ANNUAL REPORT
2010

LONKING 龙工

LONKING HOLDINGS LIMITED
中國龍工控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3339

*For Identification Purpose Only

Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors

Mr. Li San Yim *(Chairman)*
Mr. Qiu Debo *(Chief Executive Officer)*
Mr. Luo Jianru
Dr. Mou Yan Qun
Mr. Chen Chao
Mr. Lin Zhong Ming
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
Dr. Mou Yan Qun
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 3413, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

WEBSITE

http://www.lonking.cn

STOCK CODE

3339

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P. O. Box 609
Grand Cayman, KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

SOLICITORS

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

AUDITORS

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

PRINCIPAL BANKERS

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

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

Financial Highlights

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

Current period	2010 RMB'000	2009 RMB'000	Change (+/–)
Turnover	**12,019,933**	6,901,000	+74.18%
Operating profits:			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**2,433,552**	1,158,799	+110.01%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**2,348,172**	1,091,040	+115.22%
EBITDA			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**2,641,833**	1,298,377	+103.47%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**2,556,453**	1,230,618	+107.74%
Profit attributable to equity parent	**1,765,606**	799,986	+120.70%

Per share data	RMB	RMB	
Basic earnings per share[(1)#]			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**0.43**	0.20	+113.31%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**0.41**	0.19	+120.70%
Net assets per share[(2)#]	**1.22**	0.89	+38.30%

Financial Highlights

Key performance indicators	%	%	
Profitability			
Overall gross margin	**28.51**	23.44	+21.59%
Net profit margin			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**15.41**	12.58	+22.48%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**14.69**	11.60	+26.73%
EBITDA margin(3)			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**21.98**	18.81	+16.82%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**21.27**	17.83	+19.27%
Return on equity(4)	**33.69**	21.17	+12.52%
Liquidity and solvency			
Current ratio(5)	**1.31**	1.37	-4.44%
Interest coverage ratio(6)			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**11.81**	6.26	+88.75%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**11.40**	5.89	+93.44%
Gross debt-to-equity ratio(7)	**46.38**	41.48	+4.91%

Management efficiency	days	days	
Inventory turnover days(8)	**125**	162	-37 days
Trade and bills payables turnover days(9)	**109**	118	-9 days
Trade and bills receivable turnover days(10)	**39**	36	+4 days

Financial Highlights

#	Calculated based on the 4,280,100,000 shares outstanding as at 31 December 2010 (31 December 2009: 2,140,050,000).
1	Net profit attributable to equity holders of the parent for each period divided by the weighted average number of outstanding shares (WANOS) as at the end of each period.
2	Shareholders' equity divided by the WANOS as at the end of each period.
3	Earnings before interest, tax, depreciation and amortisation ("EBITDA") divided by turnover for each period.
4	Net profit attributable to equity holders of the parent for each period divided by equity attributable to equity shareholders of the parent as at the end of each period.
5	Current assets divided by current liabilities as at the end of each period.
6	Earnings before interest and income tax expenses ("EBIT") divided by interest expenses.
7	Interest-bearing debt for each period divided by the total equity as at the end of each period.
8	Average inventories divided by cost of sales and multiplied by 365 days.
9	Average trade and bills payables divided by cost of sales and multiplied by 365 days.
10	Average trade and bills receivables divided by turnover and multiplied by 365 days.

Chairman's Statement

On behalf of the board of directors (the "Board"), I am pleased to present the annual report of Lonking Holdings Limited (the "Company" or "Lonking") for the year ended 31 December 2010.

In 2010, the construction machinery industry in China experienced a year of major development with the implementation of a series of policies worth of RMB4 trillion and regional strategic planning. Total sales amount exceeded RMB400 billion with a growth of over 30%. Under such backdrop, Lonking seized these favorable opportunities and realized the leap-forward development leveraged on its established strategies. The year 2010 was a milestone year in the history and development of Longgong.

1. SUBSTANTIAL YEAR-ON-YEAR GROWTH IN PRODUCTION AND SALES OF ALL SEGMENTS WITH ANNUAL TARGETS ACCOMPLISHED AHEAD

We sold 40,139 wheel loaders, as our major product and became the only wheel loader manufacturer in the world to have manufactured over 40,000 wheel loaders for the year. The number of excavators sold increased by 103% to 4,118 units; whereas the number of fork lifts sold increased by 90% to 10,468 units. Our sales numbers were among the top 3 in the industry in China. Sales of road rollers and spare parts and international sales both made considerable progress.

2. INCREASING MANUFACTURING CAPACITY OF PRODUCTS WITH A MORE BALANCED PRODUCT MIX

Despite the significant growth in wheel loaders, as our major product, its percentage to the total turnover of the Company continued to decrease from 73.47% in 2009 to 69.41% in 2010, whereas the percentage of sales of excavators and fork lifts, our new products, continued to increase. As such, the Company has revealed a more balanced product mix in recent years.

3. SOUND CONSOLIDATED FINANCIAL PERFORMANCE WITH RECORD HIGH SALES REVENUE AND NET PROFIT MARGIN

As Lonking's product quality and brand recognition increase, Lonking has established a sound customer base. In 2010, the Company maintained a sound financial position as it continued its efforts in the enhancement of utilization rate, comparative advantages and new product launch. Revenue from sales and net profits both set their historical highs and grew by 74% and 120% to RMB12.02 billion and RMB1.766 billion, respectively. The overall gross profit margin of the Company also rose from 23.44% to 28.51%.

Chairman's Statement

4. GREAT PROGRESS ACHIEVED IN RESEARCH AND DEVELOPMENT OF PRODUCTS WHICH FURTHER INCREASED PRODUCT QUALITY AND ENHANCED USER SATISFACTION

In 2010, the Company increased its investment in research and development. The Company achieved great progress in its corporate development where considerable progress and breakthroughs were made in the area of excavators and more complicated spare parts. At the same time, the Company placed more emphasis on product quality and maintained continuous improvement of product quality through execution of the working instruction project. Through the building of the most efficient service brand, Lonking branded products had been increasingly well-received by domestic and overseas users. This is an assurance for the sustainable development of Lonking.

The year 2011 will be the starting year for the Twelfth Five-Year Plan of China. Establishing a firm foundation this year will be crucial to Lonking for the coming five years. According to the work report and of the summary of the Twelfth Five-Year Plan of the PRC government, there are no changes to the favorable policies enacted to boost economic growth and achieve long-term growth in China. Growth targets of 8% for the year and 7% for the period of the Twelfth Five-Year Plan have been set and a number of measures have been defined to increase investment in fixed assets including water resources construction, affordable housing construction, small town development and regional economic development. These measures are favorable for the long-term development of the construction machinery in China. According to China Construction Machinery Association, it is estimated that, during the period of the Twelfth Five-Year Plan, the construction machinery industry in China will achieve an average growth of 17%. By 2015, the industry size will be RMB900 billion. The prospects for the construction machinery industry in China will remain promising. As such, we have to analyze the prevailing conditions and seize every opportunity to achieve a sound and speedy development of the Company.

Looking into the future, we will further capitalize on the following competitive advantages established over the years in the course of our development: a leading market position and brand awareness; strategic geographical locations; the operation model of vertical integration; a powerful distribution and service network covering the whole nation; strong research and development capabilities; the advantage of a high performance-price ratio for its products; experienced management team and effective operation mechanism; and all these have proven their merits. The Company will make the best of its existing competitive advantages and carry out effective control on costs of administration, purchasing, operation, etc., so as to improve its operating efficiency and grasp every opportunity to obtain impressive results in industry consolidation and future development and to maximize the returns to our shareholders.

Chairman's Statement

In order to ensure the future sustainable development of the Company, we have formulated the development plans for 2011 to 2015 adopting the strategy of limited diversification which focuses on construction machinery, with an emphasis on the development of our four major products namely, wheel loaders, excavators, fork lifts and road rollers to ensure its leading position in the wheel loader industry whilst strive to move up to the top 3 positions for other products. We will step up our efforts in market expansion, cost control, enhancement of research and development of our products, and development of overseas market. Our aim is to become one of the global leading manufacturers of construction machinery through continuous growth and improvement of profitability.

