transactions") for the three years ending 31 December 2014, the maximum value of the Guihua Purchase Transactions shall be RMB8,000,000 for each of the three years ending 31 December 2014, details of which were disclosed in the announcement of the Company made on 30 December 2011;

(11) a renewed agreement dated 30 December 2011 with Guangling in relation to the provision of water and power supply services by the Wuling Industrial Group to Guangling for the three years ending 31 December 2014, the maximum aggregate value of the transactions shall be RMB2,000,000 for each of the three years ending 31 December 2014, details of which were disclosed in the announcement of the Company made on 30 December 2011; and

(12) a renewed agreement dated 30 December 2011 with Liuzhou Keer Digital Manufacturing Co., Limited 柳州科爾數字化製造技術有限公司 ("KE Digital") in relation to the purchase of certain devices and components by the Wuling Industrial Group from KE Digital for the three years ending 31 December 2014, the maximum aggregate value of the transactions shall be RMB7,000,000 for each of the three years ending 31 December 2014, details of which were disclosed in the announcement of the Company made on 30 December 2011.

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 and Baomali, as associates of Liuzhou Wuling, are regarded as connected persons 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 and items No. 5 to 8 above were obtained in the following special general meetings of the Company:

Item	Particulars	Date of Special General Meeting
1	Leasing of properties	18 December 2009
5	GL Sale Transactions	10 March 2011
6	GL Purchase Transactions	10 March 2011
7	Revised GB Sale Transactions	24 October 2011
8	Revised GB Purchase Transactions	24 October 2011

As for items No. 2 to 4 and 9 to 12 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 2012.

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 accordance with Hong Kong Standard on Assurance Engagements 3000 " Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter of Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The auditors have issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions as disclosed by the Group in the annual report in accordance with Rule 14A.33 of the Listing Rules.

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:

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.

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.

CORPORATE GOVERNANCE

The Company's principal corporate governance practices are set out in the Corporate Governance Report.

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, for the purpose of, inter alia, 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 terms of reference of the Remuneration Committee is set out in the Company's website, where a summary of duties and works of the Remuneration Committee during the year ended 31 December 2012 is set out in the "Corporate Governance Report" in this annual report.

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, namely Mr. Ye Xiang (Chairman of the Audit Committee), Mr. Yu Xiumin and Mr. Zuo Duofu, in which one of them possesses the appropriate professional qualifications or accounting or related financial management expertise.

The terms of reference of the Audit Committee is set out in the Corporate website of the Company, where a summary of duties and works of the Audit Committee during the year ended 31 December 2012 is set out in the "Corporate Governance Report" in this annual report.

The audited financial statements for the year ended 31 December 2012 have been reviewed by the Audit Committee.

NOMINATION COMMITTEE

On 28 March 2012, the Company established the Nomination Committee which comprises three independent non-executive directors of the Company including Mr. Yu Xiumin (Chairman of the Nomination Committee), Mr. Zuo Duofu and Mr. Ye Xiang, as well as Mr. Sun Shaoli, Chairman of the Board, and Mr. Lee Shing, Vice-chairman of the Board and the Chief Executive Officer, for the purpose of, inter alia, reviewing the composition and effectiveness of the board functioning, as well as to assessing or making recommending on relevant matters relating to the appointment and/or re-appointment of the directors.

The terms of reference of the Nomination Committee is set out in the corporate website of the Company, where a summary of duties and works of Nomination Committee during the year ended 31 December 2012 is set out in the "Corporate Governance Report" in this annual report.

PURCHASE, REDEMPTION AND SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year (2011: 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 2012.

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 48 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
28 March 2013

Deloitte.
德勤

TO THE MEMBERS OF
WULING MOTORS HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Wuling Motors Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 54 to 140, which comprise the consolidated statement of financial position as at 31 December 2012, 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 about 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.

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 2012 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
28 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Revenue	6	**11,856,125**	10,908,602
Cost of sales		**(10,621,268)**	(9,936,887)
Gross profit		**1,234,857**	971,715
Other income	6	**63,765**	83,527
Other gains and losses	6	**10,405**	38,016
Selling and distribution costs		**(353,229)**	(245,548)
General and administrative expenses		**(722,309)**	(605,435)
Finance costs	7	**(89,806)**	(74,354)
Profit before taxation		**143,683**	167,921
Income tax expense	8	**(45,106)**	(31,466)
Profit for the year	9	**98,577**	136,455
Other comprehensive income:			
Exchange differences arising from translation of foreign operation		**(307)**	39
Exchange reserve released upon disposal of subsidiaries		**(247)**	(33)
Total comprehensive income for the year		**98,023**	136,461
Profit for the year attributable to:			
Owners of the Company		**40,214**	69,813
Non-controlling interests		**58,363**	66,642
		98,577	136,455
Total comprehensive income attributable to:			
Owners of the Company		**39,660**	69,819
Non-controlling interests		**58,363**	66,642
		98,023	136,461
Earnings per share	13		
Basic		**3.44 cents**	6.17 cents
Diluted		**2.84 cents**	3.16 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,294,854**	1,078,994
Prepaid lease payments	15	**189,918**	171,907
Premium on prepaid lease payments	16	**947**	972
Investment properties	17	**7,024**	26,217
Intangible assets	18	**628**	628
Goodwill	19	**5,252**	–
Available-for-sale investments	20	**–**	360
Deposits for acquisition of land use rights	21	**25,200**	10,800
Deposits for acquisition of property, plant and equipment	22	**247,172**	140,584
		1,770,995	1,430,462
CURRENT ASSETS			
Inventories	23	**710,516**	551,976
Trade and other receivables	24	**6,949,514**	6,361,318
Prepaid lease payments	15	**4,126**	3,601
Tax recoverable		**5,756**	2,033
Held-for-trading investments	25	**–**	5
Pledged bank deposits	26	**779,932**	498,138
Bank balances and cash	26	**483,161**	849,846
		8,933,005	8,266,917
CURRENT LIABILITIES			
Trade and other payables	27	**7,517,993**	5,914,080
Amounts due to shareholders	28	**170,962**	577,979
Provision for warranty	29	**146,501**	124,717
Tax payable		**9,828**	1,297
Derivative financial instrument	30	**7,534**	18,843
Bank and other borrowings — due within one year	31	**953,328**	1,407,498
Obligations under finance leases — due within one year	32	**–**	74
Bank overdrafts	26	**–**	5,117
		8,806,146	8,049,605
NET CURRENT ASSETS		**126,859**	217,312
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,897,854**	1,647,774

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT LIABILITIES			
Amount due to shareholders	28	**526,323**	326,764
Convertible loan notes	30	**81,869**	78,524
Bank borrowings — due after one year	31	**1,054**	23,158
Deferred tax liabilities	33	**23,366**	14,279
		632,612	442,725
		1,265,242	1,205,049
CAPITAL AND RESERVES			
Share capital	34	**4,524**	4,524
Reserves		**533,673**	481,965
Equity attributable to owners of the Company		**538,197**	486,489
Non-controlling interests		**727,045**	718,560
		1,265,242	1,205,049

The consolidated financial statements on pages 54 to 140 were approved and authorized for issue by the Board of Directors on 28 March 2013 and are signed on its behalf by:

Sun Shaoli
Chairman

Lee Shing
Vice-chairman and
Chief Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	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)	Retained profits (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011	3,961	343,142	5,781	97,435	25,981	73,607	18,505	(266,838)	301,574	598,962	900,536
Profit for the year	–	–	–	–	–	–	–	69,813	69,813	66,642	136,455
Exchange difference arising from translation of foreign operation	–	–	39	–	–	–	–	–	39	–	39
Released upon disposal of subsidiaries	–	–	(33)	–	–	–	–	–	(33)	–	(33)
Total comprehensive income for the year	–	–	6	–	–	–	–	69,813	69,819	66,642	136,461
Issue of shares upon open offer (note 34)	563	126,081	–	–	–	–	–	–	126,644	–	126,644
Share issue expenses	–	(2,693)	–	–	–	–	–	–	(2,693)	–	(2,693)
Share premium reduction (note (iv))	–	(466,530)	–	466,530	–	–	–	–	–	–	–
Set-off contributed surplus against accumulated losses (note (iv))	–	–	–	(528,202)	–	–	–	528,202	–	–	–
Recognition of equity settled share-based payments	–	–	–	–	878	–	–	–	878	–	878
Forfeiture of share options	–	–	–	–	(3,113)	–	–	3,113	–	–	–
Capital injection	–	–	–	–	–	–	–	–	–	101,960	101,960
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(49,004)	(49,004)
Dividend recognized as distribution (note 12)	–	–	–	–	–	–	–	(9,733)	(9,733)	–	(9,733)
Transfers	–	–	–	–	–	48,226	–	(48,226)	–	–	–
Subtotal	563	(343,142)	–	(61,672)	(2,235)	48,226	–	473,356	115,096	52,956	168,052
At 31 December 2011	4,524	–	5,787	35,763	23,746	121,833	18,505	276,331	486,489	718,560	1,205,049

	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)	Retained profits (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Profit for the year	–	–	–	–	–	–	–	40,214	40,214	58,363	98,577
Exchange difference arising from translation of foreign operation	–	–	(307)	–	–	–	–	–	(307)	–	(307)
Exchange reserve released upon disposal of subsidiaries	–	–	(247)	–	–	–	–	–	(247)	–	(247)
Total comprehensive income for the year	–	–	(554)	–	–	–	–	40,214	39,660	58,363	98,023
Recognition of equity settled share-based payments	–	–	–	–	16,819	–	–	–	16,819	–	16,819
Forfeiture/lapse of share options	–	–	–	–	(12,234)	–	–	12,234	–	–	–
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	7,066	7,066
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(56,944)	(56,944)
Dividend recognized as distribution (note 12)	–	–	–	–	–	–	–	(4,771)	(4,771)	–	(4,771)
Transfers	–	–	–	–	–	55,418	–	(55,418)	–	–	–
Subtotal	–	–	–	–	4,585	55,418	–	(47,955)	12,048	(49,878)	(37,830)
At 31 December 2012	4,524	–	5,233	35,763	28,331	177,251	18,505	268,590	538,197	727,045	1,265,242

notes:

(i) The Group's contributed surplus represents (a) 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; (b) the transfer of the credit arising from a capital reduction on 19 June 2006; and (c) the transfer of the share premium and the absorption of accumulated losses on 27 May 2011.

