LONKING HOLDINGS LIMITED

中國龍工控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3339

ANNUAL REPORT 2009

**For Identification Purpose Only*

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

Mr. Pan Longqing
Dr. Qian Shizheng
Mr. Han Xue Song

AUDIT COMMITTEE

Dr. Qian Shizheng *(Chairman)*
Mr. Pan Longqing
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

COMPANY SECRETARY

Mr. Chu Shun

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

Mr. Liu Shen Xian
LSX@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 Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P. O. Box 609
Grand Cayman, KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/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 Lonking Holdings Ltd (the "Company") and its subsidiaries (hereinafter collectively referred as to the "Group").

Current period	**2009 RMB'000**	2008 RMB'000	Change (+/–)
Turnover	**6,901,000**	6,144,788	+12.31%
Operating profits:			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**1,158,799**	839,078	+38.10%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**1,091,040**	893,039	+22.17%
EBITDA			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**1,298,377**	934,185	+38.99%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**1,230,618**	988,144	+24.54%
Profit attributable to equity parent	**799,986**	665,594	+20.19%

Per share data	**RMB**	RMB	
Basic earnings per share(1)#			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**0.41**	0.28	+43.41%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**0.37**	0.31	+21.48%
Net assets per share(2)#	**1.77**	1.46	+21.24%

Financial Highlights

Key performance indicators	**%**	%	
Profitability			
Overall gross margin	**23.44**	19.11	+4.33%
Net profit margin			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**12.58**	9.95	+2.63%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**11.60**	10.83	+0.77%
EBITDA margin[3]			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**18.81**	15.20	+3.61%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**17.83**	16.08	+1.75%
Return on equity[4]	**21.17**	21.07	+0.10%
Liquidity and solvency			
Current ratio[5]	**1.37**	2.25	-39.10%
Interest coverage ratio[6]			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**6.26**	5.42	+15.47%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**5.89**	5.77	+2.15%
Gross debt-to-equity ratio[7]	**41.48**	65.47	-23.99%

Management efficiency	**days**	days	
Inventory turnover days[8]	**162**	141	+21 days
Trade and bills payables turnover days[9]	**118**	89	+29 days
Trade and bills receivable turnover days[10]	**36**	42	-6 days

Financial Highlights

#	Calculated based on the 2,140,050,000 shares outstanding as at 31 December 2009 (31 December 2008: 1,081,419,000).
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 Lonking Holdings Limited (the "Company" or "China Longgong") for the year ended 31 December 2009.

REVIEW OF BUSINESS

The year 2009 was an extraordinary year in the world's history of economic development. Under the tremendous impacts of the global financial crisis, the Company also faced severe challenges like many enterprises. Nevertheless, in face of such difficulties, we remained firm and calm and adopted decisive measures to cope with various challenges, meanwhile explored new opportunities and achieved new heights amid the crisis, transforming the measures to combat against the global financial crisis into a driver to raise the level of development of the Company, thereby consolidating the foundation for China Longgong's sound and speedy development in the long run. Despite the complicated and changing external environment, we managed to achieve a good set of results by overcoming all the difficulties through joint efforts. Our major achievements include:

1. In spite of the decrease in the total sales of our major product, loaders, the extent was less than the decline in the overall industry. As such, our competitiveness of our major product, loaders and our leading position were further strengthened and consolidated. In 2009, the total sales volume of China Longgong's loaders was 25,056 units. According to the statistics released by China Construction Machinery Industry Association, Longgong's loaders continued to account for over 20% market share.

2. Apart from loaders, other segments such as excavators, forklifts and road machineries also achieved significant breakthroughs.

   The segments of excavators, forklifts and road machineries are new areas of Longgong's key development. After our technological research and development and market network expansion in recent years, the new segments of excavators, forklifts and road machineries recorded speedy growth and made significant breakthroughs in 2009. Sales volume of excavators for the year was more than 2,026 units whilst the sales amount increased by 247%, whereas the sales volume of forklifts rose by 87% to 5,518 units. Sales of road rollers also grew rapidly with over 129% increase in sales amount. The success of these new products represents the diversification of China Longgong's product mix and the shift from engaging in a single segment of loaders. The sales revenue from these new products accounted for more than 25% of the total sales revenue. Most importantly, the quality of these new products improved significantly after product development and accumulating extensive manufacturing experience through batch production and enhanced self-production with substantial increase in gross profit margin. These new products have become important growth drivers of China Longgong for the year and in the future.

Chairman's Statement

3. Sound consolidated financial performance with record high sales revenue and net profit margin

   In 2009, as the construction machinery industry worldwide suffered from the financial crisis, the majority of the world's leading construction machinery manufacturers recorded a sharp decline in results, except for China where the construction machinery landscape remained unaffected. China Longgong recorded a good sets of financial results with sales revenue and net profits achieving historical highs, which increased by 12.3% to RMB6.9 billion and by 20% to over RMB800 million respectively. The overall gross profit margin of the Company also rose from 19.1% to 23.4%.

4. Great progress achieved in research and development of products which further increased product quality and enhanced user satisfaction.

   In coping with the financial crisis, the Company attached much emphasis to the fundamentals and basis of corporate development and allocated more human, material and financial resources to the research and development system. The Company achieved great progress in its corporate development where considerable progress and breakthroughs were made in the area of mid- to large-scale excavators and more complicated spare parts. At the same time, the Company placed more emphasis on product quality and maintained continuous improvement of product quality through integration and forming strategic alliance with suppliers. Through the implementation of one-year repairs and maintenance for complete set products and 24-hour services, Longgong branded products had been increasingly well-received by domestic and overseas users. This is an assurance for the sustainable development China Longgong.

5. Hard power and soft power of the Company were enhanced significantly upon the commencement of operation of the four major production bases and completion of technology reform

   After years of efforts and investments, the construction our four major production bases in Shanghai, Fujian, Jiangxi and Henan have been fully completed, allowing a more reasonable production structure to satisfy the growth needs in the coming years and laying a solid foundation for further development of China Longgong. In addition, the Company continued to pursue entrusted management to further strengthen its management model of level-based performance appraisal and general manager accountability system. Through major reforms on management models and management concepts, our soft power was maximized.

For the year ended 31 December 2009, annual turnover of the Company was RMB6,901,000,000, up 12.3% over the corresponding period of the previous year. Net profit attributable to shareholders of the Company amounted to RMB8,002,250,000.

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.

Chairman's Statement

2010 will be a relatively complicated year for China's economy. China Longgong will also face a relatively challenging external environment. However, based on the figures in the first quarter, the general economy of China is expected to remain upbeat and the fundamentals for the construction machinery industry are all set for a better development. As such, we have to analyze the prevailing conditions and seize every opportunity to achieve a sound and speedy development of the Company.

The central government regards the steady and fast economic growth as its priority, 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 continue to grow. At the meetings of NPC and CPPCC held during the year, the chairman of China Construction Machinery Industry Association and NPC and CPPCC representatives of construction machinery industry were both optimistic about the development of the construction machinery industry and expected that the construction machinery in China would maintain a growth rate of over 15% this year.

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 and 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 product and market expansion, cost control, enhancement of research and development of our products, 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.

Market expansion. We ensure our leading position in the loader industry in China through our persistent efforts and market integration. At the same time, we will strengthen our efforts to develop new products including excavators, forklifts and road machineries as new sources of growth for Lonking this year and in the future.

Chairman's Statement

Cost control. The Company mitigates cost pressure brought by rise in costs of raw materials through economies of scale and improvement of internal management and appropriately adjusts its pricing strategies according to market demands so as to ensure that the gross profit margin of the Company will maintain at an industry leading level.

Enhancement of product research and development. The Company will increase its investment in technology research institutes, and develop more loaders, excavators, forklifts, road rollers and other spare part products that meet the various needs of our customers, bringing more series and diversification for our products. In particular, the Company will strive to achieve more significant breakthroughs in the research of bottleneck products this year.

Expansion of overseas markets. As we suffered a sharp fall in 2009 due to the negative impact caused by the financial crisis on overseas markets, we have adopted a prudent approach and basically ceased the sales to overseas customers. As the global economy recover, 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
30 March 2010

Management Discussion and Analysis

RESULT AND BUSINESS REVIEW

The Group reported a consolidated turnover of RMB6,901 million (2008: RMB6,144 million) and a gross profit of RMB1,618 million (2008: 1,174 million), representing an increase of 12.31% and 37.76% respectively as compared with last year. The main reason for such increase in sales was that sales generated from our new series of excavators and road rollers made a significant contribution to our total sales, representing nearly 247.18% and 129.59% increase as compared to the corresponding period last year, as well as the significant increase in the revenue from interest income on finance lease, representing RMB59 million and 109.77% increase as compared to last year. Overall gross margin has increased to approximately 23.44% as compared to approximately 19.11% in the corresponding period last year. The increase in gross margin for the year was mainly attributable to the followings: (i) the steel cost has significantly decreased in year of 2009; (ii) the sales of excavators which contributed a higher gross margin of 22.93% represented nearly 11.23% of the total sales this year as compared to only 3.63% of the total sales last year. The Group's profit attributable to the Owner of the Company amounted to approximately RMB800 million (2008: approximately RMB665 million), representing an increase of 20.30% as compared to that of previous year.

During the year, the revenue generated from the northern regions of the PRC remained as the Company's principal marketing regions and represented approximately 25.62% of our total turnover over the year. The south western of the PRC showed a significant increase this year, representing approximately 16.14% of our total turnover respectively for the year (2008: 5.80%). The increase in the percentage of total turnover in these areas was mainly attributed to the PRC government's encouraging policy to the infrastructure investment in these areas, including reconstruction of Sichuan after the earthquake in May 2008. The central and eastern regions of the PRC represented approximately 10.31% and 14.64% respectively of our total turnover for the year (2008: 7.17% and 12.42% respectively). Such an increase was due to the PRC government's encouragement of investments in many major construction and development projects in these areas.

