LONKING 龙工

LONKING HOLDINGS LIMITED

中國龍工控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3339)

* For identification purpose only

Annual Report 2008

Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors

Mr. Li San Yim *(Chairman)*
Mr. Qiu Debo *(Chief Executive Officer)*
Mr. Luo Jianru
Dr. Mou Yan Qun
Mr. Chen Chao
Mr. Lin Zhong Ming

Non-executive directors

Ms. Ngai Ngan Ying
Ms. Fang De Qin

Independent non-executive directors

Prof Wang Fanghua
Dr. Qian Shizheng
Mr. Han Xue Song

AUDIT COMMITTEE

Dr. Qian Shizheng *(Chairman)*
Prof Wang Fanghua
Ms. Fang De Qin

REMUNERATION COMMITTEE

Mr. Han Xue Song *(Chairman)*
Dr. Qian Shizheng
Ms. Ngai Ngan Ying

EXECUTIVE COMMITTEE

Mr. Qiu Debo *(Chairman)*
Mr. Li San Yim
Mr. Luo Jianru
Dr. Mou Yan Qun
Mr. Chen Chao
Mr. Lin Zhong Ming

QUALIFIED ACCOUNTANTS AND COMPANY SECRETARY

Mr. Lam Yiu Pang, *HKICPA, ACA (Aust)*

HEAD OFFICE

No. 26 Mingyi Road, Xinqiao,
Songjiang Industrial,
Shanghai (201612), PRC

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

INVESTOR RELATIONS

Ms. Rosia Lin
Ldm@lonking.cn

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 3413, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

WEBSITE

http://www.lonking.cn

STOCK CODE

3339

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
Box 705, George Town
Grand Cayman, KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1806-1807, 18/F, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

SOLICITORS

Sidley Austin
39/F, Two International Finance Centre
8 Finance Street Central, Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

PRINCIPAL BANKERS

Bank of China
Longyan Branch
Bank of China Tower
No. 1 Longchuan Bei Road Longyan City
Fujian, PRC

China Construction Bank
Shanghai Songjiang Branch
No. 89 Zhongshan Zhong P.O. Road
Songjiang District
Shanghai, PRC

Financial Highlights

The table below sets forth the consolidated financial summary of China Infrastructure Machinery Holdings Ltd (the "Company") and its subsidiaries (hereinafter collectively referred as to the "Group").

Current period	**2008 RMB'000**	2007 RMB'000	Change (+/–)
Turnover	**6,144,788**	5,308,624	+15.75%
Operating profits:			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**844,903**	790,691	+6.18%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**893,039**	795,744	+12.23%
EBITDA			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**940,008**	856,023	+9.81%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**988,144**	861,076	+14.76%
Profit attributable to equity parent	**665,594**	629,616	+5.71%

Per share data	**RMB**	RMB	
Basic earnings per share(1)#			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**0.57**	0.58	–1.72%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**0.62**	0.59	–5.08%
Net assets per share(2)#	**2.92**	2.63	+11.03%

Financial Highlights

Key performance indicators	%	%	
Profitability			
Overall gross margin	**19.11**	22.45	–3.34%
Net profit margin			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**10.05**	11.76	–1.71%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**10.83**	11.86	–1.03%
EBITDA margin(3)			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**15.30**	16.13	–0.83%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**16.08**	16.22	–0.14%
Return on equity(4)	**21.07**	22.35	–1.28%
Liquidity and solvency			
Current ratio(5)	**2.04**	2.78	–26.62%
Interest coverage ratio(6)			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**5.46**	7.08	–22.88%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**5.77**	7.13	–19.07%
Gross debt-to-equity ratio(7)	**67.77**	66.03	+1.74%

Management efficiency	days	days	
Inventory turnover days(8)	**141**	108	+33 days
Trade and bills payables turnover days(9)	**89**	73	+16 days
Trade and bills receivable turnover days(10)	**42**	53	–11 days

Financial Highlights

#	Calculated based on the 1,081,419,000 shares outstanding as at 31 December 2008 (31 December 2007: 1,072,809,000).
1	Net profit attributable to equity holders of the parent for each period divided by the weighted average number of outstanding shares (WANOS) as at the end of each period.
2	Shareholders' equity divided by the WANOS as at the end of each period.
3	Earnings before interest, tax, depreciation and amortisation ("EBITDA") divided by turnover for each period.
4	Net profit attributable to equity holders of the parent for each period divided by equity attributable to equity shareholders of the parent as at the end of each period.
5	Current assets divided by current liabilities as at the end of each period.
6	Earnings before interest and income tax expenses ("EBIT") divided by interest expenses.
7	Interest-bearing debt for each period divided by the total equity as at the end of each period.
8	Average inventories divided by cost of sales and multiplied by 365 days.
9	Average trade and bills payables divided by cost of sales and multiplied by 365 days.
10	Average trade and bills receivables divided by turnover and multiplied by 365 days.

Chairman's Statement

On behalf of the board of directors (the "Board"), I am pleased to present the annual report of China Infrastructure Machinery Holdings Limited (the "Company" or "China Longgong") for the year ended 31 December 2008.

REVIEW OF BUSINESS

As a result of the global economic recession arising from the international financial crisis, the construction machinery industry experienced a drastic turnaround in 2008, from overheated demand and sharp rises in the cost of raw materials in the first half to rapidly shrinking demand in the second half especially the fourth quarter, hurting the whole industry badly. Despite the complicated and changing external environment, we managed to achieve good results by overcoming all the difficulties through joint efforts. The overall business of the Company showed outstanding development with encouraging performance in 2008. In 2008, achievements of China Longgong included the followings: manufacture and sales of loaders, road rollers, excavators and fork lifts reached 30,000 units; quality and output of great-box, axle, hydraulic cylinder, gear, pipe and other parts improved significantly; the strategy of vertical integration had been implemented continually; export increased rapidly, and sales networks in Russia, Middle East, Australia and Africa had been successfully established and consolidated; the Company was the first within the industry to announce to implement 24-hour service compensation system, and such pioneering action in the industry not only will enhance the competitive strengths of China Longgong's products, but also raise the brand awareness and reputation of China Longgong. The research and development capability of the Company was further strengthened in 2008. New products were launch successfully, including loaders and road rollers of several dozens of different models, bringing remarkable sales for the year. The sales of loader, our key product, secured its leading position within the industry, and products series of fork lifts and excavators were launched and commenced large scale of sales. Sales of fork lifts and excavators were increased significantly, and thus these products became our new stars which had drawn attention from the industry. These efforts have, to some extent, changed the situation that Longgong relied upon loader, its single product. In 2008, the Company's technology enhancements and expansion in Shanghai, Fujian, Jiangxi and Henan were completed and ready for operation, laying a good foundation for the development of China Longgong in the future. The Company's overall strength has been significantly enhanced, with product sales, realized profits, tax paid and employee income hitting record high level. Both the management team and employees demonstrated full confidence and great passion.

Since its listing, China Longgong has strived to maintain transparency and improve standards of corporate governance. We have established and maintained good communication with our investors, who recognize the broad development strategies of the Company and are confident of the Company's future development.

For the year ended 31 December 2008, annual turnover of the Company was RMB6,144,788,000, up 16% over the corresponding period of the previous year. Net profit attributable to shareholders of the Company amounted to RMB665,492,000.

Chairman's Statement

2009 will be a more difficult year for the world's economy. The Company will face increasingly challenging external environments. As such, China Longgong shall proactively respond to the economic crisis and aim to its future development. I believe that China Longgong faces more opportunities than challenges and it will be able to turn crisis into opportunities should we calmly fend off the crisis by performing the Company's internal work in steady progress.

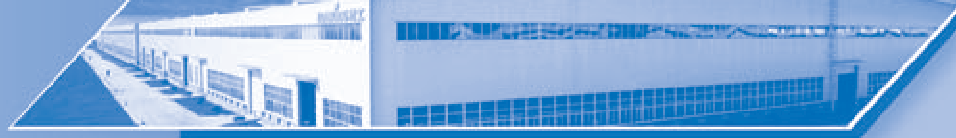
The central government regards the steady and fast economic growth as its priority and introduced a series of measures including the RMB4 trillion stimulus package to stimulate economic growth, aiming to maintain a GDP growth of approximately 8%. Currently, the package of measures introduced by the State, such as expanding domestic demands and enlarging the scale of investments in fixed assets, has significantly driven the development of construction machinery industry. In an overall perspective, as the State made substantial investments in high-speed railways, highways, harbours, the development of western regions, the construction of towns and new villages, large sized energy projects, the reconstruction of the earthquake-hit disaster areas in Sichuan, etc., demands for construction machinery will progressively restore and expand. Therefore, China's construction machinery industry will maintain a certain growth rate in the long run.

During the course of its long-term development, the Company has secured a number of outstanding competitive advantages: a leading market position and brand awareness; strategic geographical locations; the operation model of vertical integration; a powerful distribution and service network covering the whole nation; strong research and development capabilities; the advantage of a high performance-price ratio for its products; experienced management team and effective operation mechanism; and all these have proven their merits. The Company will make the best of its existing competitive advantages to strengthen every details of its value chain from research and development to purchasing, manufacture, sale, service and end-users, making it extend and develop to the largest extent. The Company will also carry out effective control on costs of administration, purchasing, operation, etc., so as to improve its operating efficiency and grasp every opportunity to obtain impressive results in industry consolidation and future development and to maximize the returns to our shareholders.

CORPORATE STRATEGY

In order to ensure the future sustainable development of the Company, we have formulated a diversified strategy focusing on construction machinery, with emphasis on cost control, enhancement of research and development of our products, expansion of new markets, expansion of sales and service network, and development of overseas market. Our aim is to become one of the global leading manufacturers of construction machinery through continuous growth and improvement of profitability.

Cost control. The Company mitigates cost pressure brought by rise in costs of raw materials through economies of scale and improvement of internal management so that the gross profit margin of the Company will maintain at a leading level in the industry.



Chairman's Statement

Enhancement of product research and development. The Company will increase its investment in technology research institutes, and engage more professionals to join our research and development team by leveraging on the opportunity emerged from the global financial crisis. It will also strengthen its cooperation with international professional institutions and renowned universities in order to develop more loaders, road rollers, excavators, forklifts and other machinery products that meet the various needs of our customers, bringing more series and diversification for our products. In particular, the Company will intensify its efforts in research of bottleneck products, so as to achieve some breakthroughs.

Market expansion for new products. New products including excavators, fork lifts and road machineries are new sources of growth for the future development of Lonking. The Company will strengthen its efforts to expand the market for these products. It will also continue to increase the market share of these products and increase their gross profit margin.

Intensifying establishment of distribution and after-sales service network. In order to obtain more market shares, the Company will continue to increase investment in its distribution and service network, encourage and support the distribution agents to grow and develop and become our exclusive sales agents and loyal partners. The Company will also expand sales service network of excavators and fork lifts.

Expansion of overseas markets. Export of our products, which recorded a fast growth in the first half of 2008, suffered a sharp fall in the second half due to the negative impact caused by the financial crisis on overseas markets. The Company will actively carry out research and development on new products that meet the demands of various overseas markets, and establish a sound overseas distribution agent network. With market risk under proper control, the Company will promote the Longgong brand to the global market making use of the high performance-price ratio of our products and our excellent service and attain the leap-forward development of our overseas business.

We are honoured to have a professional Board, an experienced and diligent management team, and industrious and intelligent employees. I wish to take this opportunity to express my sincere gratitude to all directors and employees for their assiduous efforts. We will do our utmost to recruit talents to realize the sustainable development of China Longgong.

As always, China Longgong will strive to become a leading manufacturer in construction machinery industry, attain sustainable growth and maintain profitability, and exert all our efforts to create the greatest value for our customers and bring the best returns to our shareholders.

Li San Yim
Chairman

8 April 2009

Management Discussion and Analysis

RESULT AND BUSINESS REVIEW

During the year under review, the Group maintained the competitiveness in the infrastructure machinery industry with its continuous efforts in enhancing LONKING brand promotion. In spite of the global financial crisis and its effect upon the PRC's economy, revenue of the Group was approximately RMB6,145 million, representing an increase of 15.75% over last year (2007: approximately RMB5,309 million). Operating profit showed a significant raise of 12.23% to approximately RMB893 million as compared to approximately RMB796 million last year. Net profit grew steadily and increased to RMB665 million, an increase of 5.73% as compared to that of previous year. However, the overall gross profit margin decreased from 22.45% to 19.11% as a result of the continuous and significant increase in the major production costs of steel while the lower gross margin new products representing an increasing percentage of our total turnover.

GEOGRAPHICAL RESULT

During the year, the Group maintained a stable regional market structure in all areas' revenue as compared to last year. The northern regions of PRC continuously made the largest contribution with nearly 36% (2007: 34%) of our total turnover for the year. The sales from north western and south western regions increased around 19%, representing 27% of our total turnover for the year which was as same as last year. The central, southern and north eastern regions represented approximately 23% of our total turnover for the year (2007: 22.60%). The overseas market amounted to approximately RMB352 million, representing an increase of nearly 23% as compared to the corresponding period last year (2007: approximately 287 million).

ANALYSIS OF PRODUCTS

Wheel Loaders

During the year, the extreme volatility of global economic conditions affected the PRC mining and construction industry, resulting in a slower demand in three principal series of wheel loader. Revenue generated from ZL50 showed an increase of 7.20% while revenue generated from ZL40 and ZL30 showed an decrease of 18.99% and 5.09% respectively. However, the sales from mini wheel loader recorded an outstanding performance with 61.17% increase as compared with the corresponding period of last year due to an increasing market demand in this lower-price but practical product. The revenue generated from wheel loader represent approximately 86% of total Group's turnover which was 7% lower than that of last year (2007: approximately 93% of total Group's turnover). It was because that the company increased marketing effort of other core products such as excavators, road roller and fork lifts.

Management Discussion and Analysis

Excavators

Excavator is the new product launched in the second half year of 2007 and became one of major products this year with our continuous Research and Development (R & D) effort. The operating revenue from excavators amounted to RMB223 million for the year ended 31 December 2008, or an sharply increase of 1,609% from last year. We will continue our efforts in improvement of this product's design and technology while good pricing strategy at the same time to maintain our competitive advantage in this yield.

Road Roller and Fork Lifts

Turnover from road roller and fork lifts increased sharply of 68.68% and 153.21% respectively since these two series have been widely realised and recognised by the market this year.

Other Construction Machineries and Components

Sales from harvester and land leveler represent nearly 1.27% of the Group's total revenue. Particularly, through the consistent efforts in the customer's oriented design improvement, the overseas customers have responded positively to the land leveler. Sales from land leveler contributed a higher gross margin of 23.78% as compared of 20.49% last year. Revenue generated from components sales amounted to approximately RMB235 million for the year, representing 33% increase when compared with the same period in 2007. Sales of components this year contributed a higher gross margin of 20.42% compared with that of 2007 in 16.33%.

