ANNUAL REPORT 2011

LONKING HOLDINGS LIMITED
中國龍工控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3339

*For Identification Purpose Only

Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors

Mr. Li San Yim *(Chairman)*
Mr. Qiu Debo *(Chief Executive Officer)*
Mr. Luo Jianru
Mr. Chen Chao
Mr. Lin Zhong Ming
Ms. Fang De Qin

Non-executive directors

Ms. Ngai Ngan Ying

Independent non-executive directors

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

AUDIT COMMITTEE

Dr. Qian Shizheng *(Chairman)*
Mr. Pan Longqing
Ms. Ngai Ngan Ying

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
Mr. Chen Chao
Mr. Lin Zhong Ming
Ms. Fang De Qin

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

Ms. Janny Lv
Lzz@lonking.cn

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1802, 18th Floor
West 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

Ernst & Young
Certified Public Accountant
22nd Floor, CITIC Tower
1 Tim Mei Avenue, Central
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	**2011 RMB'000**	2010 RMB'000	Change (+/–)
Turnover	**12,721,160**	12,019,933	+5.83%
Operating profits:			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**2,222,941**	2,433,552	-8.65%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**2,462,937**	2,348,172	+4.89%
EBITDA			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**2,515,205**	2,641,833	-4.79%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**2,755,201**	2,556,453	+7.77%
Profit attributable to equity parent	**1,729,502**	1,765,606	-2.04%

Per share data	**RMB**	RMB	
Basic earnings per share(1)#			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**0.35**	0.43	-19.53%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**0.40**	0.41	-2.04%
Net assets per share(2)#	**1.50**	1.22	+22.22%

Financial Highlights

Key performance indicators	%	%	
Profitability			
Overall gross margin	**25.27**	28.51	-3.24%
Net profit margin			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**11.71**	15.41	-3.69%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**13.60**	14.69	-1.10%
EBITDA margin[3]			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**19.77**	21.98	-2.21%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**21.66**	21.27	+0.39%
Return on equity[4]	**27.00**	33.69	-6.69%
Liquidity and solvency			
Current ratio[5]	**2.36**	1.31	+80.21%
Interest coverage ratio[6]			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**5.63**	11.81	-52.38%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**6.23**	11.40	-45.32%
Gearing ratio[7]	**151.93**	156.82	-4.89%

Management efficiency	days	days	
Inventory turnover days[8]	**152**	125	+27 days
Trade and bills payables turnover days[9]	**111**	109	+2 days
Trade and bills receivable turnover days[10]	**37**	39	-2 days

Financial Highlights

#	Calculated based on the 4,280,100,000 shares outstanding as at 31 December 2011 (31 December 2010: 4,280,100,000).
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	Total liabilities 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, I am pleased to present the annual report of Lonking Holdings Limited (the "Company" or "Lonking") for the year ended 31 December 2011.

Last year was a very special year for the construction machinery industry in the PRC, in which the market featured a blowout and experienced a drastically-falling roller coaster condition. During the first quarter, under the joint forces of several factors, the industry earned a rapid growth. Nevertheless, under the influence of factors like the macro-policies, it has been declining monthly since April and, in particular, the construction machinery industry experienced its trough in the second half of the year when the European sovereign-debt crisis became sever, macro control in the PRC had been constantly crunched and the constructions of infrastructures, especially the railway, had been ceased at a large scale while the development of real estate had constantly fallen. To fight for a higher market share, the market competition became intensive, most enterprises in the industry adopted various promotion strategies that made a bleaker competition. Certain enterprises even charged no downpayments, leading to low economic efficiency, surging in trade receivables, shrinking cash flow and higher operating risk. In particular, the excavator industry once again faced various problems including long recovery period for receivables, a fractured capital chain for construction enterprises and an obvious rise in overdue rate, facing a challenge that it has never encountered in its development.

Confronting such complex situation, the Board needs the management to be clear-headed, understanding the situation, grasping the key points, adjusting the model, and turning risks into opportunities.

Understanding the situation. We believe that, compared to the financial crisis in 2008, this industry crisis would linger for a longer period, pose a bigger influence on the industry and require a longer mental preparation. The default, defer and abortion of constructions of railway and highway, in particular, would bring deeper and far-reaching negative impacts to the machinery industry.

Grasping the key points. Under the current market condition, the key of our work is to step up the efforts in cash flow management, specifically the recover of trade receivables and the risk prevention of finance lease receivables. Also, while keeping the risks under control, we have to ensure our leading position of the loader industry and enhance the development of products including fork lifts.

Adjusting the model. For more than a decade, Lonking has been proving that the customers of loaders and fork lifts are of better ability to pay with small bad debt ratio and basically-controllable risk. However, in the competition of excavator industry, which features a low down payment ratio and long payment recovery period, the risk would be obviously higher during economic downturn. In the fourth quarter, we commenced our adjustments in sales strategy of excavators that focus on a healthy growth of the enterprise rather than a mere quantity expansion.

Chairman's Statement

Turning risks into opportunities. The present situation of the industry is featured by opportunities within risks and opportunities after risks. We require the management to secure the critical timing, practise the skills and cement the development basis of industry focusing on product quality and product development with the aim of making breakthroughs in developing new products and core components and establishing a strong basis for the coming development.

By the concerted efforts of all the Lonking workers, in 2011, we have basically accomplished our goals. We maintained our leading position in the loader industry, recorded rapid growth in fork lifts and modified the marketing strategy of excavators. In particular, operating cash flow and net cash flows, where we placed our focus on, recorded positive numbers, which brought us a certain extent of comparative advantages compared with the huge negative numbers reported by most of the other players in the industry. These achievements not only empowered the Company with adequate capital, resources and reserve, but also ensured the solid development of Lonking and the competitive edges enjoyed by the Company during the next round of development.

Dear friends, the year 2011 will be a watershed for the development of the construction machinery production industry in the PRC, in which the entire industry switch from the stage of an overall vigorous growth, which was sustained for years, to a "medium-speed" development stage featuring steady growth rate. In the medium-long run, the construction machinery in the PRC still possesses a strong growth momentum. By ensuring the smooth implementation of the projects such as water resources under construction, electricity, railways and major equipment, the PRC government plays a vital role in stimulating the demand of the machinery market. Meanwhile, the construction machinery market will be given with a huge room for development as a result of the fast urbanization process in the PRC as well as the implementation of the affordable housing construction policy. With the increasing recognition of the construction machinery products made in China by the international market, the cost-effective products will only attract more foreign customers. In the backdrop of an optimistic macro environment in the PRC, construction machinery industry may, however, encounter situations such as over-production, intensifying competitions, continuous rising of cost for production factors and weak demand in the short-term. As a result, market opportunities are made for well-prepared enterprises.

Based on the aforementioned, we will advance in a prudent manner in 2012. Leveraging on the reform of management and operation, active adjustments will be made. Leveraging on Longking's competitive edge, we will seek a new breakthrough and a sweet spot to achieve solid development. In 2012, we will step up our efforts in maintaining our leading position in the loader industry, facilitating steady development of excavators production industry as well as magnifying our market competitiveness of fork lifts and road rollers. By seizing both domestic and international markets, we will promote Lonking brand presence, create core competitiveness and maximize the returns for the general investors.

Chairman's Statement

Since its listing, Lonking 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.

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 Lonking.

As always, Lonking 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
27 March 2012

Management Discussion and Analysis

RESULT AND BUSINESS REVIEW

Due to the macro-economic regulatory measures stipulated by the PRC government, sales for the year were slowed down. Consolidated sales for the fiscal year increased by 5.8% from the previous fiscal year to RMB12,721 million. Gross profit from operation was approximately RMB3,214 million, representing a decrease of 6.2% as compared to approximately RMB3,427 million. Overall gross margin decreased form 28.5% to 25.3%. We contribute the decrease of gross margin to the followings:

(1) The rise of the overall manufacturing cost due to the macro-economic regulatory measures and the cost pressure of the industry;

(2) The reduction of the average price due to the operation model adjustments made by the management after considering the risks associated with the excavator market.

During the year, the northern regions of the PRC continuously remained as the Company's principal marketing regions and represented approximately 29.37% of our total turnover (2010: 19.69%). The northwestern regions represented approximately 15.42% of our total turnover for the year (2010: 12.58%). Turnover of the southern regions accounted for approximately 7.34% of our total turnover (2010: 11.26%). Revenue of each of the northeastern, eastern, southwestern and central regions accounted for approximately 6.14%, 10.55%, 8.46% and 12.43% of our total turnover respectively (2010: representing 6.8%, 12.64%, 12.58% and 16.58% respectively), a decrease from the same period of the previous year. The turnover from export was RMB470 million, representing an increase of 45.33%.

ANALYSIS OF PRODUCTS

Wheel Loaders

The revenue generated from wheel loader represented approximately 69.70% of total Group's turnover which was basically the same as that of last year (2010: approximately 69.41% of total Group's turnover).

ZL50 series continued to be the main revenue source of the Group with turnover for the year reaching RMB7,523 million, an increase of 3.53% compared with that of last year. ZL30 series continued to be the second largest revenue source of the Group with turnover reaching RMB969 million, an increase of approximately 15.34% compared with that of last year. ZL40 series accounted for a small proportion in the overall sales with turnover reaching RMB28 million, representing only approximately 0.22% of the total turnover. The turnover from mini wheel loader amounted to RMB346 million, an increase of 61.71% compared with that of last year.

Management Discussion and Analysis

Excavators

The turnover from excavators dropped by approximately 12.44% to RMB1,713 million (2010: RMB1,957 million).

Fork Lifts and Road Rollers

During the year, the Group has sold 16,100 fork lifts with turnover increasing by 58.71% to approximately RMB929 million (2010: 10,468 fork lifts were sold with a turnover of RMB586 million). The increase was mainly attributable to the gradual establishment of the brand presence in the industry thanks to the continuous expansion of our sales channels. Turnover from road rollers reached RMB367 million, representing a decrease of 21.67% compared with that of 2010 (2010: turnover of RMB469 million), which was due to adjustments in demand caused by the slowdown in the investment of fixed assets like highways, ports and cities and towns.

Components

The sales generated from components amounted to approximately RMB632 million for the year ended 31 December 2011, an increase of 40.51% compared with the corresponding period last year (2010: RMB450 million), accounting for approximately 4.97% of the total turnover of the Group.

Finance Lease Interest

Turnover from interest income of finance lease represented 1.6% of the Group's total revenue in the year of 2011, representing a small drop from last year (2010: represented approximately 1.7% of the Group's turnover).

FINANCIAL REVIEW

Cash and Bank Balance

The cash position of the Group was strong during the year. As at 31 December 2011, the Group had bank balance and cash of approximately RMB1,684 million (31 December 2010: approximately RMB306 million). Bank deposits of approximately RMB471 million (31 December 2010: RMB328 million) were pledged by the Group to secure payable notes issued by banks for procurement of raw materials.

Compared with last year, cash and bank balances increased by approximately RMB1,378 million, which is generated as a result of net cash inflow of around RMB1,299 million from operating activities, the net cash outflow of RMB1,246 million from investing activities and the net cash inflow of RMB1,326 million from financing activities.

Management Discussion and Analysis

Liquidity and Financial Resources

We are committed to build a sound finance position. Total shareholders fund as at 31 December 2011 was approximately RMB6,407 million, a 22.2% increase from approximately RMB5,242 million as at 31 December 2010.

The current ratio of the Group at 31 December 2011 was 2.36.

The directors believed that the Group will be able to support its demand for operational capital and satisfy the expected capital expenditure with its ample resources.

Capital Structure

During the year, the Company has not redeemed any of its shares.