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
20 March 2011

Management Discussion and Analysis

RESULT AND BUSINESS REVIEW

The performance of the Group during 2010 was outstanding. Consolidated sales for the fiscal year increased by 74.18% from the previous fiscal year to RMB12,020 million. Gross profit from operation was approximately RMB3,427 million, representing an increase of 111.78% as compared to approximately RMB1,618 million. Overall gross margin increased form 23.44% to 28.51%. We contribute the increase of gross margin to the followings: (1) the efforts to increase the selling price (2) more sales from the excavators series which generally contribute a higher gross margin represent an increasing percentage of out total turnover (3) reduced unit cost due to a large scale of production. Profits attributable to the Group equity holders for the period was approximately RMB1,766 million compared with that of 2009 in approximately RMB800 million, representing a sharp increase of 120.7%.

During the year, the northern regions of the PRC continuously remained as the Company's principal marketing regions and represented approximately 19.69% of our total turnover, the demand for equipment for use in mines in this areas remained strong. Supported by the Chinese government's economic stimulus package, public works have become active, sales in central and southern regions increased by 180.94% and 185.39% from the previous fiscal year to RMB1,992 million and RMB1,353 million respectively, representing approximately 16.58% and 11.26% of our total turnover for the period as compared to only 10.31% and 6.87% of our total turnover over the same period of 2009. In response to expanding market, we will continued efforts to further the relationship with the distributors in both central and southern areas. South western of the PRC showed a stable growth of 32.92% this year, representing approximately 12.32% of our total turnover respectively for the year (2009: 16.4%). Sales from eastern, northwestern and northeastern regions increased around 50.34%, 78.67% and 69.04% respectively, representing around 32.02% of our total turnover for the year which was nearly same as last year (2009: 33.91%). We see a sign of recovery in the demand for our equipment in the overseas market.

ANALYSIS OF PRODUCTS

Wheel Loaders

The revenue generated from wheel loader represented approximately 69.41% of total Group's turnover which was 4.06% lower than that of last year (2009: approximately 73.47% of total Group's turnover). It was because that the Company increased marketing effort of other core products such as excavators, road roller and fork lifts. Revenue generated from ZL50 showed an increase of 64.92% while revenue generated from ZL40 and ZL30 showed an increase of 14.66% and 53.92% respectively. However, the sales from mini wheel loader recorded an outstanding performance with 117.30% increase as compared with the corresponding period of last year due to an increasing market demand in this lower-price but practical product.

Management Discussion and Analysis

Excavators

We are continuing our focus on the product development. Since 2007, Lonking have successfully work to develop and launch our excavator products which have become one of our major products. The operating revenue for excavator amounted to RMB1,957 million for the year ended 31 December 2010, or sharply increase of 152.47% from last year. We will continue our effort in product competitiveness in this series.

Fork Lifts and Road Rollers

The operating revenue from road rollers amounted to RMB469 million for the year ended 31 December 2010, or an increase 48.22% from last year (2009: approximately RMB317 million). We continued working to expand sales of this series with the successful brand awareness. Fork lifts increased approximately RMB292 million to RMB586 million this year., representing 100.64% increase when compared with the same period in 2009. In response to strong demand in this series, we have expanded our production capacity and modified our local operation in order to strengthen our marketing capacity.

Components

The sales generated from components amounted to approximately RMB450 million this year, or an increase of 68.45% as compared to the corresponding period last (2009: RMB267 million), representing 3.75% of our total turnover for the period.

Finance Lease Interest

Turnover from interest income of finance lease represented nearly 1.69% of the Group's total revenue in the year of 2010 or an sharp increase of 81.16% from last year. This change was mainly attributable to the finance lease sales for the period increased, representing nearly 36% of the total sales of construction machinery for the year (2009: 37%).

Management Discussion and Analysis

FINANCIAL REVIEW

Cash and Bank Balance

As at 31 December 2010, the Group had bank balance and cash of approximately RMB306 million (31 December 2009: approximately RMB1,021 million) The decrease in cash balance was due to a large payout for redemption of a significant portion of the Convertible Bonds issued in 2007 with total principal amount of USD99,280,000.

Compared with last year, the cash and bank balance decreased about RMB715 million, which is generated as a result of net cash outflow of around RMB221 million from operating activities, net cash outflow of RMB620 million from investing activities, net cash inflow of RMB126 million from financing activities.

Pledged bank deposit of approximately RMB328 million (31 December 2009: approximately RMB220 million) which was secured for bankers' acceptance bill in respect of purchases of raw materials and imported equipment for manufacturing.

Liquidity and Financial Resources

We are committed to build a sound finance position. Total shareholders fund as at 31 December 2010 were approximately RMB5,242 million, a 38.3% increase from approximately RMB3,790 million.

The current ratio of the Group at 31 December 2010 was 1.31 (31.12.2009: 1.37). The inventory turnover decreased to 125 days (31.12.2009: 162 days). It was mainly attributed to a strong demand for our major products during the year. The directors believed that the Group will be in a strong and healthy position and has sufficient resources in support of its working capital requirement and meet its foreseeable capital expenditure.

Capital Structure

During the year, the Company has not redeemed any of its shares during the Period while 2, 140,050,000 shares were issued and allotted on 25 October 2010 pursuant to an ordinary resolution passed at extraordinary general meeting on 15 October 2010. The Company had 4,280, 100,000 shares in issue with total shareholder's fund of the Group amounting to approximately RMB5,242 million.

Management Discussion and Analysis

During the year, the Company has received early redemption notices from the Bondholders to redeem a significant portion of the Convertible Bonds issued in 2007 with total principal amount of USD99,280,000 (equivalent to RMB760,417,000) which recognized RMB41,047,000 gain on the redemption in the consolidated statement of comprehensive income. Upon such redemption and as at the date of this report, the principal amount of the outstanding issued 2007 Convertible Bonds was USD3,340,000.

As at 31 December 2010, the gross debt to equity, defined as total non-current liabilities (excluding deferred tax liability) over total equity was approximately 46.38% (31 December 2009: 41.47%).

PROSPECT

Due to the government policies and investment trends, it is expected that the domestic construction machinery market will maintain its growth for at least 10 to 15 years. At the same time, the impact of rising steel prices is expected to be partially offset by the increase in gross profit margin and rapid expansion of production and sales volume in the coming 5 to 10 years.

As to export, the market reveals signs of recovery to a small extent amid improving global environment and is expected to achieve growth in the future.

The management has formulated the second five-year growth plans for "Round Two Venture", which state the strategic guidelines for the development in the coming five years to reform the management system, improve the marketing network, improve the quality of service, enhance the quality of products and strengthen research & development. It is expected to enhance the position of "Lonking" brand in the construction machinery sector so as to create more value and maximize the returns to shareholders.

Profiles of Directors and Senior Management

Mr. Li San Yim, aged 60, 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 48 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 36, 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 ten 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 (技術質量專家) of Mechanical Engineering Technology and Quality Message Site (全國工程機械行業技術質量信息網).

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

Mr. Luo has not held directorships in any other listed public companies in the last three years. Mr. Luo is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Luo's interest in the shares of the Company within the meaning of Part XV of the SFO is set out on page 20 of this annual report.

Dr. Mou Yan Qun, aged 55, joined the Company in December 2005. He is the vice president of the Company. Dr. Mou holds a doctorate degree in business administration and a chief financial officer qualification certificate endorsed by the Shanghai City Government and the Shanghai City Pioneering Accounting Practitioner (chief accountant series) by Shanghai Finance Bureau. Dr. Mou has over 30 years of experience in corporate financial management and auditing. Dr. Mou is an associate member of the Institute of Financial Accountants (IFA). Prior to joining the Company, Dr. Mou worked in a leading State-owned pharmaceutical group in Shanghai where he served as the chief financial officer and head of the listing preparation office of a sub-unit and a member of the disciplinary inspection committee. Before that, he has also held the positions of chief financial officer in a State-owned enterprise and head of the Shanxi sub-branch of a State-owned bank, which was awarded the "advanced entity of integrity" under his leadership.