(ii) According to the relevant requirement in the memorandum of association of the subsidiaries established in the People's Republic of China (the "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"), which is a substantial shareholder of the Company by virtue of its 100% equity interest in Wuling (Hong Kong) Holdings Limited ("Wuling HK"). Wuling HK holds 37.05% equity interest in, and has significant influence over, the Company.

(iv) Pursuant to a special resolution passed at the annual general meeting of the Company on 27 May 2011, (a) the entire amount outstanding to the credit of the share premium account of the Company was reduced to nil (the "Share Premium Reduction"); (b) the credit arising from the Share Premium Reduction was transferred to the contributed surplus account of the Company; and (c) a sum of approximately HKD627,504,000 (equivalent to approximately RMB528,202,000) in the contributed surplus account of the Company was applied to set off against the accumulated losses of the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**143,683**	167,921
Adjustments for:		
Depreciation of property, plant and equipment	**121,526**	94,507
Finance costs	**89,806**	74,354
(Reversal of) allowance for inventories	**(5,196)**	5,872
Recognition of equity-settled share-based payments	**16,819**	878
(Gain) loss on disposal of subsidiaries	**(1,710)**	27
Impairment losses recognized on trade receivables	**6,483**	2,694
Release of prepaid lease payments	**4,069**	2,861
Loss on disposal of available-for-sale investments	**232**	–
Release of premium on prepaid lease payments	**25**	25
(Gain) loss on change in fair value of held-for-trading investments	**(1)**	2
Bank interest income	**(28,034)**	(29,105)
Change in fair value of derivative financial instrument	**(11,309)**	(35,526)
Change in fair value of investment properties	**(1,534)**	–
Impairment loss reversed in respect of trade receivables	**(1,254)**	(1,223)
Exchange difference	**–**	(5,160)
Gain on disposal of property, plant and equipment	**(24)**	(276)
Operating cash flows before movements in working capital	**333,581**	277,851
Increase (decrease) in trade and other payables	**1,506,358**	(305,056)
Decrease in trade and other receivables	**(370,704)**	(1,364,140)
Increase (decrease) in provision for warranty	**21,784**	(948)
Net (increase) decrease in bills receivables discounted with recourse	**(192,400)**	1,185,466
(Increase) decrease in inventories	**(118,970)**	337,988
Increase in loans receivable	**–**	(387)
Decrease in client trust bank accounts	**–**	3,075
Cash generated from operations	**1,179,649**	133,849
Income tax paid	**(32,876)**	(67,453)
Withholding tax paid	**(5,808)**	(4,094)
NET CASH FROM OPERATING ACTIVITIES	**1,140,965**	62,302

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
INVESTING ACTIVITIES			
Placement of pledged bank deposits		**(1,624,756)**	(498,138)
Deposits paid for acquisition of property, plant and equipment		**(239,397)**	(140,584)
Purchase of property, plant and equipment		**(184,893)**	(133,208)
Deposit paid for acquisition of land use rights		**(14,400)**	–
Purchase of investment properties		**(5,570)**	–
Acquisition of a subsidiary	44	**(18,072)**	–
Withdrawal of pledged bank deposits		**1,351,795**	952,411
Proceeds from government grants		**27,327**	12,000
Bank interest income received		**28,034**	29,105
Disposal of subsidiaries	45	**4,875**	491
Proceeds from disposal of property, plant and equipment		**3,427**	3,514
Proceeds from disposal of available-for-sale investment		**128**	–
Proceeds from disposal of held-for-trading investments		**6**	–
Addition of prepaid lease payments		**–**	(105,576)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(671,496)**	120,015
FINANCING ACTIVITIES			
Repayment of bank borrowings		**(1,183,508)**	(316,228)
Repayment to shareholders		**(207,899)**	(62,509)
Interest paid		**(60,083)**	(33,111)
Dividend paid to non-controlling interests of subsidiaries		**(56,944)**	(49,004)
Dividend paid		**(4,771)**	(9,733)
Repayment of obligations under finance leases		**(74)**	(79)
Net increase (decrease) in advance drawn down from bills receivables discounted with recourse		**164,169**	(1,223,286)
Bank borrowings raised		**518,144**	1,274,116
Expenses of issue of shares upon open offer		**–**	(2,693)
Proceeds from issue of shares upon open offer		**–**	126,644
Capital injection by non-controlling interests of subsidiaries		**–**	101,960
Advance from shareholders		**–**	10,706
NET CASH USED IN FINANCING ACTIVITIES		**(830,966)**	(183,217)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(361,497)**	(900)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**844,729**	845,433
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET		**(71)**	196
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**483,161**	844,729
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by			
bank balances and cash		**483,161**	849,846
bank overdrafts		**–**	(5,117)
		483,161	844,729

1. GENERAL INFORMATION

The Company is a public limited company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The Company acts as an investment holding company and its subsidiaries are engaged in the manufacturing and trading of engines and related parts, automotive components and accessories and specialized vehicles, trading of raw materials, and provision of water and power supply. The details of its principal subsidiaries are disclosed in note 47.

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")

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

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

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

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

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

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

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

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

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

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

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

The Group has arrangements with various banks to transfer to the banks its contractual rights to receive cash flows from certain bill receivables. The arrangements are made through discounting those receivables to banks on a full recourse basis. Specifically, if the bill receivables are not paid at maturity, the banks have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these bill receivables, it continues to recognize the full carrying amount of the receivables and has recognized the cash received on the transfer as a secured borrowing (see note 31). The relevant disclosures have been made regarding the transfer of these trade receivables on application of the amendments to HKFRS 7 (see note 24a). In accordance with the transitional provisions set out in the amendments to HKFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

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

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

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

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

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

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

New and revised HKFRSs issued but not yet effective

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle, except for the amendments to HKAS 1[1]
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

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

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- All recognized financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised 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 reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

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

HKFRS 9 Financial Instruments (continued)

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that 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 recognition 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 of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that based on the financial instruments of the Group as of 31 December 2012, the adoption of HKFRS 9 in the future do not have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

New and revised standards on consolidation and disclosures

In June 2011, a package of the standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 12 and HKAS 27 (as revised in 2011).

Key requirements of these standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HK(SIC)-Int 12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors anticipate that the application of these standards may have significant impact on amounts reported in the consolidated financial standards. However, the directors have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet determined or quantified the impact.

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

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that the application of the new standard may affect derivatives financial instruments reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income* introduce new terminology for the statement of comprehensive income. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income'. The amendments to HKAS 1 also require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The directors of the Company anticipate that the application of other new and revised HKFRSs 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 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, which are measured at 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.

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.

Income and expenses 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.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that deferred tax assets or liabilities are recognized and measured in accordance with HKAS 12 *Income Taxes*.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from the sale of goods is recognized 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 recognized when services are provided.

Interest income from financial assets is recognized when it is probable that the economic benefits will flow to the Group and the amount of income 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.

Dividend income from investments is recognized 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 be measured reliably.

Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance leases) 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 in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment, other than construction in progress, less their residual values 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 carried at costs, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized 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. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

An item of property, plant and equipment is derecognized 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 recognized in profit or loss.

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 at their fair value. 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 derecognized 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 property (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 property is derecognized.

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 from operating leases is recognized in profit or loss on a straight line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognized 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 recognized immediately in profit or loss.

Operating lease payments are recognized 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 recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

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, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. 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 released 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.

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 retranslation of monetary items, are recognized in profit or loss in the period in which they arise. 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 Group (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 recognized in other comprehensive income and accumulated in equity under the heading of the exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

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, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

Government grants

Government grants are not recognized 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 recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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 recognized in profit or loss in the period in which they become receivable.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are recognized 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 before tax' as reported in the consolidated statement of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries 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 are only recognized to the extent that it is probable that there will be sufficient taxable profit against which to utilize 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 realized, 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.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Intangible assets acquired separately

Intangible assets with indefinite useful lives that are acquired separately 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).

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

Intangible assets acquired separately (continued)

Research and development expenditures

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

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognized 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 recognized 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 recognized, 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. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognized 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 recognized immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized 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 recognized 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

The Group's 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 recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' line item in the consolidated statement of comprehensive income. Fair value is determined in the manner described in note 43.

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 trade and other receivables, bills receivables discounted with recourse, pledged bank deposits and bank balance and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Financial instruments (continued)

Financial assets (continued)

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, 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 considered to be 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 affected.

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.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are in addition 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 credit period of 180 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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 recognized 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 recognized, the previously recognized 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 recognized.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

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 (including all fees and points 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

Other financial liabilities

Financial liabilities including trade and other payables, amounts due to shareholders and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Convertible loan notes

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

Derivative financial instruments

Derivatives are initially recognized 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 recognized in profit or loss immediately.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, 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 recognized 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 not designated as at fair value through profit or loss is recognized 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 of obligation under the contract, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognized less, when appropriate, cumulative amortisation recognized in accordance with the revenue recognition policy.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralised borrowing for the proceeds received.

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 recognized in other comprehensive income is recognized in profit or loss.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the 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 of the time value of money is material).

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to directors and employees

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 recognized as an expense in full at the grant date which the share options granted vest immediately, with a corresponding increase in share option 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 original estimates during the vesting period, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

Where share options are exercised, the amount previously recognized 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 recognized in share option reserve will be transferred to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

Equity-settled share-based payment transactions (continued)

Share options granted to other parties

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are recognized as expenses, with a corresponding increase in share option reserve, when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

Impairment loss on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

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 recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

4. CRITICAL ACCOUNTING JUDGMENTS AND 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 recognized 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.

Critical judgements in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognized any deferred taxes on changes in fair value of investment properties as the Group is not subject to any income taxes on disposal of its investment properties.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other 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 charged in the year in which such estimate is changed.

As at 31 December 2012, the carrying amount of property, plant and equipment was approximately RMB1,294,854,000 (2011: RMB1,078,994,000).