During the year, the Company has issued senior notes in the aggregate principal amount of USD350 million on 3 June 2011. The notes bear interest at the rate of 8.5% per annum and will mature on 3 June 2016.

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

As at 31 December 2011, the gross gearing ratio (defined as total liabilities over assets) was approximately 60.31% (31 December 2010: 61.06%).

Capital Expenditure

During the period, the Group acquired property, plant and equipment approximately RMB916 million (2010: approximately RMB483 million) in order to expand the production capacity of its four bases in Fujian, Shanghai, Jiangxi and Henan. The capital expenditures were fully financed by the convertible loan notes, long-term notes, bank borrowings and internal sources of the Group.

Capital Commitment

As at 31 December 2011, the Group had contracted but not included in the financial statements expenditures of approximately RMB175 million in respect of acquisition of property, plant and equipment (31 December 2010: approximately RMB251 million).

Management Discussion and Analysis

PROSPECT

The year 2012 will be a watershed for the development of the construction machinery production industry in the PRC, in which the entire industry switch from the stage of an overall vigorous growth, which was sustained for years, to a "medium-speed" development stage featuring steady growth rate. In the medium-long run, the construction machinery in the PRC still possesses a strong growth momentum. By ensuring the smooth implementation of the projects such as water resources under construction, electricity, railways and major equipment, the PRC government plays a vital role in stimulating the demand of the machinery market. Meanwhile, the construction machinery market will be given with a huge room for development as a result of the fast urbanization process in the PRC as well as the implementation of the affordable housing construction policy. With the increasing recognition of the construction machinery products made in China by the international market, the cost-effective products will only attract more foreign customers. In the backdrop of an optimistic macro environment in the PRC, construction machinery industry may, however, encounter situations such as over-production, intensifying competitions, continuous rising of cost for production factors and weak demand in the short-term. As a result, market opportunities are made for well-prepared enterprises.

Based on the aforementioned, we will advance in a prudent manner in 2012. Leveraging on the reform of management and operation, active adjustments will be made. Leveraging on Longking's competitive edge, we will seek a new breakthrough and a sweet spot to achieve solid development. In 2012, we will step up our efforts in maintaining our leading position in the loader industry, facilitating steady development of excavators production industry as well as magnifying our market competitiveness of fork lifts and road rollers. By seizing both domestic and international markets, we will promote Lonking brand presence, create core competitiveness and maximize the returns for the general investors.

Profiles of Directors and Senior Management

Mr. Li San Yim, aged 61, 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 20 to 21 of this annual report.

Mr. Qiu Debo, aged 49 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 20 of this annual report.

Mr. Chen Chao, aged 37, is currently the vice president of the Group. Mr. Chen joined the Group in July 1997, in charge of research department and quality control. Mr. Chen holds an EMBA at Fudan University in Shanghai. Mr. Chen has over eleven years of experience in product development and quality control, 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 appointed as a member of the 5th 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 (技術質量委員會) of Mechanical Engineering Technology and Quality Message Site (全國工程機械行業技術質量信息網).

Profiles of Directors and Senior Management

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 20 of this annual report.

Mr. Luo Jianru, aged 65, 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 25 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 20 of this annual report.

Ms. Fang Deqin, aged 49, joined the Company in November 2006. She is currently the CFO of the Company. Ms. Fang received a Bachelor Degree in Economics from Xiamen University in 1984 and an EMBA Degree from Xiamen University. 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 18 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 20 of this annual report.

Profiles of Directors and Senior Management

Mr. Lin Zhong Ming, aged 49, joined the Company in March 2001. He is currently the general manager of the loader business department of the Group. Mr. Lin has a bachelor's degree in history from Shandong University and an EMBA degree from Xiamen University. He has nine 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 20 of this annual report.

NON-EXECUTIVE DIRECTORS

Ms. Ngai Ngan Ying, aged 56, 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 20 to 21 of this annual report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Qian Shizheng, aged 60, 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. and a director of Shanghai Industrial Urban Development Group 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). Mr. Qian also serves as a vice-chairman of Haitong Securities Co., Ltd (海通証券股份有限公司), and an independent director of Zoomlion Heavy Industrial Science and Technology Co., Ltd, (中聯重科股份有限公司) which are listed on Shenzhen Stock Exchange and Hong Kong Stock Exchange (stock code: 1157). He has over 25 years of experience in the finance and accounting fields.

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

Profiles of Directors and Senior Management

Mr. Han Xuesong, aged 75, 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 Honorary 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, President and Honorary 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 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.

Mr. Pan Longqing, aged 63, 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, 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 an independent director of Metropolitan Bank (China) Ltd., a member of Metro Bank Group based in Philippine.

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.

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 17 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated income statement on page 34 of the annual report.

An interim dividend of HKD0.06 per share amounting to HKD257 million (Equivalent to RMB209 million) was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HKD0.09 per share to the shareholders on the register of member on 4 June 2012, amounting to approximately HKD385 million. It is expected that the dividend paid out as a result of the operation of 2011 amounted to HKD0.15 per share, or approximately HKD642 million in total.

PROPERTY, PLANT AND EQUIPMENT

The Group continued its plant replacement policy and expended RMB916 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 14 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 131 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 32 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 37 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 RMB4,976 million as at 31 December 2011 (2010: RMB3,874 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) (retired on 20 May 2011 and without re-election)
Chen Chao	(appointed on 17 February 2005)
Lin Zhong Ming	(appointed on 24 October 2006)
Fang Deqin	(appointed on 29 May 2010)

Non-executive director:

Ngai Ngan Ying	(appointed on 11 May 2004)

Independent non-executive directors:

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

Directors' Report

Pursuant to the Articles of Association, at each annual general meeting one-third of the directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years. Each of Mr. Li San Yim, Mr. Qiu Debo, Mr. Luo Jianru, 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 De Qin being the 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 13 to 16 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 2011, 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:

Directors' Report

(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)*	1,312,058,760	30.66%
Li San Yim and Ngai Ngan Ying *(Note 1)*	Beneficial owner	1,071,467,760	25.03%
Qiu Debo	Beneficial owner	3,404,000	0.08%
Luo Jianru	Beneficial owner	1,460,000	0.03%
Chen Chao	Beneficial owner	1,344,000	0.03%
Lin Zhong Ming	Beneficial owner	372,000	0.01%
Fang De Qin	Beneficial owner	1,336,000	0.03%
		2,391,442,520	55.87%

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 1,312,058,760 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 2011, 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 2011, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of directors, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company.

Long positions

Ordinary shares of HKD0.10 each of the Company

Name of shareholder	Capacity	Number of ordinary shares interested	Percentage of the issued share capital of the Company
China Longgong Group Holdings Limited *(Note 1)*	Beneficial owner	1,312,058,760	30.66%
Government of Singapore Investment Corporation Pte Ltd		214,971,363	5.02%

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 2011, 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 COMPANY'S LISTED SECURITIES

During the Year, the Company has not redeemed any of its shares.

During the year, the Company has issued senior notes in the aggregate principal amount of USD350 million on 3 June 2011. The Note will bear interest at the rate of 8.5% per annum per annum and will mature on 3 June 2016.

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.

Directors' Report

EMOLUMENT POLICY

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

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

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 22% (2010: 20%) of the Group's total turnover for the year. The five largest suppliers accounted for approximately 31% (2010: 24%) of the Group's total purchases for the year and the largest supplier accounted for approximately 10% (2010: 9%) 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.

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 has on 7 December 2009 entered into the Renewed Master Purchase Agreement, pursuant to which the Group will purchase the Parts from 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, from time to time for a term commencing from 1 January 2010 and ending on 31 December 2012. The transaction contemplated under the Renewed 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 2011, the Company purchased the parts approximately RMB53,246,000 from Jinlong.

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

Directors' Report

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 2011.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Ernst & Young certified Public Accountants ("Ernst & Young") as the auditor of the Company.

On behalf of the Board

Mr. Li San Yim
CHAIRMAN

Shanghai, 27 March 2012

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 2011 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 2011. 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 10 directors, including 6 executive directors, 1 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 13 to 16 of this annual report.

Corporate Governance Report

For the year ended 31 December 2011, 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 2011:

	Number of meetings attended/Number of Meetings held for the year ended 31 December 2011			
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
Mr. Chen Chao	4/4	N/A	2/2	N/A
Mr. Lin Zhong Ming	4/4	N/A	2/2	N/A
Ms. Fang Deqin	4/4	N/A	2/2	N/A
Non-Executive Director				
Ms. Ngai Ngan Ying	4/4	2/2	N/A	1/1
Independent Non-Executive Directors				
Dr. Pan Longqing	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.

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, Mr. Chen Chao, Mr. Lin Zhong Ming and Ms. Fang De Qin. Mr. Qiu Debo is elected as the chairman.

Under the executive committee, the Company set up a strategy and governance committee and adopted the company code, being its own code on corporate governance. The principal role of the strategy and governance committee are lay down the Company's strategies, policies and business plan and set up appropriate policies to manage risks in pursuit of the Company's strategy objective.

AUDIT COMMITTEE

The audit committee currently comprises 1 non-executive director, namely Ms. Ngai Ngan Ying, 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 2011.

AUDITOR'S REMUNERATION

For the year ended 31 December 2011, Ernst & Young Certified Public Accountants ("Ernst & Young") the external auditors of the Group received approximately RMB3.02 million (2010: approximately RMB3.02 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 2011.

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

Since 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.

INVESTOR RELATIONS

Information Disclosures and Investor Relations Management

The Company believes that it is crucial to maintain effective communication with investors to enhance their knowledge and understanding of the Company. In this regard, the Company attaches high importance to implement positive policies that facilitate investor relations and communication. The Company seeks to enhance the transparency and consolidate the knowledge and understanding of the investors towards the Company effectively through various means such as open, fair and impartial information disclosure to investors.

Corporate Governance Report

In 2011, the Company held more than 200 meetings for domestic and overseas investors, of which over 120 were visits the Company and over 80 were telephone conferences.

In June 2011, Ms. Fang De Qin, CFO of the Company, attended the PRC investment forum held by JP Morgan in Beijing.

In November 2011, Ms. Fang De Qin, CFO of the Company, attended the PRC investment summit held by Merrill Lynch in Beijing.

In November 2011, Ms. Fang De Qin, CFO of the Company, and Mr. Wang Xiao Bin, Deputy Manager of the strategy and governance committee of the Company, attended the Asia Pacific investment summit held by Morgan Stanley in Singapore.

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.