FINANCIAL REVIEW

Cash and Bank Balance

The Group maintained a sound cash position during the year. As at 31 December 2008, the Group had bank balances and cash of approximately RMB894,507,000 (31 December 2007: approximately RMB478,064,000) and pledged bank deposit of approximately RMB204,488,000 (31 December 2007: approximately RMB109,053,000) secured for banking facilities granted to the Group in respect of purchases of raw materials for manufacturing. The pledged deposit balance at 31 December 2008 increased approximately RMB95 million was mainly due to the Group used banker issued bill widely and popularly for payment as a result of increase of raw materials and importing equipment purchase.

Compared with last year, the cash and bank balance increased about RMB417 million, which is generated as a result of net cash outflow of around RMB86 million from operating activities, net cash inflow of RMB162 million from investing activities, net cash inflow of RMB358 million from financing activities and RMB18 million loss of foreign exchange rate changes arising from foreign currency denominated cash and bank balances.

Management Discussion and Analysis

Liquidity and Financial Resources

The Group still maintained a comparatively strong financial position. Total shareholders funds as at 31 December 2008 were approximately RMB3,159 million, a 12% increase from approximately RMB2,817 million as at 31 December 2007.

The current ratio of the Group at 31 December 2008 was 2.04 (31.12.2007: 2.78). The inventory turnover increased to 144 days (31.12.2007: 107 days) due to the slow down of sales of products in last quarter of 2008 with the impact of global economic recession. The Directors believed that the Group will be in a strong and healthy position and has sufficient resources in support of its working capital requirement and meet its foreseeable capital expenditure.

Capital Structure

During the year, the company repurchased and cancelled 19,025,000 shares, under the general mandate granted to the Directors at the annual general meeting of the Company held on 26 April 2007 ("Repurchase Mandate"), of HKD0.10 for a consideration of approximately HKD94 million (Equivalent to approximately RMB83 million).

In view of the conditions of stock market, the Directors believe that it was in the best interest of the Company and the shareholders for the Directors to had a general authority from the shareholders to enable the Company to repurchase shares in the market. The Directors consider that the exercise of the Repurchase Mandate did not have a material adverse impact on the working capital or gearing level of the Company.

During the year, the Company repurchase back issued Convertible Bonds Notes in total principal amount of USD59,730,000 (equivalent to RMB407,923,000), which recognised RMB132,784,000 gain on the repurchase in the income statement. The Directors consider that the exercise of the Convertible Bonds Notes repurchase did not have a material adverse impact on the working capital or gearing level of the company.

As at 31 December 2008, the Gross Debt to Equity ratio, defined as total Non-current liabilities (excluding deferred tax liability) over total equity was approximately 67.78% (31 December 2007: 66.03%).

Capital Expenditure

In order to upgrade its manufacturing capability, the Group totally invested approximately RMB1,052 million (2007: RMB487 million) in acquisition of its new equipments and addition to manufacturing plants in the PRC, including acquisition of property, plant and equipment approximately RMB2 million (2007: RMB48 million) when acquisition of a subsidiary during the Period. The general increase in capital expenditure was in line with the Group's strategy of expansion. These capital expenditures were fully financed by the Convertible Loan Notes, share placing and internal resources of the Group.

Management Discussion and Analysis

Capital Commitment

As at 31 December 2008, the Group had contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment amount to approximately RMB594,052,000 (31 December 2007: approximately RMB266,281,000).

PROSPECT

Market Outlook

Despite the PRC economic growth obviously slowed down since second half of 2008 as a result of actual impact of the global financial crisis, the Group remains optimistic about the long term prospect of the industry. To stimulate the economy, the central and local governments have already put in place a series of measures to stimulate to the economic growth. Particularly, we can not see a trend that China's urbanisation process will be slowed down. Moreover, in spite of the challenges we are facing with, we are also surrounded with the opportunities arising from the government's 11th Five-Year Plan (2006-2010), which means a huge potential domestic market will be driven by the continuous infrastructure investment.

Focus on Product Diversification Strategy

The Group will focus on new product series development. Particularly, the Group is confident that exactor, fork lifts and road roller series and so on will bring new business opportunities to the Group.

Maintaining the Competitive Advantage

The Group maintained a stable market share in the year of 2008 which had no significant change from previous year and showed an outstanding result compared with its competitors. Particularly, the Group has been ranked No.40 of Global Construction Machinery 50 Rank 2007 by China Construction Machinery Association. We attribute this performance to our continuous devotion of resources in R&D, quality control and marketing activities. We will continue to devote more resources to maintain the competitive advantage.

Expanding Overseas Market

Although in the year of 2008 the worldwide economic recession had a negative effect in our exporting sales, the Group still recorded a significant increase of 23% in overseas market. We will further pursue expanding the overseas market network through our flexible sales incentive policy.

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Li San Yim, aged 58, is the Chairman of the Board and founder of the Group. He has extensive experience in corporate management and is responsible for formulating the Group's management philosophy and business strategies. Mr. Li was appointed as a deputy of the 11th National People's Congress, member of the Executive Committee of the All-China Federation of Industry and Commerce（中華全國工商業聯合會執行委員）, vice-chairman of the Fujian Province Federation of Industry and Commerce（福建省工商業聯合會副會長）. Mr. Li has also been accredited as one of the "Outstanding Enterprise Founders under Chinese Socialism"（優秀中國特色社會主義事業建設者）and a National Labour Model（全國勞動模範）. Mr. Li holds an EMBA at Fudan University in Shanghai. He is also a non-executive director of Weichai Power Co., Ltd (stock code: 2338).

Mr. Li is the husband of Ms. Ngai Ngan Ying, being a non-executive director. Save as disclosed above, Mr. Li has not held directorships in any other listed public companies in the last three years and does not have any other relationships with any directors, senior management, substantial or controlling shareholder of the Company. Mr. Li's interest in the shares within the meaning of Part XV of the Securities and futures Ordinances (Cap 571) (the "SFO") is set out on pages 21 to 22 of this annual report.

Mr. Qiu Debo, aged 46 is the Chief Executive Officer and President of the Group. Mr. Qiu joined the Group in August 1997. Mr. Qiu graduated from Fujian Normal University（福建師範大學）and holds an EMBA at Shanghai Jiao Tong University（上海交通大學）. Mr. Qiu has ten years of experience in corporate management and sales and marketing. He has served as a general sales manager, deputy general manager and general manager of the Group. He also acted as general manager of Fujian Longyan Construction Machinery (Group) Limited. Prior to joining the Group, Mr. Qiu also worked for Fujian Longgang Company Limited（福建龍鋼有限責任公司）as a department head. Mr. Qiu was appointed as a qualified senior economist by the Fujian Provincial Government. He has also received the "Outstanding Youth Entrepreneur of Fujian Province Award" （福建省優秀青年企業家）.

Mr. Qiu has not held directorships in any other listed public companies in the last three years. Mr. Qiu is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. He does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Profiles of Directors and Senior Management

Mr. Luo Jianru, aged 62, Mr. Luo, is a Vice-President of the Group. Mr. Luo joined the Group in September 1998. Mr. Luo received a "second class" Jiangxi Province Science and Technology Award（江西省科學技術進步二等獎）in 1986 and a "third class" award from China Aviation Industry Company（中國航空工業總公司三等獎）in 1997 in recognition of his contribution to the development of science and technology. He is the deputy chairman of the executive committee of the Association of Industry and Commerce of Songjiang District, Shanghai（上海市松江區工商業聯合會副會長）and a member of the People's Political Consultative Conference of Songjiang District, Shanghai（上海市松江區政協委員）. Mr. Luo is a graduate of Hefei University of Technology（合肥工業大學）and has 24 years of experience in corporate management and the infrastructure machinery industry. Mr. Luo has held various senior positions including the deputy general manager of Fujian Longyan Construction Machinery (Group) Limited, general manager of Longgong (Shanghai) Axle & Transmission Co., Limited and deputy general manager of the Group.

Mr. Luo has not held directorships in any other listed public companies in the last three years. Mr. Luo is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. He does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Dr. Mou Yan Qun, aged 54, joined the Company in December 2005. He is currently the vice president of the Company. Dr. Mou holds a doctorate degree in business administration and a chief financial officer qualification certificate endorsed by the Shanghai City Government. Dr. Mou has over 30 years of experience in corporate financial management and auditing. Dr. Mou is an associate member of the Institute of Financial Accountants (IFA). Prior to joining the Company, Dr. Mou worked in a leading State-owned pharmaceutical group in Shanghai where he served as the chief financial officer and head of the listing preparation office of a sub-unit and a member of the disciplinary inspection committee. Before that, he has also held the positions of chief financial officer in a State-owned enterprise and head of the Shanxi sub-branch of a State-owned bank, which was awarded the "advanced entity of integrity" under his leadership.

Dr. Mou has not held directorships in any other listed public companies in the last three years. Dr. Mou is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. She does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Profiles of Directors and Senior Management

Mr. Chen Chao, aged 34, is currently the vice president of the Group. Mr. Chen joined the Group in July 1997, in charge of supply chain management. Mr. Chen holds an EMBA at Fudan University in Shanghai. Mr. Chen has ten years of experience in supplies management, and has previously served as a deputy chief of the product development department at Shanghai Longgong Machinery, manager of the research and development centre and deputy general manager of Shanghai Longgong Machinery. Mr. Chen was a 5th Annual Member of the Standing Council by the Machinery Design Society of the Chinese Mechanical Engineering Society. In addition, he has also been appointed as a qualified technology and quality expert（技術質量專家）by the Technology and Quality Standing Committee（技術質量專家）of Mechanical Engineering Technology and Quality Message Site（全國工程機械行業技術質量信息網）.

Mr. Chen has not held directorships in any other listed public companies in the last three years. Mr Chen is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. He does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Lin Zhong Ming, aged 46, joined the Company in March 2001. He is currently the General Manager of Longgong (Fujian) Machinery Company Limited and Fujian Longyan Longgong Machinery Components Company Limited, both being the wholly-owned subsidiaries of the Company. Mr. Lin has a bachelor's degree in history from Shandong University and is currently pursuing an EMBA at Xiamen University in Xiamen. He has seven years of experience in corporate management.

Mr. Lin has not held directorships in any other listed public companies in the last three years. Mr Lin is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. He does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Profiles of Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Ms. Ngai Ngan Ying, aged 53, is the Vice-Chairman of the Group and was appointed as a non-executive director of the Group in May 2004. Ms. Ngai is also one of the founders of the Group. Ms. Ngai is a standing committee member of the People's Political Consultative Conference of Xinluo District, Fujian Province（龍岩市新羅區政協常務委員）.

Ms. Ngai is the wife of Mr. Li San Yim, being a director. Save as disclosed above, Ms. Ngai has not held directorships in any other listed public companies in the last three years and does not have any other relationships with any directors, senior management, substantial or controlling shareholder of the Company. Ms. Ngai's interest in the shares within the meaning of Part XV of the SFO is set out on pages 21 to 22 of this annual report.

Ms. Fang Deqin, aged 46, was appointed as a non-executive Director in 16 March 2007. Ms. Fang is the deputy director of the strategic and governance committee of the Board. She joined the Company in November 2006. Ms. Fang received a Bachelor Degree in Economics from Xiamen University in 1984 and has been admitted to the EMBA program of Xiamen University since September 2005. She was the financial controller and senior accountant of Xiamen Aviation Industry Company Limited and the deputy general manager of strategic planning division of Xiamen Temao Corporation. She has 17 years of experience in corporate finance, investment, mergers and acquisitions and corporate governance.

Ms. Fang has not held directorships in any other listed public companies in the last three years. Ms. Fang is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. She does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Profiles of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Fanghua, male, aged 62, is a professor and a tutor of doctoral candidates. He is currently the Dean of the School of Management of Shanghai Jiao Tong University（上海交通大學管理學院）. Professor Wang is currently member of the Accreditation Group of the State Council Academic Degree Commission（國務院學位辦學科評議組成員）and National MBA Education Instruction Committee（全國MBA教育指導委員會）, and the Vice Chairman and Chief of Academic Committee（學術委員會）of China Marketing Association（中國市場學會）. His areas of research include marketing, strategic management and corporate development theories. He has led and participated in a number of major research projects of National Natural Science Foundation of China（國家自然基金）, and received the Subsidy for Outstanding Experts granted by the State Council（國務院突出貢獻專家津貼）. Mr. Wang is also an independent director of five listed companies such as Shanghai Friendship Group Co., Ltd.（上海友誼（集團）股份有限公司）etc.

Save as disclosed above, Prof. Wang has not held any directorship in any other listed public companies in the last three years.

Prof. Wang is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. He does not have any interests in the shares of the company within the meaning of Part XV of the SFO.

Dr. Qian Shizheng, aged 57, was appointed as an independent non-executive director in February 2005. Dr. Qian is the chief financial officer of Shanghai Industrial Investment (Holdings) Limited. He holds a doctorate degree in management from Fudan University and has previously worked for Fudan University as an Associate Professor of the Department of Accountancy. Dr. Qian is currently an executive director of Shanghai Industrial Holdings Limited (stock code: 363). He has over 23 years of experience in the finance and accounting fields.

Save as disclosed above, Dr. Qian has not held directorships in any other listed public companies in the last three years.

Dr. Qian is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. He does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Profiles of Directors and Senior Management

Mr. HAN Xuesong, aged 72, was appointed as an independent non-executive Director in May 2008. He is a professor of engineering with a university degree. He is currently the President of China Construction Machinery Industry United Society（中國工程機械工業協會）. He has served in the National Mechanical Department（國家機械部）and China National Construction Machinery Corporation（中國工程機械成套公司）, and has been the Vice President, General Secretary and President of the China Construction Machinery Industry United Society since May 1997. Mr. Han is also an independent director of Xuzhou Construction Machinery Science & Technology Company Limited（徐州工程機械科技股份有限公司） and Dingsheng Tiangong Construction Machinery Company Limited（鼎盛天工工程機械股份有限公司）, which are listed on Shenzhen Stock Exchange and Shanghai Stock Exchange, respectively.

Save as disclosed above, Mr. Han has not held any directorships in any other listed public companies in the last three years.

Mr. Han is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. He does not have any interests in the shares of the company within the meaning of Part XV of the SFO.

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 38 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 37 of the annual report.

An interim dividend of HKD0.13 (Equivalent to RMB0.12) per share amounting to HKD140 million (Equivalent to RMB124 million) was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HKD0.05 per share to the shareholders on the register of member on 29 May 2009, amounting to approximately HKD54 million. It is expected that the dividend paid out as a result of the operation of 2008 amounted to HKD0.18 per share, or approximately HKD194 million in total.