ANALYSIS OF PRODUCTS

Wheel Loaders

The revenue generated from wheel loader represented approximately 73% of total Group's turnover which was 13% lower than that of last year (2008: approximately 86% 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

Overall excavators series continued to grow in units sold and revenue. Revenue of excavators increased by 247.18% in 2009 compared to 2008 and it is expected that this trend will continue. Sales from excavators have a substantial positive impact on revenue and gross margin percentage. 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

During the year, the Group recorded 1,310 units sales in road roller, increasing 131.86% to approximately RMB317 million (2008: 565 units on RMB138 million). We attribute such an increase in the sales to our aggressive price strategy, leading to a steadily increasing demand. The revenue generated from fork lifts amounted to RMB292 million with 5,346 units in sales, or representing 87.36% increase as compared to the corresponding period in 2008 (2008: 2,638 units and RMB156 million). We have been actively looking for attractive increase in these series in the coming years.

Components

For the year ended 31 December 2009, Revenue generated from components sales amounted to approximately RMB267 million, representing 13.78% increase when compared with the last year.

Finance Lease Interest

Turnover from interest income of finance lease represented nearly 1.63% of the Group's total revenue in the year of 2009 (2008: 0.87%) or an sharply increase of 109.77% from last year. This change was mainly attributable to the 'finance lease sales for the period increased, representing nearly 36.99% of the total sales of construction machinery for the year. (2008: 22.57%).

FINANCIAL REVIEW

Cash and Bank Balance

The Group maintained a sound cash position during the year: As at 31 December 2009, the Group had bank balances and cash of approximately RMB1,021 million (31 December 2008: approximately RMB895 million) and pledged bank deposit of approximately RMB220 million (31 December 2008; approximately RMB204 million) secured for short-term banking facilities granted to the Group in respect of purchases of raw materials for manufacturing.

Management Discussion and Analysis

Compared with last year, the cash and bank balance increased about RMB126 million, which is generated as a result of net cash inflow of around RMB794 million from operating activities, net cash outflow of RMB630 million from investing activities, net cash outflow of RMB38 million from financing activities.

Liquidity and Financial Resources

The Group still maintained a comparatively strong financial position. Total shareholders funds as at 31 December 2009 were approximately RMB3,790 million, a 20% increase from approximately RMB3,159 million as at 31 December 2008.

The current ratio of the Group at 31 December 2009 was 1.37 (31.12.2008: 2.25). The inventory turnover increased to 162 days (31.12.2008: 141 days). It was mainly attributed to that the Group maintained a comparably higher level of the finished goods at the year end with an expected high demand in first quarter of 2010. 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, 1,070,025,000 ordinary shares were issued and allotted on 8 June, 2009 pursuant to an ordinary resolution passed at annual general meeting on 29 May 2009. The Company had 2,140,050,000 shares in issue with total shareholder's fund of the Group amounting to approximately RMB3,790 million.

During the year, another Convertible Loan Notes of US$135 million were issued by the Company on 24 August 2009 ("2009 Convertible Loan Note") at an issue price of US$10,000 per Convertible Loan Note of US$10,000 *(see Notes 16)*.

The Company repurchase back issued Convertible Bonds Notes in total principal amount of USD124,650,000 (equivalent to RMB851,610,000), which recognised RMB81,614,000 gain on the repurchase in the consolidated 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 2009, the Gross Debt to Equity ratio, defined as total non-current liabilities (excluding deferred tax liability) over total equity was approximately 41.47% (31 December 2008: 75.21%).

Capital Commitment

As at 31 December 2009, the Group had contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment amount to approximately RMB311,764,000 (31 December 2008: approximately RMB594,052,000).

PROSPECT

The Company will continue to focus on and push ahead the Research and Development (the "R&D"), production and marketing of its principal businesses of loaders, excavators, fork lifts and road rollers. The management expects that the PRC government will continue its policies to ensure economic growth through expanding investments in the short-term and will increase its support to the machinery industry in an effort to maintain steady growth of domestic demand. In addition, as the world's economy continues to recover, we expect that the overseas demand will grow steadily in 2010.

Meanwhile, the Company endeavors to build an integrated industry value chain through entering into strategic cooperation with suppliers and distributors to enhance the value of the industry chain at full scale and strengthen the brand building of "Lonking". The Company strongly believes that the enhancement of product quality and improvement of after-sales services are crucial to our future development. Accordingly, the Company continues to allocate more resources to increase the additional value of our brand. The Group also attaches great importance to product R&D and technological upgrade. We will step up our efforts in this area to ensure our competitiveness and generate additional value for our shareholders in the future.

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Li San Yim, aged 59, 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 22 to 23 of this annual report.

Mr. Qiu Debo, aged 47 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. Mr. Qiu's interest in the shares of the Company within the meaning of Part XV of the SFO is set out on page 22 of this annual report.

Profiles of Directors and Senior Management

Mr. Luo Jianru, aged 63, 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. Mr. Luo's interest in the shares of the Company within the meaning of Part XV of the SFO is set out on page 22 of this annual report.

Dr. Mou Yan Qun, aged 55, 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. Dr. Mou's interest in the shares of the Company within the meaning of Part XV of the SFO is set out on page 22 of this annual report.

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. Mr. Chen's interest in the shares of the Company within the meaning of Part XV of the SFO is set out on page 22 of this annual report.

Mr. Lin Zhong Ming, aged 47, 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. Mr. Lin's interest in the shares of the Company within the meaning of Part XV of the SFO is set out on page 22 of this annual report.

NON-EXECUTIVE DIRECTORS

Ms. Ngai Ngan Ying, aged 54, 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 22 to 23 of this annual report.

Profiles of Directors and Senior Management

Ms. Fang Deqin, aged 47, 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. Ms. Fang's interest in the shares of the Company within the meaning of Part XV of the SFO is set out on page 22 of this annual report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Pan Longqing, aged 61, appointed as an independent non-executive Director in May 2009. He has attained the title as an senior economist. Throughout the past 30 years, Mr. Pan had held various key positions in the PRC government authorities including the deputy county mayor of Nanhui County of Shanghai City, the deputy party secretary, county mayor and the secretary of Jinshan County of Shanghai City, the deputy chief of Shanghai Municipal Agriculture Commission and Shanghai Municipal Economic System Reform Committee and Shanghai Municipal Economic System Reform Committee, the deputy secretary, the regional head and the secretary of Songjiang District of Shanghai City. Mr. Pan had also worked as the departmental party, party secretary and chief of Shanghai Foreign Economics & Trade Commission, and the chief of Shanghai Foreign Investment Commission. Currently, he is the party secretary and the general manager of Shanghai International Group Corporation Ltd. Mr. Pan also serves as a director of Shanghai Rural Commercial Bank and an independent director of SRE Group Limited (Stock code: 1207).

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

Mr. Pan 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 58, was appointed as an independent non-executive director in February 2005. Dr. Qian serves as a vice president of Shanghai Industrial Investment (Holdings) Co. Ltd., a director of Shanghai Urban Development (Holdings) Co. Ltd. and vice chairman of Haitong Securities Co. Ltd. He graduated from Fudan University with a doctorate degree in management and has taught at Fudan University as associate director and professor Fudan University in the faculty of Accountancy. Dr. Qian is currently an executive director of Shanghai Industrial Holdings Limited (stock code: 363). He has over 24 years of experience in the finance and accounting fields.

Profiles of Directors and Senior Management

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.

Mr. HAN Xuesong, aged 73, 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) and Changlin Company Limited (常林股份有限公司), 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 2009.

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 2009 are set out in the consolidated income statement on page 37 of the annual report.

An interim dividend of HKD0.065 (Equivalent to RMB0.057) per share amounting to HKD139 million (Equivalent to RMB123 million) was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HKD0.07 per share to the shareholders on the register of member on 28 May 2010, amounting to approximately HKD150 million. It is expected that the dividend paid out as a result of the operation of 2009 amounted to HKD0.135 per share, or approximately HKD289 million in total.

PROPERTY, PLANT AND EQUIPMENT

The Group continued its plant replacement policy and expended RMB846 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 page 118 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.

Directors' Report

DISTRIBUTABLE RESERVES OF THE COMPANY

Movements in the reserves of the Group during the year are set out on page 41 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 RMB2,686 million as at 31 December 2009 (2008: RMB2,322 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)
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:

Pan Longqing	(appointed on 29 May 2009)
Wang Fonghua	(appointed on 15 May 2008 and resigned on 29 May 2009)
Qian Shizheng	(appointed on 17 February 2005)
Han Xuesong	(appointed on 15 May 2008)

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, Mr. Lin Zhong Ming, Ms. Ngai Ngan Ying, Mr. Pan Longqing, 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. Ms. Fang Deqin being the non-executive Director would retire at the forthcoming annual general meeting, be eligible, will not offer herself for re-election.

The biographical details of the directors are set out on pages 14 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 2009, 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)*	656,029,380	30.66%
Li San Yim and Ngai Ngan Ying *(Note 1)*	Beneficial owner	522,665,380	24.42%
Qiu Debo	Beneficial owner	202,000	0.01%
Luo Jianru	Beneficial owner	704,000	0.03%
Mon Yan Qun	Beneficial owner	701,000	0.03%
Chen Chao	Beneficial owner	663,000	0.03%
Lin Zhong Ming	Beneficial owner	186,000	0.01%
Fang De Qin	Beneficial owner	501,000	0.02%
		1,181,651,760	55.21%

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 656,029,380 shares.