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 (together, the "Group") set out on pages 34 to 129, which comprise the consolidated and company statements of financial position as at 31 December 2011, the 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, 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 auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

Independent Auditor's Report

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2011, 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 Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower,
1 Tim Mei Avenue, Central,
Hong Kong
27 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Revenue	4	**12,721,160**	12,019,933
Cost of sales		**(9,507,055)**	(8,593,391)
Gross profit		**3,214,105**	3,426,542
Other income	5	**93,149**	36,844
Other gains and losses	5	**369,509**	(2,316)
Selling and distribution costs		**(592,782)**	(616,665)
Administrative expenses		**(294,489)**	(246,826)
Research and development costs		**(342,120)**	(241,200)
Other expenses		**(12,427)**	(18,265)
Finance income	5	**27,992**	10,058
Finance costs	6	**(395,153)**	(206,010)
Profit before tax	7	**2,067,784**	2,142,162
Income tax expense	10	**(337,917)**	(375,845)
Profit for the year		**1,729,867**	1,766,317
Other comprehensive income		**–**	–
Total comprehensive income for the year		**1,729,867**	1,766,317
Attributable to:			
Owners of the parent	11	**1,729,502**	1,765,606
Non-controlling interests		**365**	711
		1,729,867	1,766,317
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic:			
– For profit for the year	13	**0.40**	0.41
Diluted			
– For profit for the year	13	**0.34**	0.39

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	*14*	**3,637,752**	3,034,171
Prepaid land lease payments	*15*	**205,642**	194,721
Investments in associates	*18*	**59,218**	–
Finance lease receivables	*16*	**446,026**	2,344,321
Deferred tax assets	*31*	**204,529**	220,087
Prepayments for property, plant and equipment		**239,952**	128,942
Loan receivables	*19*	**–**	20,736
Total non-current assets		**4,793,119**	5,942,978
Current assets			
Prepaid land lease payments	*15*	**5,383**	4,479
Inventories	*20*	**4,379,718**	3,539,417
Finance lease receivables	*16*	**852,340**	935,699
Trade and bills receivables	*21*	**3,130,134**	1,780,647
Prepayments, deposits and other receivables	*22*	**824,690**	624,739
Pledged deposits	*23*	**470,649**	328,327
Cash and cash equivalents	*23*	**1,684,400**	306,235
Total current assets		**11,347,314**	7,519,543
Current liabilities			
Trade and bills payables	*24*	**2,723,074**	3,073,767
Other payables and accruals	*25*	**973,513**	787,957
Interest-bearing bank borrowings	*26*	**795,425**	1,471,658
Convertible bonds	*27*	**24,846**	–
Due to related parties	*30*	**12,704**	7,035
Income tax payable		**127,405**	221,867
Provisions	*29*	**150,749**	179,225
Derivative financial instruments	27	**13**	–
Total current liabilities		**4,807,729**	5,741,509
Net current assets		**6,539,585**	1,778,034
Total assets less current liabilities		**11,332,704**	7,721,012

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Non-current liabilities			
Deposits for finance leases	*16*	**108,026**	271,214
Interest-bearing bank borrowings	*26*	**1,511,719**	970,995
Convertible bonds	*27*	**825,329**	770,677
Long-term loan notes	*28*	**2,205,315**	–
Deferred tax liabilities	*31*	**72,136**	47,670
Provisions	*29*	**24,994**	–
Derivative financial instruments	*27*	**178,416**	418,425
Total non-current liabilities		**4,925,935**	2,478,981
Net assets		**6,406,769**	5,242,031
Equity			
Equity attributable to owners of the parent			
Issued capital	*32*	**444,116**	444,116
Share premium and reserves	*33*	**5,646,826**	4,440,382
Proposed final dividend	*12*	**313,661**	355,732
		6,404,603	5,240,230
Non-controlling interests		**2,166**	1,801
Total equity		**6,406,769**	5,242,031

Li San Yim
DIRECTOR

Qiu De Bo
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to owners of the Company								
	Issued capital RMB'000	Share premium RMB'000	Special reserve RMB'000 *(Note 33)*	Non-distributable reserve RMB'000 *(Note 33)*	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2010	222,058	1,076,980	355,335	525,594	1,478,658	130,734	3,789,359	1,090	3,790,449
Profit and total comprehensive income for the year	–	–	–	–	1,765,606	–	1,765,606	711	1,766,317
Dividends *(note 12)*									
2009 final paid	–	–	–	–	–	(130,734)	(130,734)	–	(130,734)
2010 final proposed	–	–	–	–	(355,732)	355,732	–	–	–
2010 interim	–	–	–	–	(184,001)	–	(184,001)	–	(184,001)
Issue of bonus shares *(note 32)*	222,058	(222,058)	–	–	–	–	–	–	–
Transfer from retained profits	–	–	–	41,039	(41,039)	–	–	–	–
At 31 December 2010 and as at 1 January 2011	444,116	854,922	355,335	566,633	2,663,492	355,732	5,240,230	1,801	5,242,031
Profit and total comprehensive income for the year	–	–	–	–	1,729,502	–	1,729,502	365	1,729,867
Dividends *(note 12)*									
2010 final paid	–	–	–	–	–	(355,732)	(355,732)	–	(355,732)
2011 interim	–	–	–	–	(209,397)	–	(209,397)	–	(209,397)
2011 final proposed	–	–	–	–	(313,661)	313,661	–	–	–
Transfer from retained profits	–	–	–	62,614	(62,614)	–	–	–	–
At 31 December 2011	444,116	854,922	355,335	629,247	3,807,322	313,661	6,404,603	2,166	6,406,769

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax:	**2,067,784**	2,142,162
Adjustments for:		
Finance costs	**395,153**	206,010
Interest income	**(27,992)**	(10,058)
Impairment of financial assets	**6,321**	3,233
Impairment/(Reversal of provision) of inventories	**6,312**	(11,042)
Loss/(gain) on disposal of property, plant and equipment	**2,608**	(1,278)
Depreciation	**283,501**	203,910
Amortisation of land lease payments	**8,763**	4,371
Exchange gain from convertible bonds	**(37,363)**	(20,562)
Exchange gain from long-term loan notes	**(64,295)**	–
Exchange gain from bank loans	**(19,584)**	(3,052)
Fair value (gain)/loss on derivative component of convertible bonds	**(239,996)**	85,380
Gain on redemption of convertible bonds	**–**	(41,047)
Operating cash flows before movements in working capital	**2,381,212**	2,558,027
Increase in inventories	**(846,613)**	(1,193,393)
Increase in trade, bills and other receivables	**(1,533,804)**	(1,197,866)
Decrease/(increase) in finance lease receivables	**1,976,279**	(1,542,888)
Increase/(decrease) in trade, bills and other payables	**(153,048)**	1,269,202
Increase/(decrease) in provisions	**(3,482)**	34,182
Increase/(decrease) in amounts due to related parties	**5,669**	(15,269)
Increase/(decrease) in deposits for finance leases	**(163,188)**	154,360
Cash generated from operations	**1,663,025**	66,355
Interest received	**27,992**	10,058
Income tax paid	**(392,355)**	(297,420)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	**1,298,662**	(221,007)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 **RMB'000**	2010 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(1,055,078)**	(509,292)
Purchases of interests in associates	**(59,218)**	–
Payment for lease premium for land	**(20,588)**	(88)
Proceeds from disposal of property, plant and equipment	**26,668**	4,774
Increase in pledged bank deposits	**(142,322)**	(108,034)
Collection/(payment) of loan receivables	**4,156**	(7,510)
NET CASH USED IN INVESTING ACTIVITIES	**(1,246,382)**	(620,150)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of long-term loan notes	**2,234,567**	–
Convertible bonds redeemed	**–**	(760,417)
New bank loans	**2,922,231**	2,437,054
Repayment of bank loans	**(3,038,156)**	(1,160,093)
Dividends paid	**(565,129)**	(314,735)
Interest paid	**(227,628)**	(75,594)
NET CASH FROM FINANCING ACTIVITIES	**1,325,885**	126,215
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**1,378,165**	(714,942)
Cash and cash equivalents at beginning of year	**306,235**	1,021,177
CASH AND CASH EQUIVALENTS AT END OF YEAR	**1,684,400**	306,235

Statement of Financial Position

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	14	**18,319**	348
Investments in subsidiaries	17	**129,825**	129,825
Total non-current assets		**148,144**	130,173
Current assets			
Due from subsidiaries	17	**3,862,134**	1,286,861
Prepayments, deposits and other receivables	22	**2,016**	164
Cash and cash equivalents	23	**369,688**	9,123
Total current assets		**4,233,838**	1,296,148
Current liabilities			
Other payables and accruals	25	**18,053**	6,525
Interest-bearing bank borrowings	26	**495,046**	163,046
Convertible bonds	27	**24,846**	–
Derivative financial instruments	27	**13**	–
Total current liabilities		**537,958**	169,571
Net current assets		**3,695,880**	1,126,577
Total assets less current liabilities		**3,844,024**	1,256,750
Non-current liabilities			
Interest-bearing bank borrowings	26	**64,499**	287,250
Convertible bonds	27	**825,329**	770,677
Long-term loan notes	28	**2,205,315**	–
Derivative financial instruments	27	**178,416**	418,425
Total non-current liabilities		**3,273,559**	1,476,352
Net assets/(liabilities)		**570,465**	(219,602)

Statement of Financial Position

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Equity			
Equity attributable to owners of the parent			
Issued capital	32	**444,116**	444,116
Share premium and reserves	33	**(187,312)**	(1,019,450)
Proposed final dividend	33	**313,661**	355,732
Total equity		**570,465**	(219,602)

Li San Yim
DIRECTOR

Qiu De Bo
DIRECTOR

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. CORPORATE INFORMATION

Lonking Holdings Limited (the "Company") is 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").

In the opinion of the directors, the holding and the ultimate holding company of the Company is China Longgong Group Holdings Limited, which is incorporated in the British Virgin Islands.

The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and its subsidiaries.

The principal activities of the Company and its subsidiaries (the "Group") are the manufacture and distribution of wheel loaders, road rollers, excavators, forklifts and other infrastructure machinery and the provision of finance leases for the infrastructure machinery.

2.1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain buildings and derivative financial instruments, which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2.1. BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendment	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK (IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in Improvements to HKFRSs 2010, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2.2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 37 to the consolidated financial statements.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2.2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(b) *(Continued)*

In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements:* The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2.3. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 9	*Financial Instruments*[5]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[6]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2015
6 Effective for annual periods beginning on or after 1 January 2014

The Group is in the process of making an assessment of the impact of these new and revised HKASs upon initial application. So far, these new and revised HKASs are unlikely to have a significant impact on the financial position or performance of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated statement of comprehensive income and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises (only if there are revalued assets in the financial statements), unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has controls or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost (or valuation) less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	3% to 19%
Plant and machinery	9% to 32%
Motor vehicles	10% to 19%
Furniture and fixtures	9% to 32%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and machinery under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and installation, and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill) *(Continued)*

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, pledged bank deposits, trade and bills receivables, loans receivable, financial assets included in prepayments, deposits and other receivables.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, amounts due to related parties, derivative financial instruments, interest-bearing bank borrowings, deposits for finance leases, convertible bonds and financial liabilities included in other payables and accruals.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption.

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each 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 deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute 22% to 26% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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 described below.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Current income tax

The Group is subject to income taxes in numerous jurisdictions in the PRC. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local taxation authorities, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the provision of corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the corporate income tax and tax provisions in the period in which the differences are realised.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2011 was RMB8,373,000 (2010: Nil). The amount of unrecognised tax losses at 31 December 2011 was RMB69,364,000 (2010: RMB48,800,000). Further details are contained in note 31 to the financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Impairment of trade and bills receivable, and finance lease receivables

The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its receivables balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers deteriorates such that the actual impairment loss might be higher than expected, the Group would be required to revise the basis for making the allowance and its future results would be affected.

Net realisable value of inventories

Net realisable value of an inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of similar nature which could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at each reporting date.

Provision for warranty costs

As explained in note 29, the Group offers 18 months warranty for the excavators and 12 months warranty for the wheel loaders, road rollers, forklifts, 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 is based on the historical experience and statistics. As at 31 December 2011, the carrying amount of provision for warranty costs is RMB175,743,000 (31 December 2010: RMB179,225,000).