Dr. Mou has not held directorships in any other listed public companies in the last three years. Dr. Mou is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Dr. Mou's interest in the shares of the Company within the meaning of Part XV of the SFO is set out on page 20 of this annual report.

Profiles of Directors and Senior Management

Ms. Fang Deqin, aged 48, 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.

Mr. Lin Zhong Ming, aged 48, 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 eight 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 55, 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 59, 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 Urban Development (Holdings) 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

Profiles of Directors and Senior Management

Holdings Limited (stock code: 363). 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.

Mr. HAN Xuesong, aged 74, 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 Dingsheng Tiangong Construction Machinery Company Limited (鼎盛天工工程機械股份有限公司) and Changlin Company Limited (常林股份有限公司), which are listed on Shenzhen Stock Exchange and Shanghai Stock Exchange, respectively.

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

Mr. Pan Longqing, aged 62, 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 as a director of Shanghai Rural Commercial Bank and an independent director of SRE Group Limited (Stock code: 1207).

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

Directors' Report

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

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement on page 34 of the annual report.

An interim dividend of HKD0.10 (Equivalent to RMB0.086) per share amounting to HKD214 million (Equivalent to RMB184 million) was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HKD0.10 per share to the shareholders on the register of member on 20 May 2011, amounting to approximately HKD428 million. It is expected that the dividend paid out as a result of the operation of 2010 amounted to HKD0.20 per share, or approximately HKD642 million in total.

PROPERTY, PLANT AND EQUIPMENT

The Group continued its plant replacement policy and expended RMB483 million on new plant and machinery during the year.

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interest of the Group for the last five financial years is set out on page 114 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 26 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 RMB3,874 million as at 31 December 2010 (2009: RMB2,686 million). Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Article of Association, dividends shall be distributed out of the accumulated profits or other reserves, including the share premium account, of the Company.

DIRECTORS

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

Executive directors:

Li San Yim *(Chairman)*	(appointed on 11 May 2004)
Qiu Debo *(Chief Executive Officer)*	(appointed on 17 February 2005)
Luo Jianru	(appointed on 17 February 2005)
Mou Yan Qun	(appointed on 24 October 2007)
Chen Chao	(appointed on 17 February 2005)
Lin Zhong Ming	(appointed on 24 October 2006)
Fang Deqin	(appointed on 29 May 2010)

Non-executive directors:

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. Fang De Qin, 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. Mr. Mou Yan Qun 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 2010, 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	1,045,330,760	24.42%
Qiu Debo	Beneficial owner	3,404,000	0.08%
Luo Jianru	Beneficial owner	1,460,000	0.03%
Mon Yan Qun	Beneficial owner	1,402,000	0.03%
Chen Chao	Beneficial owner	1,326,000	0.03%
Lin Zhong Ming	Beneficial owner	372,000	0.01%
Fang De Qin	Beneficial owner	1,336,000	0.03%
		2,366,689,520	55.29%

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 2010, 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 2010, 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%

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 2010, 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 period while 2,140,050,000 shares were issued and allotted on 25 October 2010 pursuant to as ordinary resolution passed at extraordinary general meeting on 15 October 2010. The Company had 4,280,100,000 shares in issue with total shareholder's fund of the Group amounting of approximately RMB5,242 million.

During the year, the Company has received early redemption notices from the Bondholders to redeem a significant portion of the Convertible Bonds issued in 2007 with total principal amount of USD99,280,000 (equivalent to RMB760,417,000) which recognized RMB41,047,000 gain on the redemption in the consolidated statement of comprehensive income. Upon such redemption and as at the date of this report, the principal amount of the outstanding issued 2007 Convertible Bonds was USD3,340,000.

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

EMOLUMENT POLICY

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

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

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 20% (2009: 22%) of the Group's total turnover for the year. The five largest suppliers accounted for approximately 24% (2009: 24%) of the Group's total purchases for the year and the largest supplier accounted for approximately 9% (2009: 10%) 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 entered into a Master Purchase Agreement since 14 November 2007 with LongYan City Jinlong Machinery Company Limited ("Jinlong"), a company incorporated in the PRC with limited liability and owned as to approximately 82.67% by Mr. Ngai Ngan Qin, a brother of Ms. Ngai Ngan Ying, the non-executive director of the Company, pursuant to which the Group will purchase the parts from Jinlong from 14 November 2007 and ending on 31 December 2009. In view of the expiry of the Master Purchase Agreement in 31 December 2009, the Company has on 7 December 2009 entered into the Renewed Master Purchase Agreement, pursuant to which the Group will purchase the Parts from Jinlong from time to time for a term commencing from 1 January 2010 and ending on 31 December 2012. The 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 2010, the Company purchased the parts approximately RMB48,437,000 from Jinlong.

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

POST BALANCE SHEET EVENTS

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 2010.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to appoint Ernst & Young as the auditor of the Company.

On behalf of the Board

Mr. Li San Yim
CHAIRMAN

Shanghai, 20 March 2011

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 2010 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 2010. The Board will continue to review and foster its own Code of Corporate Governance Practices from time to time. The Company will seek to improve its management and raise its control level to enhance the Company's competitiveness and operating efficiency, to ensure its sustainable development and to generate greater returns for the shareholders.

CORPORATE GOVERNANCE STRUCTURE

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

Corporate Governance Report

BOARD OF DIRECTORS

The Board currently comprises 11 directors, including 7 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 2010, 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 2010:

	Number of meetings attended/Number of Meetings held for the year ended 31 December 2010			
Name of directors	**Board**	**Audit Committee**	**Executive Committee**	**Remuneration Committee**
Executive Directors				
Mr. Li San Yim *(Chairman)*	4/4	N/A	2/2	N/A
Mr. Qiu Debo *(Chief Executive Officer)*	4/4	N/A	2/2	N/A
Mr. Luo Jianru	4/4	N/A	2/2	N/A
Dr. Mou Yan Qun	4/4	N/A	2/2	N/A
Mr. Chen Chao	4/4	N/A	2/2	N/A
Mr. Lin Zhong Ming	4/4	N/A	2/2	N/A
Ms. Fang Deqin	4/4	N/A	2/2	N/A
Non-Executive Directors				
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 seven executive directors, namely Mr. Li San Yim, Mr. Qiu Debo, Mr. Luo Jianru, Dr. Mou Yan Qun, 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 2010.

AUDITOR'S REMUNERATION

For the year ended 31 December 2010, Messrs. Deloitte Touche Tohmatsu, the external auditors of the Group received approximately RMB2.95 million (2009: approximately RMB2.53 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 2010.

INTERNAL CONTROLS

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

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

Internal Audit

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

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

Strengthening Systems of Internal Controls

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 of 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, extend the influence and build up a positive public image of the Company through various means such as open, fair and impartial information disclosure to investors.

Corporate Governance Report

In 2010, more than 500 visits to the Company were made by over 400 domestic and overseas investors and over 100 telephone conferences were held.

In January 2010, Mr. Mou Yan Qun, Vice President and CFO of the Company, attended the "Shanghai Business Day" event held by BNP Paribas Securities in Shanghai.

In April 2010, Mr. Mou Yan Qun, Vice President and CFO of the Company, attended a major investor conference held by Nomura Securities in Chongqing.

In June 2010, Mr. Mou Yan Quno, Vice President and CFO of the Company, attended the PRC investment forum held by JP Morgan in Beijing and the PRC annual investment campaign held by Credit Suisse in Shanghai.