(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 2009, 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, 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.

Directors' Report

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	656,029,380	30.66%
Government of Singapore Investment Corporation Pte Ltd	Investment manager	62,867,297	5.88%

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 2009, 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.

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

During the year ended 31 December 2009, neither the Company nor any of its subsidiaries purchases, sold or redeemed any of the Company's shares.

During the year ended 31 December 2009, the Company repurchase back issued Convertible Bonds Notes in total principal amount of USD124,650,000 (equivalent to RMB851,610,000), which recognised RMB81,614,000 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.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 22% (2008: 28%) of the Group's total turnover for the year. The five largest suppliers accounted for approximately 24% (2008: 31%) of the Group's total purchases for the year and the largest supplier accounted for approximately 10% (2008: 11%) 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.

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.

In the current year, the Group disposed the above subscription Shares with carrying amount of RMB129,783,000, which had been measured at fair value before the disposal. The revaluation of the investment upon the disposal rate amounting to RMB82,719,000 has been reclassified as gain on disposal of available-for-sale investments from the investment revaluation reserve. Details of the movement during the year in the available-for-sale investments are set out in note 17 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 2007 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 2007 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 2009, the Company purchased the parts approximately RMB39,153,000 from Jinlong.

Directors' Report

In view of the expiry of the Master Purchase Agreement in 31 December 2009, the Company has on 7 December 2009 entered into the Renewed Master Purchase Agreement, pursuant to which the Group will purchase the Parts from Jinlong from time to time for a term commencing from 1 January 2010 and ending on 31 December 2012.

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

The Company did not have any significant post balance sheet events.

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 2009.

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, 30 March 2010

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 2009 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 2009.

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 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.

Corporate Governance Report

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, Mr. Pan Longqing, Dr. Qian Shizheng and Mr. Han Xuesong, confirming their independence pursuant to Rule 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.

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 14 to 18 of this annual report.

Corporate Governance Report

For the year ended 31 December 2009, 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 2009:

	Number of meetings attended/Number of Meetings held for the year ended 31 December 2009			
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. Han Xuesong	3/4	N/A	N/A	1/1

N/A Not Applicable

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.

Corporate Governance Report

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. Pan Longqing. 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.

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 2009.

AUDITOR'S REMUNERATION

For the year ended 31 December 2009, Messrs. Deloitte Touche Tohmatsu, the external auditors of the Group received approximately RMB2.53 million (2008: approximately RMB2.99 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. Han 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 2009.

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.

Corporate Governance Report

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.

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.

Corporate Governance Report

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.

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 2009, more than 180 visits to the Company were made by over 500 domestic and overseas investors and over 300 telephone conferences were held.

In May 2009, Mr. Qiu Debo, CEO and President of the Company attended the "Summit Meeting – Star of Merrill Lynch Asia" held by Merrill Lynch (Asia Pacific) Limited in Singapore.

In June 2009, Mr. Qiu Debo, CEO and President of the Company attended the annual forum held by JP Morgan in Beijing.

In November 2009, Mr. Qiu Debo, CEO and President of the Company attended the「中國投資洽會」jointly held by Goldman Sachs and Gao Hua Securities.

Corporate Governance Report

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 2009, 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

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Lonking Holdings Limited ((the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 117, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated income statement, consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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, in accordance with our agreed terms of engagement 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 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Turnover	5	**6,901,000**	6,144,788
Cost of goods sold		**(5,283,065)**	(4,970,297)
Gross profit		**1,617,935**	1,174,491
Interest income	6	**14,537**	45,948
Other income		**42,116**	20,482
Other gains and losses	7	**74,884**	260,949
Administrative expenses		**(184,861)**	(156,366)
Distribution and selling expenses		**(422,469)**	(429,121)
Research expenditures		**(43,514)**	(16,356)
Other expenses		**(7,588)**	(6,988)
Finance costs	8	**(185,163)**	(154,823)
Profit before tax	10	**905,877**	738,216
Income tax expense	9	**(105,652)**	(72,724)
Profit for the year		**800,225**	665,492
Profit for the year attributable to:			
Owners of the Company		**799,986**	665,594
Minority interests		**239**	(102)
		800,225	665,492
Earnings per share – basic (RMB)	14	**0.37**	0.31
Earnings per share – diluted (RMB)	14	**0.35**	0.21

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Profit for the year		**800,225**	665,492
Other comprehensive income			
Fair value gain on available-for-sale financial assets		**82,719**	–
Reclassification adjustments for the cumulative gain Included in income statement upon disposal		**(82,719)**	–
Total comprehensive income for the period		**800,225**	665,492
Total comprehensive income attributable to:			
Owners of the Company		**799,986**	665,594
Minority interests		**239**	(102)
		800,225	665,492

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment	15	**2,758,437**	2,060,263
Prepaid lease payments	16	**221,443**	224,441
Finance lease receivables	18	**527,718**	138,748
Deferred tax assets	19	**145,839**	103,297
Prepayment for property, plant and equipment		**98,168**	175,421
Loan receivables	21	**13,987**	–
		3,765,592	2,702,170
Current assets			
Prepaid lease payments	16	**4,937**	4,939
Inventories	20	**2,334,982**	2,347,921
Finance lease receivables	18	**1,215,177**	693,411
Available-for-sale investment	17	**–**	42,755
Trade receivables	22	**340,523**	200,181
Bill receivables	22	**470,597**	343,380
Other receivables and prepayments	22	**393,109**	409,643
Pledged bank deposits	23	**220,293**	204,488
Bank balances and cash	23	**1,021,177**	894,507
		6,000,795	5,141,225
Current liabilities			
Trade payables	24	**1,009,815**	687,864
Bill payables	24	**1,072,267**	652,741
Other payables and accruals	24	**523,222**	385,165
Provisions	25	**145,043**	154,475
Amounts due to related parties	26	**22,304**	13,871
Tax payable		**91,578**	29,628
Bank borrowings	29	**686,718**	361,000
Derivative financial instruments	30	**113,498**	–
Convertible loan notes	30	**714,117**	–
		4,378,562	2,284,744

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000 (Restated)
Net current assets		**1,622,233**	2,856,481
		5,387,825	5,558,651
Capital and reserves			
Share capital	27	**222,058**	111,029
Reserves	28	**3,567,301**	3,048,075
Equity attributable to owners of the Company		**3,789,359**	3,159,104
Minority interests		**1,090**	851
Total equity		**3,790,449**	3,159,955
Non-current liabilities			
Deposit for finance lease	18	**116,854**	56,707
Convertible loan notes	30	**662,151**	1,476,961
Long term bank borrowings	29	**482,026**	637,000
Deferred tax liability	19	**25,286**	22,156
Derivative financial instruments	30	**311,059**	205,872
		1,597,376	2,398,696
		5,387,825	5,558,651

The consolidated financial statements on pages 37 to 117 were approved and authorised for issue by the Board of Directors on 30 March 2010 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 2009

	Attributable to owners of the parent								
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 *(Note 28)*	Investment revaluation reserve RMB'000	Non-distributable reserve RMB'000 *(Note 28)*	Accumulated profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1st January 2008	113,009	1,209,195	355,335	–	270,721	868,227	2,816,487	953	2,817,440
Profit and total comprehensive income for the year	–	–	–	–	–	665,594	665,594	(102)	665,492
Dividends paid *(Note 13)*	–	–	–	–	–	(239,961)	(239,961)	–	(239,961)
Shares repurchased and Cancelled *(Note 27)*	(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
Profit for the year	–	–	–	–	–	799,986	799,986	239	800,225
Fair value gain on Available-for-sale investment	–	–	–	82,719			82,719	–	82,719
Reclassification adjustments for cumulative gain included in income statement upon disposal	–	–		(82,719)			(82,719)	–	(82,719)
Total comprehensive income for the year	–	–	–	–	–	799,986	799,986	239	800,225
Dividends paid *(Note 13)*	–	–	–	–	–	(169,731)	(169,731)	–	(169,731)
Bonus share issued *(Note 27)*	111,029	(111,029)	–	–	–	–	–	–	–
Transfer	–	–	–	–	154,593	(154,593)	–	–	–
At 31 December 2009	222,058	1,076,980	355,335	–	525,594	1,609,392	3,789,359	1,090	3,790,449

The investment revaluation reserve represents the changes in fair value net of tax of available-for-sale financial assets of the Group.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		**905,877**	738,216
Adjustments for:			
Interest income		**(14,537)**	(45,948)
Finance costs		**185,163**	154,823
Allowance for bad and doubtful debts		**34,138**	15,215
Allowance for inventories		**7,943**	50,415
Gain on disposal of property, plant and equipment		**(787)**	(988)
Depreciation of property, plant and equipment		**134,854**	90,723
Amortisation of lease premium for land		**4,724**	4,382
Exchange gain from convertible loan notes		**(7,392)**	(105,408)
Fair value changes of derivative financial instruments		**67,759**	(53,961)
Gain on repurchase of convertible loan notes		**(81,614)**	(126,960)
Gain on disposal of available–for–sale investment		**(82,719)**	–
Operating cash flows before movements in working capital		**1,153,409**	720,509
Decrease (Increase) in inventories		**4,996**	(903,431)
(Increase) decrease in trade, bill and other receivables		**(289,701)**	293,951
(Increase) in finance lease receivables		**(910,736)**	(493,360)
Increase in trade, bill and other payables		**841,015**	361,853
(Decrease) increase in provisions		**(9,432)**	26,179
Increase in amounts due to related parties		**8,433**	996
Increase in deposit for finance lease		**60,147**	11,002
Cash generated from operations		**858,131**	17,699
Interest received		**19,075**	6,732
Income tax paid		**(83,114)**	(110,297)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**794,092**	(85,866)