Fair value of the derivatives

The directors of the Company use their judgement in selecting appropriate valuation techniques for derivative financial instruments, where the valuation techniques are those commonly applied by market practitioners. Assumptions are made based on market statistics and adjusted for specific features of the instruments. The carrying amount of the derivatives instruments is RMB178,429,000 (31 December 2010: carrying amount of RMB418,425,000). Details of the derivative financial instruments and the assumptions used are disclosed in note 27.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

(a) the sale of construction machinery;

(b) the finance leases of construction machinery;

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that interest income, finance costs, fair value gains or losses from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents, and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, interest-bearing bank and other borrowings, convertible bonds, income tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. OPERATING SEGMENT INFORMATION *(Continued)*

2011

SEGMENT REVENUE AND RESULTS

	Sale of construction machinery RMB'000	Finance lease of construction machinery RMB'000	Total RMB'000
Segment revenue	12,515,897	205,263	12,721,160
Segment results	2,185,522	166,706	2,352,228
Reconciliation:			
Interest income			27,992
Unallocated other income and gains			95,381
Corporate another unallocated expenses			(12,664)
Finance costs			(395,153)
Profit before tax			2,067,784
Segment assets	14,333,701	1,342,796	15,676,497
Corporate and other unallocated assets			463,936
Total assets			16,140,433
Segment liabilities	5,003,607	846,404	5,850,011
Corporate and other unallocated liabilities			3,883,653
Total liabilities			9,733,664

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. OPERATING SEGMENT INFORMATION *(Continued)*

2010

SEGMENT REVENUE AND RESULTS

	Sale of construction machinery RMB'000	Finance lease of construction machinery RMB'000	Total RMB'000
Segment revenue	11,816,652	203,281	12,019,933
Segment results	2,205,173	156,456	2,361,629
Reconciliation:			
Interest income			10,058
Unallocated other expenses			(14,162)
Corporate another unallocated expenses			(9,353)
Finance costs			(206,010)
Profit before tax			2,142,162
Segment assets	9,281,347	3,326,525	12,607,872
Corporate and other unallocated assets			854,649
Total assets			13,462,521
Segment liabilities	2,903,337	1,415,861	4,319,198
Corporate and other unallocated liabilities			3,901,292
Total liabilities			8,220,490

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. OPERATING SEGMENT INFORMATION *(Continued)*

Revenue from major product and services

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

	2011		2010	
	RMB'000	**%**	RMB'000	%
Wheel loaders	**8,866,956**	**69.7**	8,343,376	69.4
Excavators	**1,713,353**	**13.5**	1,956,841	16.3
Road rollers	**367,480**	**2.9**	469,124	3.9
Fork lifts	**929,296**	**7.3**	585,536	4.9
Others	**638,812**	**5.0**	461,775	3.8
Subtotal	**12,515,897**	**98.4**	11,816,652	98.3
Finance lease interest income	**205,263**	**1.6**	203,281	1.7
Total	**12,721,160**	**100**	12,019,933	100

There is no single customer from whom the revenue derived accounted for 10% or more of the total revenue of the Group.

Geographical information

The Group's operations are substantially located in the PRC and substantially all non-current assets of the Group are located in the PRC. Therefore no further analysis of geographical information is presented.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

5. OTHER INCOME, FINANCE INCOME AND OTHER GAINS AND LOSSES

	Group	
	2011	2010
	RMB'000	RMB'000
Finance income		
Bank interest income	**27,992**	10,058
Other income		
Government grants	**60,184**	17,989
Penalty income	**19,296**	12,768
Others	**13,669**	6,087
	93,149	36,844

	Group	
	2011	2010
	RMB'000	RMB'000
Other gains and losses		
Fair value gain/(loss) on derivative component of convertible bonds	**239,996**	(85,380)
Gain on redemption of convertible bonds	**–**	41,047
Exchange realignment from convertible bonds	**37,363**	20,562
Foreign exchange gains	**58,018**	12,186
(Loss)/Gain on disposal of property, plant and equipment	**(2,608)**	1,278
Allowance for bad and doubtful debts	**(6,321)**	2,530
Write-off of finance lease receivables	**–**	(5,763)
Gain on disposal of waste raw materials	**43,061**	11,224
	369,509	(2,316)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	**149,522**	81,087
Interest on long-term loan notes	**93,726**	–
Interest on convertible bonds	**116,862**	124,923
Other finance costs	**35,043**	–
	395,153	206,010

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2011	2010
	RMB'000	RMB'000
Cost of inventories sold	**9,507,055**	8,593,391
Depreciation *(note 14)*	**283,501**	203,910
Amortisation of land lease payments *(note 15)*	**8,763**	4,371
Research and development costs	**342,120**	241,200
Auditors' remuneration	**3,020**	3,023
Employee benefit expense		
(excluding directors' remuneration *(note 8)*)		
Wages and salaries	**563,833**	515,822
Contributions to retirement benefit scheme	**46,666**	40,420
Total staff costs	**610,499**	556,242
Foreign exchange differences, net	**95,381**	32,748
Impairment of financial assets		
– trade receivables *(note 21)*	**945**	(6,159)
– other receivables *(note 22)*	**1**	3,629
– finance lease receivables *(note 16)*	**5,375**	5,763
	6,321	3,233
Write-down of inventories to net realisable value	**6,312**	–
Product warranty provision	**280,978**	221,916
Fair value (gain)/loss on derivative component of convertible bonds	**(239,996)**	85,380
Bank interest income	**(27,992)**	(10,058)
Loss/(gain) on disposal of items of property, plant and equipment	**2,608**	(1,278)
Gain on disposal of obsolete or waste materials	**(43,061)**	(11,224)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Fees	**1,600**	1,553
Other emoluments:		
Salaries, allowances and bonuses	**16,339**	16,018
Contributions to retirement benefits scheme	**22**	22
	16,361	16,040
	17,961	17,593

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2011	2010
	RMB'000	RMB'000
Dr. Qian Shizheng	**200**	200
Mr. Han Xuesong	**100**	100
Mr. Pan Longqin	**100**	100
	400	400

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and a non-executive director

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2011					
Executive directors:					
Mr. Li San Yim	–	2,000	–	–	2,000
Mr. Qiu Debo	–	1,000	4,437	6	5,443
Mr. Luo Jianru	–	792	1,479	6	2,277
Ms. Fang De Qin	–	600	1,479	–	2,079
Mr. Chen Chao	–	600	1,479	6	2,085
Mr. Mou Yan Qun*	–	150	1,479	4	1,633
Mr. Lin Zhong Ming	–	400	444	–	844
	–	5,542	10,797	22	16,361
Non-executive director:					
Ms. Ngai Ngan Ying	1,200	–	–	–	1,200
	1,200	5,542	10,797	22	17,561

* Retired as an executive director of the Company with effect from 20 May 2011 and without re-election.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and a non-executive director *(Continued)*

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2010					
Executive directors:					
Mr. Li San Yim	–	1,921	–	–	1,921
Mr. Qiu Debo	–	600	4,437	5	5,042
Mr. Luo Jianru	–	600	1,479	7	2,086
Ms. Fang De Qin	–	600	1,479	–	2,079
Mr. Chen Chao	–	600	1,479	5	2,084
Mr. Mou Yan Qun	–	600	1,479	5	2,084
Mr. Lin Zhong Ming	–	300	444	–	744
	–	5,221	10,797	22	16,040
Non-executive director:					
Ms. Ngai Ngan Ying	1,153	–	–	–	1,153
	1,153	5,221	10,797	22	17,193

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees in the Group in 2011 and 2010 were all directors of the Company and details of their emoluments are included in Note 8 above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

10. INCOME TAX EXPENSE

	2011 RMB'000	2010 RMB'000
Group:		
Current tax		
PRC Enterprise Income Tax ("EIT")	**321,246**	414,725
Under provision/(over provision) of EIT in prior years	**(23,353)**	2,140
Withholding tax paid	**–**	5,422
	297,893	422,287
Deferred tax *(note 31)*	**40,024**	(46,442)
Total tax charge for the year	**337,917**	375,845

The Company, China Dragon Development Holdings Limited and China Dragon Investment Holdings Limited are tax exempted companies registered in the Cayman Islands or 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.

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 has become 25% from 1 January 2008 onwards.

(a) Subsidiaries of the Group established in the PRC before 16 March 2007, which are qualified foreign investment enterprises, are entitled to an 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"). Therefore, certain subsidiaries are subject to income tax rate of 12.5% during the year.

(b) Lonking Shanghai Machinery Co., Ltd and Lonking Fujian Machinery Co., Ltd have been identified as "High and New Technology Enterprises" ("HNTE") in year 2009 and were entitled to a preferential income tax rate of 15% for the three years ended 31 December 2011 in accordance with the EIT Law. Henan Lonking Machinery Co., Ltd has been recognised as HNTE in year 2010 and as a result it is subject to income tax rate of 15% for the years 2010 to 2012. Lonking (Shanghai) Hydraulic Co., Ltd has been recognised as HNTE in year 2011 and as a result it is subject to income tax rate of 15% for the years 2011 to 2013.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

10. INCOME TAX EXPENSE *(Continued)*

The "EIT Law" imposes a withholding tax on dividend distributed from the Group's subsidiaries in the Mainland China to the holding companies located off-shore starting from 1 January 2008. In 2009, the off-shore intermediate holding companies have been recognised as the tax residents of Hong Kong by Inland Revenue Department of Hong Kong. Since their PRC subsidiaries declared dividend in 2010 out of the 2009 after-tax profit, the tax bureaus in charge of the subsidiaries elect to apply 5% preferential withholding income tax rate on the dividend based on the tax treaty between Hong Kong Special Administration Region and Mainland China. In view of the above, 5% withholding tax rate is applicable to the dividend, for the period starting from 1 January 2009, distributed from the PRC subsidiaries to these off-shore companies.

A reconciliation of the income tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, is as follows:

	Group			
	2011		2010	
	RMB'000	**%**	RMB'000	%
Profit before taxation	**2,067,784**		2,142,162	
Tax at the statutory tax rate of 25% (2010: 25%)	**516,946**	**25.0**	535,541	25.0
Income not subject to tax (i)	**(86,855)**	**(4.2)**	(18,454)	(0.8)
Expenses not deductible for tax (ii)	**50,632**	**2.4**	58,392	2.7
Tax effect of tax losses not recognised	**5,855**	**0.3**	8,098	0.4
Utilisation of tax losses previously not recognised	**–**	**–**	(9,875)	(0.5)
Under provision/(over provision) in respect of prior years	**(2,701)**	**(0.1)**	2,140	0.1
Deferred tax charged at different income tax rate	**291**	**0.01**	8,944	0.4
Effect of withholding tax	**24,978**	**1.2**	28,317	1.3
Effect of preferential tax rates of 12.5% and 15%	**(171,229)**	**(8.3)**	(237,258)	(11.1)
Tax charge and effective tax rate for the year	**337,917**	**16.3**	375,845	17.5

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

10. INCOME TAX EXPENSE *(Continued)*

(i) Income not subject to tax mainly includes fair value gain on derivative component of convertible bonds and exchange gains from convertible bonds and long term loan notes.

(ii) Expenses not deductible for tax purposes generally refer to expenses without proper tax deductible documents and other miscellaneous expenses which are in excess of the allowable tax deduction limit, such as entertainment expenses and advertising expenses.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a profit of RMB1,355,196,000 which has been dealt with in the financial statements of the Company (note 33(b)).

12. DIVIDENDS

	2011 **RMB'000**	2010 RMB'000
Dividends recognised as distribution during the year:		
2010 final of HK$0.1 per share		
(2009 final: HK$0.07)	**355,732**	130,734
2011 interim of HK$0.06 per share		
(2010 interim: HK$0.1)	**209,397**	184,001
	565,129	314,735

In the annual general meeting held on 20 May 2011, a final dividend of HK$0.1 (2009: HK$0.07) per share in respect of the year ended 31 December 2010 was approved by the shareholders and subsequently paid to the shareholders of the Company.