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

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 2012, the carrying amount of trade and bills receivable was approximately RMB5,861,754,000 (net of allowance for doubtful debts of approximately RMB11,631,000) (2011: carrying amount of approximately RMB5,623,553,000 (net of allowance for doubtful debts of approximately RMB6,818,000).

Provision for warranty

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

As at 31 December 2012, the carrying amount of provision for warranty was approximately RMB146,501,000 (2011: RMB124,717,000).

5. SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. This is also the basis upon which the Group is organised. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

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

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

5. SEGMENT INFORMATION (continued)

Segment revenues and results

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

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

5. SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit/loss represents the profit earned by/loss incurred by each segment without the allocation of central administrative costs, bank interest income, change in fair value of derivative financial instrument, share option expenses, gain (loss) on disposal of subsidiaries and finance costs. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market prices.

5. SEGMENT INFORMATION (continued)

Segment assets and liabilities

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

	Engines and related parts RMB'000	Automotive components and accessories RMB'000	Specialized vehicles RMB'000	Trading of raw materials, and provision of water and power supply RMB'000	Others RMB'000	Consolidated RMB'000
At 31 December 2012						
Assets						
Segment assets	**2,826,048**	**4,844,189**	**1,030,490**	**725,452**	**8,972**	**9,435,151**
Pledged bank deposits						**779,932**
Bank balances and cash						**483,161**
Tax recoverable						**5,756**
Consolidated assets						**10,704,000**
Liabilities						
Segment liabilities	**2,712,189**	**3,997,141**	**1,009,264**	**364,057**	**4,704**	**8,087,355**
Amounts due to shareholders						**697,285**
Derivative financial instrument						**7,534**
Convertible loan notes						**81,869**
Bank borrowings						**531,521**
Others						**33,194**
Consolidated liabilities						**9,438,758**

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

5. SEGMENT INFORMATION (continued)

Segment assets and liabilities (continued)

The assets of the Group are allocated based on the operations of the segments. However, pledged bank deposits, bank balances and cash and tax recoverable are not allocated to the segments.

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

Other segment information

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

5. SEGMENT INFORMATION (continued)

Other segment information (continued)

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

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). Information about the Group's revenue from customers is presented based on the location of customers, irrespective of the origin of the goods and services.

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

(b) **Non-current assets**

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

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

Information about a major customer

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

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

6. REVENUE/OTHER INCOME/OTHER GAINS AND LOSSES

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

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

notes:

(i) Details of other income are as follows:

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

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

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

7. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Interests on:		
— amount due to a shareholder (note 28)	**4,517**	3,737
— borrowings and overdrafts wholly repayable within five years	**50,448**	23,878
— borrowings not wholly repayable within five years	**212**	489
— advances drawn on bills receivables	**25,956**	37,820
— obligations under finance leases	**18**	18
— convertible loan notes (note 30)	**8,655**	8,412
	89,806	74,354

8. INCOME TAX EXPENSE

	2012 RMB'000	2011 *RMB'000*
Tax charge represents:		
PRC Enterprise Income Tax		
Current	**35,961**	21,893
Withholding tax paid	**5,808**	4,094
Underprovision in prior years	**1,723**	725
	43,492	26,712
Deferred tax (note 33)		
Current year	**1,614**	4,754
	45,106	31,466

8. INCOME TAX EXPENSE (continued)

The PRC

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

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

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

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

The EIT Law also requires withholding tax upon distribution of profits earned by the PRC subsidiaries since 1 January 2008 to its overseas (including Hong Kong) shareholders at 10% of the distribution. Deferred tax of RMB7,638,000 (2011: RMB8,881,000) has been provided in respect of the undistributed earnings of the Group's PRC subsidiaries as a charge to the consolidated statement of comprehensive income.

Hong Kong

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

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

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

8. INCOME TAX EXPENSE (continued)

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

	2012 RMB'000	2011 RMB'000
Profit before taxation	**143,683**	167,921
Tax at the domestic income tax rate of 15% (note)	**21,552**	25,188
Tax effect of expenses not deductible for tax purposes	**11,247**	3,262
Tax effect of income not taxable for tax purposes	**(2,943)**	(7,439)
Tax effect of deductible temporary difference not recognized	**188**	430
Utilization of deductible temporary differences previously not recognized	**(1,429)**	–
Tax effect of tax losses not recognized	**7,127**	1,139
Tax effect of utilization of tax losses previously not recognized	**–**	(723)
Tax effect of undistributed profits of PRC subsidiaries	**7,638**	8,881
Effect of different tax rates of subsidiaries operating in other jurisdictions	**3**	3
Underprovision in prior years	**1,723**	725
Income tax expense for the year	**45,106**	31,466

note: This represents the applicable domestic income tax for the major operating subsidiaries of the Group.

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

9. PROFIT FOR THE YEAR

	2012 RMB'000	2011 RMB'000
Profit for the year has been arrived at after charging (crediting) the following items:		
Directors' emoluments (note 10)	**8,789**	6,594
Other staff costs:		
Salaries, bonus and other benefits	**607,097**	591,360
Retirement benefit scheme contributions, excluding directors	**56,246**	55,348
Equity settled share-based payments excluding directors	**13,684**	712
Total staff costs	**685,816**	654,014
Gross property rental income	**(206)**	(678)
Less: direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	**1**	2
Net rental income	**(205)**	(676)
Auditor's remuneration	**1,630**	1,663
Cost of inventories recognized as an expense (note)	**10,621,268**	9,768,855
Depreciation of property, plant and equipment	**121,526**	94,507
Release of prepaid lease payments (included in general and administrative expenses)	**4,069**	2,861
Release of premium on prepaid lease payments (included in general and administrative expenses)	**25**	25
Research and development expenses (included in general and administrative expenses)	**115,741**	53,589
Transportation costs (included in selling and distribution costs)	**217,607**	133,266

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

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

		Other emoluments			
	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits schemes RMB'000	Share-based payments RMB'000	Total emoluments RMB'000
2012					
Sun Shaoli	**176**	**1,362**	**91**	**523**	**2,152**
Lee Shing (note)	**1,154**	**298**	**11**	**523**	**1,990**
Wei Hongwen	**176**	**466**	**78**	**348**	**1,068**
Zhong Xianhua	**176**	**291**	**97**	**348**	**912**
Zhou Sheji	**176**	**500**	**11**	**348**	**1,031**
Liu Yaling	**176**	**15**	**–**	**523**	**714**
Yu Xiumin	**117**	**–**	**–**	**174**	**291**
Zuo Duofu	**117**	**–**	**–**	**174**	**291**
Ye Xiang	**166**	**–**	**–**	**174**	**340**
	2,434	**2,932**	**288**	**3,135**	**8,789**
2011					
Sun Shaoli	160	1,349	163	23	1,695
Lee Shing (note)	1,132	350	10	23	1,515
Wei Hongwen	160	782	97	21	1,060
Zhong Xianhua	160	585	97	18	860
Zhou Sheji	160	636	10	18	824
Liu Yaling	160	16	–	21	197
Yu Xiumin	115	2	–	14	131
Zuo Duofu	115	2	–	14	131
Ye Xiang	165	2	–	14	181
	2,327	3,724	377	166	6,594

note: Mr. Lee Shing is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as Chief Executive.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2011: four) were directors and the chief executive of the Company whose emolument is included in the disclosure in note 10 above. The emolument of the remaining one (2011: one) individual is as follows:

	2012 RMB'000	2011 RMB'000
Salaries and other benefits	953	848
Bonus	110	212
Share-based payments	321	18
Contributions to retirement benefits schemes	11	10
Total emolument	1,395	1,088

No emoluments were paid by the Group to the directors of the Company or the above individual 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 the years ended 31 December 2012 and 2011.

12. DIVIDEND

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

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

13. EARNINGS PER SHARE

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

	2012 RMB'000	2011 RMB'000
Earnings		
Earnings for the purpose of basic earnings per share (profit of the year attributable to owner of the Company)	40,214	69,813
Effect of dilutive potential ordinary shares:		
Interest and exchange difference on convertible loan notes	8,233	5,822
Change in fair value of derivative financial instruments	(11,309)	(35,526)
Earnings for the purpose of diluted earnings per share	37,138	40,109

	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,170,605	1,132,298
Effect of dilutive potential ordinary shares:		
Convertible loan notes	136,986	136,986
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,307,591	1,269,284

The computation of diluted earnings per share for both years does not assume the exercise of the outstanding share options as the exercise price was higher than the average market price of the Company's shares during the relevant periods.

The weighted average number of ordinary shares for the purposes of basic and diluted earnings per share in 2011 have been adjusted for the bonus element of the Open Offer (as defined in note 34) on 28 March 2011.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold 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 2011	143,131	620	665,612	15,525	10,885	16,282	213,329	1,065,384
Exchange adjustments	(47)	(19)	–	(13)	(26)	(38)	–	(143)
Additions	10,392	57	106,530	1,967	3,399	1,829	161,238	285,412
Disposals	–	–	(19,143)	(832)	(853)	(1,095)	–	(21,923)
Eliminated on disposal of subsidiaries (note 45)	–	(154)	–	(314)	(868)	–	–	(1,336)
Transfer	84,575	–	190,936	–	–	258	(275,769)	–
At 31 December 2011	238,051	504	943,935	16,333	12,537	17,236	98,798	1,327,394
Exchange adjustments	(8)	(3)	–	(1)	(1)	(6)	–	(19)
Additions	7,878	396	10,444	13,398	4,260	8,960	268,552	313,888
Acquired on acquisition of a subsidiary (note 44)	25,323	–	2,389	58	48	417	–	28,235
Disposals	–	(90)	(26,183)	(1,585)	(2,592)	(1,939)	–	(32,389)
Eliminated on disposal of subsidiaries (note 45)	(1,377)	(441)	–	(44)	–	–	–	(1,862)
Transfer	7,896	–	91,306	7,048	–	36	(106,286)	–
At 31 December 2012	277,763	366	1,021,891	35,207	14,252	24,704	261,064	1,635,247
ACCUMULATED DEPRECIATION								
At 1 January 2011	9,833	369	147,491	7,476	3,528	5,150	–	173,847
Exchange adjustments	(5)	(12)	–	(12)	(25)	(36)	–	(90)
Provided for the year	7,981	56	78,610	3,018	1,901	2,941	–	94,507
Eliminated on disposals	–	–	(16,017)	(785)	(853)	(1,030)	–	(18,685)
Eliminated on disposal of subsidiaries (note 45)	–	(33)	–	(308)	(838)	–	–	(1,179)
At 31 December 2011	17,809	380	210,084	9,389	3,713	7,025	–	248,400
Exchange adjustments	(1)	(2)	–	(1)	(1)	(6)	–	(11)
Provided for the year	15,183	47	93,740	5,320	3,532	3,704	–	121,526
Eliminated on disposals	–	(31)	(23,886)	(1,360)	(2,461)	(1,248)	–	(28,986)
Eliminated on disposal of subsidiaries (note 45)	(149)	(369)	–	(18)	–	–	–	(536)
At 31 December 2012	32,842	25	279,938	13,330	4,783	9,475	–	340,393
Carrying Value								
At 31 December 2012	244,921	341	741,953	21,877	9,469	15,229	261,064	1,294,854
At 31 December 2011	220,242	124	733,851	6,944	8,824	10,211	98,798	1,078,994

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 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 buildings at 31 December 2011 was certain owner-occupied property of approximately RMB1,247,000 in Hong Kong, which in the opinion of the directors of the Company, allocation between the land and building elements could not be made reliably.