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
INVESTING ACTIVITIES			
Interest income from loan receivables		–	55,484
Acquisition of property, plant and equipment		**(741,370)**	(1,197,467)
Payment for lease premium for land		**(1,724)**	(23,783)
Acquisition of a subsidiary	*34*	–	600
Proceeds on disposal of property, plant and equipment		**13,280**	13,885
Proceeds on disposal of land use right		–	1,799
Purchase of available–for–sale investment		–	(42,755)
Proceeds on disposal of available–for–sale investment		**129,783**	–
Increase in pledged bank deposits		**(15,805)**	(95,435)
(Payment) redeem of loan receivables		**(13,987)**	1,450,000
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(629,823)**	162,328
FINANCING ACTIVITIES			
Bank borrowings raised		**1,695,158**	1,473,068
Shares repurchased and cancelled		–	(83,016)
Repurchase of convertible loan notes		**(882,316)**	(298,446)
Interest paid		**(61,869)**	(18,417)
Repayment of bank borrowings		**(1,524,414)**	(475,068)
Proceeds from issue of convertible loan notes net of issuance cost		**905,573**	–
Dividends paid		**(169,731)**	(239,961)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(37,599)**	358,160
NET INCREASE IN CASH AND CASH EQUIVALENTS		**126,670**	434,622
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**894,507**	478,064
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES		–	(18,179)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCE AND CASH		**1,021,177**	894,507

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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 ("RMB"), 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 detail activities of the Group's subsidiaries are set out in Note 38.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

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

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32&1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1&HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Int 9&HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 69 of HKAS 1

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

HKAS 1 (Revised 2007) Presentation of Financial Statements

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

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments (see note 5).

Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

HKAS 23 (Revised 2007) Borrowing Costs

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS 23 (Revised 2007) removes the option available under the previous version of the standard to recognise all borrowing costs as expenses immediately and requires borrowing costs to be capitalised as part of the cost of a qualifying asset. The Group has applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009 in accordance with the transitional provisions in HKAS 23 (Revised 2007). The revised accounting policy has been applied prospectively and does not have a material effect on the reported results and financial position of the Group for the current or prior accounting periods.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

Amendments to HKAS 1 Presentation of Financial Statements

As part of Improvements to HKFRSs (2008), HKAS 1 "Presentation of Financial Statements" has been amended to clarify whether derivatives that are classified as held for trading in accordance with HKAS 39 Financial Instruments: Recognition and Measurement should be presented as current or non-current. The Amendment requires derivatives that are held primarily for trading purposes to be presented as current regardless of their maturity dates. In addition, the amendment requires derivatives that are not held for trading purposes to be classified as current or non-current on the basis of their settlement date. Prior to the amendment, the Group presented, as current, all derivatives that are classified as held for trading in accordance with HKAS 39. The amendment has had no impact on the Group's results for the reported periods.

In addition, the Group has early applied the following amendments that have been issued but are not yet effective:

Amendments to HKAS 1 Presentation of Financial Statements

As part of Improvements to HKFRSs (2009) early adopted by the Group, HKAS 1 "Presentation of Financial Statements" has been amended to clarify the classification of liability as current or non-current. The amendment requires the entity to classify a liability as current when it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. However, terms of liability that could result in its settlement by the issue of the Group's equity instruments at the option of the counterparty do not affect its classification. The early adoption of the amendment has had no material impact on the Group's result for the reported periods. The amendment has resulted in the derivative financial instruments relating to the 2007 convertible loan notes with carrying amounts of RMB205,872,000 and RMB305,461,000 as at 31 December 2008 and 1 January 2008 being reclassified from current to non-current. In addition, at 31 December 2009, the 2009 convertible loan notes with carrying amount of approximately RMB662,151,000 and its related derivatives with carrying amount of RMB311,059,000 have been presented as non-current based on the basis that the Group is required to transfer cash or other assets only at maturity dates.

No consolidated statement of financial position as at 1 January 2008 has been presented as the reclassification disclosed above have no material effects on the financial position of the Group presented in the consolidated statement of financial position in respect of the end of the previous financial year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2] except for the amendment to paragraph 69 of HKAS 1
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[6]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transacitons[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners[1]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]

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

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

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

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

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

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

For the purpose 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 profit or loss. An impairment loss for goodwill is not reversed in a subsequent periods.

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.

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 on initial recognition.

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 2009

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 other than construction in progress 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 period in which the item is derecognised.

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

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.

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

The Group as leasee

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

Prepaid lease payments

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 the end of reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

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

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement 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.

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 end of the reporting period, and are discounted to present value where the effect is material.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 end of reporting period.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

Research expenditure

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

Impairment losses on tangible assets other than financial assets (see the accounting policy in respect of financial assets below)

At the end of the reporting period, 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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 recognized 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

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

Financial assets

The financial assets of the Group 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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade 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 2009

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.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been 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 certain categories of financial asset, such as trade receivables, loan receivables, bill receivables, other receivables, finance lease receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets (Continued)

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

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 loss 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 other comprehensive income and accumulated in investment revaluation reserve.

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 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized 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 other than those financial liability classified as at FVTPL, of which the interest expense is included in net gains or losses.

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 recognized 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Convertible Loan Notes (Continued)

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 consolidated income statement.

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.

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 2009

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(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 at the end of reporting period.

5. SEGMENT INFORMATION

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

5. SEGMENT INFORMATION *(Continued)*

Segment information about these businesses is presented below:

2009

SEGMENT REVENUE AND RESULTS

	Sales of construction machinery RMB'000	Interest income on finance lease of construction machinery RMB'000	Total RMB'000
Segment Revenue			
Sales of goods	4,277,477	–	4,277,477
Finance lease sales	2,511,310	112,213	2,623,523
	6,788,787	112,213	6,901,000
Segment profit (loss)	874,037	114,332	988,369
Unallocated interest income			14,537
Unallocated other gains and losses			101,673
Unallocated expenses			(13,539)
Finance costs			(185,163)
Profit before tax			905,877
Income tax expense			(105,652)
Profit for the year			800,225
SEGMENT ASSETS AND LIABILITIES			
Assets			
Segment assets	6,592,762	1,786,316	8,379,078
Unallocated assets			1,387,309
Total consolidated assets			9,766,387
Liabilities			
Segment liabilities	1,779,580	1,109,925	2,889,505
Unallocated liabilities			3,086,433
Total consolidated liabilities			5,975,938

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

5. SEGMENT INFORMATION *(Continued)*

2008

SEGMENT REVENUE AND RESULTS

	Sales of construction machinery RMB'000	Interest income on finance lease of construction machinery RMB'000	Total RMB'000
Segment 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
Segment profit (loss)	530,057	36,499	566, 556
Unallocated interest income			45,948
Unallocated other gains and losses			291,577
Unallocated expenses			(11,042)
Finance costs			(154,823)
Profit before tax			738,216
Income tax expense			(72,724)
Profit for the year			665,492

SEGMENT ASSETS AND LIABILITIES

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 2009

5. SEGMENT INFORMATION *(Continued)*

Segment result represents the profit earned by each segment without allocation of interest income, other gains and losses, corporate administration cost, directors' salaries and finance costs. This is the measure reported to the chief executive officer for the purposes of resource allocation and performance assessment.

All assets are allocated to reportable segments other than deferred tax assets, bank balances, cash and pledged bank deposits and available-for-sale investment. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.

All liabilities are allocated to reportable segments other than bank borrowings, tax payable, derivative financial instruments, convertible loan notes and deferred tax liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

Other segment information

Substantially all the depreciation and amortisation, allowance for bad and doubtful debts and gain on disposal of property, plant and equipment included in the measure of segment result have been allocated to the segment of sales of construction machinery.

Substantially all the addition of non-current assets including property, plant and equipment, prepaid lease payments, and prepayment for property, plant and equipment included in the measure of segment assets are attributed to the segment of sales of construction machinery.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

5. SEGMENT INFORMATION *(Continued)*

Revenue from major product and services

The following is an analysis of the Group's revenue from continuing operations from its major products and services:

	2009		2008	
	RMB'000	**%**	RMB'000	%
Wheel loaders	**5,077,869**	**73.6**	5,261,729	85.6
Excavators	**775,093**	**11.3**	223,257	3.6
Road rollers	**316,501**	**4.6**	137,856	2.2
Fork lifts	**291,839**	**4.2**	155,767	2.5
Others	**327,485**	**4.7**	312,686	5.1
Subtotal	**6,788,787**	**98.4**	6,091,295	99.0
Finance lease interest income	**112,213**	**1.6**	53,493	1.0
Total	**6,901,000**	**100.0**	6,144,788	100.0

There is no single customer who accounted for 10% or more of the total turnover of the Group.