An interim dividend of HK$0.06 (2010: HK$0.10) per share in respect of the six months ended 30 June 2011 was approved by the board of directors on 24 August 2011 and subsequently paid to the shareholders of the Company.

A final dividend of HK$0.09 per ordinary share (equivalent to RMB313,661,000 in total) for the year ended 31 December 2011 has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting to be held in May 2012.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

13. EARNINGS PER SHARE

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 4,280,100,000 (2010: 4,280,100,000) in issue during the year.

The calculation of diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of the basic and diluted earnings per share are based on:

	2011 **RMB'000**	2010 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**1,729,502**	1,765,606
Interest on convertible bonds	**116,861**	19,139
Exchange realignment on convertible bonds	**(37,363)**	(982)
Fair value gain on derivative component of convertible bonds	**(239,996)**	(20,096)
Gain on redemption of convertible loan notes	**–**	(41,047)
Profit attributable to ordinary equity holders of the parent, before interest, gains and losses on convertible bonds	**1,569,004**	1,724,584

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

13. EARNINGS PER SHARE (Continued)

	Number of shares	
	2011	2010
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**4,280,100**	4,280,100
Effect of dilution – weighted average number of ordinary shares:		
Convertible bonds	**327,611**	115,302
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**4,607,711**	4,395,402

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

14. PROPERTY, PLANT AND EQUIPMENT

Group

2011	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2011	**1,059,813**	**1,847,115**	**46,384**	**85,228**	**545,552**	**3,584,092**
Additions	**28,430**	**99,347**	**14,299**	**43,264**	**731,018**	**916,358**
Transfers	**236,482**	**470,166**	**552**	**5,031**	**(712,231)**	**–**
Disposals	**(580)**	**(34,412)**	**(3,163)**	**(2,641)**	**–**	**(40,796)**
At 31 December 2011	**1,324,145**	**2,382,216**	**58,072**	**130,882**	**564,339**	**4,459,654**
Accumulated depreciation and impairment						
At 1 January 2011	**126,317**	**371,050**	**18,331**	**34,223**	**–**	**549,921**
Charge for the year	**54,474**	**196,687**	**11,776**	**20,564**	**–**	**283,501**
Disposals	**(132)**	**(5,584)**	**(3,163)**	**(2,641)**	**–**	**(11,520)**
At 31 December 2011	**180,659**	**562,153**	**26,944**	**52,146**	**–**	**821,902**
Carrying amount						
At 31 December 2011	**1,143,486**	**1,820,063**	**31,128**	**78,736**	**564,339**	**3,637,752**

2010	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2010	995,576	1,384,108	35,755	46,160	651,593	3,113,192
Additions	1,783	114,950	12,690	28,382	325,335	483,140
Transfers	62,454	357,671	48	11,203	(431,376)	–
Disposals	–	(9,614)	(2,109)	(517)	–	(12,240)
At 31 December 2010	1,059,813	1,847,115	46,384	85,228	545,552	3,584,092
Accumulated depreciation and impairment						
At 1 January 2010	81,809	238,418	13,421	21,107	–	354,755
Charge for the year	44,508	139,446	6,628	13,328	–	203,910
Disposals	–	(6,814)	(1,718)	(212)	–	(8,744)
At 31 December 2010	126,317	371,050	18,331	34,223	–	549,921
Carrying amount						
At 31 December 2010	933,496	1,476,065	28,053	51,005	545,552	3,034,171

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

Company

2011	**Buildings RMB'000**	**Furniture and fixtures RMB'000**	**Total RMB'000**
Cost			
At 1 January 2011	**–**	**378**	**378**
Additions	**17,971**	**–**	**17,971**
At 31 December 2011	**17,971**	**378**	**18,349**
Accumulated depreciation and impairment			
At 1 January 2011 and at 31 December 2011	**–**	**30**	**30**
Carrying amount			
At 31 December 2011	**17,971**	**348**	**18,319**

2010	Buildings RMB'000	Furniture and fixtures RMB'000	Total RMB'000
Cost			
At 1 January 2010 and at 31 December 2010	–	378	378
Accumulated depreciation and impairment			
At 1 January 2010 and at 31 December 2010	–	30	30
Carrying amount			
At 31 December 2010	–	348	348

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

The construction in progress is mainly related to the construction of factory premises 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 2011

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

As at 31 December 2011, the Group was in the process of applying for title certificates of certain buildings with a carrying amount of RMB268,720,000. The directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 31 December 2011.

As at 31 December 2011, no property, plant and equipment of the Group was pledged.

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2011	2010
	RMB'000	RMB'000
Carrying amount at 1 January	**199,200**	226,380
Additions	**20,588**	88
Disposal	**–**	(22,897)
Amortisation	**(8,763)**	(4,371)
Carrying amount at 31 December	**211,025**	199,200
Current portion	**(5,383)**	(4,479)
Non-current portion	**205,642**	194,721

The leasehold land is situated in Mainland China and is held under a long term lease.

The lease payments for land are 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 the leasehold land with carrying amount of RMB2,100,000 at 31 December 2011 (2010: RMB22,657,000).

Notes to the Consolidated Financial Statements

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16. FINANCE LEASE RECEIVABLES

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2011	2010	**2011**	2010
	RMB'000	RMB$'000	**RMB'000**	RMB'000
Finance lease receivables comprise:				
Within one year	**910,261**	969,328	**852,340**	935,699
In more than one year but not more than five years	**493,787**	2,573,890	**451,401**	2,344,321
	1,404,048	3,543,218	**1,303,741**	3,280,020
Less: Unearned finance income	**100,307**	263,198	**–**	–
Less: Provision for impairment	**5,375**	–	**5,375**	–
Present value of minimum lease payment receivables	**1,298,366**	3,280,020	**1,298,366**	3,280,020
Analysed as:				
Current			**852,340**	935,699
Non-current			**446,026**	2,344,321
			1,298,366	3,280,020

The movements of the provision for impairment of finance lease receivables are as follows:

	2011	2010
	RMB'000	RMB'000
At 1 January	**–**	–
Impairment losses recognised	**5,375**	5,763
Write-off	**–**	(5,763)
At 31 December	**5,375**	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

16. FINANCE LEASE RECEIVABLES *(Continued)*

Unguaranteed residual values of assets leased under finance leases are nil. There are no contingent rents recognised in the income for the year.

Effective interest rates of the above finance leases range from 6.8% to 20% (2010: 6.8% to 18%) 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 lessees.

As at 31 December 2011, the Group received refundable finance lease deposits as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Current *(note 25)*	**219,994**	178,588
Non-current	**108,026**	271,214
	328,020	449,802

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2011	2010
	RMB'000	RMB'000
Unlisted shares, at cost	**129,825**	129,825
Provision for impairment	**–**	–
	129,825	129,825

The amounts due from subsidiaries included in the Company's current assets of RMB3,862,134,000 (2010: RMB1,286,861,000) are unsecured, interest-free and are repayable on demand.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries are as follows:

Name	Type of legal entity	Paid-in issued/ registered ordinary	Attributable equity interest	Principal activities
Lonking Shanghai Machinery Co., Ltd. (龍工(上海)機械製造有限公司)	13 August 2004 People's Republic of China ("PRC") Sino foreign equity joint venture	HK$448,000,000	99.89%	Manufacture and distribution of wheel loaders
Lonking (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-boxes
Lonking Fujian Machinery Co., Ltd. (龍工(福建)機械有限公司)	15 September 2004 PRC WOFE	HK$400,000,000	100%	Manufacture and distribution of wheel loaders
Fujian Longyan Lonking 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 components
Lonking (Shanghai) Hydraulic Co., Ltd. (龍工(上海)液壓機械有限公司, formerly known as Hydraulics (Shanghai) Hydraulics Machinery Co., Ltd.)	30 September 2003 PRC WOFE	US$31,800,000	100%	Manufacture and distribution of wheel loader components
Lonking (Shanghai) Machinery Components Co., Ltd. (龍工(上海)機械部件有限公司, formerly known as Refined (Shanghai) Machinery Co., Ltd.)	27 November 2003 PRC WOFE	HK$50,000,000	100%	Manufacture and distribution of wheel loader components
Lonking (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 components

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Type of legal entity	Paid-in issued/ registered ordinary	Attributable equity interest	Principal activities
Lonking (Fujian) Hydraulics Machinery Co., Ltd. (龍工(福建)液壓有限公司)	15 January 2007 PRC WOFE	HK$100,000,000	100%	Manufacture and distribution of wheel loader components
Lonking (Fujian) Axle & Transmission Co., Ltd. (龍工(福建)橋箱有限公司)	16 January 2007 PRC WOFE	HK$200,000,000	100%	Manufacture and distribution of axles and great-boxes
Lonking (Shanghai) Road Machinery Construction Co., Ltd. (龍工(上海)路面機械製造有限公司)	12 September 2007 PRC WOFE	HK$100,000,000	100%	Manufacture and distribution of wheel loaders and road rollers
Lonking (Shanghai) Excavator Co., Ltd. (龍工(上海)挖掘機製造有限公司)	12 September 2007 PRC WOFE	HK$260,000,000	100%	Manufacture and distribution of excavators
Monarch (Shanghai) Machinery Co., Ltd. (摩納凱(上海)機械有限公司)	1 January 2007 PRC WOFE	HK$83,600,000	100%	Manufacture and distribution of hydraulic parts and other machinery products
Lonking (Shanghai) Forklift Co., Ltd. (龍工(上海)叉車有限公司)	7 Feb 2007 PRC WOFE	HK$200,000,000	100%	Manufacture and distribution of forklifts
Henan Lonking Machinery Co., Ltd. (河南龍工機械製造有限公司)	11 July 2002 PRC Sino foreign equity joint venture	RMB482,700,000	99.95%	Manufacture and distribution of wheel loaders and farm machines
Lonking (Shanghai) Financial Leasing Co., Ltd. (龍工(上海)融資租賃有限公司)	28 March 2008 PRC WOFE	US$10,000,000	100%	Financing leasing for wheel loaders and other machinery

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17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Type of legal entity	Paid-in issued/ registered ordinary	Attributable equity interest	Principal activities
Lonking (China) Machinery Sales Co., Ltd. (龍工(中國)機械銷售有限公司)	12 September 2008 PRC WOFE	RMB850,000,000	100%	Distribution of wheel loaders and other machinery
Lonking (Fujian) International Trade Co., Ltd. (龍工(福建)國際貿易有限公司)	19 June 2008 PRC WOFE	RMB30,000,000	100%	Distribution of wheel loaders and other machinery
Lonking (Fujian) Casting & Forging Co., Ltd. (龍工(福建)鑄鍛有限公司)	13 August 2008 PRC WOFE	US$65,000,000	100%	Manufacture and distribution of wheel loader components
China Dragon Development Holdings Ltd. (中國龍工發展控股有限公司) *(note 1)*	3 May 2004 British Virgin Islands ("BVI")	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
Lonking (Datong) Machinery Sales Co., Ltd. (大同龍工機械銷售有限公司)	1 August 2009 PRC WOFE	RMB5,000,000	100%	Distribution of machinery
Lonking (Fujian) Excavator Co., Ltd. (龍工(福建)挖掘機有限公司)	20 September 2010 PRC WOFE	RMB100,000,000	100%	Manufacture and distribution of excavators

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

The above table lists all the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group.