During the year ended 31 December 2012, the Group received government subsidy of RMB27,327,000 (2011: RMB12,000,000) as a result of its expansion of production capacity. The subsidy was deducted from the costs of relevant items of property, plant and equipment.

The leasehold buildings are situated on:

	2012 RMB'000	2011 RMB'000
Leasehold land in Hong Kong:		
Long leases	–	1,247
Land in the PRC:		
Medium term leases	244,921	218,995
	244,921	220,242

15. PREPAID LEASE PAYMENTS

	2012 RMB'000	2011 RMB'000
Balance at the beginning of the year	175,508	32,793
Additions	–	145,576
Acquired on acquisition of a subsidiary (note 44)	22,605	–
Released to profit or loss	(4,069)	(2,861)
Balance at the end of the year	194,044	175,508
Current portion	(4,126)	(3,601)
Non-current portion	189,918	171,907

The amounts represent upfront payments for the right to use land under medium term lease 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 through acquisition of subsidiaries and is released over the lease term of the related prepaid lease payments on a straight line basis.

17. INVESTMENT PROPERTIES

	2012 RMB'000	2011 RMB'000
FAIR VALUE		
At 1 January	**26,217**	27,103
Exchange realignment	**114**	(886)
Addition	**5,570**	–
Eliminated on disposal of subsidiaries (note 45)	**(26,411)**	–
Net increase in fair value recognized in profit or loss	**1,534**	–
At 31 December	**7,024**	26,217

notes:

(i) The carrying amounts of investment properties shown above comprise:

	2012 RMB'000	2011 RMB'000
Land in Hong Kong:		
Long lease	**–**	26,217
Medium-term lease	**7,024**	–
	7,024	26,217

(ii) All of the Group's investment property interests held 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 held under long leases and medium-term lease.

(iii) The fair value of the Group's investment properties at 31 December 2012 and 2011 was arrived at on the basis of a valuation carried out on that day by Vigers Appraisal & Consulting Limited ("Vigers"), independent qualified professional valuers not connected to the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the similar locations and conditions.

18. INTANGIBLE ASSETS

	Stock exchange trading rights RMB'000
COST	
At 1 January 2011	9,212
Eliminated on disposal of a subsidiary (note 45ii)	(4,732)
At 31 December 2011 and 2012	4,480
IMPAIRMENT	
At 1 January 2011	8,284
Eliminated on disposal of a subsidiary (note 45ii)	(4,432)
At 31 December 2011 and 2012	3,852
CARRYING VALUE	
At 31 December 2011 and 2012	628

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

19. GOODWILL

	RMB'000
COST	
At 1 January 2012	–
Arising on acquisition of a subsidiary (note 44)	5,252
At 31 December 2012	5,252
IMPAIRMENT	
At 1 January 2012 and at 31 December 2012	–
CARRYING VALUE	
At 31 December 2012	5,252
At 31 December 2011	–

The entire goodwill is attributable to the acquisition of 75% equity interest in Jilin Chuofeng Liuji Motors Company Limited ("Jilin Chuofeng") as disclosed in note 44, as a cash generating unit ("CGU").

During the year ended 31 December 2012, management of the Group determines that there is no impairment of goodwill of the Group to this CGU as the management considers that the recoverable amount of CGU is higher than its carrying value.

19. GOODWILL (continued)

The basis of the recoverable amounts of the above CGU and their major underlying assumptions are summarized below:

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 15%. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

20. AVAILABLE-FOR-SALE INVESTMENTS

At 31 December 2011, these investments represented unlisted equity securities issued by private entities established in the PRC which were measured at cost less impairment because the range of reasonable fair value estimates was so significant that the directors of the Company were of the opinion that their fair values could not be measured reliably.

During the year ended 31 December 2012, the above investment disposed at a consideration of approximately RMB128,000 and a loss on disposal of approximately RMB232,000 was recognized in profit or loss for the year.

21. DEPOSITS FOR ACQUISITION OF LAND USE RIGHTS

The amount represents the deposit paid to an independent third party for acquisition of land use rights located in the PRC for construction of a new production plant. The related capital commitments are disclosed in note 36. As disclosed in note 48, the acquisition of land use rights was completed and respective land use rights certificates were obtained in February 2013.

22. DEPOSITS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The related capital commitments are disclosed in note 36.

As disclosed in note 48, the acquisition of certain property, plant and equipment of RMB91,910,000 was completed and respective ownership certificates were obtained in February 2013.

23. INVENTORIES

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

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

(i) Trade and other receivables

	2012 RMB'000	2011 RMB'000
Trade and bills receivables		
— SAIC-GM-Wuling Automobile Co., Limited ("SGMW") (note a)	**3,959,753**	3,565,886
— Liuzhou Wuling Group (note b)	**25,062**	97,352
— third parties	**1,888,570**	1,967,133
	5,873,385	5,630,371
Less: Allowance for doubtful debts	**(11,631)**	(6,818)
	5,861,754	5,623,553
Other receivables:		
Prepayments for expenses	**106**	3,847
Prepayments for purchase of raw materials (note c)	**492,802**	454,768
Value-added tax recoverable	**106,192**	26,025
Others	**63,524**	20,389
	662,624	505,029
Bills receivables discounted with recourse (note 24(ii))	**425,136**	232,736
Total trade and other receivables	**6,949,514**	6,361,318

notes:

(a) Liuzhou Wuling has significant influence over SGMW.

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

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

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

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

(i) Trade and other receivables (continued)

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

	At 31 December 2012 RMB'000	At 31 December 2011 RMB'000
0–90 days	**4,088,087**	5,525,419
91–180 days	**1,715,720**	26,713
181–365 days	**50,616**	58,020
Over 365 days	**7,331**	13,401
	5,861,754	5,623,553

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

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of approximately RMB71,541,000 (2011: RMB71,421,000) which were past due over 180 days at the end of the reporting period 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.

Ageing of trade receivables which were past due but not impaired

	2012 RMB'000	2011 RMB'000
91–180 days	**13,594**	–
181–365 days	**50,616**	58,020
Over 365 days	**7,331**	13,401
Total	**71,541**	71,421

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

(i) Trade and other receivables (continued)

Movement in the allowance for doubtful debts

	2012 RMB'000	2011 RMB'000
1 January	**6,818**	5,551
Impairment losses recognized on trade receivables	**6,483**	2,694
Amounts written off as uncollectible	**(350)**	(136)
Amounts recovered during the year	**(1,254)**	(1,223)
Exchange adjustments	**(66)**	(68)
31 December	**11,631**	6,818

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately RMB11,631,000 (2011: RMB6,818,000) which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

(ii) Bills receivables discounted with full recourse

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

The amounts represent bills receivables discounted to banks with recourse with a maturity period of less than 180 days (2011: 180 days). The Group recognizes the full amount of the discount proceeds as liabilities as set out in note 31.

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

	2012 RMB'000	2011 RMB'000
0–90 days	**32,100**	–
91–180 days	**393,036**	232,736
	425,136	232,736

24a. TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2012 and 2011 that were transferred to banks by discounting those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognize the full carrying amount of the receivables and has recognized the cash received on the transfer as a secured borrowing (see note 31). These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

Bills receivable discounted to banks with full recourse

	2012 **RMB'000**	2011 RMB'000
Carrying amount of transferred assets	**425,136**	232,736
Carrying amount of associated liabilities	**(422,861)**	(232,736)
Net position	**2,275**	–

25. HELD-FOR-TRADING INVESTMENTS

	2012 **RMB'000**	2011 RMB'000
Listed equity investments, at market value:		
Hong Kong	**–**	5

26. PLEDGED BANK DEPOSITS/BANK BALANCES/BANK OVERDRAFTS

Bank balance/pledged bank deposits

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 interest rates as follows:

	Fixed/variable	**2012**	2011
Pledged deposits	Fixed	**0.6%–3.3%**	1.31%–3.3%
Bank balances	Variable	**0.01%–1.15%**	0.0001%–1.31%

26. PLEDGED BANK DEPOSITS/BANK BALANCES/BANK OVERDRAFTS (continued)

Bank balance/pledged bank deposits (continued)

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:

	2012 RMB'000	2011 RMB'000
HKD	**17,510**	17,007

Bank overdrafts

Bank overdrafts carry prevailing market interest rates of 5.0% per annum for the year ended 31 December 2011.