Geographical information

The Group's operations are located in the People's Republic of China ("PRC"), over 90% of the consolidated turnover of the Group for the year and all non-current asset is also located in PRC, so the Group's revenue from external customers and information about its non-current assets by geographic location are not presented.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

6. INTEREST INCOME

	2009 RMB'000	2008 RMB'000
Interest on bank deposits	**14,537**	6,732
Interest on loan receivable from financial institutions	**–**	39,216
	14,537	45,948

7. OTHER GAINS AND LOSSES

	2009 RMB'000	2008 RMB'000
Gain on disposal of available-for-sale investment *(note 17)*	**82,719**	–
Gain on disposal of property, plant and equipment	**787**	988
Exchange realignment from convertible loan notes	**7,392**	123,587
Foreign exchange gains (losses)	**4,269**	(29,332)
Change in fair value of derivative financial instruments	**(67,759)**	53,961
Gain on repurchase of convertible loan notes	**81,614**	126,960
Allowance for bad and doubtful debts	**(34,138)**	(15,215)
	74,884	260,949

8. FINANCIAL COSTS

	2009 RMB'000	2008 RMB'000
Interest on bank borrowings	**69,181**	18,417
Effective interest expense on convertible loan notes	**115,982**	136,406
	185,163	154,823

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

9. INCOME TAX EXPENSE

	2009 **RMB'000**	2008 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**146,748**	93,930
Over provision of EIT in prior year	**(1,889)**	(185)
Withholding tax paid	**205**	–
	145,064	93,745
Deferred tax *(note 19)*	**(39,412)**	(21,021)
Income tax expense	**105,652**	72,724

The Companies, 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 established before 16 March 2007 of the Group located in the PRC, which are qualified foreign investment enterprises, are entitled to exemption from PRC income tax for two years starting from their first profit making year, followed by a 50% reduction for the next three years ("Tax Holidays"). The tax holidays will expire in 2012.

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

The Law of the PRC on Enterprise Income Tax imposes a withholding tax on dividend distributed from the Group's subsidiaries in the PRC to the holding companies located off-shore starting from 1 January, 2008. In this year, the off-shore intermediate holding companies have been recognized as the tax residents of Hong Kong Special Administrative Region by Inland Revenue Department Hong Kong Special Administrative Region. When their PRC subsidiaries declared dividend in 2009 out of the 2008 after-tax profit, the tax bureaus in charge of the subsidiaries granted their consent to apply 5% preferable withholding income tax rate on the dividend based on the double tax treaty between Hong Kong and the PRC. In view of the above, 5% withholding tax rate is applicable to the dividend, for the period starting from 1 January 2008, distributed from the PRC subsidiaries to these off-shore companies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

9. INCOME TAX EXPENSE *(Continued)*

The tax charge (credit) for the year ended 31 December 2009 and 2008 can be reconciled to the profit per the consolidated income statement as follows:

	2009		2008	
	RMB'000	**%**	RMB'000	%
Profit before taxation	**905,877**		738,216	
Tax at the domestic tax rate of 25% (2008:25%)	**226,469**	**25**	184,554	25.0
Tax effect of income that are not taxable for tax purpose	**(20,790)**	**(2.3)**	(73,596)	(10.0)
Tax effect of expenses that are not deductible for tax purpose	**45,162**	**5.0**	38,428	5.2
Tax effect of tax losses not recognized	**2,566**	**0.3**	9,835	1.3
Utilisation of tax losses previously not recognised	**–**	**–**	(3,921)	(0.5)
Over provision in respect of prior years	**(1,889)**	**(0.2)**	(185)	(0.0)
Deferred tax charged at different income tax rate	**(6,455)**	**(0.7)**	(1,690)	(0.2)
Effect of withholding tax	**4,895**	**0.5**	16,485	2.2
Effect of tax exemptions and income tax on concessionary rate granted to PRC subsidiaries	**(144,306)**	**(15.9)**	(97,196)	(13.3)
Tax charge and effective tax rate for the year	**105,652**	**11.7**	72,724	9.7

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

10. PROFIT BEFORE TAX

	2009 **RMB'000**	2008 RMB'000
Profit before taxation has been arrived at after charging:		
Cost of inventory recognised as expense (including allowance for inventory of 7,943,000 (2008:50,415,000)	**5,283,065**	4,970,297
Staff costs, including directors' remuneration *(Note 11)*		
Salaries and allowances	**265,887**	270,221
Contributions to retirement benefit scheme	**21,531**	19,643
Total staff costs	**287,418**	289,864
Auditors' remuneration	**3,023**	2,990
Allowance for bad and doubtful debts	**34,138**	15,215
Depreciation	**134,854**	90,723
Amortisation of lease payments for land	**4,724**	4,382
Research expenditures	**43,514**	16,356
and after crediting:		
Government grants (note)	**18,718**	3,450

Note: The government grants in 2009 represent incentives granted to three of the Group entities in PRC and approved by the local government which have been received in 2009. 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 2009

11. DIRECTORS' EMOLUMENTS

	2009 RMB'000	2008 RMB'000
Fees	1,100	900
Other emoluments:		
Salaries and allowances	3,550	3,175
Contributions to retirement benefits scheme	28	25
	3,578	3,200
	4,678	4,100

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

	2009 RMB'000	2008 RMB'000
Fees:		
Non-executive director:		
Ms. Ngai Ngan Ying	600	600
Professor Yang Hong Qi	–	100
Independent director:		
Dr. Qian Shizheng	200	100
Mr. Peter Lo (note 1)	–	100
Mr. Han Xuesong	100	–
Mr. Pan Longqin (note 2)	100	–
Mr. Wang Fanghua (note 3)	100	–
	1,100	900

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

11. DIRECTORS' EMOLUMENTS *(Continued)*

Notes:

(1) Resigned as independent non-executive director of the Company with effect from 2 August 2009.

(2) Appointed as an independent non-executive director of the Company with effect from 29 May 2009.

(3) Resigned as independent non-executive director of the Company with effect from 29 May 2009.

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

	2009		2008	
	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**	**–**	1,200	–
Mr. Qiu Debo	**600**	**7**	596	4
Mr. Luo Jianru	**400**	**7**	296	4
Ms. Fang De Qin	**400**	**–**	300	–
Mr. Chen Chao	**400**	**7**	293	7
Dr. Zhang Hong (note)	**–**	**–**	50	–
Mr. Mou Yan Qun	**400**	**7**	290	10
Mr. Lin Zhong Ming	**150**	**–**	150	–
	3,550	**28**	3,175	25

Note: Resigned as executive director of the Company with effect from 9 May 2008.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

12. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 2009 and 2008 were all directors of the Company and details of their emoluments are included in Note 11 above.

During both years ended 31 December 2009 and 2008, 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.

13. DIVIDENDS

	2009 **RMB'000**	2008 RMB'000
Dividends recognised as distribution during the year:		
2008 final of HKD 0.05 per share		
(2007 final: 0.12 HKD)	**47,183**	116,156
2009 interim of HKD 0.065 per share		
(2008 interim: 0.13 HKD)	**122,548**	123,805
	169,731	239,961

In the annual general meeting held on 29 May 2009, a final dividend of HKD0.05 (2008: HKD0.12) per share in respect of the year ended 31 December 2008 was approved by the shareholders and subsequently paid to the shareholders of the Company.

An interim dividend of HKD0.065 (2008: HKD0.13) per share in respect of the six months ended 30 June 2009 was approved by the board of directors on 25 September 2009 and subsequently paid to the shareholders of the Company.

A final dividend of HKD0.07 (Equivalent to RMB0.06 per ordinary share for the year ended 31 December 2009 has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting to be held on 28 May 2010.

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For the year ended 31 December 2009

14. EARNINGS PER SHARE

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

	2009 RMB'000	2008 RMB'000
Earnings		
Earnings for the purpose of basic earnings per share	**799,986**	665,594
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	**30,748**	136,406
Exchange realignment on convertible loan notes	**(3,095)**	(123,587)
Change in fair value of derivative financial instruments	**13,299**	(53,961)
Gain on repurchase of convertible loan notes	**(81,614)**	(126,960)
Earnings for the purpose of diluted earnings per share	**759,324**	497,492
Number of Shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,140,050**	2,163,005
Effect of dilutive potential ordinary shares:		
Convertible loan notes	**48,085**	216,310
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,188,135**	2,379,315

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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 2008	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
Additions	5,813	139,311	4,555	7,224	688,618	845,521
Transfers	502,499	409,248	10,961	2,914	(925,622)	–
Disposals	(949)	(17,605)	(4,165)	(3,169)	–	(25,888)
At 31 December 2009	**995,576**	**1,384,108**	**35,755**	**46,160**	**651,593**	**3,113,192**
DEPRECIATION						
At 1 January 2008	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
Charge for the year	21,636	99,147	6,375	7,696	–	134,854
Disposals	(185)	(9,524)	(2,572)	(1,114)	–	(13,395)
At 31 December 2009	**81,809**	**238,418**	**13,421**	**21,107**	**–**	**354,755**
CARRYING AMOUNT						
At 31 December 2009	**913,767**	**1,145,690**	**22,334**	**25,053**	**651,593**	**2,758,437**
At 31 December 2008	427,855	704,359	14,786	24,666	888,597	2,060,263

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 end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

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. PREPAID LEASE PAYMENTS

	2009 **RMB'000**	2008 RMB'000
Balance at beginning of the year	**229,380**	207,018
Additions	**1,724**	23,783
Transfers	**–**	4,760
Amortisation	**(4,724)**	(4,382)
Disposal	**–**	(1,799)
Balance at end of the year	**226,380**	229,380
Analysed for reporting purpose as:		
Current portion	**4,937**	4,939
Non-current portion	**221,443**	224,441
	226,380	229,380

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

The lease payments 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 2009 (2008: RMB44,887,000).

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17. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2009	2008
	RMB'000	RMB'000
Listed investments:		
– Equity securities listed in PRC	**–**	42,755

In the current year, the Group disposed the available-for-sale investment with carrying amount of RMB129,783,000, which had been measured at fair value before the disposal. The revaluation of the investment upon the disposal date amounting to RMB82,719,000 has been reclassified as gain on disposal of available-for-sale investment from the investment revaluation reserve.