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18. INVESTMENTS IN ASSOCIATES

	Group 2011 RMB'000	Group 2010 RMB'000
Unlisted shares, at cost		
Share of net assets	**59,218**	–
Goodwill on acquisition	**–**	–
	59,218	–
Provision for impairment	**–**	–
	59,218	–

Particulars of the associates are as follows:

Name	Paid-in/ registered capital RMB'000	Place of registration	Percentage of ownership interest attributable to the Group
Longgong (Xinjiang) Machinery Technical Services Co., Ltd. (龍工新疆機械技術服務股份有限公司)	10,000	Xinjiang, PRC	40%
Fujian Changfeng Gear Co., Ltd. (福建暢豐齒輪有限公司)	200,000	Fujian, PRC	40%

Longgong (Xinjiang) Machinery Technical Services Co., Ltd. and Fujian Changfeng Gear Co., Ltd. were both incorporated in year 2011, and are still in the phase of starting up.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

19. LOAN RECEIVABLES

	Group	
	2011	2010
	RMB'000	RMB'000
Fixed-rate loan receivables		
Due within one year	**16,580**	12,802
Due over one year but not more than two years	**–**	6,726
Due over two years but not more than five years	**–**	14,010
	16,580	33,538
Less: Amounts due within one year	**16,580**	12,802
	–	20,736

The loan receivables carry annual interest rates ranging from 7.74% to 13.00%. The amounts of loan receivables within one year are included in other receivables.

20. INVENTORIES

	Group	
	2011	2010
	RMB'000	RMB'000
Raw materials	**1,197,593**	1,035,680
Work in progress	**211,540**	171,167
Finished goods	**2,970,585**	2,332,570
	4,379,718	3,539,417

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21. TRADE AND BILLS RECEIVABLES

	Group	
	2011	2010
	RMB'000	RMB'000
Trade receivables	**2,444,862**	1,046,582
Impairment	**(66,568)**	(65,623)
	2,378,294	980,959
Bills receivable	**751,840**	799,688
	3,130,134	1,780,647

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three month, extending up to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2011	2010
	RMB'000	RMB'000
Within 3 months	**1,775,503**	972,083
3 to 6 months	**528,581**	7,963
6 months to 1 year	**74,210**	913
	2,378,294	980,959

Notes to the Consolidated Financial Statements

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21. TRADE AND BILLS RECEIVABLES *(Continued)*

The movements in the provision for impairment of trade receivables are as follows:

	2011	2010
	RMB'000	RMB'000
At 1 January	**65,623**	71,782
Impairment losses recognised/(reversed) *(note 7)*	**945**	(6,159)
At 31 December	**66,568**	65,623

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB66,568,000 (2010: RMB65,623,000) with a carrying amount before provision of RMB66,568,000 (2010: RMB65,623,000).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in both interest and/or principal payments and only a portion of the receivables is expected to be recovered.

The impairment recognised represents the difference between the carrying amount of these receivables and the present value of the expected proceeds.

The aged analysis of trade receivables that are not individually nor collectively considered to be impaired is as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Neither past due nor impaired	**2,304,084**	980,046
Less than 1 month past due	**68,060**	311
1 to 3 months past due	**6,150**	602
	2,378,294	980,959

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

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For the year ended 31 December 2011

21. TRADE AND BILLS RECEIVABLES *(Continued)*

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Bills receivable are aged within 6 months at the end of the reporting period. At 31 December 2011, no bills receivable were pledged to banks by the Group to get short-term credit facilities (2010: RMB166,470,868).

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		**Company**	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits and other receivables	**109,338**	73,250	**2,016**	164
Less: Impairment	**(19,353)**	(19,352)	**–**	–
	89,985	53,898	**2,016**	164
Prepayments	**348,944**	287,641	**–**	–
Deductible value-added tax	**385,761**	283,200	**–**	–
	824,690	624,739	**2,016**	164

The movement in the provision for impairment of other receivables is as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
At 1 January	**19,352**	15,723
Impairment losses recognised *(note 7)*	**1**	3,629
At 31 December	**19,353**	19,352

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For the year ended 31 December 2011

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**2,092,473**	630,019	**311,926**	9,123
Time deposits	**62,576**	4,543	**57,762**	–
	2,155,049	634,562	**369,688**	9,123
Less: Pledged time deposits:			**–**	–
Pledged for bank acceptance bills *(note 24)*	**(470,649)**	(328,327)	**–**	–
Cash and cash equivalents	**1,684,400**	306,235	**369,688**	9,123

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

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

Original currency	**US$**	**HK$**	**EUR**
	RMB'000	RMB'000	RMB'000
As at 31 December 2011	74,987	3,090	67
As at 31 December 2010	42,674	3,055	9

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24. TRADE AND BILLS PAYABLES

	2011 RMB'000	2010 RMB'000
Trade payables	**1,793,168**	1,623,545
Bills payable	**929,906**	1,450,222
	2,723,074	3,073,767

An aged analysis of the trade and bills payable as at the end of the reporting period, based on the invoice date, is as follows:

	2011 RMB'000	2010 RMB'000
Within 6 months	**2,674,804**	2,993,033
6 months to 1 year	**21,842**	68,702
1 to 2 years	**16,317**	4,746
2 to 3 years	**3,831**	4,999
Over 3 years	**6,280**	2,287
	2,723,074	3,073,767

Bills payable are aged within 6 months at the end of the reporting period and secured by pledged bank deposits (note 23).

The trade and bills payable are non-interest-bearing. The carrying amounts of the trade and bills payable approximate to their fair value.

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For the year ended 31 December 2011

25. OTHER PAYABLES AND ACCRUALS

Group

	2011	2010
	RMB'000	RMB'000
Advances from customers	**170,198**	138,413
Deposit for finance leases *(note 16)*	**219,994**	178,588
Salary and wages payable	**63,362**	70,288
Payable for acquisition of property, plant and equipment	**17,863**	45,573
Other taxes payable	**14,289**	16,980
Accrued sales rebate	**319,063**	237,909
Other payables	**127,419**	52,147
Other accrued expenses	**41,325**	48,059
	973,513	787,957

Company

	2011	2010
	RMB'000	RMB'000
Other payables	**18,053**	6,525

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26. INTEREST-BEARING BANK BORROWINGS

Group	2011			2010		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – unsecured	**3.22 – 7.22**	**2012**	**700,225**	1.63 – 5.56	2011	1,184,638
Current portion of long term bank loans – unsecured	**4.86 – 7.28**	**2012**	**95,200**	1.89 – 6.09	2011	287,020
			795,425			1,471,658
Non-current						
Bank loans – unsecured	**4.86 – 7.28**	**2013 – 2014**	**1,511,719**	1.89 – 6.09	2012 – 2014	970,995
			2,307,144			2,442,653

Company	2011			2010		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – unsecured	**4% – 6.95**	**2012**	**495,046**	1.63 – 5.56	2011	43,026
Current portion of long term bank loans – unsecured	**–**		**–**	2.95 – 6.95	2011	120,020
			495,046			163,046
Non-current						
Bank loans – unsecured	**1.89 – 3.7**	**2013 – 2014**	**64,499**	1.64 – 6.95	2012 – 2014	287,250
			559,545			450,296

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

26. INTEREST-BEARING BANK BORROWINGS *(Continued)*

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Analysed into:				
Within one year	**795,425**	1,471,658	**495,046**	163,046
In the second year	**866,719**	211,683	**64,499**	158,945
In the third to fifth years, inclusive	**645,000**	749,312	**–**	128,305
	2,307,144	2,442,653	**559,545**	450,296

The Group's bank borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are as follows:

Original currency	**US$**	**HK$**	**EUR**
	RMB'000	**RMB'000**	**RMB'000**
As at 31 December 2011	**196,794**	**115,930**	**4,228**
As at 31 December 2010	256,217	225,124	–

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27. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS

Group and Company	Liability component RMB'000	Derivative component RMB'000	Total RMB'000
As at 31 December 2011			
2007 Convertible Bonds (i)	**24,846**	**13**	**24,859**
2009 Convertible Bonds (ii)	**825,329**	**178,416**	**1,003,745**
	850,175	**178,429**	**1,028,604**
As at 31 December 2010			
2007 Convertible Bonds (i)	24,286	1,890	26,176
2009 Convertible Bonds (ii)	746,391	416,535	1,162,926
	770,677	418,425	1,189,102

(i) 2007 Convertible Bonds

Convertible Bonds of US$287 million were issued by the Company on 30 April 2007 ("2007 Convertible Bonds") at an issue price of US$10,000 per Convertible Bond of US$10,000. The 2007 Convertible Bonds are listed on the Singapore Exchange Securities Trading Limited. Each Convertible Bond 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 23 June 2011, the 2007 Conversion Price has been revised to HK$4.51 after an anti-dilutive adjustment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

27. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(i) 2007 Convertible Bonds *(Continued)*

The principal terms of the Convertible Bonds are as follows:

Interest

The 2007 Convertible Bonds do not bear any interest.

Conversion period

The conversion period starts from the 40th day after the issue of Convertible Bonds 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 Bond at 121.155% of its principal amount on the Maturity Date.

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 2007 Maturity Date nor within the closed period which is defined in the 2007 Offering Circular, the Company may, having given notice of not less than 30 nor more than 60 days to the holders, redeem the 2007 Convertible Bonds in whole or in part at the early redemption amount ("2007 Early Redemption Amount"), provided that the closing price of the Company shares translated into United State dollar at the prevailing exchange rate for each of any 20 trading days falling within a period of 30 consecutive trading days, the last day of which period occurs no more than 5 trading days prior to the date upon which notice of such redemption is given, must be at least 130% of the Conversion Price in effect translated into United State dollar at the fixed exchange rate of HK$7.8175=US$1.00 on each such trading day.

27. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(i) 2007 Convertible Bonds *(Continued)*

Redemption at the option of the bondholders

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

The gross proceeds net of transaction costs received from the issue of the 2007 Convertible Bonds 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 follows:

(a) 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 Bonds were issued.

(b) Derivative component represents:

a. The fair value of the option of 2007 Bondholders to convert the 2007 Convertible Bonds 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;

b. The fair value of the option of the Company to early redeem the 2007 Convertible Bonds; and

c. The fair value of the option of 2007 Bondholders to require the Company to early redeem the 2007 Convertible Bonds.

Notes to the Consolidated Financial Statements

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27. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(i) 2007 Convertible Bonds *(Continued)*

Redemption at the option of the bondholders (Continued)

The movements of the liability component and derivative component of the 2007 Convertible Bonds for the year are set out below:

Group and Company

	Liability component RMB'000	Derivative component RMB'000	Total RMB'000
2007 Convertible Bonds:			
As at 1 January 2010	714,117	113,498	827,615
Exchange realignment	982	–	982
Interest expense	19,139	–	19,139
Redeemed	(709,952)	(91,512)	(801,464)
Changes in fair value	–	(20,096)	(20,096)
As at 31 December 2010	24,286	1,890	26,176
Exchange realignment	**(1,107)**	**–**	**(1,107)**
Interest expense	**1,667**	**–**	**1,667**
Changes in fair value	**–**	**(1,877)**	**(1,877)**
As at 31 December 2011	**24,846**	**13**	**24,859**

During the year ended 31 December 2010, the bondholders exercised the Early Redemption Option and required the Company to redeem US$99,280,000 of face value (equivalent to RMB760,417,000) of the issued 2007 Convertible Bonds at a fair value of US$99,280,000 (equivalent to RMB760,417,000) and recognised a gain of RMB41,047,000 on the redemption in profit or loss.