27. TRADE AND OTHER PAYABLES

(i) Trade and other payables

	notes	2012 RMB'000	2011 RMB'000
Trade and bills payables:			
— SGMW		**179,821**	173,187
— Liuzhou Wuling Group		**30,004**	47,426
— third parties		**6,843,362**	5,151,804
	(i)	**7,053,187**	5,372,417
Consideration payable (note 44(i))		**3,450**	–
Other payables and accruals	(ii)	**461,356**	541,663
Total trade and other payables		**7,517,993**	5,914,080

27. TRADE AND OTHER PAYABLES (continued)

(i) Trade and other payables (continued)

notes:

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

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

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

(iii) 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:

	2012 RMB'000	2011 RMB'000
HKD	**3,340**	4,924

28. AMOUNTS DUE TO SHAREHOLDERS

	notes	**2012 RMB'000**	2011 RMB'000
Liuzhou Wuling	(i)	**614,289**	822,816
Wuling HK	(ii)	**82,996**	81,927
		697,285	904,743
Carrying amount repayable:			
On demand or within one year		**170,962**	577,979
More than one year, but not exceeding two years		**526,323**	326,764
		697,285	904,743
Less: Amount due within one year shown under current liabilities		**(170,962)**	(577,979)
Amount shown under non-current liabilities		**526,323**	326,764

notes:

(i) The entire balance is unsecured and interest-free. Other than an amount of RMB444,837,000 (2011: RMB244,837,000) which is repayable one year after the end of the reporting period, the balance is repayable on demand.

(ii) The amount is unsecured, bearing fixed interest at 5.5% (2011: 4.5%) per annum and repayable one year after the end of the reporting period.

29. PROVISION FOR WARRANTY

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

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

30. DERIVATIVE FINANCIAL INSTRUMENT/CONVERTIBLE LOAN NOTES

On 12 January 2009, the Company issued convertible loan notes with an aggregate principal sum of HKD100,000,000 at par (equivalent to approximately RMB88,069,000) to Wuling HK ("CN 2014"). CN 2014 is denominated in HKD and carries interest at 6% per annum with maturity on 12 January 2014. CN 2014 entitles the holder to convert, in whole or in part, the principal sum into ordinary shares of the Company on any business days commencing from 12 January 2010 upto the fifth business days prior to the maturity date, at a conversion price of HKD0.74 per ordinary share, subject to anti-dilutive adjustments. If not converted, CN 2014 will be redeemed on the maturity date at par. As a result of the share placement and subscription at a discount on 12 March 2010, the conversion price of CN 2014 was adjusted from HKD0.74 per share to HKD0.73 per share with effect from 12 March 2010.

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

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

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

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

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

	2012 **RMB'000**	2011 RMB'000
At the beginning of the year	**18,843**	54,369
Changes in fair value during the year	**(11,309)**	(35,526)
At the end of the year	**7,534**	18,843

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

(i) Valuation of liability component

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

(ii) Valuation of conversion option component

The conversion option component was measured at fair value using the Binomial Option Pricing Model by Ascent Partners Valuation Services Limited and Vigers as of 31 December 2012 and 2011, respectively. The inputs into the model as at the respective dates are as follows:

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

31. BANK BORROWINGS

	notes	2012 RMB'000	2011 RMB'000
Secured		**22,941**	65,274
Unsecured		**508,580**	1,132,646
		531,521	1,197,920
Advances drawn on bills receivable discounted with recourse	(i)	**422,861**	232,736
		954,382	1,430,656
Carrying amount repayable:	(ii)		
On demand or within one year		**944,514**	1,368,532
More than one year, but not more than two years		**527**	1,852
More than two years, but not more than five years		**527**	4,051
More than five years		**–**	17,255
		945,568	1,391,690
Carrying amount of bank loans that are repayable on demand due to breach of loan covenants (shown under current liabilities)	(iii)	**7,750**	38,966
Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)		**1,064**	–
		954,382	1,430,656
Less: Amount due within one year shown under current liabilities		**(953,328)**	(1,407,498)
Amount shown under non-current liabilities		**1,054**	23,158

31. BANK BORROWINGS (continued)

notes:

(i) The amount represents the Group's other borrowings secured by the bills receivable discounted to banks with recourse (see note 24(ii)).

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

(iii) As at 31 December 2012, the Group was in breach of certain covenants in respect of a bank borrowing of approximately RMB7,750,000 (2011: RMB38,966,000) which has became technically repayable on demand. In February 2013, the Group repaid the amount in full. In the opinion of the director, this event has no significant impact on the group's financial position or future liquidity.

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

	2012 RMB'000	2011 RMB'000
Fixed-rate borrowings		
On demand or within one year	**930,387**	1,243,618
More than one year, but not more than two years	**527**	882
More than two years, but not more than five years	**527**	882
	931,441	1,245,382
Variable-rate borrowings		
On demand or within one year	**14,127**	124,914
More than one year, but not more than two years	**–**	970
More than two years, but not more than five years	**–**	3,169
More than five years	**–**	17,255
	14,127	146,308
Carrying amount of variable-rate bank borrowings that are repayable on demand due to breach of loan covenants (shown under current liabilities)	**7,750**	38,966
Carrying amount of variable-rate 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)	**1,064**	–
	22,941	185,274
Total borrowings	**954,382**	1,430,656

(v) At 31 December 2012, except for bank borrowings of approximately RMB15,191,000 (2011: RMB26,525,000) and RMB1,581,000 (2011: RMB2,646,000) which were denominated in HKD and Euro, respectively, all the Group's bank borrowings were denominated in RMB.

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

	2012 %	2011 %
Effective interest rate:		
Fixed rate borrowings	**4.5 to 7.22**	4.5 to 6.89
Variable-rate borrowings	**2.22 to 4.60**	1.23 to 6.56

(vii) The collaterals for the Group's secured bank borrowings are set out in note 37.

(viii) The Group's secured bank borrowings are also supported by a personal guarantee to the extent of HKD9,662,000 (2011: HKD33,345,000) given by Mr. Lee Shing ("Mr. Lee"), an executive director and shareholder whose shareholding give him significant influence over the Company.

The Group's unsecured bank borrowings are supported by corporate guarantee to the extent of RMB797,000,000 (2011: RMB1,148,000,000) given by Liuzhou Wuling.

32. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term was five years as at 31 December 2011. Interest rates underlying all obligations under finance leases were fixed at respective contract dates at 4.8%.

	Minimum lease payments		Present value of minimum lease payments	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance leases				
Within one year	–	92	–	74
In more than one year but not more than two years	–	–	–	–
	–	92	–	74
Less: Future finance charges	–	(18)	N/A	N/A
Present value of lease obligations	–	74	–	74
Less: Amount due for settlement with 12 months			–	(74)
Amount due settlement after 12 months			–	–

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

All financial lease obligations were denominated in HKD.

33. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities (assets) recognized 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 2011	22	460	(415)	9,460	9,527
Exchange realignment	(1)	(11)	10	–	(2)
Released upon distribution of dividends	–	–	–	(4,094)	(4,094)
(Credit) charge to profit or loss	(1)	(274)	242	8,881	8,848
Eliminated on disposal of a subsidiary	(10)	–	10	–	–
At 31 December 2011	10	175	(153)	14,247	14,279
Exchange realignment	–	(1)	1	–	–
Released upon distribution of dividends	–	–	–	(5,808)	(5,808)
(Credit) charge to profit or loss	(1)	(207)	(8)	7,638	7,422
Acquisition (note 44)	–	7,505	–	–	7,505
Eliminated on disposal of a subsidiary (note 45)	–	(174)	142	–	(32)
At 31 December 2012	9	7,298	(18)	16,077	23,366

notes:

(i) At the end of the reporting period, the Group had unused tax losses of approximately RMB167,237,000 (2011: RMB139,259,000). A deferred tax asset has been recognized in respect of tax losses of approximately RMB122,000 (2011: RMB1,022,000). No deferred tax assets has been recognized in respect of the remaining tax losses of approximately RMB167,115,000 (2011: RMB138,237,000) due to the unpredictability of future profit streams. Included in unrecognized tax losses are losses of RMB42,225,000 (2011: Nil) that will expire on 31 December 2016. Other tax losses may be carried forward indefinitely.

(ii) At the end of the reporting period, the Group also had unrecognized deferred tax assets in relation to deductible temporary differences amounting to RMB27,364,000 (2011: RMB35,633,000).

(iii) 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.

34. SHARE CAPITAL

	Number of shares	Amount HK$
Authorized:		
Ordinary shares of HK$0.004 each	25,000,000,000	100,000
Convertible preference shares of HK$0.001 each	1,521,400,000	1,521
Balance at 1 January 2011, 31 December 2011 and 31 December 2012		101,521
Issued and fully paid:		
Ordinary shares of HK$0.004 each		
As at 1 January 2011	1,003,376,049	4,013
Issue of new shares upon open offer (note)	167,229,341	669
As at 31 December 2011 and 2012	1,170,605,390	4,682

	RMB'000
Shown in the consolidated financial statements as	
— 31 December 2012 and 2011	4,524

note:

Pursuant to an ordinary resolution passed at a special general meeting of the Company on 8 March 2011, an issue of shares by the Company at a price of HKD0.90 per share on the basis of one share for every six existing shares then held (the "Open Offer") was approved. The Open Offer was completed on 28 March 2011 and a total of 167,229,341 new shares were issued, resulting in gross proceeds of approximately HKD150,506,000 (equivalent to approximately RMB126,644,000) to the Company. The proceeds from the Open Offer provided additional working capital to finance the Group's daily operations.

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

35. SHARE OPTION SCHEME

(a) Old Share Option Scheme

On 11 June 2002, the Company adopted a share option scheme (the "Old Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations, which was terminated by the shareholders of the Company in the annual general meeting of the Company held on 28 May 2012 upon the adoption of the new share option scheme (the "New Share Option Scheme").

(i) A summary of the Old 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 at the end of the reporting period

117,060,539 ordinary shares, being 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.

35. SHARE OPTION SCHEME (continued)

(a) Old Share Option Scheme (continued)

(i) A summary of the Old 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

HKD1.00

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 Old Share Option Scheme would be valid and effective until 7 July 2012, after which no further options would be granted but the provisions of the Old Share Option Scheme shall remain in full force and effect in all other respects. Options complying with the provisions of the Rules Governing the Listing of Securities on the Stock Exchange which were granted during the duration of the Old Share Option Scheme and remained 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 were granted, notwithstanding the expiry of the Old Share Option Scheme.