In July 2010, Mr. Qiu Debo, CEO and President of the Company, attended the field trip relating to the machinery sector organized by Morgan Stanley.

Other Stakeholders' interests

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

CORPORATE SOCIAL RESPONSIBILITY

The Group also dedicates itself to contributing to the society and serving the community in the midst of its rapid development. Taking into consideration the actual situation in the place where it operates, the subsidiaries of the Group take part in local social services. Our involvement in community service helps to build a good image of the Company and contribute to the local social development. For the year of 2010, the Group has donated approximately RMB16 million in education subsidies; compensations for misfortune and charity donations.

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

Independent Auditor's Report

TO THE SHAREHOLDERS OF LONKING HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Lonking Holdings Limited ((the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 114, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

Independent Auditor's Report

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
20 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Turnover	*5*	**12,019,933**	6,901,000
Cost of goods sold		**(8,593,391)**	(5,283,065)
Gross profit		**3,426,542**	1,617,935
Investment income	*6*	**10,058**	14,537
Other income		**48,068**	42,116
Other gains and losses	*7*	**(13,540)**	74,884
Administrative expenses		**(246,826)**	(184,861)
Distribution and selling expenses		**(616,665)**	(422,469)
Research expenditures		**(241,200)**	(43,514)
Other expenses		**(18,265)**	(7,588)
Finance costs	*8*	**(206,010)**	(185,163)
Profit before tax	*10*	**2,142,162**	905,877
Income tax expense	*9*	**(375,845)**	(105,652)
Profit for the year		**1,766,317**	800,225
Other comprehensive income			
Fair value gain on available-for-sale financial assets		**–**	82,719
Reclassification adjustments for the cumulative gain upon disposal of available-for-sale financial assets		**–**	(82,719)
Total comprehensive income for the year		**1,766,317**	800,225
Profit for the year attributable to:			
Owners of the Company		**1,765,606**	799,986
Non-controlling interests		**711**	239
		1,766,317	800,225
Total comprehensive income attributable to:			
Owners of the Company		**1,765,606**	799,986
Non-controlling interests		**711**	239
		1,766,317	800,225
Earnings per share – basic (RMB)	*14*	**0.41**	0.19
Earnings per share – diluted (RMB)	*14*	**0.39**	0.18

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	15	**3,034,171**	2,758,437
Prepaid lease payments	16	**194,721**	221,443
Finance lease receivables	17	**2,344,321**	527,718
Deferred tax assets	18	**220,087**	145,839
Deposits for property, plant and equipment		**128,942**	98,168
Loan receivables	20	**20,736**	13,987
		5,942,978	3,765,592
Current assets			
Prepaid lease payments	16	**4,479**	4,937
Inventories	19	**3,539,417**	2,334,982
Finance lease receivables	17	**935,699**	1,215,177
Trade receivables	21	**980,959**	340,523
Bill receivables	21	**799,688**	470,597
Other receivables and prepayments	21	**624,739**	393,109
Pledged bank deposits	22	**328,327**	220,293
Bank balances and cash	22	**306,235**	1,021,177
		7,519,543	6,000,795
Current liabilities			
Trade payables	23	**1,623,545**	1,009,815
Bill payables	23	**1,450,222**	1,072,267
Other payables and accruals	23	**787,957**	523,222
Provisions	24	**179,225**	145,043
Amounts due to related parties	25	**7,035**	22,304
Tax liabilities		**221,867**	91,578
Bank borrowings	28	**1,471,658**	686,718
Derivative financial instruments	29	**–**	113,498
Convertible loan notes	29	**–**	714,117
		5,741,509	4,378,562
Net Current Assets		**1,778,034**	1,622,233
Total Assets less Current Liabilities		**7,721,012**	5,387,825

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Capital and reserves			
Share capital	*26*	**444,116**	222,058
Share premium and Reserves	*27*	**4,796,114**	3,567,301
Equity attributable to owners of the Company		**5,240,230**	3,789,359
Non-controlling interests		**1,801**	1,090
Total Equity		**5,242,031**	3,790,449
Non-current liabilities			
Deposits for finance lease	*17*	**271,214**	116,854
Convertible loan notes	*29*	**770,677**	662,151
Long term bank borrowings	*28*	**970,995**	482,026
Deferred tax liabilities	*18*	**47,670**	25,286
Derivative financial instruments	*29*	**418,425**	311,059
		2,478,981	1,597,376
		7,721,012	5,387,825

The consolidated financial statements on pages 34 to 114 were approved and authorised for issue by the Board of Directors on 20 March 2011 and are signed on its behalf by:

Li San Yim
DIRECTOR

Fang De Qin
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 *(Note 27)*	Investment revaluation reserve RMB'000	Non–distributable reserve RMB'000 *(Note 27)*	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1st January 2009	111,029	1,188,009	355,335	–	371,001	1,133,730	3,159,104	851	3,159,955
Profit for the year	–	–	–	–	–	799,986	799,986	239	800,225
Fair value gain on Available-for-sale investment	–	–	–	82,719	–	–	82,719	–	82,719
Reclassification adjustments for cumulative gain included upon disposal of available-for-sale investment	–	–	–	(82,719)	–	–	(82,719)	–	(82,719)
Total comprehensive income for the year	–	–	–	–	–	799,986	799,986	239	800,225
Dividends paid *(note 13)*	–	–	–	–	–	(169,731)	(169,731)	–	(169,731)
Bonus share issued *(note 26)*	111,029	(111,029)	–	–	–	–	–	–	–
Transfer	–	–	–	–	154,593	(154,593)	–	–	–
At 31 December 2009	222,058	1,076,980	355,335	–	525,594	1,609,392	3,789,359	1,090	3,790,449
Profit and total comprehensive income for the year	–	–	–	–	–	1,765,606	1,765,606	711	1,766,317
Dividends paid *(note 13)*	–	–	–	–	–	(314,735)	(314,735)	–	(314,735)
Bonus share issued *(note 26)*	222,058	(222,058)	–	–	–	–	–	–	–
Transfer	–	–	–	–	41,039	(41,039)	–	–	–
At 31 December 2010	444,116	854,922	355,335	–	566,633	3,019,224	5,240,230	1,801	5,242,031

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**2,142,162**	905,877
Adjustments for:		
Interest income	**(10,058)**	(14,537)
Finance costs	**206,010**	185,163
Allowance (reversal of) for bad and doubtful debts	**(2,530)**	34,138
Written off of finance lease receivables	**5,763**	–
Allowance (reversal of) for inventories	**(11,042)**	7,943
Gain on disposal of property, plant and equipment	**(1,278)**	(787)
Depreciation of property, plant and equipment	**203,910**	134,854
Release of prepaid lease payments	**4,371**	4,724
Exchange gain from convertible loan notes	**(20,562)**	(7,392)
Exchange gain from bank loans	**(3,052)**	–
Fair value changes of derivative financial instruments	**85,380**	67,759
Gain on redemption/repurchase of convertible loan notes	**(41,047)**	(81,614)
Gain on disposal of available-for-sale investment	**–**	(82,719)
Operating cash flows before movements in working capital	**2,558,027**	1,153,409
(Increase) decrease in inventories	**(1,193,393)**	4,996
Increase in trade, bill and other receivables	**(1,197,866)**	(289,701)
Increase in finance lease receivables	**(1,542,888)**	(910,736)
Increase in trade, bill and other payables	**1,269,202**	841,015
Increase (decrease) in provisions	**34,182**	(9,432)
(Decrease) increase in amounts due to related parties	**(15,269)**	8,433
Increase in deposits for finance lease	**154,360**	60,147
Cash generated from operations	**66,355**	858,131
Interest received	**10,058**	19,075
Income tax paid	**(297,420)**	(83,114)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(221,007)**	794,092