PROPERTY, PLANT AND EQUIPMENT

The Group continued its plant replacement policy and expended RMB1,050 million on new plant and machinery during the year.

Details of the movement during the year in property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interest of the Group for the last five financial years is set out on pages 105 to 106 of the annual report. This summary does not form part of the audited consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 27 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

Movements in the reserves of the Group during the year are set out on page 40 of the annual report.

The Company's reserves available for distribution to shareholders comprise the share premium, contributed surplus and accumulated profits which in aggregate amounted to approximately RMB2,322 million as at 31 December 2008 (2007: RMB2,077 million). Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Article of Association, dividends shall be distributed out of the accumulated profits or other reserves, including the share premium account, of the Company.

DIRECTORS

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

Executive directors:

Li San Yim *(Chairman)*	(appointed on 11 May 2004)
Qiu Debo *(Chief Executive Officer)*	(appointed on 17 February 2005)
Luo Jianru	(appointed on 17 February 2005)
Mou Yan Qun	(appointed on 24 October 2007)
Chen Chao	(appointed on 17 February 2005)
Zhang Hong	(appointed on 17 February 2005 and resigned on 15 May 2008)
Lin Zhong Ming	(appointed on 24 October 2006)

Non-executive directors:

Ngai Ngan Ying	(appointed on 11 May 2004)
Fang Deqin	(appointed on 16 March 2007)

Independent non-executive directors:

Wang Fanghua	(appointed on 15 May 2008)
Qian Shizheng	(appointed on 17 February 2005)
Han Xuesong	(appointed on 15 May 2008)

Directors' Report

Pursuant to the Articles of Association, at each annual general meeting one-third of the directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years. Each of Mr. Li San Yim, Mr. Qiu Debo, Mr. Luo Jianru, Dr. Mou Yan Qun, Mr. Chen Chao, Dr. Zhang Hong, Mr. Lin Zhong Ming, Ms. Ngai Ngan Ying, Ms. Fang Deqin, Dr. Qian Shizheng, Mr. Han Xuesong shall retire at the annual general meeting and all offer themselves for re-election at the annual general meeting. Professor Wang Fanghua would retire at the forthcoming annual general meeting, be eligible, will not offer himself for re-election.

The biographical details of the directors are set out on pages 13 to 18 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2008, the interests of the directors and their associates in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

(1) Long positions in shares and underlying shares of the Company

Ordinary shares of HKD0.10 each of the Company

Name of directors	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Li San Yim and Ngai Ngan Ying *(Note 1)*	Held by controlled corporation *(Note 2)*	328,014,690	30.66%
Li San Yim and Ngai Ngan Ying *(Note 1)*	Beneficial owner	261,332,690	24.42%
		589,347,380	55.08%

Note 1: Mr. Li San Yim and Ms. Ngai Ngan Ying are husband and wife to each other and are deemed to be interested in each other's interest.

Note 2: These shares were held through China Longgong Group Holdings Limited, a company that is wholly owned by Mr. Li San Yim and Ms. Ngai Ngan Ying as to 55% and 45% respectively, which is the registered shareholder of these 328,014,690 shares.

Directors' Report

(2) Long positions in shares of the associated corporation of the Company, Longgong (Shanghai) Machinery Company Limited

Ordinary shares of HKD0.10 each of the Company

Name of directors	Capacity	Register share capital	Percentage of the issued share capital of the Company
Li San Yim	Corporate *(Note)*	480,000	0.11%
Ngai Ngan Ying	Corporate *(Note)*	480,000	0.11%

Note: The 0.11% interest of Longgong (Shanghai) Machinery Company Limited is held by Shanghai Longgong Machinery limited, which is owned by Mr. Li and Mrs. Li as to 39.5% and 60.5% respectively.

Save as disclosed above as at 31 December 2008, none of the directors, chief executives of the Company or any of their associates, had registered any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded and kept in the register by the Company in accordance with the Section 352 of the SFO, or any interests required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements 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 OF SIGNIFICANCE

No contract of significance, to which the Company, its holding companies, subsidiaries or fellow 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.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of directors, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company.

Long positions

Ordinary shares of HKD0.10 each of the Company

Name of shareholder	Capacity	Number of ordinary shares interested	Percentage of the issued share capital of the Company
China Longgong Group Holdings Limited *(Note 1)*	Beneficial owner	328,014,690	30.66%
Deutsche Bank Aktiengesellschaft	Beneficial owner	75,704,515	7.02%
Templeton Asset Management	Beneficial owner	54,672,000	5.07%

Note 1: Mr. Li and Mrs. Li own 55% and 45%, respectively, of the issued shares in the share capital of China Longgong Group Holdings Limited.

Saved as disclosed above, as at 31 December 2008, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as recorded and kept under Section 336 of the SFO as having an interest of 5% or more in the issued share capital of the Company.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

Directors' Report

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2008, the Company repurchased 19,025,000 ordinary shares of the Company in total on the Stock Exchange for a consideration of HKD93,897,000 (including expenses of HKD336,000 and equivalent to RMB83,015,000).

These repurchased shares were cancelled during the year and the issued share capital of the Company was reduced by the par value thereof. The above repurchases were effected by the Directors pursuant to the repurchase mandate granted to them the benefit of the Company and its shareholders as a whole in enhancing the net assets and earnings per share of the Company.

During the year ended 31 December 2008, the Company repurchase back issued Convertible Bonds Notes in total principal amount of USD59,730,000 (equivalent to RMB407,923,000), which recognised RMB132,784,000 gain on the repurchase in the income statement.

Save as disclosed above, neither the Company nor any of its subsidiaries purchases, sold or redeemed any of the Company's shares or any other listed securities during the year.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Human Resources Division on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 28% (2007: 22%) of the Group's total turnover for the year. The five largest suppliers accounted for approximately 20% (2007: 34%) of the Group's total purchases for the year and the largest supplier accounted for approximately 20% (2007: 16%) of the total purchases.

During the year, Mr. Li San Yim, the executive director of the Company, is interested in approximately 4% of the issued shares of Weichai Power Co., Ltd (stock code: 2338), which is one of the Group's five largest suppliers.

Directors' Report

During the year, a wholly-owned subsidiary of the Company entered into a share subscription agreement dated 10 December 2008 with Aeolus Tyre Co., Ltd, ("Aeolus"), a PRC listed company and one of the Group's five largest suppliers, whereby the Group agreed to subscribe shares in Aeolus, representing approximately 2.27% of the enlarged issued shares of Aeolus (the "Subscription Shares") upon completion of the said subscription, for a total consideration of RMB43 million (the "Subscription"). For a period of 12 months following completion of the Subscription, the Group may not dispose of the Subscription Shares which will only be eligible for public trading on or after 26 December 2009 in accordance with the said share subscription agreement. With reference to the relevant applicable percentage ratios (as defined in the Listing Rules) for the Subscription, the Subscription did not constitute a notifiable transaction under Chapter 14 of the Listing Rules. Details of the Subscription are set out in note 18 to the consolidated financial statements.

Save as disclosed above, none of the directors of the Company, an associate of the directors or a shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's issued share capital) have interest in any of the Group's five largest suppliers or customers.

CONNECTED TRANSACTIONS

The Company entered into a Master Purchase Agreement since 14 November 2008 with LongYan City Jinlong Machinery Company Limited ("Jinlong"), a company incorporated in the PRC with limited liability and owned as to approximately 82.67% by Mr. Ngai Ngan Qin, a brother of Ms. Ngai Ngan Ying, the non-executive director of the Company, pursuant to which the Group will purchase the parts from Jinlong from 14 November 2008 and ending on 31 December 2009. The transaction contemplated under the Master Purchase Agreement constitute continuing connected transactions for the Company under Rule 14A.34 of the Listing Rules and are exempt from the independent shareholders' approval requirement under the Listing Rules by virtue of the fact that each of the relevant percentage ratios (other than the profit ratio) in respect of the purchase amount is less than 2.5% on an annual basis. For the year ended 31 December 2008, the Company purchased the parts approximately RMB31,249,000 from Jinlong.

The independent non-executive directors confirm that the transaction has been entered into by the Company in the ordinary course of its business, on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 39 to the consolidated financial statements.

Directors' Report

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2008.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Mr. Li San Yim
CHAIRMAN

Shanghai, 8 April 2008

Corporate Governance Report

CORPORATE GOVERNANCE PRINCIPLES

To become a company which enjoys the continuously growing trust of its shareholders and all other stakeholders by maximizing its corporate value, the Company is working to improve its management efficiency, advocate corporate ethics and ensure sound management on a Group-wide basis.

To further improve the transparency of the management to shareholders and investors, the Company will disclose information in a fair and timely manner and actively engage in investor relations activities by holding meetings in the PRC and Hong Kong to explain its business results and operations.

The Company will endeavor to comply with the laws and regulations of the place of operation of the Company and the requirements and guidelines of the Stock Exchange of Hong Kong Limited and local regulatory bodies.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES (THE "CODE")

In the opinion of the directors, the Company had during the year ended 31 December complied with all the applicable code provisions of the Code as set out in Appendix 14 to the Listing Rules

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding directors' securities transactions. Specific enquiry has been made to all directors, who have confirmed that they had complied with the required standard set out in the Model Code for the year ended 31 December 2008.

The Board will continue to review and foster its own Code of Corporate Governance Practices from time to time. The Company will seek to improve its management and raise its control level to enhance the Company's competitiveness and operating efficiency, to ensure its sustainable development and to generate greater returns for the shareholders.

Corporate Governance Report

CORPORATE GOVERNANCE STRUCTURE

The Board is responsible for the management of the Company with acting in the interest of the Company and its shareholders as its principle and is accountable to the shareholders for the assets and resources entrusted to them by the shareholders. The key responsibilities of the Board include the formulation of the Company's long-term development strategies and operating direction, setting of the management targets and supervising members of the management in implementing matters resolved by the Board and performing their duties. Under the Board, there are currently 3 board committees, namely Audit Committee, Executive Committee and Remuneration Committee. All these committees perform their distinct roles in accordance with their respective terms of reference.

BOARD OF DIRECTORS

The Board currently comprises 11 directors, including 6 executive directors, 2 non-executive directors and 3 independent non-executive directors. Each director has a duty to act in good faith in the best interests of the Company. The directors are aware of their collective and individual responsibilities to the shareholders.

Pursuant to Rules 3.10 (1) and (2) of the Listing Rules, Dr. Qian Shizheng, one of the independent non-executive directors, has specialized in related financial management expertise.

A written confirmation was received from each of the independent non-executive directors, Professor Wang Fanghua, Dr. Qian Shizheng and Mr. Han Xuesong, confirming their independence pursuant to Rile 3.13 of the Listing Rules.

All members of the Board are of relevant professional background with plenty of experience who can have a positive and motivational effect in raising the development and management level of the Company. In addition, the Company also separates the duties of the chairman of the Board and the chief executive officer. The two positions are held by different directors with the aim of reinforcing the independence of the Board and the management. The chairman of the Board is mainly responsible for the leadership and effective running of the Board, and making key strategic decisions for the Company. The chief executive officer is mainly responsible for the daily operation and management of the Group's business, and implementation of the approved strategies in achieving the overall Company's objectives.

Included in the composition of the Board are two family members: the chairman of the Board, Mr. Li San Yim and his wife Ms. Ngai Ngan Ying, one of the non-executive directors of the Company are subject to retirement by rotation and offer themselves for re-election in the same manner as the executive directors. The Company will review the composition of the Board regularly to ensure the Board possesses the appropriate and necessary expertise, skills and experience to meet the needs of the Group's business.

Corporate Governance Report

For detailed information on the members of the directors and senior management, please refer to the section headed "Profiles of Directors and Senior Management" from pages 13 to 18 of this annual report.

For the year ended 31 December 2008, the Board held 4 meetings. Notice of at least 14 days is given for a regular Board meeting to give all directors an opportunity to attend. The following table shows the attendance records of individual directors at the meetings of the Board and the attendance records of individual members at the meetings of the respective Board Committees held for the year ended 31 December 2008:

	Number of meetings attended/Number of Meetings held for the year ended 31 December 2008			
Name of directors	**Board**	**Audit Committee**	**Executive Committee**	**Remuneration Committee**
Executive Directors				
Mr. Li San Yim *(Chairman)*	4/4	N/A	2/2	N/A
Mr. Qiu Debo *(Chief Executive Officer)*	4/4	N/A	2/2	N/A
Mr. Luo Jianru	4/4	N/A	2/2	N/A
Dr. Mou Yan Qun	4/4	N/A	2/2	N/A
Mr. Chen Chao	4/4	N/A	2/2	N/A
Mr. Lin Zhong Ming	4/4	N/A	2/2	N/A
Non-Executive Directors				
Ms. Ngai Ngan Ying	4/4	N/A	N/A	1/1
Ms Fang Deqin	4/4	2/2	N/A	N/A
Independent Non-Executive Directors				
Professor. Wang Fanghua	3/4	2/2	N/A	N/A
Dr. Qian Shizheng	4/4	2/2	N/A	1/1
Mr. Hang Xue Song	3/4	N/A	N/A	1/1

N/A Not Applicable

Corporate Governance Report

BOARD COMMITTEES

As part of good corporate governance practice, the Board has delegated certain authorities to a number of committees. These committees include representation from non-executive and independent non-executive directors whose objective views are important in the execution of the controls expected in a listed company.

EXECUTIVE COMMITTEE

The executive committee is responsible for recommending general policy and advising direction for the Company to the Board and as such, it interacts with the audit and remuneration committees in respect of their policy submissions. Since, the Company does not have a separate nomination committee, the nomination and appointment of new directors is a function of the executive committee. The executive committee reviews on a regular basis the need to appoint directors with specific business acumen in appropriate sectors that would further enhance the present skill set, or add expertise in a developing business sector and assess the independence of the Company's independent non-executive directors.

The Committee currently consists of six executive directors, namely Mr. Li San Yim, Mr. Qiu Debo, Mr. Luo Jianru, Dr. Mou Yan Qun, Mr. Chen Chao and Mr. Lin Zhong Ming. Mr. Qiu Debo is elected as the chairman.

AUDIT COMMITTEE

The audit committee currently comprises 1 non-executive director, namely Ms. Fang Deqin, and 2 independent non executive directors, namely Dr. Qian Shizheng and Mr. Wang Fanghua. Dr. Qian Shizheng was elected as chairman.

The primary duties and responsibilities of the audit committee is to assist the Board in fulfilling its oversight responsibilities of the Company's compliance with legal and regulatory requirements with respect to financial matters and those required by the Listing Rules of the Stock Exchange of Hong Kong Limited and other regulatory bodies.