18. FINANCE LEASE RECEIVABLES

Certain of the wheel loaders, road rollers, excavators, fork lifts, 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**	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Finance lease receivables comprise:				
Within one year	**1,313,168**	738,135	**1,215,177**	693,411
In more than one year but not more than two years	**386,707**	130,976	**369,296**	126,101
In more than two years but not more than five years	**165,287**	14,020	**158,422**	12,647
	1,865,162	883,131	**1,742,895**	832,159
Less: unearned finance income	**122,267**	50,972	**–**	–
Present value of minimum lease payment receivables	**1,742,895**	832,159	**1,742,895**	832,159

Notes to the Consolidated Financial Statements

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18. FINANCE LEASE RECEIVABLES *(Continued)*

	Minimum lease payments		Present value of minimum lease payments	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Analysed as:				
Current			**1,215,177**	693,411
Non-current			**527,718**	138,748
			1,742,895	832,159

Unguaranteed residual values of assets leased under finance leases are nil. There is no contingents rents recognised in the income for the year. There is no accumulated impairment loss recognised at 31 December, 2009.

Effective interest rates of the above finance leases range from 6.8% 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 leases.

As at 31 December 2009, the group received refundable finance lease deposits as follows:

	2009	2008
	RMB'000	RMB'000
Current	**165,774**	108,638
Non-current	**116,854**	56,707
	282,628	165,345

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

19. 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 1st January, 2008	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 31st December, 2008	8,816	28,541	6,823	49,492	7,935	1,690	103,297
Credit (charge) to income statement for the period	12,091	3,282	(1,136)	17,204	12,791	(1,690)	42,542
At 31st December, 2009	**20,907**	**31,823**	**5,687**	**66,696**	**20,726**	**–**	**145,839**

Deferred tax liabilities:

	Fair value adjustment on land and buildings	Withholding taxes on undistributed dividends	Total
	RMB'000	RMB'000	RMB'000
At 1st January, 2008	5,671	–	5,671
Charge to income statement for the period	–	16,485	16,485
At 31st December, 2008	5,671	16,485	22,156
Charge to income statement for the period	(1,560)	4,895	3,335
Withholding Tax paid this period	–	(205)	(205)
At 31st December, 2009	4,111	21,175	25,286

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19. DEFERRED TAXATION *(Continued)*

At the end of the reporting period, certain subsidiaries of the Group have unused tax losses of RMB55.9 million (2008: RMB46 million) available for offset against future. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams of these subsidiaries (2008: RMB1.69 million deferred tax assets for tax losses have been recognised). Pursuant to the relevant laws and regulations in the PRC, the unrecognised tax losses at the end of the reporting period will expire in the following years:

	31.12.2009	31.12.2008
	RMB'000	RMB'000
2012	**6,326**	6,326
2013	**39,341**	39,341
2014	**10,264**	–
	55,931	45,667

Under the New Tax Law, withholding tax of 5% is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards which are payable to off-shore intermediate 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 RMB613,066,000 (2008: 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.

20. INVENTORIES

	2009	2008
	RMB'000	RMB'000
Raw materials	**547,457**	658,804
Work in progress	**117,943**	105,450
Finished goods	**1,669,582**	1,583,667
	2,334,982	2,347,921

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21. LOAN RECEIVABLES

	2009 RMB'000	2008 RMB'000
Fixed-rate loan receivables		
In more than one year but not more than two years	**11,313**	–
In more than one year but not more than five years	**2,674**	–
	13,987	–

The loan receivables carry annual interest rates ranging from 7.74% to 13.00%.

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

	2009 RMB'000	2008 RMB'000
Trade receivables	**412,305**	238,474
Less: allowance for doubtful debts	**(71,782)**	(38,293)
	340,523	200,181
Bill receivables	**470,597**	343,380
Other receivables	**62,235**	62,854
Less: allowance for doubtful debts	**(15,723)**	(15,074)
	46,512	47,780
Deposits and prepayments for purchase of supplies and raw materials	**185,850**	105,570
Value-added tax recoverable	**160,747**	251,755
Interest receivables from financial institutions	**–**	4,538
	393,109	409,643

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

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.

The aged analysis of trade receivables is as follows:

	2009	2008
	RMB'000	RMB'000
0 – 90 days	**321,388**	138,439
91 – 180 days	**12,850**	38,221
181 – 270 days	**6,091**	16,485
271 days to 1 year	**194**	7,036
	340,523	200,181

Bill receivables are aged within 90 days at the end of the reporting period. At 31 December 2009, amounts of RMB169,657,200 (2008: RMB59,300,000) bill receivables are pledged to banks for the Group to get short-term credit facilities in respect of purchases of raw materials for manufacturing.

94% (2008: 70%) of the trade receivables are neither past due nor impaired 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 RMB19,135,000 (2008: RMB61,742,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss. Based on past experience, the directors believe that no impairment allowance is necessary in respect of these balances as there was no 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 165 days. (2008: 180 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

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

Movement in the allowance for doubtful debts

	2009	2008
	RMB'000	RMB'000
Balance at beginning of the year	**53,367**	39,520
Impairment losses recognised on receivables	**34,138**	15,215
Written off	**–**	(1,368)
Balance at end of the year	**87,505**	53,367

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 and other receivables which are not denominated in the functional currencies of the respective group entities are as follows:

Original currency	**JPY**	**USD**	**HKD**	**EURO**
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2009	11,931	39,062	8	56,186
As at 31 December 2008	–	1,933	–	19,003

23. BANK BALANCES AND PLEDGED BANK DEPOSITS

The bank balances and pledged deposits carry interest at market rates which range from 0.36% to 1.98% (2008: 0.36% to 1.71%) 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.

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23. BANK BALANCES AND PLEDGED BANK DEPOSITS *(Continued)*

The Group's pledged bank deposits and certain bank balances and cash that are denominated in currencies other than the functional currencies of the respective group entities are as follows:

Original currency	USD	HKD	EURO
	RMB'000	RMB'000	RMB'000
As at 31 December 2009	484,247	6,422	4,928
As at 31 December 2008	201,960	8,259	9,824

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

The aged analysis of trade payables is as follows:

	2009	2008
	RMB'000	RMB'000
0 – 180 days	**988,825**	665,239
181 days – 1 year	**11,929**	11,374
1 to 2 years	**5,259**	9,631
2 to 3 years	**2,297**	1,538
Over 3 years	**1,505**	82
	1,009,815	687,864
Bill payable	**1,072,267**	652,741
Other payable and accruals:		
Advance from customer	**89,325**	118,944
Deposit for finance lease *(note 18)*	**165,774**	108,638
Salary and wages payable	**41,632**	24,220
Payable for acquisition of property plant and equipment	**63,848**	36,950
Other tax payable	**12,103**	4,432
Accrued sales rebate	**90,718**	31,739
Other payables	**14,247**	19,856
Other accrued expenses	**45,575**	40,386
	523,222	385,165

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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 the end of the end of reporting period and secured by bill receivables or pledged bank deposits.

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

Original currency	**USD**	**HKD**	**EURO**
	RMB'000	RMB'000	RMB'000
As at 31 December 2009	5,626	9,057	11,663
As at 31 December 2008	–	7,618	–

25. PROVISIONS

	2009	2008
	RMB'000	RMB'000
At 1 January 2009	**154,475**	128,296
Additional provision for the year	**166,076**	156,527
Utilisation of provision	**(175,508)**	(130,348)
At 31 December 2009	**145,043**	154,475

The Group offers a standard one-year warranty for the wheel loaders, road rollers, excavators and forklifts. 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.

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26. AMOUNTS DUE TO RELATED PARTIES

	2009	2008
	RMB'000	RMB'000
Non-trade		
Shanghai Longgong Machinery Co., Ltd. (note a)	**–**	2,079
China Longgong Group Holdings Limited (note a)	**4,865**	4,867
Trade		
Longyan City Jinlong Machinery Company Limited ("Jinlong") (note b)	**8,811**	4,253
Sichuan Deying Bonding Company Limited (note c)	**8,628**	2,672
	22,304	13,871

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 2008 and 2009 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 the 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 guarantee deposits paid by this entity for finance lease of wheel loaders to the customers handled by the entity.

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

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27. SHARE CAPITAL

	Number of shares		Share capital	
	2009	2008	**2009**	2008
	'000	'000	**HKD'000**	HKD'000
Ordinary shares of HK$0.1 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	**1,070,025**	1,089,050	**111,029**	113,009
Bonus share issued	**1,070,025**	–	**111,029**	–
Share repurchased and cancelled	**–**	(19,025)	**–**	(1,980)
At 31 December	**2,140,050**	1,070,025	**222,058**	111,029

Pursuant to an ordinary resolution passed at annual general meeting on 29 May, 2009, 1,070,025,000 ordinary shares were issued and allotted on 8 June, 2009 as fully paid up by way of one for one bonus issue ("Bonus Issue") in respect of which an amount of RMB111,029,000 was applied to the credit of the share premium account.

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

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27. SHARE CAPITAL *(Continued)*

During the year of 2008, 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.

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.