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
INVESTING ACTIVITIES		
Acquisition of and deposits paid for property, plant and equipment	**(509,292)**	(741,370)
Payment for lease premium for land	**(88)**	(1,724)
Proceeds on disposal of property, plant and equipment	**4,774**	13,280
Proceeds on disposal of available-for-sale investment	**–**	129,783
Increase in pledged bank deposits	**(108,034)**	(15,805)
Payment of loan receivables	**(7,510)**	(13,987)
NET CASH USED IN INVESTING ACTIVITIES	**(620,150)**	(629,823)
FINANCING ACTIVITIES		
Bank borrowings raised	**2,437,054**	1,695,158
Convertible loan notes redeemed/repurchased and cancelled	**(760,417)**	(882,316)
Interest paid	**(75,594)**	(61,869)
Repayment of bank borrowings	**(1,160,093)**	(1,524,414)
Proceeds from issue of convertible loan notes net of issuance cost	**–**	905,573
Dividends paid	**(314,735)**	(169,731)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**126,215**	(37,599)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(714,942)**	126,670
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**1,021,177**	894,507
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES	**–**	–
CASH AND CASH EQUIVALENTS AT 31 DECEMBER REPRESENTED BY BANK BALANCE AND CASH	**306,235**	1,021,177

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1. GENERAL

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

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

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 Group are the manufacture and distribution of wheel loaders, road rollers, excavators, fork lifts and other infrastructure machinery and the provision of finance lease for the infrastructure machinery. The detail activities of the Group's subsidiaries are set out in note 37.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

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

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

Except as described below, the application of the new and revised Standards and Interpretations in the current year has had no material effect in these consolidated financial statements.

Amendments to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

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

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. The application of the amendments to HKAS 17 has had no impact on the consolidated financial statements.

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

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

As a result, as at 31 December 2010, bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of RMB165,567,000 have been classified as current liabilities. The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities (see note 31 for details).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK (IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

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

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

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

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

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

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013. Based on assessment of the Group's financial assets and financial liabilities as at 31 December 2010, the application of the new Standard may have no significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

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

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

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

Allocation of total comprehensive income to non-controlling interests

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes. Revenue from sale of goods is recognised when goods are delivered and title has passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount on initial recognition.

Property, plant and equipment

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

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Leasing

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

The Group as lessor

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

The Group as leasee

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

Leasehold land and building

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Foreign currencies

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

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

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the consideration required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of reporting period.

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Research expenditure

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

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Inventories

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

Loans and receivables

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets

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

Objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade receivables and finance lease receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets (Continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, other receivables and finance lease receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade receivables, other receivables and finance lease receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis other than those financial liability classified as at FVTPL, of which the interest expense is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Convertible Loan Notes

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

In subsequent period, the liability component is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the Convertible Loan Notes are allocated to the liability and conversion option and redemption option components in proportion to their fair values at the date of issue. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the Convertible Loan Notes using effective interest method.

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

Other financial liabilities

Other financial liabilities including trade payables, bill payables, other payables, amounts due to related parties, bank borrowings and deposits for finance lease are subsequently measured at amortised cost, using the effective interest method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Derecognition

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Estimated impairment of loans and receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2010, the carrying amount of loans and receivables is RMB2,489,843,000 (net of allowance for doubtful debts of RMB84,975,000) (31 December 2009: carrying amount of RMB2,113,089,000, net of allowance for doubtful debts of RMB87,505,000).

Provision for warranty costs

The Group offers a standard one-year warranty for the wheel loaders, road rollers, excavators, fork lifts, during which free warranty service for the repair and maintenance of parts and components under normal usage is provided to the customers. The provision for warranty costs are based on the historical experience and statistics. As at 31 December 2010, the carrying amount of provision for warranty costs is RMB179,225,000 (31 December 2009: carrying amount of RMB145,043,000).

Useful lives of property, plant and equipment

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

Fair value of the derivatives

The directors of the Company use their judgement in selecting an appropriate valuation technique for derivative financial instruments, where the valuation techniques are those commonly applied by market practitioners. Assumptions are made based on market statistic and adjusted for specific features of the instrument. The carrying amount of the derivatives instruments is RMB418,425,000 (31 December 2009: carrying amount of RMB424,557,000). Details of the derivative financial instruments and their assumptions used are disclosed in note 29.

Inventory provision

Inventories are stated at the lower of cost and net realisable value. Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess estimations at each of the end of reporting period. As at 31 December 2010, the carrying amount of inventory is RMB3,539,417,000 (net of allowance for inventory of RMB11,705,000) (31 December 2009: carrying amount of RMB2,334,982,000, net of allowance for inventory of RMB22,747,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

5. SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purpose of resource allocation and assessment of performance focuses on two businesses: sales of construction machinery and finance lease of construction machinery.

Segment information about these businesses, which are the operating and reportable segments of the Group is presented below:

2010

SEGMENT REVENUE AND RESULTS

	Sales of construction machinery RMB'000	Interest income on finance lease of construction machinery RMB'000	Total RMB'000
Segment Revenue			
Sales of goods	7,602,589	–	7,602,589
Finance lease sales	4,214,063	203,281	4,417,344
	11,816,652	203,281	12,019,933
Segment profit	2,205,173	156,456	2,361,629
Unallocated interest income			10,058
Unallocated other gains and losses			(14,162)
Unallocated expenses			(9,353)
Finance costs			(206,010)
Profit before tax			2,142,162
Income tax expense			(375,845)
Profit for the year			1,766,317

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

5. SEGMENT INFORMATION *(Continued)*

SEGMENT ASSETS AND LIABILITIES

	Sales of construction machinery RMB'000	Interest income on finance lease of construction machinery RMB'000	Total RMB'000
Assets			
Segment assets	9,281,347	3,326,525	12,607,872
Unallocated assets			854,649
Total consolidated assets			13,462,521
Liabilities			
Segment liabilities	2,903,337	1,415,861	4,319,198
Unallocated liabilities			3,901,292
Total consolidated liabilities			8,220,490

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

5. SEGMENT INFORMATION *(Continued)*

2009

SEGMENT REVENUE AND RESULTS

	Sales of construction machinery RMB'000	Interest income on finance lease of construction machinery RMB'000	Total RMB'000
Segment Revenue			
Sales of goods	4,277,477	–	4,277,477
Finance lease sales	2,511,310	112,213	2,623,523
	6,788,787	112,213	6,901,000
Segment profit	874,037	114,332	988,369
Unallocated interest income			14,537
Unallocated other gains and losses			101,673
Unallocated expenses			(13,539)
Finance costs			(185,163)
Profit before tax			905,877
Income tax expense			(105,652)
Profit for the year			800,225

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

5. SEGMENT INFORMATION *(Continued)*

SEGMENT ASSETS AND LIABILITIES

	Sales of construction machinery RMB'000	Interest income on finance lease of construction machinery RMB'000	Total RMB'000
Assets			
Segment assets	6,592,762	1,786,316	8,379,078
Unallocated assets			1,387,309
Total consolidated assets			9,766,387
Liabilities			
Segment liabilities	1,779,580	1,109,925	2,889,505
Unallocated liabilities			3,086,433
Total consolidated liabilities			5,975,938

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment result represents the profit earned by each segment without allocation of interest income, other gains and losses, corporate administration cost, directors' salaries and finance costs. This is the measure reported to the chief executive officer for the purposes of resource allocation and performance assessment.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

5. SEGMENT INFORMATION *(Continued)*

Other segment information

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

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

Revenue from major product and services

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

	2010		2009	
	RMB'000	**%**	RMB'000	%
Wheel loaders	**8,343,376**	**69.4**	5,077,869	73.6
Excavators	**1,956,841**	**16.3**	775,093	11.2
Road rollers	**469,124**	**3.9**	316,501	4.6
Fork lifts	**585,536**	**4.9**	291,839	4.2
Others	**461,775**	**3.8**	327,485	4.8
Subtotal	**11,816,652**	**98.3**	6,788,787	98.4
Finance lease interest income	**203,281**	**1.7**	112,213	1.6
Total	**12,019,933**	**100.0**	6,901,000	100.0