Corporate Governance Report

The functions of audit committee include but not limited to the following:

- Serve as an independent party to monitor the integrity of the Company's financial statements, reporting process and internal control mechanism;
- Review and assess audit efforts of the Company's independent auditors;
- directly appointing, retaining, compensating, evaluating and terminating the Company's independent auditors;
- Review the qualifications, independence and performance of the independent auditor; and
- Provide an intermediary of open communication among the Company's independent auditors, financial and senior management and board of directors.

The audit committee has reviewed the Company's interim and final results for the year of 2008.

AUDITOR'S REMUNERATION

For the year ended 31 December 2008, Messrs. Deloitte Touche Tohmatsu, the external auditors of the Group received approximately RMB2.99 million (2007: approximately RMB2.76 million) for audit and review services.

REMUNERATION COMMITTEE

The remuneration committee currently consists of 1 non-executive director, namely Ms. Ngai Ngan Ying, and 2 independent non-executive directors, namely Dr. Qian Shizheng and Mr. Hang Xuesong. The primary duties and responsibilities of the remuneration committee is to advise the Board on the remuneration policy, review and determine the remuneration of all executive directors and senior management with reference to the Company's objectives from time to time.

In addition, the remuneration committee needs to review other human resources issues, including group-wide remuneration policies and the development of human resources. No director plays a part in any discussions about his own remuneration for the year ended 31 December 2008.

Corporate Governance Report

INTERNAL CONTROLS

It is the Board's responsibility for developing and maintaining an effective internal control system of the Company to protect shareholders' interest and to safeguard the Group' property and assets by reviewing major control procedures for financial, compliance and enterprise risk management. However, such a system was designed to manage various risks of the Group within certain acceptable risk level, rather than the complete elimination of the risk of failure to achieve the business objectives of the Group. Therefore it can provide reasonable but not absolute assurance against material misstatement of the management as well as financial information and records, or financial fraud or losses.

The Company continually reviews and enhances its business and operational activities to identify areas of significant business risks and take necessary measures to control and mitigate these risks.

Internal Audit

The Company enhances the independence of internal audit department since the first half of year 2006 for the purpose of reviewing, in a more effective manner, the company wide systems of internal control. The department was monitored and held responsible to the Board and as well as to the audit committee. The internal audit department carries out inspection, monitoring and evaluation of the Company's financial information disclosures, operations and internal control procedures on a regular or in ad hoc basis, with a view to ensuring transparency in information disclosures, operational efficiencies and effectiveness of the corporate control regime.

Independent evaluations and recommendations is the core element in the department, the internal audit staff are authorized to access any information relating to the Company and to make enquiries to staff concerned. Besides that, internal audit department would assist external auditors during an external audit by providing pertinent financial information in a timely manner.

Strengthening Systems of Internal Controls

Effective from 1 January 2006, the Company has fully adopted a comprehensive budget management and a level-based performance appraisal management, so as to monitor the operations of the Company according to the budget and adjust operating objectives and management initiatives in a timely manner. For a more scientific and effective human resources management, the Company has, from 1 January 2006, carried out in-depth analysis on each position for a clear and reasonable definition of job missions, duties, skills requirements and key performance targets.

Corporate Governance Report

Key internal controls of the Company include

- Establishment of policies, rules, procedures and approval limits for key financial and personnel matters, and the rules to the delegation of authorities;
- Internal documentation of key processes and procedures;
- Maintenance of proper accounting records;
- Safeguarding the Company's assets;
- Ensuring reliability of financial information;
- Ensuring compliance with appropriate legislation and regulations; and
- Having qualified and experienced persons take charge of important functions.

INVESTOR RELATIONS

Information Disclosures and Investor Relations Management

The Company strives to ensure that all shareholders and investors are able to fully exercise their rights on an equal basis. The Company regards effective communication as the core of investor relations, and believes that a high transparent organization and promptly dissemination of information to our investors are important ingredients to the success of a company. A designated team including an executive director from senior management, the company secretary and delegates from the Company's financial management department was set up in 2005 managing information disclosures and investor relations to ensure that information disclosures are open, fair and impartial. It helps investors improve their understanding of, and identification with, the Company through full disclosure of information to them, and seeks to strengthen communication and interaction with them through various means to enhance the Company's transparency.

Corporate Governance Report

With the Board of the Company paying great attention to the investor relations, the Company has, as always, done everything possible to maintain a satisfactory investor relationship, which has further improved the transparency of the Company, extended its influence, and built up a positive public image. In 2008, the Company received nearly 600 visiting investors home and abroad in over 200 sessions and held 100 or more telephone conferences.

In April 2008, Mr. Qiu Debo, CEO and President of the Company, together with the senior management, attended the 3-day annual forum organized by JPMORGAN in Beijing.

In May 2008, Mr. Li San Yim, Chairman of the Board of the Company, together with the senior management, attended the annual forum organized by CLSA in Shanghai.

In June 2008, Mr. Qiu Debo, CEO and President of the Company, together with Mr. Mou Yan Qun, CFO of the Company, attended the annual forum organized by BOCI in Hangzhou.

In October 2008, Mr. Mou Yan Qun, CFO of the Company, attended the Merrill China Investment Summit organized by Merrill Lynch in Beijing.

Other Stakeholders' interests

While dedicated to maximizing shareholders' value, the Company is also committed to its customers, in terms of provision of quality products and services, and to the staff, by making available opportunities to them for career development. The Company had a strong commitment to shareholders, investors, staff, customers, suppliers and the community at large and always acting in good faith and with integrity. The Company believed that the sustainable development of a company cannot be achieved in isolation from a healthy environment. The Company pledges to contribute to the community while pursuing profit growth, by managing the business within the bounds of relevant laws and environmental regulations, improving standard of corporate governance and enhancing corporate transparency and actively participating in social charities and contribute to the local social development.

CORPORATE SOCIAL RESPONSIBILITY

The Group also dedicates itself to contributing to the society and serving the community in the midst of its rapid development. Taking into consideration the actual situation in the place where it operates, the subsidiaries of the Group take part in local social services. Our involvement in community service helps to build a good image of the Company and contribute to the local social development. For the year of 2008, the Group has donated approximately RMB6 million in education subsidies; compensations for misfortune and charity donations.

In the future, we will continue to support and participate in diversified social and community activities. To promote the relationship between the Company and investors and to enhance the transparency of the operation of the enterprise, the Company will communicate information regarding the Company's business development through various channels when appropriate.

Independent Auditor's Report

TO THE SHAREHOLDERS OF LONKING HOLDINGS LIMITED
(FORMERLY KNOWN AS "CHINA INFRASTRUCTURE MACHINERY HOLDINGS LIMITED")
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Lonking Holdings Limited (formerly known as "China Infrastructure Machinery Holdings Limited") (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 104, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

Independent Auditor's Report

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 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
8 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Turnover	5	**6,144,788**	5,308,624
Cost of goods sold		**(4,970,297)**	(4,117,055)
Gross profit		**1,174,491**	1,191,569
Interest income	6	**45,948**	71,527
Other income		**20,482**	29,003
Other gains and losses	7	**276,164**	37,588
Administrative expenses		**(187,937)**	(178,088)
Distribution and selling expenses		**(429,121)**	(359,732)
Other expenses		**(6,988)**	(1,956)
Finance costs	8	**(154,823)**	(111,614)
Discount on acquisition of a subsidiary	33	**–**	5,833
Profit before tax	10	**738,216**	684,130
Income tax expense	9	**(72,724)**	(54,681)
Profit for the year		**665,492**	629,449
Attributable to:			
Equity holders of the parent		**665,594**	629,616
Minority interests		**(102)**	(167)
		665,492	629,449
Dividends paid	13	**239,961**	349,155
Earnings per share – basic (RMB)	14	**0.62**	0.59
Earnings per share – diluted (RMB)	14	**0.42**	0.54

Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	*15*	**2,060,263**	1,116,542
Lease premium for land – non current portion	*16*	**224,441**	202,616
Finance lease receivables	*19*	**138,748**	35,120
Deferred tax assets	*20*	**103,297**	65,791
Deposit paid for property, plant and equipment		**175,421**	–
		2,702,170	1,420,069
Current assets			
Lease premium for land – current portion	*16*	**4,939**	4,402
Inventories	*21*	**2,347,921**	1,491,346
Finance lease receivables	*19*	**693,411**	303,679
Avalable-for-sale investment	*18*	**42,755**	–
Trade receivables	*22*	**200,181**	350,171
Bill receivables	*22*	**343,380**	522,362
Other receivables and prepayments	*22*	**409,643**	391,240
Loan receivables from financial institutions	*17*	**–**	1,450,000
Pledged bank deposits	*23*	**204,488**	109,053
Bank balances and cash	*23*	**894,507**	478,064
		5,141,225	5,100,317
Current liabilities			
Trade payables	*24*	**687,864**	697,510
Bill payables	*24*	**652,741**	387,925
Other payables and accruals	*24*	**414,307**	259,140
Provisions	*25*	**154,475**	128,296
Amounts due to related parties	*26*	**13,871**	12,875
Tax payable		**29,628**	45,585
Bank borrowings	*29*	**361,000**	–
Derivative financial instruments	*30*	**205,872**	305,461
		2,519,758	1,836,792
Net current assets		**2,621,467**	3,263,525
		5,323,637	4,683,594

Consolidated Balance Sheet

As at 31 December 2008

	Notes	**2008 RMB'000**	2007 RMB'000
Capital and reserves			
Share capital	*27*	**111,029**	113,009
Reserves	*28*	**3,048,075**	2,703,478
Equity attributable to equity holders of the parent		**3,159,104**	2,816,487
Minority interest		**851**	953
Total equity		**3,159,955**	2,817,440
Non-current liabilities			
Deposit for finance lease	*19*	**27,565**	16,563
Convertible loan notes	*30*	**1,476,961**	1,843,920
Long term bank borrowings	*29*	**637,000**	–
Deferred tax liability	*20*	**22,156**	5,671
		2,163,682	1,866,154
		5,323,637	4,683,594

The consolidated financial statements on pages 37 to 104 were approved and authorised for issue by the Board of Directors on 8 April 2009 and are signed on its behalf by:

Li San Yim	**Mou Yan Qun**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders of the parent							
	Share capital	**Share premium**	**Special reserve**	**Non-distributable reserve**	**Accumulated profits**	**Total**	**Minority interest**	**Total**
	RMB'000	RMB'000	RMB'000 *(Note 27)*	RMB'000 *(Note 27)*	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	107,886	455,206	355,335	156,069	702,418	1,776,914	1,065	1,777,979
Profit for the year and total recognised income	–	–	–	–	629,616	629,616	(167)	629,449
Dividends paid	–	–	–	–	(349,155)	(349,155)	–	(349,155)
Shares issued	5,123	771,002	–	–	–	776,125	–	776,125
Transaction costs attributable to issue of shares	–	(17,013)	–	–	–	(17,013)	–	(17,013)
Transfer	–	–	–	114,652	(114,652)	–	–	–
Acquisition of a subsidiary *(note 33)*	–	–	–	–	–	–	55	55
At 31 December 2007	113,009	1,209,195	355,335	270,721	868,227	2,816,487	953	2,817,440
Profit for the year and total recognised income	–	–	–	–	665,594	665,594	(102)	665,492
Dividends paid	–	–	–	–	(239,961)	(239,961)	–	(239,961)
Shares repurchased and cancelled	(1,980)	(21,186)	–	–	(59,850)	(83,016)	–	(83,016)
Transfer	–	–	–	100,280	(100,280)	–	–	–
At 31 December 2008	111,029	1,188,009	355,335	371,001	1,133,730	3,159,104	851	3,159,955

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		**738,216**	684,130
Adjustments for:			
Discount on acquisition	*33*	**–**	(5,833)
Interest income		**(45,948)**	(71,527)
Finance costs		**154,823**	111,614
Allowance for bad and doubtful debts		**15,215**	20,779
Allowance for inventories		**50,415**	3,094
(Gain) loss on disposal of property, plant and equipment		**(988)**	1,123
Depreciation of property, plant and equipment		**90,723**	61,527
Amortisation of lease premium for land		**4,382**	3,805
Exchange gain		**(105,408)**	(98,787)
Fair value changes of derivative financial instruments		**(48,136)**	(5,053)
Gain on repurchase of convertible loan notes		**(132,784)**	–
Operating cash flows before movements in working capital		**720,510**	704,872
Increase in inventories		**(903,431)**	(514,636)
Decrease (increase) in trade, bill and other receivables		**293,951**	(440,936)
Increase in finance lease receivables		**(493,360)**	(338,799)
Increase in trade, bill and other payables		**361,853**	563,605
Increase in provisions		**26,179**	101,195
Increase in amounts due to related parties		**996**	5,859
Increase in deposit for finance lease		**11,002**	16,563
Cash generated from operations		**17,700**	97,723
Interest received		**6,732**	55,259
Income tax paid		**(110,297)**	(72,883)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(85,865)**	80,099

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
INVESTING ACTIVITIES			
Interest income from loan receivables		**55,484**	–
Purchase and deposit paid for property, plant and equipment		**(1,197,467)**	(439,528)
Payment for lease premium for land		**(23,783)**	(14,508)
Acquisition of a subsidiary	*33*	**600**	(71,515)
Proceeds on disposal of property, plant and equipment		**13,885**	4,166
Proceeds on disposal of land use right		**1,799**	–
Purchase of available-for-sale investment		**(42,755)**	–
Increase in pledged bank deposits		**(95,435)**	(44,407)
Decrease (increase) in loan receivables		**1,450,000**	(1,450,000)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**162,328**	(2,015,792)
FINANCING ACTIVITIES			
New bank borrowings raised		**1,473,068**	–
Shares repurchased and cancelled		**(83,016)**	–
Repurchase of convertible loan notes		**(298,447)**	–
Interest paid		**(18,417)**	(15,842)
Repayment of bank borrowings		**(475,068)**	(266,869)
Proceeds on issue of shares net of issuance cost of RMB17,013,000		**–**	759,112
Proceeds from issue of convertible loan notes net of issuance cost of RMB54,174,000		**–**	2,157,304
Dividends paid		**(239,961)**	(349,155)
NET CASH FROM FINANCING ACTIVITIES		**358,159**	2,284,550
NET INCREASE IN CASH AND CASH EQUIVALENTS		**434,622**	348,857
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**478,064**	129,439
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES		**(18,179)**	(232)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCE AND CASH		**894,507**	478,064

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

1. GENERAL

The Company is a company incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liabilities under the Companies Law (2000 Revision) Chapter 22 of the Cayman Islands on 11 May 2004 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The immediate and ultimate holding company of the Company is China Longgong Group Holdings Limited, a company incorporated in the British Virgin Islands on 3 June 2004 with limited liability. The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

Pursuant to a special resolution passed at an extraordinary general meeting held on 25 June 2008, the name of the Company was changed from "China Infrastructure Machinery Holdings Limited" to "Lonking Holdings Limited" and the existing Chinese name, being "中國龍工控股有限公司" which was adopted for identification purposes only, remains unchanged.