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29. BORROWINGS

	2009 RMB'000	2008 RMB'000
Bank loans – unsecured	**1,134,227**	998,000
Bank loans – secured	**34,517**	–
	1,168,744	998,000
Fixed-rate bank loans	**892,720**	361,000
Variable-rate bank loans	**276,024**	637,000
	1,168,744	998,000
Carrying amount repayable:		
Within one year	**686,718**	361,000
More than one year, but not exceeding two years	**300,799**	290,000
More than two years but not more than five years	**181,227**	347,000
	1,168,744	998,000
Less: Amounts due within one year	**(686,718)**	(361,000)
	482,026	637,000

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

	2009 RMB'000	2008 RMB'000
Effective interest rate:		
Fixed-rate bank loans	**2.8%-6.24%**	5.4%-6.24%
Variable-rate bank loans	**4.95%-6.32%**	4.97-5.13%

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

Original currency	**USD** RMB'000	**EURO** RMB'000
As at 31 December 2009	**83,851**	**1,149**
As at 31 December 2008	–	–

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30. CONVERTIBLE LOAN NOTES AND DERIVATIVE FINANCIAL INSTRUMENTS

i) 2007 Convertible loan notes

Convertible Loan Notes of US$287 million were issued by the Company on 30 April 2007 ("2007 Convertible Loan Notes") at an issue price of US$10,000 per Convertible Loan Note of US$10,000. The 2007 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 HK$20.4525 (the "2007 Conversion Price"), but subject to anti-dilutive adjustment as stated in the offering circular on 27 April 2007 ("2007 Offering Circular"). On 20 November 2009, the conversion price has been revised to HK$9.54 after anti-dilutive adjustment.

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

Interest

The 2007 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 "2007 Maturity Date").

Maturity

Unless previously redeemed or converted, the Company will redeem each 2007 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 2009

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

i) 2007 Convertible loan notes *(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 2007 Offering Circular, the Company may, having given not less than 30 nor more than 60 days' notice to the holders, redeem the 2007 Convertible Loan Notes in whole or in part at the early redemption amount ("2007 Early Redemption Amount"), provided that no such redemption may be made unless the closing price of the Company shares translated into US dollars 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 dollars at the fixed exchange rate of HK$7.8175=US$1.00 on each such stock exchange business day.

Redemption at the Option of the bondholders

The holder of each 2007 Convertible Loan Note ("2007 Bondholders") will have the right to require the Company to redeem all or some of their 2007 Convertible Loan Notes at 2007 Early Redemption Amount of the initial principal amount on or at any time after 30 April 2010 or on the occurrence of a change of the Company's controlling shareholders or delisting of the Company's shares.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

i) 2007 Convertible loan notes *(continued)*

Redemption at the Option of the bondholders *(continued)*

The gross proceeds net of transaction costs received from the issue of the 2007 Convertible Loan Notes are split into 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.

(ii) Derivative component represents:

(i) The fair value of the option of 2007 Bondholders to convert the 2007 Convertible Loan Notes into shares of the Company at an initial conversion price of HK$20.4525 per ordinary share of HK$0.1 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 2007 Convertible Loan Notes.

(iii) The fair value of the option of 2007 Bondholders to require the Company to early redeem the 2007 Convertible Loan Notes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

i) 2007 Convertible loan notes *(continued)*

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

The movement of the liability component and derivative component of the 2007 Convertible Loan Notes for the year is set out below:

	Liability component RMB'000	**Derivative component** RMB'000	**Total** RMB'000
2007 Convertible Loan Notes:			
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
Exchange realignment	(7,137)	–	(7,137)
Effective interest expense charged during the period	82,010	–	82,010
Re-purchased and cancelled	(837,717)	(126,213)	(963,930)
Changes in fair value	–	33,839	33,839
As at 31 December 2009	**714,117**	**113,498**	**827,615**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

i) 2007 Convertible loan notes *(continued)*

At the issuance date and the end of each reporting date, the fair values of the conversion option of 2007 Bondholders, the redemption option of the Company and redemption option of 2007 Bondholders have been determined based on the Binomial Model. Inputs into the model at the respective valuation dates are as follows:

	2009	2008
Discount rate	**12.13%**	14.83%
Time to expiration	**1.2 year**	2.3 year
Volatility	**63.48%**	71.44%

During the year ended 31 December 2009, the Company repurchased USD 124,650,000 of face value (2008: USD59,730,000) (equivalent to RMB851,610,000 (2008:RMB407,923,303)) of the issued 2007 Convertible Loan Notes and recognised RMB81,614,000 (2008: RMB126,960,000) gain on the repurchase in the consolidated income statement.

ii) 2009 Convertible Loan Notes

Another Convertible Loan Notes of US$135 million were issued by the Company on 24 August 2009 ("2009 Convertible Loan Notes") at an issue price of US$10,000 per Convertible Loan Note of US$10,000. The 2009 Convertible Loan Notes are listed on the Singapore Exchange Securities Trading Limited. Each 2009 Convertible Loan Note entitles the holder to convert to one ordinary share of the Company at the initial conversion price of HK$7.00 (the "2009 Conversion Price"), but subject to anti-dilutive adjustment as stated in the offering circular on 6 August 2009 ("2009 Offering Circular").

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

Interest

The 2009 Convertible Loan Notes do not bear any interest.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

ii) 2009 Convertible Loan Notes *(continued)*

Conversion period

The conversion period starts from at any time on or after 5 October 2009 on the Business Day falling on or immediately before the tenth day prior to 24 August 2014 ("2009 Maturity Date")

Maturity

Unless previously redeemed, purchased and cancelled or converted in the circumstances set out in the terms and conditions defined in the 2009 Offering Circular, the Company will redeem each 2009 Convertible Loan Notes at 144.504% of its principal amount on the Maturity Date.

Redemption at the Option of the Company

On and at any time after 24 August 2012 but not less than seven business days prior to the 2009 Maturity Date nor within the closed period which is defined in the 2009 Offering Circular, the Company may, having given not less than 30 nor more than 60 days' notice to the holders, redeem the 2009 Convertible Loan Notes in whole or in part at the early redemption amount ("2009 Early Redemption Amount"), provided that no such redemption may be made unless the closing price of the Shares translated into US dollars 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 dollars at the fixed exchange rate of HK$7.815=US$1.00 on each such trading day.

Redemption at the Option of the bondholders

The Bondholder of each 2009 Convertible Loan Note ("2009 Bondholders") will have the right to require the Company to redeem all or some of the 2009 Convertible Loan Notes at 2009 Early Redemption Amount of the initial principle amount on or at any time after 24 August 2012 or on the occurrence of a change of the Company's controlling shareholders or delisting of the Company's shares.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

ii) 2009 Convertible Loan Notes *(continued)*

Redemption at the Option of the bondholders (continued)

The gross proceeds net of transaction costs received from the issue of the 2009 Convertible Loan Notes are split into 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 16.22% to the liability component since the 2009 Convertible Loan Notes were issued.

(ii) Derivative component represents:

(i) The fair value of the option of 2009 Bondholders to convert the 2009 Convertible Loan Notes into shares of the Company at an initial conversion price of HK$7.00 per ordinary Share and subject to anti-dilutive adjustments.

(ii) The fair value of the option of the Company to early redeem the 2009 Convertible Loan Notes.

(iii) The fair value of the option of 2009 Bondholders to require the Company to early redeem the 2009 Convertible Loan Notes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

ii) 2009 Convertible Loan Notes *(continued)*

Redemption at the Option of the bondholders *(continued)*

The movement of the liability component and derivative component of the 2009 Convertible Loan Notes for the year since issuance is set out below:

	Liability component RMB'000	**Derivative component** RMB'000	**Total** RMB'000
2009 Convertible Loan Notes:			
At date of issue on 24 August 2009 net proceeds	628,434	277,139	905,573
Exchange realignment	(255)	–	(255)
Effective interest expense charged during the period	33,972	–	33,972
Changes in fair value	–	33,920	33,920
As at 31 December 2009	**662,151**	**311,059**	**973,210**

At the issuance date and the end of the reporting period, the fair values of the conversion option of 2009 Bondholders, the redemption option of the Company and redemption option of 2009 Bondholders have been determined based on the Binomial Model. Inputs into the model at the respective valuation dates are as follows:

	2009
Discount rate	15.81%
Time to expiration	4.7 year
Volatility	63.00%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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 owners of the Company, comprising issued share capital, reserves and retain earnings.

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

	2009 **RMB'000**	2008 RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**2,113,089**	1,694,874
Available-for-sale investments	**–**	42,755
Financial liabilities:		
FVTPL	**424,557**	205,872
Amortised cost	**5,051,753**	4,075,808

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

32. FINANCIAL INSTRUMENTS *(continued)*

32.2. Financial risk management objectives and polices

The Group's major financial instruments include trade receivables, other receivable, loan receivables, 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) Certain subsidiaries of the Company also have foreign currency sales and purchases, therefore certain trade receivables and payables of these subsidiaries are denominated in foreign currencies.

(3) The Company's issued convertible loan notes are denominated in foreign currencies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

32. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(i) Currency risk *(continued)*

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

	Assets		Liabilities	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**523,309**	203,893	**1,890,302**	1,682,833
EURO	**61,114**	28,827	**12,812**	–
HKD	**6,430**	8,259	**9,057**	7,618
JPY	**11,931**	–	**–**	–

Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% (2008: 5%) increase and decrease in Renminbi against the relevant foreign currencies. 5% (2008: 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% (2008: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where Renminbi strengthen 5% (2008: 5%) against the relevant currency. For a 5% (2008: 5%) weakening of Renminbi against the relevant currency, there would be an equal and opposite impact on post-tax profit for the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

32. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk (continued)

(i) Currency risk *(continued)*

Sensitivity analysis *(continued)*

	USD impact		EUR impact		HK$ impact		JPY impact	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Post-tax profit (loss) *(note)*	**66,668**	64,703	**(2,113)**	(1,261)	**131**	(28)	**(522)**	–

Note: The USD impact in 2009 and 2008 is mainly attributable to the exposure on the USD denominated Convertible Loan Notes outstanding at the end of the reporting period.

(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). The Group's interest rate risk relates to financial liabilities are detailed in the liquidity risk management section of this note. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see note 23) and variable-rate bank borrowings (see note 29 for details of these borrowings).