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

Geographical information

The Group's operations are substantially located in the PRC and significantly 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 2010

6. INVESTMENT INCOME

	2010	2009
	RMB'000	RMB'000
Interest on bank deposits	**10,058**	14,537

7. OTHER GAINS AND LOSSES

	2010	2009
	RMB'000	RMB'000
Gain on disposal of available-for-sale investment	**–**	82,719
Gain on disposal of property, plant and equipment	**1,278**	787
Exchange realignment from convertible loan notes	**20,562**	7,392
Foreign exchange gains (losses)	**12,186**	4,269
Change in fair value of derivative financial instruments	**(85,380)**	(67,759)
Gain on redemption/repurchase of convertible loan notes	**41,047**	81,614
Allowance for (reversal of) bad and doubtful debts	**2,530**	(34,138)
Written off finance lease receivables	**(5,763)**	–
	(13,540)	74,884

8. FINANCIAL COSTS

	2010	2009
	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	**81,087**	69,181
Effective interest expense on convertible loan notes	**124,923**	115,982
	206,010	185,163

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

9. INCOME TAX EXPENSE

	2010	2009
	RMB'000	RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**414,725**	146,748
Under (over) provision of EIT in prior year	**2,140**	(1,889)
Withholding tax paid	**5,422**	205
	422,287	145,064
Deferred tax *(note 18)*	**(46,442)**	(39,412)
Income tax expense	**375,845**	105,652

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.

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

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

The Law of the PRC on Enterprise Income Tax imposes a withholding tax on dividend distributed from the Group's subsidiaries in the PRC to the holding companies located off-shore starting from 1 January 2008. In 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 granted their consent to apply 5% preferable withholding income tax rate on the dividend based on the double tax treaty between Hong Kong and the PRC. In view of the above, 5% withholding tax rate is applicable to the dividend, for the period starting from 1 January 2009, distributed from the PRC subsidiaries to these off-shore companies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

9. INCOME TAX EXPENSE *(Continued)*

The tax charge for the year ended 31 December 2010 and 2009 can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

	2010		2009	
	RMB'000	**%**	RMB'000	%
Profit before taxation	**2,142,162**		905,877	
Tax at the domestic tax rate of 25% (2009:25%)	**535,541**	**25**	226,469	25
Tax effect of income that is not taxable for tax purpose	**(18,454)**	**(0.8)**	(20,790)	(2.3)
Tax effect of expenses that are not deductible for tax purpose	**58,392**	**2.7**	45,162	5.0
Tax effect of tax losses not recognized	**8,098**	**0.4**	2,566	0.3
Utilisation of tax losses previously not recognised	**(9,875)**	**(0.5)**	–	–
Under (over) provision in respect of prior years	**2,140**	**0.1**	(1,889)	(0.2)
Deferred tax charged at different income tax rate	**8,944**	**0.4**	(6,455)	(0.7)
Effect of withholding tax	**28,317**	**1.3**	4,895	0.5
Effect of tax exemptions and income tax on concessionary rate granted to PRC subsidiaries	**(237,258)**	**(11.1)**	(144,306)	(15.9)
Tax charge and effective tax rate for the year	**375,845**	**17.5**	105,652	11.7

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

10. PROFIT BEFORE TAX

	2010 **RMB'000**	2009 RMB'000
Profit before taxation has been arrived at after charging:		
Depreciation for property, plant and equipment	**203,910**	134,854
Amortisation for lease payments for land	**4,371**	4,724
Total depreciation and amortisation	**208,281**	139,578
Auditors' remuneration	**3,023**	3,023
Cost of inventories recognised as expenses (including reversal of allowance for inventory of 11,042 (2009: allowance for inventory of 7,943))	**8,593,391**	5,283,065
Staff costs, including directors' remuneration *(Note 11)*		
Salaries and allowances	**515,822**	265,887
Contributions to retirement benefit scheme	**40,420**	21,531
Total staff costs	**556,242**	287,418
Write off/impairment loss (reversal) of financial assets		
– trade receivables	**(6,159)**	33,489
– other receivables	**3,629**	649
– finance lease receivable	**5,763**	–
	3,233	34,138

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

11. DIRECTORS' EMOLUMENTS

(a) Directors' emoluments

	2010 **RMB'000**	2009 RMB'000
Fees	**1,553**	1,100
Other emoluments:		
Salaries and allowances	**16,018**	3,550
Contributions to retirement benefits scheme	**22**	28
	16,040	3,578
	17,593	4,678

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

	2010 **RMB'000**	2009 RMB'000
Fees:		
Non-executive director:		
Ms. Ngai Ngan Ying	**1,153**	600
Independent director:		
Dr. Qian Shizheng	**200**	200
Mr. Han Xuesong	**100**	100
Mr. Pan Longqin	**100**	100
Mr. Wang Fanghua *(note 1)*	**–**	100
	1,553	1,100

Note 1: Resigned as independent non-executive director of the Company with effect from 29 May 2009.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

11. DIRECTORS' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

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

	2010			2009		
	Salaries and allowances RMB'000	**Discretionary bonus (Note) RMB'000**	**Contributions to retirement benefits scheme RMB'000**	Salaries and allowances RMB'000	Discretionary bonus RMB'000	Contributions to retirement benefits scheme RMB'000
Executive director:						
Mr. Li San Yim	**1,921**	**–**	**–**	1,200	–	–
Mr. Qiu Debo	**600**	**4,437**	**5**	600	–	7
Mr. Luo Jianru	**600**	**1,479**	**7**	400	–	7
Ms. Fang De Qin	**600**	**1,479**	**–**	400	–	–
Mr. Chen Chao	**600**	**1,479**	**5**	400	–	7
Mr. Mou Yan Qun	**600**	**1,479**	**5**	400	–	7
Mr. Lin Zhong Ming	**300**	**444**	**–**	150	–	–
	5,221	**10,797**	**22**	3,550	–	28

Note: The discretionary bonus has been determined based on the operation and financial performance of the Group.

During both years ended 31 December 2010 and 2009, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived any emoluments in the year ended 31 December 2010.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

12. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 2010 and 2009 were all directors of the Company and details of their emoluments are included in Note 11 above.

13. DIVIDENDS

	2010 **RMB'000**	2009 RMB'000
Dividends recognised as distribution during the year:		
2009 final of HKD0.07 per share (2008 final: 0.05HKD)	**130,734**	47,183
2010 interim of HKD0.1 per share (2009 interim: 0.065HKD)	**184,001**	122,548
	314,735	169,731

In the annual general meeting held on 28 May 2010, a final dividend of HKD0.07 (2008: HKD0.05) per share in respect of the year ended 31 December 2009 was approved by the shareholders and subsequently paid to the shareholders of the Company.

An interim dividend of HKD0.1 (2009: HKD0.065) per share in respect of the six months ended 30 June 2010 was approved by the board of directors on 26 August 2010 and subsequently paid to the shareholders of the Company.