The consolidated financial statements are presented in Renminbi, which is also the functional currency of the Company.

The principal activities of the Group are the manufacture and distribution of wheel loaders, road rollers, excavators, fork lifts, and other infrastructure machinery and the provision of finance lease for the infrastructure machinery, the details of activities of the Group's subsidiaries are set out in Note 38.

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

In the current year, the Group has applied, for the first time, the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective for the Group's financial year beginning 1 January 2008.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

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

The adoption of these new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

In addition, the Group has adopted the following accounting policy on repurchase of equity instruments.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sales, issue, or cancellation of the Company's own equity instruments.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued at the date of this report but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32&1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, Jointly Controlled Entity or associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[5]
HK (IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK (IFRIC)-Int 15	Agreements for the Construction of Real Estate[2]
HK (IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK (IFRIC)-Int 17	Distribution of Non-cash Assets to Owners[3]
HK (IFRIC)-Int 18	Transfers of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods beginning on or after 1 July 2008
5 Effective for annual periods ending on or after 30 June 2009
6 Effective for annual periods beginning on or after 1 October 2008
7 Effective for transfers on or after 1 July 2009

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

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

The adoption of HKFRS 3 (Revised) may affect the accounting treatment for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for change in the Group's ownership interest in a subsidiary. HKAS 23 (Revised) requires the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, for which the commencement date for capitalisation is on or after 1 January 2009, shall be capitalised as part of the cost of that asset. The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

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

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

Business combinations

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

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

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

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business recognised at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in a subsequent period.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

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

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

Finance lease income from finance lease of goods sold is recognised base on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

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 receipt through the expected life of the financial assets to that asset's net carrying amount.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives after taking into account of their estimated residual values, using the straight-line method.

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

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

Leasing

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

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

The Group as leasee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Lease premium for land

Leasehold interest in leasehold land is accounted for as operating leases and amortised over the lease term on a straight line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. The grants are recognised as other income in the consolidated income statement when there is reasonable assurance that the grants will be received and the Group comply with conditions attaching to them, if any.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or 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 balance sheet date.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research expenditure

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

Impairment losses on tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

All of the Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on 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 asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments, which is included as interest income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, loan receivables, bill receivables, other receivables, finance lease receivables, bank balances and pledged bank deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(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 fair value through profit or loss ("FVTPL"), loans and receivables or held-to-maturity investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(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 receivables, other receivables and finance lease receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade receivables, other receivables and finance lease receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

Financial liabilities and equity

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sales, issue, or cancellation of the Company's own equity instruments.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities at FVTPL

The Group's financial liabilities at FVTPL are those embedded derivatives not closely related to the Convertible Loan Notes, which are designated at FVTPL on initial recognition.

At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Other financial liabilities

Other financial liabilities including trade payables, bill payables, other payables, amounts due to related parties, bank borrowings, long-term payables and the liability component of the convertible loan notes are subsequently measured at amortised cost, using the effective interest method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Convertible Loan Notes

Convertible Loan Notes issued by the Group that contain liability and embedded derivatives (including conversion option, issuer early redemption option and holder early redemption option) which are not closely related to the host contract are classified separately into respective item on initial recognition. Conversion option will be settled other than by the exchange of a fixed amount of cash or other financial asset for a fixed number of the Company's own equity instruments is a derivative financial instrument. At the date of issue, the liability component and derivative component are recognised at fair value.

In subsequent period, the liability component is carried at amortised cost using the effective interest method, and the derivative components are measured at fair value with changes in fair value recognised in profit or loss. The interest charged on liability component is calculated by applying the original effective interest rate. The difference between this amount and the interest paid (if any) is added to the carrying amount of the liability component.

Transaction costs that relate to the issue of the Convertible Loan Notes are allocated to the liability and derivative components in proportion to their fair values at the date of issue. Transaction costs relating to the derivative component are charge 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 effective interest method.

When the Group repurchases the Convertible Loan Notes before its maturity date, the difference between the amount paid and the carrying amounts of the convertible loan notes was recognised in the income statement.

Derecognition

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

4. KEY SOURCES OF ESTIMATION UNCERTANTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimated impairment of loans and 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.

Provision for warranty costs

The Group offers a standard one-year warranty for the wheel loaders, road rollers, excavators, fork lifts, during which free warranty service for the repair and maintenance of parts and components under normal usage is provided to the customers. The provision for warranty costs are based on historical experience and statistics.

Useful lives of property, plant and equipment

The property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual values. The Group reviews annually the useful lives and residual value of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Fair value of the derivatives

The directors of the Company use their judgement in selecting an appropriate valuation technique for derivative financial instruments, where the valuation techniques are those commonly applied by market practitioners. Assumptions are made based on market statistic and adjusted for specific features of the instrument. Details of the derivative financial instruments and their assumptions used are disclosed in notes 30 and 32.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

4. KEY SOURCES OF ESTIMATION UNCERTANTY *(Continued)*

Inventory provision

Inventories are stated at the lower of cost and net realisable value. Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess estimations on each balance sheet date.

5. BUSINESS AND GEOGRAPHICAL SEGMENT

For management purpose, the Group is currently organised into two operating divisions: (1) manufacturing and sales of construction machinery, and (2) finance lease of construction machinery produced by the Group. These divisions are the basis on which the Group reports its primary segment information. Comparative segment information has been represented to conform with the current year presentation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

5. BUSINESS AND GEOGRAPHICAL SEGMENT *(Continued)*

Segment information about these businesses is presented below:

2008

	Sales of construction machinery RMB'000	Finance lease of construction machinery RMB'000	Total RMB'000
REVENUE			
Sales of goods	4,716,311	–	4,716,311
Finance lease sales	1,374,984	53,493	1,428,477
	6,091,295	53,493	6,144,788
RESULT			
Segment result	530,057	36,499	565, 568
Unallocated interest income			45,948
Unallocated other income, gains and losses			291,577
Unallocated corporate expenses			(11,042)
Finance costs			(154,823)
Profit before tax			738,216
Income tax expense			(72,724)
Profit for the period			665,492
BALANCE SHEET			
Assets			
Segment assets	5,734,991	863,357	6,598,348
Unallocated assets			1,245,047
Total consolidated assets			7,843,395
Liabilities			
Segment liabilities	1,772,801	178,022	1,950,823
Unallocated liabilities			2,732,617
Total consolidated liabilities			4,683,440

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

5. BUSINESS AND GEOGRAPHICAL SEGMENT *(Continued)*

2007

	Sales of construction machinery RMB'000	Finance lease of construction machinery RMB'000	Total RMB'000
REVENUE			
Sales of goods	4,928,249	–	4,928,249
Finance lease sales	380,375	–	380,375
	5,308,624	–	5,308,624
RESULT			
Segment result	691,478	63	691,541
Unallocated interest income			71,527
Unallocated other income, gains and losses			38,711
Discount on acquisition of a subsidiary			5,833
Unallocated corporate expenses			(11,868)
Finance costs			(111,614)
Profit before tax			684,130
Income tax expense			(54,681)
Profit for the period			629,449
BALANCE SHEET			
Assets			
Segment assets	4,064,277	353,201	4,417,478
Unallocated assets			2,102,908
Total consolidated assets			6,520,386
Liabilities			
Segment liabilities	1,439,681	62,628	1,502,309
Unallocated liabilities			2,200,637
Total consolidated liabilities			3,702,946

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

5. BUSINESS AND GEOGRAPHICAL SEGMENT *(Continued)*

No segment information is presented for capital expenditure, depreciation, amortization and non-cash expense as these amounts are substantially attributable to the segment of manufacturing and sales of construction machinery.

Geographical segments

As over 90% of the consolidated turnover, assets and addition to property plant and equipment of the Group for the years is located in the People's Republic of China ("PRC"), an analysis of the segment turnover, assets and addition to property plant and equipment of the Group by geographic location is not presented.

6. INTEREST INCOME

	2008	2007
	RMB'000	RMB'000
Interest on bank deposits	**6,732**	54,119
Interest on loan receivable from financial institutions	**39,216**	16,268
Interest on finance lease	**–**	1,140
	45,948	71,527

7. OTHER GAINS AND LOSSES

	2008	2007
	RMB'000	RMB'000
Gain (loss) on disposal of property, plant and equipment	**988**	(1,123)
Exchange realignment from convertible loan notes	**123,587**	98,642
Foreign exchange losses	**(29,331)**	(64,984)
Change in fair value of derivative financial instruments	**48,136**	5,053
Gain on repurchase of convertible loan notes	**132,784**	–
	276,164	37,588

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

8. FINANCIAL COSTS

	2008 RMB'000	2007 RMB'000
Interest on bank borrowings	**18,417**	15,842
Effective interest expense on convertible loan notes	**136,406**	95,772
	154,823	111,614

9. INCOME TAX EXPENSE

	2008 RMB'000	2007 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**93,930**	96,006
Over provision of EIT in prior year	**(185)**	(265)
	93,745	95,741
Deferred tax *(note 20)*	**(21,021)**	(41,060)
Income tax expense	**72,724**	54,681

The Company, China Dragon Development Holdings Limited and China Dragon Investment Holdings Limited are tax exempted companies registered in the Cayman Islands and British Virgin Islands, no provision for Hong Kong Profits Tax has been made as the Group's profit neither arose in, nor derived from Hong Kong during the year.

Subsidiaries of the Group located in the PRC, which are qualified foreign investment enterprises, are entitled to tax exemption from EIT for the two years commencing from its first profit-making year of operations, after offsetting all unexpired tax losses carried forward from the previous years and thereafter, entitled to a 50 per cent tax relief from EIT for the next three years ("Tax Exemption").

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

9. INCOME TAX EXPENSE *(Continued)*

On 16 March 2007, PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. The New Law and the Implementation Regulation have changed the statutory tax rate to 25% for all the Group's PRC subsidiaries from 1 January 2008.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa (2007) No.39), the Tax Exemption is still applicable until the end of the five-year transitional period ended in 2012. During 2007 and 2008, certain major subsidiaries are still entitled to the Tax Exemption and enjoyed tax exemption or 12.5% tax relief respectively.

Under the New Tax Law and implementation regulations issued by the State Council, PRC withholding income tax is applicable to interest and dividends payable to investors that are "non-tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such interest or dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries to off-shore group entities shall be subject to the withholding tax at 10%. Therefore, withholding tax has been provided based on the anticipated dividends to be distributed by the PRC entities.

The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled under the New Tax Law.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

9. INCOME TAX EXPENSE *(Continued)*

The tax charge (credit) for the year ended 31 December 2008 and 2007 can be reconciled to the profit per the consolidated income statement as follows:

	2008		2007	
	RMB'000	**%**	RMB'000	%
Profit before taxation	**738,216**		684,130	
Tax at the domestic tax rate of 25% (2007: 33%)	**184,554**	**25.0**	225,763	33.0
Tax effect of income that is not taxable for tax purpose	**(73,596)**	**(10.0)**	(30,368)	(4.4)
Tax effect of expenses that are not deductible for tax purpose	**38,428**	**5.2**	36,091	5.2
Tax effect of tax losses not recognised	**9,835**	**1.3**	7,633	1.1
Utilisation of deductible temporary differences not recognised in previous year	**–**	**–**	(224)	(0.0)
Utilisation of tax losses previously not recognised	**(3,921)**	**(0.5)**	–	–
Over provision in respect of prior years	**(185)**	**(0.0)**	(265)	(0.0)
Deferred tax charged at different income tax rate	**13,454**	**1.8**	14,919	2.2
Effect of withholding tax	**16,485**	**2.2**	–	–
Effect of tax exemptions and concessionary rate	**(112,330)**	**(15.3)**	(198,868)	(29.1)
Tax charge (credit) and effective tax rate for the year	**72,724**	**9.7**	54,681	8.0

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

10. PROFIT BEFORE TAX

	2008 RMB'000	2007 RMB'000
Profit before taxation has been arrived at after charging:		
Cost of inventory recognised as expense	**4,919,882**	4,113,961
Allowance for inventories	**50,415**	3,094
Staff costs, including directors' remuneration		
Salaries and allowances	**270,221**	192,701
Contributions to retirement benefit scheme	**19,643**	13,506
Total staff costs	**289,864**	206,207
Auditors' remuneration	**2,990**	2,764
Allowance for bad and doubtful debts	**15,215**	20,779
Depreciation	**45,363**	61,527
Amortisation of lease premium for land	**4,382**	3,805
Research expenditure	**16,356**	16,438
and after crediting:		
Discount on acquisition *(Note 33)*	**–**	5,833
Government grants *(note)*	**3,450**	12,441

Note: The government grants in 2008 represent the enterprise development subsidy granted to and received by two of the subsidiaries of the Group. The government grants in 2007 represented the tax refund on reinvestment approved by State Administration of Taxation. There are no unfulfilled conditions and other contingencies attaching to the government grants.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

11. DIRECTORS' EMOLUMENTS

(a) Directors' emoluments

	2008 RMB'000	2007 RMB'000
Fees	**900**	1,182
Other emoluments:		
Salaries and allowances	**3,175**	2,930
Contributions to retirement benefits scheme	**25**	24
	3,200	2,954
	4,100	4,136

Details of emoluments of individual directors are set out as follows:

	2008 RMB'000	2007 RMB'000
Fees:		
Non-executive director:		
Ms. Ngai Ngan Ying	**600**	582
Professor Yang Hong Qi	**100**	–
Ms. Fang De Qin	**–**	300
Independent director:		
Professor Yang Hongqi	**–**	100
Dr. Qian Shizheng	**100**	100
Mr. Peter Lo	**100**	100
	900	1,182

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

11. DIRECTORS' EMOLUMENTS *(Continued)*

Details of salaries, allowances and contributions to retirement benefits scheme are set out as follows:

	2008		2007	
	Salaries and allowances RMB'000	**Contributions to retirement benefits scheme RMB'000**	Salaries and allowances RMB'000	Contributions to retirement benefits scheme RMB'000
Executive director:				
Mr. Li San Yim	**1,200**	**–**	1,164	–
Mr. Qiu Debo	**596**	**4**	596	4
Mr. Luo Jianru	**296**	**4**	296	4
Ms. Fang De Qin	**300**	**–**	–	–
Mr. Chen Chao	**293**	**7**	293	7
Mr. Zhu Yong Sheng	**–**	**–**	20	–
Dr. Zhang Hong	**50**	**–**	120	–
Mr. Mou Yan Qun	**290**	**10**	291	9
Mr. Lin Zhong Ming	**150**	**–**	150	–
	3,175	**25**	2,930	24

12. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 2008 and 2007 were all directors of the Company and details of their emoluments are included in Note 11 above.