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

32. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(ii) Interest rate risk *(continued)*

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to variable-rate interest bearing financial instruments at the end of reporting period. The analysis is prepared assuming the amount of interest bearing financial instruments outstanding at the end of the reporting period 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 variable-rate bank loans and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2009 would decrease/increase by RMB1,219,000 (2008: decrease/increase by RMB2,877,000). 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 2009 would increase/decrease by RMB537,000 (2008: increase/decrease by RMB697,000).

(iii) Price risk

Convertible Bond Notes

The Group estimates the fair value of the derivative embedded in the convertible loan notes at the end of the reporting period 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 price and share price volatility.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

32. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk (continued)

(iii) Price risk *(continued)*

Sensitivity analysis

The fair value of derivative option component embedded in the convertible loan notes was estimated using binomial option pricing model. The sensitivity analysis below has been determined based on the exposure to the Company's share price risks at the end of the reporting period only as the directors of the Company consider that other variables may not have significant financial impact on the derivative options.

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 component of convertible loan notes) would decrease by RMB24,349,000/increase by RMB40,599,000 (2008: decrease by RMB1,250,000/ increase by RMB1,237,000).

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.

Available-for-sale investment

The Group is also exposed to equity price risk through its purchased listed equity securities which was classified as available-for-sale investment as at December 31, 2008. No sensitivity analysis is presented as the available-for-sale investment has been disposed in this year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

32. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk (continued)

(iii) Price risk *(continued)*

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 statement of financial position.

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 the end of reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. The amounts presented in the consolidated statement of financial position 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 before the lease term commenced. The Group also reviews each customer's credit standing before financing the lease. 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.

The Group does not have significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

32. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(iii) Price risk *(continued)*

Credit risk *(continued)*

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.

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.

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 significant sources 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 has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principle cash flows.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

32. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk (continued)

(iii) Price risk *(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	3-4 years RMB'000	4-5 years RMB'000	Undiscounted cash flow RMB'000	Total carrying amount RMB'000
2009										
Non-derivative financial liabilities										
Trade, bill and other payable		1,421,392	724,377	56,040	-	-	-	-	2,201,809	2,201,809
Bank borrowing										
–Fixed rate	4.01%	132,753	106,796	408,725	109,914	167,121	-	-	925,309	892,720
–Variable-rate	5.06%	-	10,510	41,901	210,885	33,848	603	-	297,747	276,024
Amounts due to related party	-	22,304	-	-	-	-	-	-	22,304	22,304
2007 Convertible Loan Notes *(note)*	7.73%	-	786,218	-	-	-	-	-	786,218	827,615
2009 Convertible Loan Notes *(note)*	16.22%	-	-	-	-	1,149,678	-	-	1,149,678	973,210
Deposit for finance lease	-	19,423	29,101	117,250	109,454	7,400	-	-	282,628	282,628
Total		1,595,872	1,657,002	623,916	430,253	1,358,047	603	-	5,665,693	5,476,310

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

32. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(iii) Price risk *(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	–	716,558	681,072	24,001	–	–	1,421,631	1,421,631
Bank borrowing								
–Fixed rate	5.31%	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
2007 Convertible Loan Notes (note)	7.73%	–	–	–	1,742,736	–	1,742,736	1,682,833
Deposit for finance lease	–	12,729	19,071	76,838	53,274	3,433	165,345	165,345
Total		813,642	975,899	121,691	2,113,438	399,109	4,423,779	4,281,680

Note: The maturity of the convertible loan notes is presented based on the assumption of execution of the early redemption option by the bond holder pursuant to the convertible loan notes agreement.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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.

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

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:

	2009		2008	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Financial liabilities				
2007 Convertible Loan Notes	**714,117**	**654,746**	1,476,961	1,187,011
2009 Convertible Loan Notes	**662,151**	**666,978**	–	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

32. FINANCIAL INSTRUMENTS *(continued)*

32.3. Fair value *(continued)*

Fair value measurements recognised in the statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

32. FINANCIAL INSTRUMENTS *(continued)*

32.3. Fair value

	31/12/2009			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities at FVTPL				
Derivative financial instruments	–	–	424,557	424,557

Reconciliation of Level 3 fair value measurements of financial liabilities

	Derivative financial instruments RMB'000
At 1 January, 2009	205,872
Total Loss in profit or loss	67,759
Issues 2009 Convertible Loan Notes	277,139
Settlements from 2007 Convertible Loan Notes	(126,213)
At 31 December, 2009	424,557

The total losses for the year included in profit or loss relates to Convertible Loan Notes held at the end of the reporting period. Fair value losses are included in other gains and losses.

Significant assumptions used in determining fair value of financial liabilities

Convertible Loan Notes

The fair value of the liability component of 2007 convertible notes is determined assuming redemption on 30 April 2010 and using a 12.15% interest rate based on a quoted comparable US corporate bond rate of 10.1% plus country risk premium 2.1%.

The fair value of the liability component of 2009 convertible notes is determined assuming redemption on 24 August 2012 and using a 15.6% interest rate based on a quoted comparable US corporate bond rate of 13.5% plus country risk premium 2.1%.

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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 air 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.

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34. OPERATING LEASE COMMITMENTS

	2009 RMB'000	2008 RMB'000
Minimum lease payments paid under operating leases in respect of premises during the year	**5,812**	7,079

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

	2009 RMB'000	2008 RMB'000
Within one year	**4,815**	4,344
In the second to fifth year inclusive	**6,392**	4,822
	11,207	9,166

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

	2009 RMB'000	2008 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**311,764**	594,052

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36. RELATED PARTY TRANSACTIONS

Save as disclosed in note 26, the Group has the following transactions with related party during the year:

Name of related party	Nature of transactions	2009 RMB'000	2008 RMB'000
Jinlong	Purchase of goods	**39,153**	31,249
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 recoginised in the consolidated income statement of RMB21,531,000 (2008: RMB19,643,000) 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 end of reporting period.

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38. SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2009 and 2008 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	HK$448,000,000	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")	HK$168,000,000	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	HK$260,000,000	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	HK$29,680,000	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	HK$50,000,000	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

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38. SUBSIDIARIES *(Continued)*

Name	Date and place of establishment/ incorporation	Paid-up issued/ registered ordinary	Attributable equity interest	Principal activities
Longgong (Fujian) Hydraulics Machinery Co., Ltd. 龍工(福建)液壓机械有限公司	15 January 2008 PRC WOFE	HK$100,000,000	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 2008 PRC WOFE	HK$200,000,000	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 2008 PRC WOFE	HK$100,000,000	100%	Manufacture and distribution of wheel loader and road roller
Longgong (Shanghai) Excavator Manufacturing Co., Ltd. 龍工(上海)挖掘機製造有限公司	12 September 2008 PRC WOFE	HK$260,000,000	100%	Manufacture and distribution of excavator
Monarch (Shanghai) Machinery Co., Ltd. 摩納凱(上海)机械有限公司	1 January 2008 PRC WOFE	HK$83,600,000	100%	Manufacture and distributionofhydraulic parts and other machinery products
Monarch (Shanghai) Forklift Co., Ltd. 龍工(上海)叉車有限公司	7 February 2008 PRC WOFE	HK$200,000,000	100%	Manufacture and distribution of forklift
Henan Longgong Machinery Manufacturing Co., Ltd. 河南龍工機械製造有限公司	11 July 2002 PRC Sino foreign equity joint venture	RMB82,700,000	99.95%	Manufacture and distribution of wheel loader and farm machines
Longgong (Shanghai) Financing Leasing Co., Ltd. 龍工(上海)融資租賃有限公司	28 March 2009 PRC WOFE	US$10,000,000	100%	Financing Lease for wheelloaderandother machinery

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38. SUBSIDIARIES *(Continued)*

Name	Date and place of establishment/ incorporation	Paid-up issued/ registered ordinary	Attributable equity interest	Principal activities
Longgong (China) Machinery Sales Co., Ltd. 龍工(中國)機械銷售有限公司	12 September 2009 PRC WOFE	RMB50,000,000	100%	Distribution 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 2009 PRC WOFE	RMB30,000,000	100%	Distribution of Wheel loaders and other machinery
Longgong (Fujian) Casting & Forging Co., Ltd. 龍工(福建)鑄鍛有限公司	13 August 2009 PRC WOFE	US$65,000,000	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 ("VI")	US$50,000	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	US$50,000	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 32, 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.

Summary of Financial Information

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

	For the year ended 31 December				
	2005	2006	2007	2008	**2009**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Result					
Profit before taxation	265,822	616,076	684,130	738,216	**905,877**
Income tax credit (expense)	(29,141)	9,272	(54,681)	(72,724)	**(105,652)**
Profit for the year	236,681	625,348	629,449	665,492	**800,225**
Attributable to:					
Equity holder of the parent	235,906	624,154	629,616	665,594	**799,986**
Minority interests	775	1,194	(167)	(102)	**239**
	236,681	625,348	629,449	665,492	**800,225**
Dividends	67,684	–	349,155	239,961	**169,731**
Earnings per share-basic (RMB)	0.32	0.60	0.59	0.31	**0.37**
Assets and Liabilities					
Total assets	2,074,313	2,841,808	6,520,386	7,843,395	**9,766,387**
Total liabilities	919,834	1,063,829	3,702,946	4,683,440	**5,975,938**
	1,154,479	1,777,979	2,817,440	3,159,955	**3,790,449**
Equity attributable to equity holders of the parent	1,152,760	1,776,914	2,816,487	3,159,104	**3,789,359**
Minority interest	1,719	1,065	953	851	**1,090**
	1,154,479	1,777,979	2,817,440	3,159,955	**3,790,449**