35. SHARE OPTION SCHEME (continued)

(a) Old 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 2012

Date of grant	Vesting period	Exercise period	Adjusted exercise price per share (note i)	Number of share options: As at 1 January 2012	Expired during the year	Forfeited/ lapsed during the year (note ii)	As at 31 December 2012
Directors							
29 December 2009	Nil	From 21 January 2010 to 31 December 2012	HKD1.062	6,649,997	(6,649,997)	–	–
29 December 2009	From 21 January 2010 to 20 January 2011	From 21 January 2011 to 31 December 2013	HKD1.062	6,649,997	–	–	6,649,997
				13,299,994	(6,649,997)	–	6,649,997
Advisors							
29 December 2009	Nil	From 30 December 2009 to 31 December 2012	HKD1.062	2,518,939	(2,518,939)	–	–
29 December 2009	From 30 December 2009 to 29 December 2010	From 30 December 2010 to 31 December 2013	HKD1.062	2,518,939	–	–	2,518,939
				5,037,878	(2,518,939)	–	2,518,939
Employees (Continuous Contracts)							
29 December 2009	Nil	From 21 January 2010 to 31 December 2012	HKD1.062	23,919,964	(20,771,361)	(3,148,603)	–
29 December 2009	From 21 January 2010 to 20 January 2011	From 21 January 2011 to 31 December 2013	HKD1.062	25,703,150	–	(4,518,957)	21,184,193
				49,623,114	(20,771,361)	(7,667,560)	21,184,193
Total				67,960,986	(29,940,297)	(7,667,560)	30,353,129
Exercisable at year end							30,353,129
Weighted average exercise price				1.062	1.062	1.062	1.062

notes:

(i) All outstanding share options were granted on 29 December 2009 and their original initial exercise price is HK$1.07 per share. Upon the completion of the Open Offer on 28 March 2011 and with effect from 29 March 2011, their exercise price was adjusted to HK$1.062 per share.

(ii) During the year ended 31 December 2012, certain employees of the Group resigned. Their respective share options were forfeited accordingly.

(a) Old 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 2011

Date of grant	Vesting period	Exercise period	Adjusted exercise price per share (note i)	Number of share options As at 1 January 2011	Adjustments (note ii)	Reclassified during the year (note iii)	Forfeited during the year (note iv)	As at 31 December 2011
Directors								
29 December 2009	Nil	From 21 January 2010 to 31 December 2012	HKD1.062	6,600,000	49,997	–	–	6,649,997
29 December 2009	From 21 January 2010 to 20 January 2011	From 21 January 2011 to 31 December 2013	HKD1.062	6,600,000	49,997	–	–	6,649,997
				13,200,000	99,994	–	–	13,299,994
Advisors								
29 December 2009	Nil	From 30 December 2009 to 31 December 2012	HKD1.062	2,500,000	24,242	700,000	(705,303)	2,518,939
29 December 2009	From 30 December 2009 to 29 December 2010	From 30 December 2010 to 31 December 2013	HKD1.062	2,500,000	24,242	700,000	(705,303)	2,518,939
				5,000,000	48,484	1,400,000	(1,410,606)	5,037,878
Employees (Continuous Contracts)								
29 December 2009	Nil	From 21 January 2010 to 31 December 2012	HKD1.062	28,270,000	208,867	(700,000)	(3,858,903)	23,919,964
29 December 2009	From 21 January 2010 to 20 January 2011	From 21 January 2011 to 31 December 2013	HKD1.062	30,350,000	224,624	(700,000)	(4,171,474)	25,703,150
				58,620,000	433,491	(1,400,000)	(8,030,377)	49,623,114
Total				76,820,000	581,969	–	(9,440,983)	67,960,986
Exercisable at year end								67,960,986

notes:

(i) All outstanding share options were granted on 29 December 2009 and their original initial exercise price is HKD1.07 per share. Upon the completion of the Open Offer on 28 March 2011 and with effect from 29 March 2011, their exercise price was adjusted to HKD1.062 per share.

(ii) The number of share options was adjusted to take into account the effect of the Open Offer.

(iii) During the year ended 31 December 2011, an employee resigned from the Company and was retained as an advisor to the Group to provide advice on the Group's operation directions. Her respective share options were reclassified from the Employees' category to the Advisors' category accordingly.

(iv) During the year ended 31 December 2011, two subsidiaries were disposed of, and certain advisors and employees of the Group resigned. Their respective share options were forfeited accordingly.

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

35. SHARE OPTION SCHEME (continued)

(b) New Share Option Scheme

Pursuant to an ordinary resolution passed by the shareholders of the Company on 28 May 2012, the New Share Option Scheme with an expiry date on 27 May 2022 was adopted by the Company.

(i) A summary of the New Share Option Scheme 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 at the end of the reporting period

117,060,539 ordinary shares, being 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.

35. SHARE OPTION SCHEME (continued)

(b) New Share Option Scheme (continued)

(i) A summary of the New Share Option Scheme is as follows: (continued)

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

Subject to the discretion on issuance of board of directors.

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

Not applicable.

Amount payable on acceptance

HKD1.00

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 New Share Option Scheme will be valid and effective until 27 May 2022, 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 Rules Governing the Listing of Securities on the Stock Exchange which are granted during the duration of the scheme and remain unexercised immediately prior to 27 May 2022 shall continue to be exercisable in accordance with their terms of grant within the option period for which such options are granted, notwithstanding the expiry of the scheme.

35. SHARE OPTION SCHEME (continued)

(b) New Share Option Scheme (continued)

(i) A summary of the New Share Option Scheme is as follows: (continued)

The following table discloses details of the Company's share options granted to directors and employees under the New Share Option Scheme and movements in such holding during the year:

For the year ended 31 December 2012

				Number of share options		
Date of offer	Vesting date	Exercise period	Exercise price per share	As at 1 January 2012	Granted during the year	As at 31 December 2012
Directors						
15 June 2012	5 October 2012	From 6 October 2012 to 30 June 2016	HKD0.49	–	18,000,000	18,000,000
Employees (Continuous Contracts)						
15 June 2012	5 October 2012	From 6 October 2012 to 30 June 2016	HKD0.49	–	87,450,000	87,450,000
29 June 2012	5 October 2012	From 6 October 2012 to 30 June 2016	HKD0.49	–	450,000	450,000
Total				–	105,900,000	105,900,000
Exercisable at year end						105,900,000
Total				–	HKD0.49	HKD0.49

The fair values of the share options granted during the year ended 31 December 2012 were calculated by Vigers at RMB16,819,000 (equivalent to HKD20,642,000) using the Binominal Option Pricing pricing model which is one of the commonly used models for such purpose. 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:

Share price	HKD0.45
Exercise price	HKD0.49
Expected life	4 years
Expected volatility	73.2%
Dividend yield	0.843%
Risk-free interest rate	0.288%
Fair value per option	HKD0.1869 to HKD0.2138

Expected volatility was determined by using the historical volatility of the Company's share price. 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 behavioural considerations.

At 31 December 2012, all outstanding share options were fully vested. The Group recognized the total expense of RMB16,819,000 for the year ended 31 December 2012 in relation to share options granted by the Company.

36. CAPITAL AND OTHER COMMITMENTS

	2012 RMB'000	2011 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of:		
— construction in progress	**220,681**	208,198
— property, plant and equipment	**53,542**	64,497
— land use rights	**–**	14,400
	274,223	287,095

37. PLEDGE OF ASSETS

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

	2012 RMB'000	2011 RMB'000
Bank deposits	**779,932**	498,138
Property, plant and equipment	**20**	1,287
Investment properties	**3,651**	26,217
	783,603	525,642

As at 31 December 2012, bills receivables discounted with full recourse are amounting to RMB425,136,000 (2011: RMB232,736,000).

38. RETIREMENT BENEFITS PLANS

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute fixed percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The Group also operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong (the "MPF Scheme"). The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The total cost charged to profit or loss of approximately RMB56,534,000 (2011: RMB55,725,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

39. NON-CASH TRANSACTIONS

During the year ended 31 December 2012, deposits paid for acquisition of property, plant and equipment and prepaid lease payment of approximately RMB132,809,000 (2011: RMB183,229,000) and nil (2011: RMB40,000,000), respectively, were transferred to property, plant and equipment.

40. OPERATING LEASES

The Group as lessor

Machinery rental income earned during both years are as disclosed in note 6. At 31 December 2012 and 2011, all machineries held had no committed lessee.

Properties rental income earned during the year was RMB206,000 (2011: RMB678,000). One of the Group's investment properties is held for rental purpose. It is expected to generate rental yields of 3% on an ongoing basis. The property held has committed tenants for the next 2 years (2011: Nil).

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

	2012 RMB'000	2011 RMB'000
Within one year	**117**	–
In the second to fifth year inclusive	**68**	–
	185	–

The Group as lessee

Minimum lease payments made under operating leases during the year was RMB42,735,000 (2011: RMB39,094,000).

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:

	2012 RMB'000	2011 RMB'000
Within one year	**32,944**	36,312
In the second to fifth year inclusive	**60,099**	950
	93,043	37,262

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

41. RELATED PARTY DISCLOSURES

(i) Related party transactions

Company	Transactions	2012 RMB'000	2011 RMB'000
SGMW	Sales by the Group (note 5b)	**8,151,598**	8,177,510
	Purchases of materials by the Group	**1,923,957**	1,948,559
	Warranty costs incurred by the Group	**22,744**	44,229
Liuzhou Wuling Group	Sales of raw materials and automobile components by the Group	**146,021**	138,335
	Purchase of automobiles component and other accessories by the Group	**69,864**	60,730
	Purchases of mini passenger buses by the Group	**159,973**	89,397
	Purchase of air-conditioning parts and accessories by the Group	**3,468**	1,779
	License fee paid by the Group	**3,300**	3,300
	Rental expenses paid by the Group (see vii below)	**29,175**	30,204
	Procurement services of water and power by the Group	**1,223**	1,872
	Purchases of electronic devices and components by the Group	**3,477**	1,783
	Interest expenses paid by the Group	**4,517**	3,737

(ii) Related party balances

Details of the Group's outstanding balances with related parties are set out in notes 24, 27 and 28.