During both years ended 31 December 2008 and 2007, no emoluments were paid by the Group to any of the directors or five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

13. DIVIDENDS

	2008 RMB'000	2007 RMB'000
Dividends recognised as distribution during the year:		
2007 final of HKD0.12 per share (2006 final: HKD0.22)	**116,156**	223,200
2008 interim of HKD0.13 per share (2007 interim: HKD0.12)	**123,805**	125,955
	239,961	349,155

In the annual general meeting held on 15 May 2008, a final dividend of HKD0.12 (2007: HKD0.22) per share in respect of the year ended 31 December 2007 was approved by the shareholders and subsequently paid to the shareholders of the Company.

An interim dividend of HKD0.13 (2007: HKD0.12) per share in respect of the six months ended 30 June 2008 was approved by the board of directors on 8 September 2008 and subsequently paid to the shareholders of the Company.

A final dividend of HKD0.05 (Equivalent to RMB0.04 per ordinary share for the year ended 31 December 2008 has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting to be held on 29 May 2009.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

14. EARNINGS PER SHARE

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

	2008 RMB'000	2007 RMB'000
Earnings		
Earnings for the purposes of basic earnings per share	**665,594**	629,616
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	**136,406**	95,772
Exchange realignment on convertible loan notes	**(123,587)**	(98,642)
Change in fair value of derivative financial instruments	**(48,136)**	(5,053)
Gain on repurchase of convertible loan notes	**(132,784)**	–
Earnings for the purposes of diluted earnings per share	**497,493**	621,693

	2008 '000	2007 '000
Number of Shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,081,419**	1,072,809
Effect of dilutive potential ordinary shares:		
Convertible loan notes	**108,105**	73,634
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,189,524**	1,146,443

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and Machinery	Motor Vehicles	Furniture and Fixtures	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2007	246,765	345,487	18,803	24,238	157,096	792,389
Additions	701	72,987	4,593	7,571	353,676	439,528
Transfers	126,702	97,373	–	19	(228,331)	(4,237)
Acquired on acquisition of subsidiary *(note 33)*	42,741	4,942	223	68	–	47,974
Disposals	(1,600)	(6,248)	(1,116)	(873)	–	(9,837)
At 31 December 2007	415,309	514,541	22,503	31,023	282,441	1,265,817
Additions	2,692	224,289	1,168	4,741	817,307	1,050,197
Transfers	82,701	118,719	1,293	3,347	(210,820)	(4,760)
Acquired on acquisition of subsidiary *(note 33)*	–	–	1,702	202	–	1,904
Disposals	(12,489)	(4,395)	(2,262)	(122)	(331)	(19,599)
At 31 December 2008	**488,213**	**853,154**	**24,404**	**39,191**	**888,597**	**2,293,559**
DEPRECIATION						
At 1 January 2007	27,505	53,980	5,214	5,597	–	92,296
Charge for the year	15,575	38,848	3,235	3,869	–	61,527
Disposals	(424)	(2,662)	(779)	(683)	–	(4,548)
At 31 December 2007	42,656	90,166	7,670	8,783	–	149,275
Charge for the year	19,563	61,498	3,823	5,839	–	90,723
Disposals	(1,861)	(2,869)	(1,875)	(97)	–	(6,702)
At 31 December 2008	**60,358**	**148,795**	**9,618**	**14,525**	**–**	**233,296**
CARRYING AMOUNT						
At 31 December 2008	**427,855**	**704,359**	**14,786**	**24,666**	**888,597**	**2,060,263**
At 31 December 2007	372,653	424,375	14,833	22,240	282,441	1,116,542

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The buildings of the Group are situated in the PRC under medium term land use rights.

The construction in progress is mainly related to the construction of factory premise and production plants which had not been completed at the balance sheet dates.

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

Buildings	Over the shorter of the term of the land use rights or 30 years
Plant and machinery	4 to 11 years
Motor vehicles	5 to 6 years
Furniture and fixtures	4 to 6 years

16. LEASE PREMIUM FOR LAND

	2008 **RMB'000**	2007 RMB'000
Balance at beginning of the year	**207,018**	149,196
Acquisition of a subsidiary *(Note 33)*	**–**	42,882
Additions	**23,783**	14,508
Transfers	**4,760**	4,237
Amortisation	**(4,382)**	(3,805)
Disposal	**(1,799)**	–
Balance at end of the year	**229,380**	207,018
Analysed for reporting purpose as:		
Current portion	**4,939**	4,402
Non-current portion	**224,441**	202,616
	229,380	207,018

The carrying amount represented medium-term land use rights situated in the PRC.

The lease premium for land is charged to profit or loss over the term of the land use rights.

The Group is in the process of obtaining the land use right certificate for leasehold land of RMB44,887,000 at 31 December 2008 (2007: RMB16,344,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

17. LOAN RECEIVABLES FROM FINANCIAL INSTITUTIONS

	2008 RMB'000	2007 RMB'000
Fixed-rate loan receivables – current	–	1,450,000

The Group entered into contract with several financial institutions on purchasing fixed-rate financing products in 2007. The ranges of effective interest on the Group's loan receivables are 4.2% to 6% per annum. The Group did not hold any collateral over these balances.

18. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2008 RMB'000	2007 RMB'000
Listed investments:		
– Equity securities listed in PRC	42,755	–

The securities held by the Group represent 2.27% of common stock of a company listed in PRC, which will be eligible for public trading on or after 26 December 2009 in accordance with the share subscription agreement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

19. FINANCE LEASE RECEIVABLES

Certain of the wheel loaders, road rollers, excavators, forklifts, and other infrastructure machinery of the Group are leased out under finance leases. All interest rates inherent in the leases are fixed at the contract date over the lease terms.

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Finance lease receivables comprise:				
Within one year	**738,135**	316,607	**693,411**	303,679
In more than one year but not more than two years	**130,976**	37,190	**126,101**	34,952
In more than two years but not more than five years	**14,020**	191	**12,647**	168
	883,131	353,988	**832,159**	338,799
Less: unearned finance income	**50,972**	15,189	**N/A**	N/A
Present value of minimum lease payment receivables	**832,159**	338,799	**832,159**	338,799
Analysed as:				
Current			**693,411**	303,679
Non-current			**138,748**	35,120
			832,159	338,799

Unguaranteed residual values of assets leased under finance leases are nil. There are no contingents rents recognised in income for the year. There is no accumulated impairment loss at 31 December, 2008.

Effective interest rates of the above finance leases range from 6.9% to 9.5% per annum.

Finance lease receivables are secured over the leased infrastructure machinery. The Group is not permitted to sell or repledge the collateral in the absence of default by the leasees.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

19. FINANCE LEASE RECEIVABLES *(Continued)*

As at 31 December 2008, the group received refundable finance lease deposits as follows:

	2008	2007
	RMB'000	RMB'000
Current *(note 24)*	**137,780**	24,513
Non-current	**27,565**	16,563
	165,345	41,076

20. DEFERRED TAXATION

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

Deferred tax assets:

	Allowance for bad and doubtful debts	**Provision for products warranty**	**Allowance for inventories**	**Unrealised profit in inventory**	**Accrued sales rebate cost**	**Tax losses**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	2,394	3,496	715	6,894	11,232	–	24,731
Credit to income statement for the period	2,774	25,513	1,099	9,873	16,720	–	55,979
Effect of change in tax rate	(253)	(5,518)	(429)	(1,943)	(6,776)	–	(14,919)
At 31 December 2007	4,915	23,491	1,385	14,824	21,176	–	65,791
Credit (charge) to income statement for the period	3,901	5,050	5,438	34,668	(13,241)	1,690	37,506
At 31 December 2008	**8,816**	**28,541**	**6,823**	**49,492**	**7,935**	**1,690**	**103,297**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

20. DEFERRED TAXATION *(Continued)*

Deferred tax liabilities:

	Fair value adjustment on land and buildings RMB'000	Withholding taxes on undistributed profits RMB'000	Total RMB'000
At 1 January 2007	–	–	–
Acquisition of a subsidiary	5,671	–	5,671
At 31 December 2007	5,671	–	5,671
Charge to income statement for the period	–	16,485	16,485
At 31 December 2008	**5,671**	**16,485**	**22,156**

At the balance sheet date, certain subsidiaries of the Group have unused tax losses of RMB46 million (2007: RMB22 million) available for offset against future profits. RMB1.69 million of deferred tax assets has been recognised for RMB6.76 million of tax loss in current year. No other deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams of these subsidiaries. RMB6 million tax losses will expire in 2012 and RMB40 million tax losses will expire in 2013.

Under the New Tax Law, withholding tax of 10% is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards which are payable to non-PRC holding companies. Deferred taxation has not yet been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits of the PRC subsidiaries amounting to approximately RMB384,650,000 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

21. INVENTORIES

	2008 RMB'000	2007 RMB'000
Raw materials	**658,804**	528,642
Work in progress	**105,450**	155,944
Finished goods	**1,583,667**	806,760
	2,347,921	1,491,346

22. TRADE RECEIVABLES, BILL RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	2008 RMB'000	2007 RMB'000
Trade receivables	**238,474**	388,276
allowance for doubtful debts	**(38,293)**	(38,105)
	200,181	350,171
Bill receivables	**343,380**	522,362
Other receivables	**62,854**	7,779
Less: allowance for doubtful debts	**(15,074)**	(1,415)
	47,780	6,364
Deposits for purchase of supplies and raw materials	**105,570**	314,573
Value-added tax recoverable	**251,755**	54,035
Interest receivables from financial institutions	**4,538**	16,268
	409,643	391,240

The Group allows a credit periods ranging from 0 to 90 days to its normal trade customers other than some customers with good credit history and relationships, with whom longer credit terms up to 180 days will be granted.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

22. TRADE RECEIVABLES, BILL RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

The aged analysis of trade receivables is as follows:

	2008 RMB'000	2007 RMB'000
0 – 90 days	**138,439**	302,626
91 – 180 days	**38,221**	39,263
181 – 270 days	**16,485**	2,565
271 days to 1 year	**7,036**	5,717
	200,181	350,171

Bill receivables are aged within six months at the balance sheet dates. At 31 December 2008, amounts of RMB59,300,000 (2007: Nil) bill receivables are pledged to banks for the Group to get short-term credit facilities in respect of purchases of raw materials for manufacturing.

70% (2007: 86%) of the trade receivables are neither past due nor impaired and relate to a wide range of customers for whom there was no recent history of default.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB61,742,000 (2007: RMB47,545,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 180 days (2007: 161 days).

The Group has provided full allowance for all receivables over one year because historical experience is such that receivables that are past due beyond one year are generally not recoverable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

22. TRADE RECEIVABLES, BILL RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

Movement in the allowance for doubtful debts

	2008	2007
	RMB'000	RMB'000
Balance at beginning of the year	**39,520**	18,741
Impairment losses recognised on receivables	**15,215**	20,779
Write off	**(1,368)**	–
Balance at end of the year	**53,367**	39,520

The impairment recognised represents the difference between the carrying amount of these receivables and the present value of the expected proceeds. The Group does not hold any collateral over these balances.

The Group's trade receivables which are not denominated in the functional currencies of the respective group entities are as follows:

Original currency	**United States dollar ("USD")**	**EURO**
	RMB'000	RMB'000
As at 31 December 2008	1,933	19,003
As at 31 December 2007	13,443	42,464

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

23. BANK BALANCES AND PLEDGED BANK DEPOSITS

The bank balances and pledged deposits carry interest at market rates which range from 0.36% to 1.71% (2007: 1.27% to 5.15%) per annum.

Pledged bank deposits represents deposits pledged to banks to secure for short-term banking facilities from the banks in respect of purchases of raw materials for manufacturing and are therefore classified as current assets.

At 31 December 2008, amounts of RMB8,259,000 (2007: RMB17,141,000) is denominated in Hong Kong dollar ("HKD"), and amounts of RMB201,960,000 (2007: RMB267,163,000) is dominated in United States dollar ("USD"), and RMB9,824,000 (2007: Nil) is denominated in Euro.

24. TRADE PAYABLES, BILL PAYABLES, OTHER PAYABLES AND ACCRUALS

	2008	2007
	RMB'000	RMB'000
The aged analysis of trade payables is as follows:		
0 – 180 days	**665,239**	650,895
181 days – 1 year	**11,374**	41,678
1 to 2 years	**9,631**	4,845
2 to 3 years	**1,538**	92
Over 3 years	**82**	–
	687,864	697,510
Other payable and accruals:		
Advance from customer	**118,944**	43,532
Deposit for finance lease *(note 19)*	**137,780**	24,513
Salary and wages payable	**24,220**	32,786
Payable for acquisition of property plant and equipment	**36,950**	8,799
Other tax payable	**4,432**	2,777
Accrued sales rebate	**31,739**	84,703
Other payables	**19,856**	36,371
Other accrued expenses	**40,386**	25,659
	414,307	259,140

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

24. TRADE PAYABLES, BILL PAYABLES, OTHER PAYABLES AND ACCRUALS *(Continued)*

The credit period on purchases of goods is 90-180 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

Bill payables are aged within 6 months at both balance sheet dates and secured by bill receivables or pledged bank deposits.

25. PROVISIONS

	2008	2007
	RMB'000	RMB'000
At 1 January 2008	**128,296**	27,101
Additional provision for the year	**156,527**	150,734
Utilisation of provision	**(130,348)**	(49,539)
At 31 December 2008	**154,475**	128,296

The Group offers a standard one-year warranty for the wheel loaders and road rollers. The provisions represent the present value of the directors' best estimate of the future outflow that will be required under the Group's warranty policy.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

26. AMOUNTS DUE TO RELATED PARTIES

	2008	2007
	RMB'000	RMB'000
Non-trade		
Shanghai Longgong Machinery Co., Ltd. *(note a)*	**2,079**	1,848
China Longgong Group Holdings Limited *(note a)*	**4,867**	5,168
Trade		
Longyan City Jinlong Machinery Company Limited ("Jinlong") *(note b)*	**4,253**	5,359
Sichuan Deying Bonding Company Limited *(note c)*	**2,672**	500
	13,871	12,875

Note a: Mr. Li San Yim and Madam Ngai Ngan Ying hold controlling interest in these entities. The amounts due to Shanghai Longgong Machinery Co, Ltd. were dividends payable declared during the year ended 31 December 2007 and 2008 by a non-wholly owned subsidiary whose minority shareholder is Shanghai Longgong Machinery Co, Ltd. The amounts due to China Longgong Group Holdings Limited were payment of expense made on behalf of the Group.

Note b: Mr. Ngai Ngan Gin, the brother of Madam Ngai Ngan Ying, holds controlling interest in this entity. The amount due to this entity represents the payable for purchase of spare parts.