A final dividend of HKD0.10 (Equivalent to RMB0.08) per ordinary share for the year ended 31 December 2010 has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting to be held on 20 May 2011.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

14. EARNINGS PER SHARE

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

	2010 RMB'000	2009 RMB'000
Earnings		
Earnings for the purpose of basic earnings per share	**1,765,606**	799,986
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	**19,139**	30,748
Exchange realignment on convertible loan notes	**982**	(3,095)
Change in fair value of derivative financial instruments	**(20,096)**	13,299
Gain on repurchase of convertible loan notes	**(41,047)**	(81,614)
Earnings for the purpose of diluted earnings per share	**1,724,584**	759,324
Number of Shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**4,280,100**	4,280,100
Effect of dilutive potential ordinary shares:		
Convertible loan notes	**115,302**	48,085
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**4,395,402**	4,328,185

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the bonus issue on 25 October 2010.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and Machinery	Motor Vehicles	Furniture and Fixtures	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2009	488,213	853,154	24,404	39,191	888,597	2,293,559
Additions	5,813	139,311	4,555	7,224	688,618	845,521
Transfers	502,499	409,248	10,961	2,914	(925,622)	–
Disposals	(949)	(17,605)	(4,165)	(3,169)	–	(25,888)
At 31 December 2009	995,576	1,384,108	35,755	46,160	651,593	3,113,192
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
DEPRECIATION						
At 1 January 2009	60,358	148,795	9,618	14,525	–	233,296
Charge for the year	21,636	99,147	6,375	7,696	–	134,854
Disposals	(185)	(9,524)	(2,572)	(1,114)	–	(13,395)
At 31 December 2009	81,809	238,418	13,421	21,107	–	354,755
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
At 31 December 2009	913,767	1,145,690	22,334	25,053	651,593	2,758,437

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

The construction in progress is mainly related to the construction of factory premise and production plants which had not been completed at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

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

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

16. PREPAID LEASE PAYMENTS

	2010	2009
	RMB'000	RMB'000
Balance at beginning of the year	**226,380**	229,380
Additions	**88**	1,724
Disposals	**(22,897)**	–
Amortisation	**(4,371)**	(4,724)
Balance at end of the year	**199,200**	226,380
Analysed for reporting purpose as:		
Current portion	**4,479**	4,937
Non-current portion	**194,721**	221,443
	199,200	226,380

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

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 leasehold land with carrying amount of RMB22,657,000 at 31 December 2010 (2009: RMB44,887,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

17. FINANCE LEASE RECEIVABLES

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

	Minimum lease payments		Present value of minimum lease payments	
	2010	2009	**2010**	2009
	RMB'000	RMB$'000	**RMB'000**	RMB'000
Finance lease receivables comprise:				
Within one year	**969,328**	1,313,168	**935,699**	1,215,177
In more than one year but not more than two years	**1,070,220**	386,707	**998,466**	369,296
In more than two years but not more than five years	**1,503,670**	165,287	**1,345,855**	158,422
	3,543,218	1,865,162	**3,280,020**	1,742,895
Less: unearned finance income	**263,198**	122,267	**–**	–
Present value of minimum lease payment receivables	**3,280,020**	1,742,895	**3,280,020**	1,742,895
Analysed as:				
Current			**935,699**	1,215,177
Non-current			**2,344,321**	527,718
			3,280,020	1,742,895

Unguaranteed residual values of assets leased under finance leases are nil. There are no contingents rents recognised in the income for the year. There is approximately RMB5,763,000 (2009: nil) of finance lease receivables written off during the year because of default in payment.

Effective interest rates of the above finance leases range from 6.8% to 18% (2009:6.8% to 15%) per annum.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

17. FINANCE LEASE RECEIVABLES *(Continued)*

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

As at 31 December 2010, the group received refundable finance lease deposits as follows:

	2010 RMB'000	2009 RMB'000
Current	**178,588**	165,774
Non-current	**271,214**	116,854
	449,802	282,628

18. DEFERRED TAXATION

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

Deferred tax assets:

	Allowance for bad and doubtful debts RMB'000	Provision for products warranty RMB'000	Allowance for inventories RMB'000	Unrealised profit in inventory RMB'000	Accrued sales rebate RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January 2009	8,816	28,541	6,823	49,492	7,935	1,690	103,297
Credit (charge) to profit or loss for the year	12,091	3,282	(1,136)	17,204	12,791	(1,690)	42,542
At 31 December 2009	20,907	31,823	5,687	66,696	20,726	–	145,839
Credit (charge) to profit or loss for the year	(994)	8,330	(2,761)	46,240	32,377	–	83,192
Changes in tax rate	(5,120)	–	–	(3,824)	–	–	(8,944)
At 31 December 2010	14,793	40,153	2,926	109,112	53,103	–	220,087

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

18. DEFERRED TAXATION *(Continued)*

Deferred tax liabilities:

	Fair value adjustment on land and buildings	Withholding taxes on undistributed dividends	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2009	5,671	16,485	22,156
Charge to profit or loss for the year	(1,560)	4,895	3,335
Withholding tax paid this year	–	(205)	(205)
At 31 December 2009	4,111	21,175	25,286
Charge to profit or loss for the year	(511)	28,317	27,806
Withholding tax paid this year	–	(5,422)	(5,422)
At 31 December 2010	3,600	44,070	47,670

At the end of the reporting period, certain subsidiaries of the Group have unused tax losses of RMB48.8 million (2009: RMB55.9 million) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams of these subsidiaries. Pursuant to the relevant laws and regulations in the PRC, the unrecognised tax losses at the end of the reporting period will expire in the following years:

	31.12.2010	31.12.2009
	RMB'000	RMB'000
2012	**2,838**	6,326
2013	**3,328**	39,341
2014	**10,264**	10,264
2015	**32,391**	–
	48,821	55,931

18. DEFERRED TAXATION *(Continued)*

Under the New Tax Law, withholding tax of 5% is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards which are payable to off-shore intermediate holding companies. Deferred taxation has not yet been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits of the PRC subsidiaries amounting to approximately RMB1,321,446,000 (2009: RMB613,066,000) 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.

19. INVENTORIES

	2010	2009
	RMB'000	RMB'000
Raw materials	**1,035,680**	547,457
Work in progress	**171,167**	117,943
Finished goods	**2,332,570**	1,669,582
	3,539,417	2,334,982

20. LOAN RECEIVABLES

	2010	2009
	RMB'000	RMB'000
Fixed-rate loan receivables		
Due within one year	**12,802**	12,041
Due over one year but not more than two years	**6,726**	11,313
Due over two years but not more than five years	**14,010**	2,674
	33,538	26,028
Less: Amounts due within one year	**12,802**	12,041
	20,736	13,987

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

	2010	2009
	RMB'000	RMB'000
Trade receivables	**1,046,582**	412,305
Less：allowance for doubtful debts	**(65,623)**	(71,782)
	980,959	340,523
Bill receivables	**799,688**	470,597
Other receivables	**73,250**	62,235
Less：allowance for doubtful debts	**(19,352)**	(15,723)
	53,898	46,512
Deposits and prepayments for purchase of supplies and raw materials	**287,641**	185,850
Value-added tax recoverable	**283,200**	160,747
	624,739	393,109

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

The aged analysis of trade receivables net of allowance presented based on invoice date is as follows:

	2010	2009
	RMB'000	RMB'000
0 – 90 days	**972,083**	321,388
91 – 180 days	**7,963**	12,850
181 – 270 days	**311**	6,091
271 days to 1 year	**602**	194
	980,959	340,523

Bill receivables are aged within 180 days at the end of the reporting period. At 31 December 2010, amounts of RMB166,470,868 (2009: RMB169,657,200) bill receivables are pledged to banks for the Group to get short-term credit facilities in respect of purchases of raw materials for production.

99% (2009: 94%) of the trade receivables are neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB8,876,000 (2009: RMB19,135,000) which are past due as at the end of the reporting period but aged within one year for which the Group has not provided for impairment loss. Based on past experience, the directors believe that no impairment allowance is necessary in respect of these balances as there was no significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 154 days. (2009: 165 days)

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

Movement in the allowance for doubtful debts for trade and other receivables:

	2010	2009
	RMB'000	RMB'000
Balance at beginning of the year	**87,505**	53,367
Impairment losses (reversal) recognised	**(2,530)**	34,138
Balance at end of the year	**84,975**	87,505

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

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

Original currency	**JPY**	**USD**	**HKD**	**EURO**
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2010	2,547	144,802	–	15,493
As at 31 December 2009	11,931	39,062	8	56,186

22. BANK BALANCES AND PLEDGED BANK DEPOSITS

The bank balances and pledged deposits carry interest at market rates which range from 0.36% to 1.98% (2009: 0.36% to 1.71%) per annum as at 31 December 2010.