(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, pursuant to which Liuzhou Wuling utilized approximately RMB117,319,000 of such banking facilities as at 31 December 2011. In the opinion of the directors of the Company, the fair value of the financial guarantee contract was insignificant.

Such guarantee was released during the year ended 31 December 2012.

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

41. 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:

	2012 **RMB'000**	2011 RMB'000
Short-term benefits	**6,429**	7,111
Post-employment benefits	**299**	387
Equity-settled share-based payments	**3,456**	184
	10,184	7,682

(v) Convertible loan notes

Details of convertible loan notes issued to Wuling HK in 2009 are set out in note 30.

(vi) Disposal of subsidiaries

Details of the disposal of Jenpoint Limited and Dragon Hill Financial Services Holdings Limited to Dragon Hill Holdings Limited, a company wholly owned by Mr. Lee, are set out in note 45.

(vii) Commitments

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

	2012 **RMB'000**	2011 RMB'000
Within one year	**29,498**	30,204
In the second to fifth year inclusive	**58,996**	–
	88,494	30,204

42. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which includes the amounts due to shareholders and bank and other borrowings as disclosed in notes 28 and 31 respectively, 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.

43. FINANCIAL INSTRUMENTS

(i) Categories of financial instruments

	2012 RMB'000	2011 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**7,613,507**	7,224,662
Available-for-sale financial assets	**–**	360
Held-for-trading investments	**–**	5
Financial liabilities		
Amortised cost	**8,822,344**	8,019,485
Fair value through profit or loss	**7,534**	18,843

(ii) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bills receivables discounted with recourse, pledged bank deposits, bank balances, trade and other payables, amounts due to shareholders, obligation under finance leases, bank and other borrowings, 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 included market risk (currency risk and interest rate risk), credit risk and liquidity risk. 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.

The other price risk is considered minimal because the parameters (i.e. share price and volatility) used in determine the fair value of derivative are relatively stable close to the end of the reporting period. Thus there should not be any significant impact to the fair value of derivative and hence no disclosure of other price risk is added.

43. 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 foreign currency at the end of the reporting period is as follows:

	Assets		Liabilities	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
HKD	**18,353**	17,532	**183,387**	194,238
Euro	**–**	–	**1,581**	2,646

Sensitivity analysis

The Group is mainly exposed to HKD and Euro.

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. A positive number below indicates an increase in post-tax profit where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit and the balances below would be negative.

	2012 RMB'000	2011 RMB'000
Impact on post-tax profit or loss		
— HKD	**7,014**	7,510
— Euro	**67**	112
	7,081	7,622

43. 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 amounts due to shareholders, 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 Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the lending rate quoted by the People's Bank of China arising from the Group's RMB denominated borrowings.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates on its variable rate borrowings and bank overdrafts 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 post-tax profit for the year ended 31 December 2012 would increase by RMB96,000 (2011: decrease by RMB804,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

43. FINANCIAL INSTRUMENTS (continued)

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

(c) Credit risk

As at 31 December 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from the carrying amounts of respective recognized financial 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 41.

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.

The Group has no significant concentration of credit risk other than in relation to the amount due from SGMW (note 24) which represents 68% (2011: 63%) of the total trade and bills receivables as at 31 December 2012. For both years, SGMW, which is a well known private company engaging in the business of manufacturing and sales of automobiles in Guangxi, the PRC, has good financial position by reference to its respective financial statements, which are regularly reviewed by the Company's directors. SGMW has good repayment history and credit quality with reference to the track records under internal assessment by the Group. In view of the significant balance due from SGMW, the Group has kept regular contact with SGMW for updated information. In addition, as the Group has representation in the board of directors of SGMW, the Group can access the up-to-date information of SGMW. In this regard, the Group believes that it can take prompt action to recover the trade debt due from SGMW should the need arise.

In addition, the Group is exposed to concentration credit risk on the deposits for acquisition for land use rights and property, plant and equipment. Including in deposits for acquisition for land use rights and property, plant and equipment represents an amount of RMB25,200,000 and RMB14,240,000, respectively, paid to an independent third party, whose holding company is a private well known automobile mold manufacturing company in Taiwan, supplying automobile mold to internationally well known customers in automobile industry. Furthermore, the acquisition was completed in February 2013 and such deposits would be classified to the land use rights and the appropriate category of property, plant and equipment. In this regard, the directors of the Company believe that the Group's exposure is significantly reduced.

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

43. FINANCIAL INSTRUMENTS (continued)

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

(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 utilization 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 at the end of the reporting period.

	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	More than 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
2012								
Non-derivative financial liabilities								
Trade and other payables	–	4,793,256	2,295,552	–	–	–	7,088,808	7,088,808
Amounts due to shareholders								
— fixed rate	5.50	–	–	–	89,092	–	89,092	82,996
— non-interest bearing	–	170,962	–	–	443,327	–	614,289	614,289
Bank borrowings								
— fixed rate	5.51	2,335	164,932	361,654	1,102	–	530,023	508,580
— variable rate	3.42	15,518	7,962	–	–	–	23,480	22,941
Convertible loan notes	6.00	4,889	–	–	86,375	–	91,264	81,869
Other borrowings								
— Advances drawn on bills receivables discounted with recourse	4.19	222,902	202,234	–	–	–	425,136	422,861
		5,209,862	2,670,680	361,654	619,896	–	8,862,092	8,822,344

43. 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	More than 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
2011								
Non-derivative financial liabilities								
Trade and other payables	–	4,889,268	663,959	47,143	–	–	5,600,370	5,600,370
Amounts due to shareholders								
— fixed rate	4.50	–	–	–	88,163	–	88,163	81,927
— non-interest bearing	–	577,979	–	–	244,837	–	822,816	822,816
Bank borrowings								
— fixed rate	6.51	5,495	402,319	642,813	1,879	–	1,052,506	1,012,646
— variable rate	6.24	39,930	1,928	130,763	7,223	19,864	199,708	185,275
Other borrowings								
— Advances drawn on bills receivables discounted with recourse	4.17	170,699	62,846	–	–	–	233,545	232,736
Bank overdrafts								
— variable rate	5.00	5,138	–	–	–	–	5,138	5,117
Obligations under finance leases	4.80	6	14	58	–	–	78	74
Convertible loan notes	6.00	5,284	–	–	98,637	–	103,921	78,524
		5,693,799	1,131,066	820,777	440,739	19,864	8,106,245	8,019,485
Financial guarantee contracts		–	–	200,000	–	–	200,000	–

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 2012, the aggregate undiscounted principal amounts of these bank loans amounted to RMB1,064,000. Taking into account the Group's financial position, the directors did not believe that it was probable that the banks would exercise their discretionary rights to demand immediate repayment. The directors believed that such bank borrowings would 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 would amount to RMB1,357,000. As at 31 December 2011, all bank borrowings did not contain a repayment on demand clause.

At 31 December 2011, the amounts included above for financial guarantee contracts were the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount was claimed by the counterparty to the guarantee. Based on expectations at the end of that reporting period, the Group considered it was not probable that the amount would be payable under the arrangement. However, this estimate was subject to change depending on the probability of the counterparty claiming under the guarantee which was a function of the likelihood that the financial receivables held by the counterparty which were guaranteed suffer credit losses.

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

(d) Liquidity risk (continued)

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if actual changes in variable interest rates differ to those estimated 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 (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

- the fair value of derivative financial instrument is calculated using the inputs disclosed in note 30 by the Binominal Option Pricing Model.

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

Fair value measurements recognized 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).

43. FINANCIAL INSTRUMENTS (continued)

(iii) Fair value (continued)

Fair value measurements recognized in the statement of financial position (continued)

- 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 31.12.2012			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Financial assets at FVTPL				
Held-for-trading investments	–	–	–	–
Financial liabilities at FVTPL				
Derivative financial instrument	–	–	**7,534**	**7,534**

	At 31.12.2011			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at FVTPL				
Held-for-trading investments	5	–	–	5
Financial liabilities at FVTPL				
Derivative financial instrument	–	–	18,843	18,843

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

44. ACQUISITION OF A SUBSIDIARY

On 31 March 2012, the Group acquired 75% equity interest in Jilin Chuofeng (the "Acquisition") which is principally engaged in the manufacture of combustion engines, for expansion of the Group's engines and related parts business in the northern region of the PRC, for the consideration of RMB26,450,000.

Details of the consideration transferred, assets acquired and liabilities assumed relating to the Acquisition are set out below.

	notes	RMB'000
Consideration transferred		
Cash		23,000
Deferred consideration	(i)	3,450
Total consideration		26,450
Assets and liabilities recognized at the date of acquisition		
Current assets		
Inventories		34,374
Trade and other receivables	(ii)	30,416
Pledged bank deposits		8,925
Bank balances and cash		4,928
Non-current assets		
Property, plant and equipment		28,235
Prepaid lease payments		22,605
Current liabilities		
Trade and other payables		(70,714)
Bank borrowings		(23,000)
Non-current liabilities		
Deferred tax liabilities		(7,505)
		28,264
Non-controlling interest	(iii)	(7,066)
		21,198
Goodwill arising on acquisition	(iv)	5,252
Net cash outflow arising on acquisition		
Consideration paid in cash		23,000
Less: cash and cash equivalents acquired		(4,928)
		18,072

44. ACQUISITION OF A SUBSIDIARY (continued)

notes:

(i) In the opinion of directors, the Group will settle the consideration within 1 year after the end of the reporting date upon the fulfillment of certain minor clauses in connection with the Acquisition.

(ii) The receivable acquired (which principally comprised trade receivables) with a fair value of RMB30,416,000 at the date of acquisition had gross contractual amounts of RMB30,416,000.

(iii) The non-controlling interests (25%) in Jilin Chuofeng recognized at the acquisition date was measured by reference to the proportionate share of recognized amounts of net assets of Jilin Chuofeng.

(iv) Goodwill arose on the acquisition of Jilin Chuofeng because the acquisition included the assembled workforce of Jilin Chuofeng and prospective new customers as at the date of acquisition. These assets could not be separately recognized from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts.

No part of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

(v) Acquisition-related costs of RMB108,000 were excluded from the cost of acquisition and were recognized directly as an expense in the current year.