Note c: Mr. Chen Jie, the son in law of Mr. Li San Yim, holds controlling interest in this entity. The amount represents deposits paid by this entity for finance lease of wheel loaders to the customers handled by this entity.

All the amounts are unsecured, non-interest bearing and repayable on demand or based on the agreed credit term of approximately 90 days.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

27. SHARE CAPITAL

	Number of shares		Share capital	
	2008	2007	**2008**	2007
	'000	'000	**HKD'000**	HKD'000
Ordinary shares of HKD0.1 each				
Authorised				
At the beginning of year	**5,000,000**	5,000,000	**500,000**	500,000
			RMB'000	RMB'000
Issued and fully paid				
At 1 January	**1,089,050**	1,037,050	**113,009**	107,886
Increase on 13 April 2007	**–**	52,000	**–**	5,123
Share repurchased and cancelled	**(19,025)**	–	**(1,980)**	–
At 31 December	**1,070,025**	1,089,050	**111,029**	113,009

During the year, the Company repurchased its own shares through the Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	No. of ordinary shares of HKD0.1 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		RMB	RMB	RMB'000
April	4,314,000	6.48	5.73	24,189
July	6,471,000	6.30	6.22	35,771
October	8,240,000	3.70	2.70	23,056
	19,025,000			83,016

The above shares were cancelled upon repurchase.

On 13 April 2007, the Company issued a total of 52,000,000 subscription shares of HKD0.10 each at a price of HKD15.15 (Equivalent to RMB14.93) per share. The proceeds are to be used to expand the production capacity to upgrade the research and development capabilities and to provide additional working capital for the Group. The shares issued ranked pari passu with the existing shares in all material respects.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

28. SPECIAL RESERVE AND NON-DISTRIBUTABLE RESERVE

The special reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries acquired pursuant to a group reorganisation in 2004.

The non-distributable reserve of the Group represents the statutory reserve which comprised of capital reserve and statutory reserve funds appropriated from the profit after taxation of subsidiaries established in the PRC in accordance with the PRC laws and regulations.

29. BORROWINGS

	2008	2007
	RMB'000	RMB'000
Bank loans – unsecured	**998,000**	–
Fixed-rate bank loans	**361,000**	–
Variable-rate bank loans	**637,000**	–
	998,000	–
Carrying amount repayable:		
Within one year	**361,000**	–
More than one year, but not exceeding two years	**290,000**	–
More than two years but not more than five years	**347,000**	–
	998,000	–
Less: Amounts due within one year	**(361,000)**	–
	637,000	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

29. BORROWINGS *(Continued)*

The range of effective interest rates on the Group's bank loans are as follows:

	2008 **RMB'000**	2007 RMB'000
Effective interest rate:		
Fixed-rate bank loans	**5.4%-6.24%**	–
Variable-rate bank loans	**4.97-5.13%**	–

30. CONVERTIBLE LOAN NOTES AND DERIVATIVE FINANCIAL INSTRUMENTS

Convertible Loan Notes of USD287 million were issued by the Company on 30 April 2007 at an issue price of USD10,000 per Convertible Loan Note of USD10,000. The Convertible Loan Notes are listed on the Singapore Exchange Securities Trading Limited. Each Convertible Loan Note entitles the holder to convert to one ordinary share of the Company at the initial conversion price of HKD20.4525 (the "Conversion Price"), but subject to anti-dilutive adjustment as stated in the offering circular on 27 April 2007 ("Offering Circular"). On 15 May 2008, the conversion price has been revised to HKD19.984 after anti-dilutive adjustment.

The principal terms of the Convertible Loan Notes are as follows:

Interest

The Convertible Loan Notes do not bear any interest.

Conversion period

The conversion period starts from the 40th day after the issue of Convertible Loan Notes and will cease on the 7th business day prior to the maturity day of 30 April 2012 (the "Maturity Date").

Maturity

Unless previously redeemed or converted, the Company will redeem each Convertible Loan Note at 121.155% of its principal amount on the Maturity Date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

30. CONVERTIBLE LOAN NOTES AND DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Redemption at the Option of the Company

On and at any time after 30 April 2010 but not less than seven business days prior to the Maturity Date nor within the closed period which is defined in the Offering Circular, the Company may, having given not less than 30 nor more than 60 days' notice to the bondholders, redeem the Convertible Loan Notes in whole or in part at the early redemption amount as defined in the Offering Circular, provided that no such redemption may be made unless the closing price of the Company's shares translated into US dollar at the prevailing exchange rate for each of any 20 trading days falling within a period of 30 consecutive trading days, the last day of which period occurs no more than 5 trading days prior to the date upon which notice of such redemption is given, was at least 130% of the Conversion Price in effect translated into US dollar at the fixed exchange rate of HKD7.8175=USD1.00 on each such stock exchange business day.

Redemption at the Option of the Bondholders

The holder of each Convertible Loan Note will have the right to require the Company to redeem all or some of their Convertible Loan Notes at 112.203% of the initial principal amount on 30 April 2010 or on the occurrence of a change of the Company's controlling shareholders or delisting of the Company's shares.

The gross proceeds net of transaction costs received from the issue of the Convertible Loan Notes are split into the liability component and derivative component (comprised of embedded derivatives which are considered as not closely related to the host liability component) as follow:

(i) Liability component represents the present value of the contractual stream of future cash flows discounted at the prevailing market interest rate at that time applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the embedded derivatives.

The interest charged for the year is calculated by applying an effective interest rate of approximately 7.73% to the liability component since the Convertible Loan Notes were issued.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

30. CONVERTIBLE LOAN NOTES AND DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Redemption at the Option of the Bondholders *(Continued)*

(ii) Derivative component represents:

(i) The fair value of the option of the holders to convert the Convertible Loan Notes into shares of the Company at an initial conversion price of HKD20.4525 per ordinary share of HKD0.1 each in the share capital of the Company ("Share") and subject to anti-dilutive adjustments.

(ii) The fair value of the option of the Company to early redeem the Convertible Loan Notes.

(iii) The fair value of the option of the holders to require the Company to early redeem the Convertible Loan Notes.

The movement of the liability component and derivative component of the Convertible Loan Notes for the period is set out below:

	Liability component RMB'000	**Derivative component** RMB'000	**Total** RMB'000
Convertible Loan Notes:			
At date of issue on 30 April 2007 net proceeds	1,846,790	310,514	2,157,304
Exchange realignment	(98,642)	–	(98,642)
Effective interest expense charged during the period	95,772	–	95,772
Changes in fair value	–	(5,053)	(5,053)
As at 31 December 2007	1,843,920	305,461	2,149,381
Exchange realignment	(123,587)	–	(123,587)
Effective interest expense charged during the period	136,406	–	136,406
Re-purchased and cancelled	(379,778)	(51,453)	(431,231)
Changes in fair value	–	(48,136)	(48,136)
As at 31 December 2008	**1,476,961**	**205,872**	**1,682,833**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

30. CONVERTIBLE LOAN NOTES AND DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

At the issuance date and each of the balance sheet date, the fair values of the conversion option of the holders and the redemption option of the Company have been determined based on the Binomial Model and redemption option of the bondholders have been determined based on the Black-Scholes Model. Inputs into the model at the respective valuation dates are as follows:

	2008	2007
Conversion Option Value		
Risk-free rate of interest	**0.81%**	3.10%
Time to expiration	**3.3 year**	4.3 year
Volatility	**71.44%**	66.8%
Put Option Value for holder		
Risk-free rate of interest	**0.28%**	2.79%
Vesting date	**30 April 2010**	30 April 2010
Volatility	**12.86%**	9.75%
Company's Call Option Value		
Risk-free rate of interest	**0.81%**	3.10%
Vesting date	**30 April 2010**	30 April 2010
Time to expiration	**3.3 year**	4.3 year
Volatility	**12.86%**	9.75%

During the year ended 31 December 2008, the Company repurchased USD59,730,000 of face value (equivalent to RMB407,923,303) of the issued convertible loan notes and recognised RMB126,960,000 gain on the repurchase in the consolidated income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that 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 prior year.

The capital structure of the Group consists of net debt, which includes the Convertible Loan Notes disclosed in note 30 and bank borrowings in note 29, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated profits.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balances its overall capital structure through the payment of dividends, new share issues, share repurchase and the issue of new debt.

32. FINANCIAL INSTRUMENTS

32.1. Categories of financial instruments

	2008	2007
	RMB'000	RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**2,527,033**	3,271,081
Available-for-sale investments	**42,755**	–
Financial liabilities:		
Designated as at FVTPL	**205,872**	305,461
Amortised cost	**4,075,808**	3,044,699

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

32. FINANCIAL INSTRUMENTS *(Continued)*

32.2. Financial risk management objectives and polices

The Group's major financial instruments include trade receivables, other receivable, bill receivables, finance lease receivables, pledged bank deposits, bank balances and cash, trade payables, other payable, bill payables, bank borrowings and convertible loan notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and price 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 directors review and agree policies for managing each of these risks and they are summarised below:

Market risk

(i) *Currency risk*

The Group's exposure to foreign currency risk is arising mainly from:

(1) The Company and certain subsidiaries have bank balances denominated in foreign currencies.

(2) Several subsidiaries of the Company also have foreign currency sales and purchases and certain trade receivables and payables of these subsidiaries are denominated in foreign currencies.

(3) The Company's Convertible Loan Notes are denominated in foreign currency.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

32. FINANCIAL INSTRUMENTS *(Continued)*

32.2. Financial risk management objectives and polices *(Continued)*

Market risk (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**203,893**	280,606	**(1,682,833)**	(1,844,030)
Euro	**28,827**	42,464	**–**	–
HKD	**8,259**	17,550	**(7,618)**	(7,194)

Sensitivity analysis

The Group is mainly exposed to USD, Euro and HKD.

The following table details the Group's sensitivity to a 5% (2007: 5%) increase and decrease in Renminbi against the relevant foreign currencies. 5% (2007: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2007: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where Renminbi strengthen 5% (2007: 5%) against the relevant currency. For a 5% (2007: 5%) weakening of Renminbi against the relevant currency, there would be an equal and opposite impact on post-tax profit for the year.

	USD impact		EUR impact		HKD impact	
	2008	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Post-tax profit or loss *(note)*	**64,703**	78,171	**(1,261)**	(2,123)	**(28)**	(518)

Note: The USD impact in 2008 and 2007 is mainly attributable to the exposure on the USD denominated Convertible Loan Notes outstanding at the reporting dates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

32. FINANCIAL INSTRUMENTS *(Continued)*

32.2. Financial risk management objectives and polices *(Continued)*

Market risk (Continued)

(ii) *Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 29 for details of these borrowings) and the liability component of convertible loan notes. The Group's exposure to interest rates on financial liabilities is detailed in the liquidity risk management section of this note. The Group has not entered into any interest rate hedging contracts or any other derivative financial instrument. The management closely monitors such risks and will consider hedging significant interest rate risk exposure should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and variable-rate bank borrowings (see note 29 for details of these borrowings).

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest bearing financial instruments at the balance sheet date. The analysis is prepared assuming the amount of variable-rate interest bearing financial instruments outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower for the bank borrowings and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2008 would decrease/increase by RMB2,877,000 (2007: increase/decrease by RMB1,721,000). If interest rates had been 10 basis points higher/lower for the bank balance and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2008 would increase/decrease by RMB697,000 (2007: increase/decrease by RMB440,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

32. FINANCIAL INSTRUMENTS *(Continued)*

32.2. Financial risk management objectives and polices *(Continued)*

Market risk (Continued)

(iii) Price risk

Convertible Loan Notes

The Group estimates the fair value of the derivative embedded in the Convertible Loan Notes at each balance sheet date with changes in fair value to be recognised in the consolidated income statements as long as the Convertible Loan Notes are outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in short-term interest (risk free) rate, the Company's share market price and share price volatility.

Sensitivity analysis

The fair value of derivative components embedded in the Convertible Loan Notes was estimated using Binomial option pricing model and the Black-Scholes option pricing model. The sensitivity analysis below has been determined based on the exposure to the Company's share price risks at the reporting date only as the directors of the Company consider that other variables may not have significant financial impact on the derivative option.

If the Company's share price have been 5% higher/lower and all other variables were held constant, the Group's post-tax profit for the year (as a result of changes in fair value of derivative option components of Convertible Loan Notes) would decrease by RMB2,057,000/increase by RMB370,000 (2007: decrease by RMB30,546,000/ increase by RMB16,055,000).

In management's opinion, the sensitivity analysis are unrepresentative of the inherent marked risk as the pricing model used in the fair value valuation of derivative option component of Convertible Loan Notes involves multiple variables and certain variables are interdependent.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

32. FINANCIAL INSTRUMENTS *(Continued)*

32.2. Financial risk management objectives and polices *(Continued)*

Available-for-sale investment

The Group is also exposed to equity price risk through its purchased listed equity securities.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. If the prices of the respective equity instruments had been 5% higher, the reserve would increase by RMB2,339,000. If the prices of the equity instrument had been 5% lower, the reserve would decrease by the same amount and the Group would consider any potential impairment effect.

Credit risk

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 is the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk in relation to trade receivables and other receivables, the Group trades only with recognised, creditworthy third parties and has made policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, the Group reviews the recoverable amount of each individual trade debt and other receivable at each balance sheet date 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 amounts presented in the consolidated balance sheet are net of allowances for doubtful receivables, if any, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

In order to minimise the credit risk on finance lease receivables, the Group received certain deposits from sales agents or the customers at the time the lease term commenced. The Group reviews each potential finance lease customer's credit quality before accepting a finance lease customer. If any customer delays lease payment for 3 months, the Group will deduct deposits from the sales agent or the customers directly. The management closely monitors such risks and will consider hedging significant credit risk exposure should the need arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

32. FINANCIAL INSTRUMENTS *(Continued)*

32.2. Financial risk management objectives and polices *(Continued)*

Credit risk *(Continued)*

The Group does not have any significant concentration of credit risk as the trade receivables of the Group consist of a large number of customers on diversified basis.

The Group considers the credit risk on bill receivables is limited because the bill receivables are accepted by the state-owned banks located in PRC or those banks with high credit ratings assigned by international credit-rating agencies.