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27. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(ii) 2009 Convertible Bonds

Another Convertible Bonds of US$135 million were issued by the Company on 24 August 2009 ("2009 Convertible Bonds") at an issue price of US$10,000 per Convertible Bonds of US$10,000. The 2009 Convertible Bonds are listed on the Singapore Exchange Securities Trading Limited. Each 2009 Convertible Bonds 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"). On 23 June 2011, the 2009 Conversion Price has been revised to HK$3.26 after an anti-dilutive adjustment.

The principal terms of the 2009 Convertible Bonds are as follows:

Interest

The 2009 Convertible Bonds do not bear any interest.

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 10th 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 2010 Offering Circular, the Company will redeem each 2009 Convertible Bond at 144.504% of its principal amount on the Maturity Date.

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27. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(ii) 2009 Convertible Bonds *(Continued)*

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 notice of not less than 30 nor more than 60 days to the holders, redeem the 2009 Convertible Bonds in whole or in part at the early redemption amount ("2009 Early Redemption Amount"), provided that the closing price of the Shares translated into United State dollar at the prevailing exchange rate for each of any 20 trading days falling within a period of 30 consecutive trading days, the last day of which period occurs no more than 5 trading days prior to the date upon which notice of such redemption is given, was at least 130% of the Conversion Price in effect translated into United State dollar 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 Bonds ("2009 Bondholders") will have the right to require the Company to redeem all or some of the 2009 Convertible Bonds at 2009 Early Redemption Amount of the initial principle amount on 24 August 2012 or on the occurrence of a change of the Company's controlling shareholders or delisting of the Company's shares.

The gross proceeds net of transaction costs received from the issue of the 2009 Convertible Bonds 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 follows:

(a) 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 Bonds were issued.

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27. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(ii) 2009 Convertible Bonds *(Continued)*

Redemption at the option of the bondholders (Continued)

(b) Derivative component represents:

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

b. The fair value of the option of the Company to early redeem the 2009 Convertible Bonds; and

c. The fair value of the option of 2009 Bondholders to require the Company to early redeem the 2009 Convertible Bonds.

The movements of the liability component and derivative component of the 2009 Convertible Bonds for the year since issuance are set out below:

Group and Company

	Liability component RMB'000	**Derivative component** RMB'000	**Total** RMB'000
2009 Convertible Bonds:			
As at 1 January 2010	662,151	311,059	973,210
Exchange realignment	(21,544)	–	(21,544)
Interest expense	105,784	–	105,784
Changes in fair value	–	105,476	105,476
As at 31 December 2010	746,391	416,535	1,162,926
Exchange realignment	(36,256)	–	(36,256)
Interest expense	115,194	–	115,194
Changes in fair value	–	(238,119)	(238,119)
As at 31 December 2011	825,329	178,416	1,003,745

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27. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(ii) 2009 Convertible Bonds *(Continued)*

Redemption at the option of the bondholders (Continued)

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:

	2011	2010
Discount rate	**13.5%**	12%
Time to expiration	**2.65 year**	3.65 year
Volatility	**52%**	48%

28. LONG-TERM LOAN NOTES

In June 2011, the Company issued senior notes (the "Notes") in the aggregate principal amount of US$350 million which will mature on 3 June 2016. The Notes bear interest from and including 3 December 2011 at the rate of 8.50% per annum, payable semi-annually in arrears on June 3 and December 3 of each year.

Optional redemption of the Notes

From 3 June 2014 to the applicable date of the redemption, the Company may, on any one or more occasions during the 12-month period beginning on 3 June of the years indicated below redeem all or any part of the Notes, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if any, on the Notes redeemed subject to the rights of holders of the Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Redemption price
2014	104.250%
2015 and thereafter	102.125%

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28. LONG-TERM LOAN NOTES *(Continued)*

The Company may at its option redeem the Notes, in whole but not in part, at any time prior to 3 June 2014, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the applicable premium, and accrued and unpaid interest, if any, as of the redemption date. At any time and from time to time prior to 3 June 2014, the Company may at its option redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 108.50% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, as of the redemption date; provided that at least 65% of the aggregate principal amount of the Notes originally issued on the original issue date remain outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

29. PROVISIONS

	Group	
	2011	2010
	RMB'000	RMB'000
At 1 January	**179,225**	145,043
Additional provision	**280,978**	255,608
Amounts utilised	**(284,460)**	(221,426)
At 31 December	**175,743**	179,225
Analysis of total provision		
Current	**150,749**	179,225
Non-current	**24,994**	–
	175,743	179,225

The Group offers 18-month warranty for excavators and 12-month warranty for the wheel loaders, road rollers and forklifts, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

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30. DUE TO RELATED PARTIES

	Group	
	2011	2010
	RMB'000	RMB'000
Trade payables		
Longyan City Jinlong Machinery Company Limited ("Jinlong") *(note a)*	**12,704**	2,304
Sichuan Deying Bonding Company Limited *(note b)*	**–**	4,731
	12,704	7,035

Note a: Mr. Ngai Ngan Gin, the brother of Madam Ngai Ngan Ying (a director of the Company) holds a controlling interest in this entity. The amounts due to the entity represent the payable for the purchase of spare parts.

Note b: Mr. Chen Jie, the son-in-law of Mr. Li San Yim (a director of the Company) holds a controlling interest in this entity. The amount represents guarantee deposits paid by this entity for finance leases of the infrastructure machinery 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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31. DEFERRED TAX

The movements in deferred tax assets and liabilities during the current and prior years are as follows:

Deferred tax assets:

Group

	Allowance for bad and doubtful debts RMB'000	Provision for products warranty RMB'000	Allowance for inventories RMB'000	Unrealised profit in inventories RMB'000	Accrued sales rebate RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January 2010	20,907	31,823	5,687	66,696	20,726	–	145,839
Credited/(charged) to the income statement for the year	(6,114)	8,330	(2,761)	42,416	32,377	–	74,248
At 31 December 2010	**14,793**	**40,153**	**2,926**	**109,112**	**53,103**	**–**	**220,087**
Credited/(charged) to the income statement for the year	**1,988**	**(9,147)**	**949**	**(34,289)**	**16,568**	**8,373**	**(15,558)**
At 31 December 2011	**16,781**	**31,006**	**3,875**	**74,823**	**69,671**	**8,373**	**204,529**

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31. DEFERRED TAX *(continued)*

Deferred tax liabilities:

Group

	Fair value arising from acquisition of a subsidiary RMB'000	Withholding taxes on undistributed dividends RMB'000	Total RMB'000
At 1 January 2010	4,111	21,175	25,286
(Credited)/Charged to income statement for the year	(511)	28,317	27,806
Withholding taxes paid this year	–	(5,422)	(5,422)
At 31 December 2010	**3,600**	**44,070**	**47,670**
(Credited)/Charged to income statement for the year	**(510)**	**24,976**	**24,466**
At 31 December 2011	**3,090**	**69,046**	**72,136**

At the end of the reporting period, certain subsidiaries of the Group have unused tax losses of RMB69,364,000 (2010: RMB48,800,000) available for offsetting against future taxable profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams of these subsidiaries.

Under the EIT Law, withholding tax of 5% is imposed on dividends declared in respect of profits earned by Mainland China 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 Mainland China subsidiaries amounting to approximately RMB1,165,547,000 (2010: RMB1,321,446,000) 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.

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32. ISSUED CAPITAL

Shares

	2011	2010
	RMB'000	RMB'000
Authorised:		
20,000,000,000 ordinary shares of HK$0.1 each	**2,000,000**	2,000,000
Issued and fully paid:		
4,280,100,000 ordinary shares of HK$0.1 each	**444,116**	444,116

Pursuant to an ordinary resolution passed at an extraordinary general meeting on 15 October 2010, 2,140,050,000 ordinary shares were issued and allotted on 25 October 2010 as fully paid up by way of one for one bonus issue in respect of which an amount of RMB222,058,000 was credited to the share premium account.

33. SPECIAL RESERVE AND NON-DISTRIBUTABLE RESERVE

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

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 Mainland China in accordance with the PRC laws and regulations.

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33. SPECIAL RESERVE AND NON-DISTRIBUTABLE RESERVE *(continued)*

(b) Company

	Share premium	Retained profit	Proposed final dividend	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2011	982,757	(2,002,207)	355,732	(663,718)
Total comprehensive income for the year	–	1,355,196	–	1,355,196
2010 final of HK$0.1 per share	–	(355,732)	(355,732)	
2011 interim of HK$0.05 per share (2010 interim: HK$0.1)	–	(209,397)	–	(209,397)
Proposed final 2011 dividend	–	(313,661)	313,661	–
	982,757	(1,170,069)	313,661	126,349

34. CONTINGENT LIABILITIES

Certain sales of the Group were funded by finance leases entered into by the end-user customers and PRC domestic banks or other finance leases provider. Under the agreement, where the end-user customers and their guarantors fail to perform their payment obligations, the Group will repurchase the equipment from the banks or other finance leases provider. As at 31 December 2011, the Group's commitment for such repurchase obligation amounted to RMB1,766,799,000 (before deduction of the security deposits paid by the end-user customers and the interest on undue rent). In addition, the Group served as the sales agencies' guarantor for bank accepted bills payable amounted to RMB305,250,000 (after deduction of the security deposit). The directors of the Company considered that the fair value of the financial guarantees as at 31 December 2011 was insignificant.

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35. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its staff quarters under operating lease arrangements. Leases are negotiated for a term ranging from one to three years and rentals are fixed for the relevant lease terms.

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Within one year	**3,440**	4,738
In the second to fifth years, inclusive	**–**	1,794
	3,440	6,532

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2011	2010
	RMB'000	RMB'000
Contracted, but not provided for:		
Plant and machinery	**129,240**	251,150
Land and buildings	**45,935**	–
	175,175	251,150

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

37. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with a related party during the year:

	2011 **RMB'000**	2010 RMB'000
Purchases of goods from Jinlong	**53,246**	48,437

Mr. Ngai Ngan Gin, the brother of Madam Ngai Ngan Ying (a director of the Company) holds a controlling interest in Jinlong. The purchases from Jinlong were made according to the published prices and conditions offered by Jinlong to its major customers.