(vi) Included in the profit for the current year is loss of RMB18,000 attributable to Jilin Chuofeng. Revenue of the Group for the current year includes RMB116,770,000 attributable to Jilin Chuofeng.

Had the acquisition of Jilin Chuofeng been completed on 1 January 2012, the Group's total revenue and profit for the year ended 31 December 2012 would have been RMB11,865,190,000 and RMB96,144,000, respectively. The proforma information is for illustrative purposes only and is not necessarily an indication of the Group's revenue and results of operations that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Jilin Chuofeng been acquired at the beginning of the current year, the directors calculated depreciation and amortization of plant and equipment based on the recognized amounts of plant and equipment at the date of the acquisition.

45. DISPOSAL OF SUBSIDIARIES

(i) During the year ended 31 December 2012, the Group entered into an agreement with Dragon Hill Holdings Limited ("DH Holdings") to dispose of its 100% equity interest in Jenpoint Limited ("Jenpoint") and Dragon Hill Financial Services Holdings Limited ("DHFS"), which are principally engaged in property investment, for a cash consideration of HKD6,000,000 (equivalent to RMB4,890,000). DH Holdings is a company wholly owned by Mr. Lee Shing.

The disposal was completed on 28 May 2012, on which date the Group lost control over DHFS and Jenpoint.

The net assets of Jenpoint and DHFS at the date of disposal were as follows:

	RMB'000
Analysis of assets and liabilities over which control was lost:	
Investment properties	26,411
Properties, plant and equipment	1,326
Other receivables	95
Bank balances and cash	15
Bank borrowings	(24,266)
Other payables and accruals	(122)
Deferred tax liabilities	(32)
	3,427
Reclassification of cumulative exchange reserve upon disposal to profit or loss	(247)
	3,180
Gain on disposal	1,710
Total consideration	4,890
Net cash inflow arising on disposal:	
Total cash consideration received	4,890
Bank balances and cash disposed of	(15)
	4,875

The subsidiaries disposed of during the year did not contribute significantly to the results and cash flows of the Group during the period prior to the disposal.

45. DISPOSAL OF SUBSIDIARIES (continued)

(ii) On 23 May 2011, the Group entered into a conditional sale and purchase agreement with an independent third party, to dispose of certain subsidiaries that were engaged in security dealing and margin finance operations for a cash consideration of HKD4,500,000 (equivalent to approximately RMB3,737,000). The disposal was completed in July 2011.

The aggregate amounts of the assets and liabilities attributable to these subsidiaries on the date of disposal were as follows:

	RMB'000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	157
Intangible assets	300
Deposits for trading rights	170
Loan receivables	437
Trade and other receivables	1,823
Client trust bank accounts	2,298
Bank balances and cash	3,246
Trade and other payables	(4,634)
Net assets disposed of	3,797
Loss on disposal of subsidiaries:	
Consideration received and receivable	3,737
Net assets disposed of	(3,797)
Cumulative exchange differences in respect of the net assets of the subsidiaries reclassified from equity to profit or loss on disposal of subsidiaries	33
Loss on disposal	(27)
Net cash inflow arising on disposal:	
Cash consideration	3,737
Less: bank balances and cash disposed of	(3,246)
	491

The subsidiaries disposed of during that year did not contribute significantly to the results and cash flows of the Group during the period prior to the disposal.

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The financial information of the Company as at 31 December 2012 and 2011 are as follows:

	notes	2012 RMB'000	2011 RMB'000
TOTAL ASSETS			
Property, plant and equipment		**342**	71
Unlisted investment in subsidiaries		**494,820**	481,181
Prepayments and deposits		**677**	556
Amounts due from subsidiaries		**3**	1,123
Cash and cash equivalents		**17,384**	16,957
		513,226	499,888
TOTAL LIABILITIES			
Other payables and accruals		**2,607**	2,498
Amounts due to subsidiaries		**69,161**	100,630
Amount due to shareholders		**82,996**	83,169
Derivative financial instrument		**7,534**	18,843
Convertible loan notes		**81,869**	78,524
Bank borrowings		**11,947**	43,289
		256,114	326,953
NET ASSETS		**257,112**	172,935
CAPITAL AND RESERVES			
Share capital		**4,524**	4,524
Reserves	(i) & (ii)	**252,588**	168,411
TOTAL EQUITY		**257,112**	172,935

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

notes:

(i) Reserves

	Share premium account RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Retained profit (accumulated losses) RMB'000	Total RMB'000
At 1 January 2011	343,142	156,053	25,981	(528,202)	(3,026)
Profit and total comprehensive income for the year	–	–	–	56,904	56,904
Issue of shares upon open offer (Note 34)	126,081	–	–	–	126,081
Share issue expenses	(2,693)	–	–	–	(2,693)
Share premium reduction (note ii)	(466,530)	466,530	–	–	–
Set-off contributed surplus against accumulated losses (note ii)	–	(528,202)	–	528,202	–
Recognition of equity settled share-based payments	–	–	878	–	878
Forfeit of share options	–	–	(3,113)	3,113	–
Dividend recognized as distribution	–	–	–	(9,733)	(9,733)
At 31 December 2011	–	94,381	23,746	50,284	168,411
Profit and total comprehensive income for the year	–	–	–	72,129	72,129
Recognition of equity settled share-based payments	–	–	16,819	–	16,819
Forfeit/lapse of share options	–	–	(12,234)	12,234	–
Dividend recognized as distribution	–	–	–	(4,771)	(4,771)
At 31 December 2012	–	94,381	28,331	129,876	252,588

The Company's contributed surplus represents (a) 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; (b) 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; and (c) the transfer of the credit arising from the share premium and the absorption of accumulated losses on 27 May 2011.

(ii) Pursuant to a special resolution passed at the annual general meeting of the Company on 27 May 2011, (a) the entire amount outstanding to the credit of the share premium account of the Company was reduced to nil; (b) the credit arising from the Share Premium Reduction was transferred to the contributed surplus account of the Company; and (c) a sum of approximately HKD627,504,000 (equivalent to approximately RMB528,202,000) in the contributed surplus account of the Company was applied to set off against the accumulated losses of the Company.

47. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2012 and 2011 are as follows:

Name of subsidiary	Cost of shares held	Place and date of establishment/ incorporations	Nominal value of issued capital/ registered capital/ fully paid capital	Interest holdings 2012		Interest holdings 2011		Principal activities
				Direct %	Indirect %	Direct %	Indirect %	
Wuling Industrial	N/A	The PRC 30 October 2006 (note iii)	RMB960,000,000	**50.98 (note i)**	**–**	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	N/A	The PRC 16 June 1993 (note iii)	RMB100,120,000	**–**	**50.98 (note ii)**	–	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 ("Wuling United")	N/A	The PRC 25 December 2001 (note iii)	RMB100,000,000	**–**	**50.97 (note ii)**	–	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 Specialised Vehicles Manufacturing Company Limited ("Wuling specialised Vehicles")	N/A	The PRC 10 December 2003 (note iii)	RMB15,000,000	**–**	**49.98 (note ii)**	–	49.98 (note ii)	Manufacture and sale of special vehicles
無錫五菱動力機械有限責任公司	N/A	The PRC 15 July 2005 (note iii)	RMB6,000,000	**–**	**26 (note ii)**	–	26 (note ii)	Manufacture and sale of accessories of motor vehicles
泰興市菱迪機械有限公司	N/A	The PRC 28 March 2004 (note iii)	RMB3,000,000	**–**	**26 (note ii)**	–	26 (note ii)	Manufacture and sale of engines
柳州長鵬汽車零部件有限公司	N/A	The PRC 27 June 2012 (note iii)	RMB15,000,000	**–**	**26 (note ii)**	–	26 (note ii)	Manufacture and sale of accessories of motor vehicles
吉林綿豐柳機內燃機有限公司 (note v)	N/A	The PRC 31 March 2012 (note iii)	RMB38,000,000	**–**	**38.24 (note ii)**	–	–	Manufacture and sale of combustion engines
Hilcrest Limited	Ordinary	British Virgin Islands/ Hong Kong	US$1	**100**	**–**	100	–	Property investment
Watary Investments Limited	Ordinary	British Virgin Islands/ Hong Kong	US$36,000	**100**	**–**	100	–	Investment holding

47. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Cost of shares held	Place and date of establishment/ incorporations	Nominal value of issued capital/ registered capital/ fully paid capital	Interest holdings 2012		Interest holdings 2011		Principal activities
				Direct %	Indirect %	Direct %	Indirect %	
DHFS (note iv)	Ordinary	British Virgin Islands/ Hong Kong	HKD2,500,000	–	–	100	–	Investment holding
Dragon Hill Credit Limited (note iv)	Ordinary	Hong Kong	HKD10,000,000	–	–	–	100	Money lending
Dragon Hill (HK) Limited	Ordinary	Hong Kong	HKD10	–	100	–	100	Trading of marketable securities
DH Corporate Services Limited	Ordinary	Hong Kong	HKD2	–	100	–	100	Provision of administrative services
Jenpoint (note iv)	Ordinary	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 2012 of the Company and Liuzhou Wuling in Wuling Industrial were 50.98% and 49.02%, respectively (2011: 50.98% and 49.02%).

(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) The subsidiaries are disposed during the year.

(v) The subsidiary is acquired during the year.

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

(vii) The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

48. EVENTS AFTER THE REPORTING PERIOD

In February 2013, the acquisition of certain land use rights, production facilities and related assets from a third party, Qingdao Lianheng Automotive Components Co. Limited, was completed and the relevant ownership certificates of the properties were obtained as disclosed in notes 21 and 22.

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

Nomination Committee

Mr. Yu Xiumin *(Chairman)*
Mr. Zuo Duofu
Mr. Ye Xiang
Mr. Sun Shaoli
Mr. Lee Shing

Company Secretary

Mr. Lai Shi Hong Edward

Principal Bankers

Bank of China
Bank of Communications
Hang Seng Bank Limited

Auditors

Deloitte Touche Tohmatsu

Solicitor

Sidley Austin

Head Office and Principal Place of Business in Hong Kong

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Registered Office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Principal Share Registrar and Transfer Agent

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM11
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

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