With respect to credit risk arising from the other financial assets of the Group which comprise bank balances and pledged bank deposits, the Group's exposure to credit risk arising from default of counterparties is limited as the counterparties are state-owned banks located in PRC or those banks with high credit rating assigned by international credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group closely 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 Group relies on bank balances and cash, bank borrowings, Convertible Loan Notes and bill payables as a significant source of liquidity.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk. The table reflects the undiscounted cash flows of financial liabilities based on the earliest date which the Group can be required to pay. The table includes both interest and principle cash flows.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

32. FINANCIAL INSTRUMENTS *(Continued)*

32.2. Financial risk management objectives and polices *(Continued)*

Liquidity risk (Continued)

	Weighted average interest rate %	Less than 3 months RMB'000	3-6 months RMB'000	6 months to 1 year RMB'000	1-2 years RMB'000	2-3 years RMB'000	Undiscounted cash flow RMB'000	Total carrying amount RMB'000
2008								
Non-derivative financial liabilities								
Trade, bill and other payable	–	729,287	700,143	129,981	–	–	1,559,411	1,559,411
Bank borrowings								
– Fixed rate	5.61%	70,484	275,756	–	–	23,252	369,492	361,000
– Variable-rate	5.01%	–	–	20,852	317,428	372,424	710,704	637,000
Amounts due to related party	–	13,871	–	–	–	–	13,871	13,871
Convertible Loan Notes *(note)*	7.19%	–	–	–	1,881,734	–	1,881,734	1,476,961
Deposit for finance lease	–	–	–	–	27,565	–	27,565	27,565
Total		813,642	975,899	150,833	2,226,727	395,676	4,462,777	4,075,808

	Weighted average interest rate %	Less than 3 months RMB'000	3-6 months RMB'000	6 months to 1 year RMB'000	1-2 years RMB'000	2-3 years RMB'000	Undiscounted cash flow RMB'000	Total carrying amount RMB'000
2007								
Non-derivative financial liabilities								
Trade, bill and other payable	–	913,135	228,274	29,932	–	–	1,171,341	1,171,341
Amounts due to related party	–	5,359	–	7,516	–	–	12,875	12,875
Convertible Loan Notes *(note)*	7.19%	–	–	–	–	2,539,918	2,539,918	1,843,920
Deposit for finance lease	–	–	–	–	16,563	–	16,563	16,563
Total		918,494	228,274	37,448	16,563	2,539,918	3,740,697	3,044,699

Note: The maturity of the Convertible Loan Notes is presented based on the assumption of execution of the early redemption option by the bound holder pursuant to the Convertible Loan Notes agreement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

32. FINANCIAL INSTRUMENTS *(Continued)*

32.3. Fair value

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

The fair value of available-for-sale financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices.

The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The fair value of the derivative financial instruments (Note 30) is determined using Binomial Model and Black-Scholes Model using market inputs.

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values:

	2008		2007	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Financial liabilities:				
Convertible Loan Notes *(Note 30)*	**1,476,961**	**1,187,011**	1,843,920	1,904,602

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

33. ACQUISITION OF A SUBSIDIARY

2008

On 1 August 2008, the Group acquired 100% of the interest of Longgong (Datong) Machinery Co., Ltd. from a third-party, which is a sales agent of the Group, for a total consideration of RMB5,000,000. The consideration was satisfied by the trade receivables due from that sales agent.

The net assets and fair values acquired in the transaction are as follows:

	Carrying amount and Fair value RMB'000
Net assets acquired:	
Property, plant and equipment	**1,904**
Inventories	**3,559**
Trade and other receivables	**19,865**
Bank balances and cash	**600**
Trade and other payables	**(20,333)**
Income tax payable	**(595)**
	5,000
Total consideration, satisfied by:	
Settlement of trade receivable	**5,000**
Net cash outflow arising on acquisition:	
Cash consideration paid	**–**
Bank balances and cash acquired	**600**
	600

The directors of the Company consider that the carrying amount of the acquired net assets upon the acquisition approximate to its fair value.

There is no material contribution to the Group's revenue and profit for the period from the date of the acquisition to 31 December 2008.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

33. ACQUISITION OF A SUBSIDIARY *(Continued)*

2007

On 31 March 2007, the Group acquired 99.95% of the interest of Henan Longgong Machinery Co., Ltd. from third parties for a total consideration of RMB98 million. This acquisition has been accounted for using the purchase method. The business activity of Henan Longgong Machinery Co., Ltd. is set out in Note 38.

The net assets and fair values acquired in the transaction are as follows:

	Acquiree's carrying amount before combination RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
Net assets acquired:			
Property, plant and equipment	39,957	8,017	47,974
Lease premium for land	28,215	14,667	42,882
Inventories	27,035	–	27,035
Trade and other receivables	1,361	–	1,361
Bank balances and cash	26,613	–	26,613
Pledged bank deposits	5,053	–	5,053
Trade and other payables	(41,231)	–	(41,231)
Deferred tax liability	–	(5,671)	(5,671)
	87,003	17,013	104,016
Minority interests			(55)
Discount on acquisition of a subsidiary			(5,833)
Total consideration, satisfied by:			
Cash			98,128
Net cash outflow arising on acquisition:			
Cash consideration paid			98,128
Bank balances and cash acquired			(26,613)
			71,515

The discount on acquisition arises from the appreciation in assets value for the period between the pricing decision date and the acquisition date when the Group took control over the company.

Henan Longgong Machinery Manufacturing Co., Ltd. reduced the Group's profit for the period by RMB7.6 million from the date of acquisition to 31 December 2007.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

34. OPERATING LEASE COMMITMENTS

	2008	2007
	RMB'000	RMB'000
Minimum lease payments paid under operating leases in respect of premises during the year	**7,079**	4,552

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2008	2007
	RMB'000	RMB'000
Within one year	**4,344**	4,643
In the second to fifth year inclusive	**4,822**	6,569
Over five years	**–**	718
	9,166	11,930

Operating lease payments represent rentals payable by the Group for certain of its office premises and staff quarters. Leases are negotiated for a term ranging from one to five years and rentals are fixed for the relevant lease terms.

35. CAPITAL COMMITMENTS

	2008	2007
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**594,052**	266,281

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

36. RELATED PARTY TRANSACTIONS

Except for related party balances set out in note 26, the Group has the following transactions with related party during the year:

Name of related party	Nature of transactions	2008 RMB'000	2007 RMB'000
Jinlong	Purchase of goods	**31,249**	6,103
Fujian Longyan Machinery *(Note a)*	Disposal of buildings and land use right	**12,301**	–

Note a: Mr. Li San Yim and Madam Ngai Ngan Ying hold controlling interest in this company.

Compensation of key management personnel

The remuneration of key management personnel represents the directors' emoluments during the year which set out in note 11.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trend.

37. RETIREMENT BENEFIT SCHEME

The employees employed by the Group in the PRC are members of the stated-managed retirement benefit schemes operated by the government of the PRC. The Group is required to contribute a certain percentage of its payroll costs to the retirement benefit schemes to fund the benefit. The only obligation of the Group with respect to the retirement benefit scheme is to make the specific contributions.

The total expense recognised in the consolidated income statement of RMB19,643,000 (2007: RMB7,134,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. No contributions payable to the plans were unpaid at the respective balance sheet date of 2008 and 2007.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

38. SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2008 and 2007 are as follows:

Name	Date and place of establishment/ incorporation	Paid-up issued/ registered ordinary	Attributable equity interest	Principal activities
Longgong Shanghai Machinery Co., Ltd. (龍工(上海)機械製造有限公司)	13 August 2004 PRC Sino foreign equity joint venture	HKD448,000,000	99.89%	Manufacture and distribution of wheel loaders
Longgong (Shanghai) Axle & Transmission Co., Ltd. (龍工(上海)橋箱有限公司)	17 September 2001 PRC wholly-owned foreign investment enterprise ("WOFE")	HKD168,000,000	100%	Manufacture and distribution of axles and great-box
Longgong Fujian Machinery Co., Ltd. (龍工(福建)機械有限公司)	15 September 2004 PRC WOFE	HKD260,000,000	100%	Manufacture and distribution of wheel loaders
Fujian Longyan Longgong Machinery Components Co., Ltd. (福建龍岩龍工機械配件有限公司)	1 March 1999 PRC WOFE	HKD29,680,000	100%	Manufacture and distribution of wheel loader component
Hydraulics (Shanghai) Hydraulic Machinery Co., Ltd. 海克力斯(上海)液壓機械有限公司	30 September 2003 PRC WOFE	USD31,800,000	100%	Manufacture and distribution of wheel loader component
Refined (Shanghai) Machinery Co., Ltd. 鋭帆德(上海)機械有限公司	27 November 2003 PRC WOFE	HKD50,000,000	100%	Manufacture and distribution of wheel loader component
Longgong (Jiangxi) Gear Co., Ltd. 龍工(江西)齒輪有限公司	12 September 2003 PRC WOFE	RMB257, 350,253	100%	Manufacture and distribution of wheel loader component

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

38. SUBSIDIARIES *(Continued)*

Name	Date and place of establishment/ incorporation	Paid-up issued/ registered ordinary	Attributable equity interest	Principal activities
Jiangxi Longgong Machinery Co., Ltd. 江西龍工機械有限公司	12 September 2003 PRC WOFE	RMB10,000,000	100%	Manufacturing hydraulic parts and other machinery Products
Longgong (Fujian) Hydraulics Machinery Co., Ltd. 龍工(福建)液壓機械有限公司	15 January 2007 PRC WOFE	HKD100,000,000	100%	Manufacture and distribution of wheel loader component
Longgong (Fujian) Axle & Transmission Co., Ltd. 龍工(福建)橋箱有限公司	16 January 2007 PRC WOFE	HKD200,000,000	100%	Manufacture and distribution of axles and great-boxes
Longgong (Shanghai) Road Machinery Manufacturing Co., Ltd. 龍工(上海)路面機械制造有限公司	12 September 2007 PRC WOFE	HKD100,000,000	100%	Manufacture and distribution of wheel loader and road roller
Longgong (Shanghai) Excavator Manufacturing Co., Ltd. 龍工(上海)挖掘機制造有限公司	12 September 2007 PRC WOFE	HKD260,000,000	100%	Manufacture and distribution of excavator
Monarch (Shanghai) Machinery Co., Ltd. 摩納凱(上海)機械有限公司	1 January 2007 PRC WOFE	HKD83,600,000	100%	Manufacture and distribution of hydraulic parts other and machinery products
Monarch (Shanghai) Forklift Co., Ltd. 龍工(上海)叉車有限公司	7 Feb 2007 PRC WOFE	HKD200,000,000	100%	Manufacture and distribution of forklift
Henan Longgong Machinery Manufacturing Co., Ltd. 河南龍工機械制造有限公司	11 July 2002 PRC Sino foreign equity joint venture	RMB82, 700,000	99.95%	Manufacture and distribution of wheel loader and farm machines

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

38. SUBSIDIARIES *(Continued)*

Name	Date and place of establishment/ incorporation	Paid-up issued/ registered ordinary	Attributable equity interest	Principal activities
Longgong (Shanghai) Financing Leasing Co., Ltd. 龍工(上海)融資租賃有限公司	28 March 2008 PRC WOFE	USD10,000,000	100%	Financing Lease for wheel loader and other machinery
Longgong (China) Machinery Sales Co., Ltd. 龍工(中國)機械銷售有限公司	12 Sep 2008 PRC WOFE	RMB50,000,000	100%	Ddistribution of Wheel loaders and other machinery
Longgong (Fujian) International Trade Co., Ltd. 龍工(福建)國際貿易有限公司	19 June 2008 PRC WOFE	RMB30,000,000	100%	Ddistribution of Wheel loaders and other machinery
Longgong (Fujian) Casting & Forging Co., Ltd. 龍工(福建)鑄鍛有限公司	13 August 2008 PRC WOFE	USD65,000,000	100%	Manufacture and distribution of wheel loader component
China Dragon Development Holdings Ltd. (中國龍工發展控股有限公司) *(note 1)*	3 May 2004 British Virgin Islands ("BVI")	USD50,000	100%	Investment holding
China Dragon Investment Holdings Ltd. (中國龍工投資控股有限公司) *(note 1)*	3 May 2004 BVI	USD50,000	100%	Investment holding
Longgong (Datong) Machinery Co., Ltd. *(note 2)* 大同龍工機械有限公司	1 August 2009 PRC WOFE	RMB5,000,000	100%	Distribution of machinery

Note 1: The Company directly holds the interest in China Dragon Development and China Dragon Investment. All other interests shown above are indirectly held by the Company.

Note 2: As disclosed in note 33, on 1 August 2008, the Group acquired the whole equity interest in Longgong (Datong) Machinery Co., Ltd from a third party at a consideration of RMB5,000,000.

None of the subsidiaries had issued any debt securities at the end of the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

39. EVENTS AFTER THE BALANCE SHEET DATE

Up to 8 April 2009, the Group has repurchased USD29,570,000 (equivalent to RMB202,046,000) in face value of the issued Convertible Loan Notes. The Group is in the process to assess the financial impact on the Group's result of operation and financial position.

The Board proposes to make a bonus issue (the "Bonus Issue") on the basis of one new ordinary share of HKD0.1, credited as fully paid, for every one existing share held by the shareholders of the Company whose names are on the register of members of the Company on 29 May 2009. The necessary resolution will be proposed at the forthcoming annual general meeting of the Company to be held on 29 May 2009. For details of the Bonus Issue, please refer to the announcement of the Company dated 8 April 2009 in respect of the Bonus Issue. A circular containing, among other things, further details of the Bonus Issue will be dispatched to the shareholders of the Company as soon as practicable.

Appendix

SUMMARY OF FINANCIAL INFORMATION

A summary of the results, assets and liabilities of the Group for the last five financial years is as follows:

Result

	For the year ended 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Profit before taxation	213,904	265,822	616,076	684,130	**738,216**
Income tax credit (expense)	(45,228)	(29,141)	9,272	(54,681)	**(72,724)**
Profit before deferred tax charge arising from the Group Reorganisation	168,676	236,681	625,348	629,449	**665,492**
Deferred tax charge arising from the group reorganisation	(36,771)	–	–	–	**–**
Profit for the year	131,905	236,681	625,348	629,449	**665,492**
Attributable to:					
Equity holder of the parent	131,905	235,906	624,154	629,616	**665,594**
Minority interests	–	775	1,194	(167)	**(102)**
	131,905	236,681	625,348	629,449	**665,492**
Dividends	45,435	67,684	–	349,155	**239,961**
Earnings per share – basic (RMB)	0.19	0.32	0.60	0.59	**0.62**

Appendix

Assets and Liabilities

	As at 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	1,560,242	2,074,313	2,841,808	6,520,386	**7,843,395**
Total liabilities	1,047,354	919,834	1,063,829	3,702,946	**4,683,440**
	512,888	1,154,479	1,777,979	2,817,440	**3,159,955**
Equity attributable to equity holders of the parent	512,888	1,152,760	1,776,914	2,816,487	**3,159,104**
Minority interest	–	1,719	1,065	953	**851**
	512,888	1,154,479	1,777,979	2,817,440	**3,159,955**

Note: The Company was incorporated in the Cayman Islands on 11 May 2004 and the results, assets and liabilities for 2004 have been prepared on a combined basis as if the current group structure had been in existence throughout those years and have been extracted from the Company's prospectus dated 8 November 2005.