(b) Compensation of key management personnel of the Group:

	2011 **RMB'000**	2010 RMB'000
Short term employee benefits	**17,939**	17,571
Pension scheme contributions	**22**	22
Total compensation paid to key management personnel	**17,961**	17,593

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

2011

Financial assets

	Loans and receivables RMB'000
Trade and bills receivables	3,130,134
Financial assets included in prepayments, deposits and other receivables *(note 22)*	89,985
Finance lease receivables *(note 16)*	1,298,366
Pledged deposits	470,649
Cash and cash equivalents	1,684,400
	6,673,534

Financial liabilities

	Financial liabilities at fair value through profit or loss		
	Designated as such upon initial recognition RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	2,723,074	2,723,074
Financial liabilities included in other payables and accruals	–	208,644	208,644
Deposit for finance leases *(note 16)*	–	328,020	328,020
Derivative financial instruments *(note 27)*	178,429	–	178,429
Convertible bonds *(note 27)*	–	850,175	850,175
Long-term loan notes *(note 28)*	–	2,205,315	2,205,315
Interest-bearing bank borrowings *(note 26)*	–	2,307,144	2,307,144
Due to related parties *(note 30)*	–	12,704	12,704
	178,429	8,635,076	8,813,505

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

38. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Group *(continued)*

2010

Financial assets

	Loans and receivables RMB'000
Loan receivable	20,736
Trade and bills receivables	1,780,647
Financial assets included in prepayments, deposits and other receivables *(note 22)*	53,898
Finance lease receivables *(note 16)*	3,280,020
Pledged deposits	328,327
Cash and cash equivalents	306,235
	5,769,863

Financial liabilities

	Financial liabilities at fair value through profit or loss		
	Designated as such upon initial recognition RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	3,073,767	3,073,767
Financial liabilities included in other payables and accruals	–	168,008	168,008
Deposit for finance leases *(note 16)*	–	449,802	449,802
Derivative financial instruments *(note 27)*	418,425	–	418,425
Convertible bonds *(note 27)*	–	770,677	770,677
Interest-bearing bank borrowings *(note 26)*	–	2,442,653	2,442,653
Due to the related parties	–	7,035	7,035
	418,425	6,911,942	7,330,367

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

38. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company

2011

Financial assets

	Loans and receivables RMB'000
Financial assets included in prepayments, deposits and other receivables	2,016
Due from subsidiaries	3,862,134
Cash and cash equivalents	369,688
	4,233,838

Financial liabilities

	Financial liabilities at fair value through profit or loss		
	Designated as such upon initial recognition RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Financial liabilities included in other payables and accruals	–	18,053	18,053
Derivative financial instruments *(note 27)*	178,429	–	178,429
Convertible bonds *(note 27)*	–	850,175	850,175
Interest-bearing bank borrowings *(note 26)*	–	559,545	559,545
Long-term loan notes *(note 28)*	–	2,205,315	2,205,315
	178,429	3,633,088	3,811,517

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

38. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company *(continued)*

2010

Financial assets

	Loans and receivables RMB'000
Financial assets included in prepayments, deposits and other receivables	164
Due from subsidiaries	1,286,861
Cash and cash equivalents	9,123
	1,296,148

Financial liabilities

	Financial liabilities at fair value through profit or loss		
	Designated as such upon initial recognition RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Financial liabilities included in other payables and accruals	–	6,525	6,525
Derivative financial instruments *(note 27)*	418,425	–	418,425
Convertible bonds *(note 27)*	–	770,677	770,677
Interest-bearing bank borrowings *(note 26)*	–	450,296	450,296
	418,425	1,227,498	1,645,923

Notes to the Consolidated Financial Statements

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39. FAIR VALUE AND FAIR VALUE HIERARCHY

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

Group and Company

	Carrying amounts		Fair values	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial liabilities:				
Long-term loan notes	**2,205,315**	–	**1,941,339**	–
Convertible bonds				
2007 convertible bonds	**24,846**	24,286	**24,416**	23,046
2009 convertible bonds	**825,329**	746,391	**878,850**	854,335

Except as detailed in the above 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.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair value of cash and cash equivalents, pledged deposits, trade and bills receivables, loans receivable, financial assets included in prepayments, deposits and other receivables, the current portion of finance lease receivables, trade and bills payables, financial liabilities included in other payables and accruals, amounts due to related parties, the current portion of interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of finance lease receivables, interest-bearing bank borrowings, non-current portion of deposits for finance leases and long term loan notes have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities. The fair value of the liability portion of the convertible bonds is estimated using an equivalent market interest rate for a similar convertible bond.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

39. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Liabilities measured at fair value:

As at 31 December 2011	**Level 3** **RMB'000**
Derivative financial instruments	**178,429**

As at 31 December 2010	Level 3 RMB'000
Derivative financial instruments	418,425

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

39. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

Fair value hierarchy *(continued)*

The movements in fair value measurements in Level 3 during the year are as follows:

Derivative financial instruments:	**2011** **RMB'000**	2010 RMB'000
At 1 January	**418,425**	424,557
Total (gain)/loss recognised in the income statement included in other gains and losses	**(239,996)**	85,380
Redeemed	**–**	(91,512)
At 31 December	**178,429**	418,425

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, convertible bonds, finance leases, other interest-bearing loans, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, foreign currency risk, liquidity risk and price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk *(continued)*

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 34 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 21 to the financial statements.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to finance leases and fixed-rate bank borrowings. The Group's interest rate risks relating 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 and variable-rate bank borrowings.

The Group has not entered into any interest rate hedging contracts or any other similar derivative financial instrument. The management closely monitors such risks and will consider hedging significant interest rate risk exposure should the need arise. At 31 December 2011, approximately RMB1,291,111,000 of the Group's interest-bearing borrowings bore interest at floating rates, with the rest at fixed rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's and the Company's profit before tax (through the impact on floating rate borrowings) and the Group's and Company's equity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Interest rate risk *(continued)*

	Increase/ (decrease) in basis points	Group Increase/ (decrease) in profit before (or after) tax RMB'000	Company Increase/ (decrease) in profit before (or after) tax RMB'000
2011			
US$	**50**	**(113)**	**(126)**
RMB	**50**	**(2,886)**	**–**
US$	**(50)**	**113**	**126**
RMB	**(50)**	**2,886**	**–**
2010			
US$	50	(248)	–
RMB	50	(4,802)	–
US$	(50)	248	–
RMB	(50)	4,802	–

Foreign currency risk

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

(a) Bank balance of the Company and certain subsidiaries that denominated in foreign currencies;

(b) Certain trade receivables and payables of certain subsidiaries of the Company, which conduct foreign currency sales and purchases, that are denominated in foreign currencies; and

(c) Issued convertible bonds and long-term loan notes of the Company that are denominated in foreign currencies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk *(continued)*

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

	Assets		Liabilities	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
US$	**179,797**	187,477	**3,260,094**	1,455,151
HK$	**3,090**	3,055	**115,933**	226,648

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities):

	Increase/decrease in foreign currency rate	Increase/(decrease) in profit before tax
	%	RMB'000
2011		
If RMB weakens against US$	**5%**	**(154,015)**
If RMB strengthens against US$	**5%**	**154,015**
If RMB weakens against HK$	**5%**	**(5,642)**
If RMB strengthens against HK$	**5%**	**5,642**
2010		
If RMB weakens against US$	5%	64,225
If RMB strengthens against US$	5%	(64,225)
If RMB weakens against HK$	5%	11,180
If RMB strengthens against HK$	5%	(11,180)

Notes to the Consolidated Financial Statements

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, convertible bonds, and other interest-bearing loans. The Group's policy is that not more than 35% of borrowings should mature in any 12-month period. 15% of the Group's debts would mature in less than one year as at 31 December 2011 (2010: 46%) based on the carrying value of borrowings reflected in the financial statements.

The maturity profiles of the Group's and the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, are as follows:

Group

2011

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Convertible bonds	–	–	24,846	825,329	850,175
Interest-bearing bank borrowings	–	42,688	752,737	1,511,719	2,307,144
Trade and bills payables	574,894	1,218,274	929,906	–	2,723,074
Other payables and accruals	208,644	–	–	–	208,644
Due to related parties	12,704	–	–	–	12,704
Long-term loan notes	–	–	187,452	2,017,863	2,205,315
Deposits for finance leases	108,026	–	–	219,994	328,020
Interest payments on bank and other borrowings	–	651	25,259	378,988	404,898
	904,268	1,261,613	1,920,200	4,953,893	9,039,974

Notes to the Consolidated Financial Statements

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

Group *(continued)*

2010

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Convertible bonds	–	–	–	770,677	770,677
Interest-bearing bank borrowings	–	601,582	842,937	998,134	2,442,653
Trade and bills payables	1,888,151	1,146,160	39,456	–	3,073,767
Other payables and accruals	168,008	–	–	–	168,008
Due to related parties		7,035	–	–	7,035
Deposits for finance leases	–	20,977	157,611	271,214	449,802
Interest payments on bank and other borrowings	–	28,214	39,534	458,475	526,223
	2,056,159	1,803,968	1,079,538	2,498,500	7,438,165

Notes to the Consolidated Financial Statements

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

Company

2011

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Convertible bonds	–	–	24,846	825,329	850,175
Interest-bearing bank borrowings	–	–	495,046	64,499	559,545
Other payables and accruals	18,053	–	–	–	18,053
Long-term loan notes	–	–	187,452	2,017,863	2,205,315
Interest payments on bank and other borrowing	–	–	16,807	241,687	258,494
	18,053	–	724,151	3,149,378	3,891,582

2010

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Convertible bonds	–	–	–	770,677	770,677
Interest-bearing bank borrowings	–	–	163,046	287,250	450,296
Other payables and accruals	6,525	–	–	–	6,525
Interest payments on bank and other borrowing	–	–	5,136	390,215	395,351
	6,525	–	168,182	1,448,142	1,622,849

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Price risk

Convertible bonds

The Group estimates the fair value of the derivative embedded in the convertible bonds at the end of the reporting period with changes in fair value to be recognised in the consolidated statement of comprehensive income as long as the convertible bonds are outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in short-term or long-term risk-free interest rate, the Company's share price and share price volatility.

Sensitivity analysis

The fair value of derivative component embedded in the convertible bonds is 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 had been 5% higher/lower with all other variables held constant, the Group's post-tax profit for the year (as a result of changes in fair value of derivative component of convertible bonds) would have decreased by RMB12,595,000/increased by RMB51,396,000 (2010: decreased by RMB67,777,000/increased by RMB37,577,000).

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

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 31 December 2010.

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For the year ended 31 December 2011

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management *(continued)*

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. The Group's policy is to maintain the gearing ratio between 40% and 60%. Net debt includes interest-bearing bank borrowings, trade, bills and other payables, accruals, long-term loan notes, amounts due to the related parties, less cash and cash equivalents. Capital includes convertible bonds and equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

Group

	2011 **RMB'000**	2010 RMB'000
Interest-bearing bank borrowings *(note 26)*	**2,307,144**	2,442,653
Trade and bills payables	**2,723,074**	3,073,767
Other payables and accruals	**973,513**	787,957
Long-term loan notes	**2,205,315**	–
Due to the related parties	**12,704**	7,035
Less: Cash and cash equivalents	**(1,684,400)**	(306,235)
Net debt	**6,537,350**	6,005,177
Convertible bonds, the liability component *(note 27)*	**850,175**	770,677
Equity attributable to owners of the parent	**6,404,603**	5,240,230
Adjusted capital	**7,254,778**	6,010,907
Adjusted capital and net debt	**13,792,128**	12,016,084
Gearing ratio	**47%**	50%

Notes to the Consolidated Financial Statements

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41. EVENTS AFTER THE REPORTING DATE

No event occurring after the end of the reporting period to the 27 March 2012 that needs to be disclosed was noted.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been authorised for issuance by the board of directors on 27 March 2012.

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				
	2007	2008	2009	2010	**2011**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Result					
Profit before taxation	684,130	738,216	905,877	2,142,162	**2,067,784**
Income tax credit (expense)	(54,681)	(72,724)	(105,652)	(375,845)	**(337,917)**
Profit for the year	629,449	665,492	800,225	1,766,317	**1,729,867**
Attributable to:					
Equity holder of the parent	629,616	665,594	799,986	1,765,606	**1,729,502**
Non-controlling interests	(167)	(102)	239	711	**365**
	629,449	665,492	800,225	1,766,317	**1,729,867**
Dividends	349,155	239,961	169,731	314,735	**565,129**
Earnings per share-basic (RMB)	0.59	0.31	0.19	0.41	**0.40**

	As at 31 December				
	2007	2008	2009	2010	**2011**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets and Liabilities					
Total assets	6,520,386	7,843,395	9,766,387	13,462,521	**16,140,433**
Total liabilities	3,702,946	4,683,440	5,975,938	8,220,490	**9,733,664**
	2,817,440	3,159,955	3,790,449	5,242,031	**6,406,769**
Equity attributable to equity holders of the parent	2,816,487	3,159,104	3,789,359	5,240,230	**6,404,603**
Non-controlling interests	953	851	1,090	1,801	**2,166**
	2,817,440	3,159,955	3,790,449	5,242,031	**6,406,769**