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

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

Original currency	**USD**	**HKD**	**EURO**
	RMB'000	RMB'000	RMB'000
As at 31 December 2010	42,674	3,055	9
As at 31 December 2009	484,247	6,422	4,928

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

	2010	2009
	RMB'000	RMB'000
The aged analysis of trade payables is as follows		
0 – 180 days	**1,542,811**	988,825
181 days – 1 year	**68,702**	11,929
1 to 2 years	**4,746**	5,259
2 to 3 years	**4,999**	2,297
Over 3 years	**2,287**	1,505
	1,623,545	1,009,815
Bill payable	**1,450,222**	1,072,267
Other payable and accruals:		
Advance from customers	**138,413**	89,325
Deposit for finance lease *(note 17)*	**178,588**	165,774
Salary and wages payable	**70,288**	41,632
Payable for acquisition of property plant and equipment	**45,573**	63,848
Other tax payable	**16,980**	12,103
Accrued sales rebate	**237,909**	90,718
Other payables	**52,147**	14,247
Other accrued expenses	**48,059**	45,575
	787,957	523,222

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

Bill payables are aged within 6 months at the end of the reporting period and secured by bill receivables or pledged bank deposits.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

(Continued)

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

Original currency	USD RMB'000	HKD RMB'000	EURO RMB'000
As at 31 December 2010	9,833	1,523	408
As at 31 December 2009	5,626	9,057	11,663

24. PROVISIONS

	2010 RMB'000	2009 RMB'000
At 1 January 2010	145,043	154,475
Addition for the year	255,608	166,076
Utilisation of provision	(221,426)	(175,508)
At 31 December 2010	179,225	145,043

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

25. AMOUNTS DUE TO RELATED PARTIES

	2010	2009
	RMB'000	RMB'000
Non-trade		
China Longgong Group Holdings Limited *(note a)*	**–**	4,865
Trade		
Longyan City Jinlong Machinery Company Limited ("Jinlong") *(note b)*	**2,304**	8,811
Sichuan Deying Bonding Company Limited *(note c)*	**4,731**	8,628
	7,035	22,304

Note a: Mr. Li San Yim and Madam Ngai Ngan Ying hold controlling interest in this entity. The amounts due to China Longgong Group Holdings Limited was payment of expense made on behalf of the Group and fully repaid during the year.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

26. SHARE CAPITAL

	Number of shares		Share capital	
	2010	2009	**2010**	2009
	'000	'000	**HKD'000**	HKD'000
Ordinary shares of HK$0.1 each				
Authorised				
At the beginning of year	**20,000,000**	5,000,000	**2,000,000**	500,000
			RMB'000	RMB'000
Issued and fully paid				
At 1 January	**2,140,050**	1,070,025	**222,058**	111,029
Bonus share issued	**2,140,050**	1,070,025	**222,058**	111,029
At 31 December	**4,280,100**	2,140,050	**444,116**	222,058

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

Pursuant to an ordinary resolution passed at 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 applied to the credit of the share premium account.

27. SPECIAL RESERVE AND NON-DISTRIBUTABLE RESERVE

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

28. BORROWINGS

	2010 RMB'000	2009 RMB'000
Bank loans – unsecured	**2,442,653**	1,134,227
Bank loans – secured	**–**	34,517
	2,442,653	1,168,744
Fixed-rate bank loans	**1,278,383**	892,720
Variable-rate bank loans	**1,164,270**	276,024
	2,442,653	1,168,744
Carrying amount repayable:		
Within one year	**1,306,091**	686,718
More than one year, but not exceeding two years	**221,683**	300,799
More than two years but not more than five years	**749,312**	181,227
	2,277,086	1,168,744
Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a payment on demand clause (shown under current liabilities)	**165,567**	–
	2,442,653	1,168,744
Less: Amounts due within one year and shown under current liabilities	**(1,471,658)**	(686,718)
Amounts shown under non-current liabilities	**970,995**	482,026

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

28. BORROWINGS *(Continued)*

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

	2010	2009
	RMB'000	RMB'000
Effective interest rate:		
Fixed-rate bank loans	**1.63%-5.56%**	2.8%-6.24%
Variable-rate bank loans	**1.89%-6.09%**	4.95%-6.32%

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

Original currency	**USD**	**EURO**	**HKD**
	RMB'000	RMB'000	RMB'000
As at 31 December 2010	256,217	–	225,124
As at 31 December 2009	83,851	1,149	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

29. CONVERTIBLE LOAN NOTES AND DERIVATIVE FINANCIAL INSTRUMENTS

i) 2007 Convertible loan notes

Convertible Loan Notes of US$287 million were issued by the Company on 30 April 2007 ("2007 Convertible Loan Notes") at an issue price of US$10,000 per Convertible Loan Note of US$10,000. The 2007 Convertible Loan Notes are listed on the Singapore Exchange Securities Trading Limited. Each Convertible Loan Note entitles the holder to convert to one ordinary share of the Company at the initial conversion price of HK$20.4525 (the "2007 Conversion Price"), but subject to anti-dilutive adjustment as stated in the offering circular on 27 April 2007 ("2007 Offering Circular"). On 30 November 2010, the conversion price has been revised to HK$4.62 after anti-dilutive adjustment.

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

Interest

The 2007 Convertible Loan Notes do not bear any interest.

Conversion period

The conversion period starts from the 40th day after the issue of Convertible Loan Notes and will cease on the 7th business day prior to the maturity day of 30 April 2012 (the "2007 Maturity Date").

Maturity

Unless previously redeemed or converted, the Company will redeem each 2007 Convertible Loan Note at 121.155% of its principal amount on the Maturity Date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

i) 2007 Convertible loan notes *(Continued)*

Redemption at the Option of the Company

On and at any time after 30 April 2010 but not less than seven business days prior to the 2007 Maturity Date nor within the closed period which is defined in the 2007 Offering Circular, the Company may, having given not less than 30 nor more than 60 days' notice to the holders, redeem the 2007 Convertible Loan Notes in whole or in part at the early redemption amount ("2007 Early Redemption Amount") at 112.203% of their principal amount, provided that no such redemption may be made unless the closing price of the Company shares translated into US dollars at the prevailing exchange rate for each of any 20 trading days falling within a period of 30 consecutive trading days, the last day of which period occurs no more than 5 trading days prior to the date upon which notice of such redemption is given, was at least 130% of the Conversion Price in effect translated into US dollars at the fixed exchange rate of HK$7.8175=US$1.00 on each such stock exchange business day.

Redemption at the Option of the bondholders

The holder of each 2007 Convertible Loan Note ("2007 Bondholders") will have the right to require the Company to redeem all or some of their 2007 Convertible Loan Notes at 2007 Early Redemption Amount of the initial principal amount on 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 Loan Notes are split into liability component and derivative component (comprised of embedded derivatives which are considered as not closely related to the host liability component) as follow:

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

i) 2007 Convertible loan notes *(Continued)*

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

(ii) Derivative component represents:

(i) The fair value of the option of 2007 Bondholders to convert the 2007 Convertible Loan Notes into shares of the Company at an initial conversion price of HK$20.4525 per ordinary share of HK$0.1 each in the share capital of the Company ("Share") and subject to anti-dilutive adjustments.

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

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

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

	Liability component	**Derivative component**	**Total**
	RMB'000	RMB'000	RMB'000
2007 Convertible Loan Notes:			
As at 31 December 2008	1,476,961	205,872	1,682,833
Exchange realignment	(7,137)	–	(7,137)
Effective interest expense charged	82,010	–	82,010
Re-purchased and cancelled	(837,717)	(126,213)	(963,930)
Changes in fair value	–	33,839	33,839
As at 31 December 2009	714,117	113,498	827,615
Exchange realignment	982	–	982
Effective interest expense charged	19,139	–	19,139
Redeemed and cancelled	(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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

i) 2007 Convertible loan notes *(Continued)*

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

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

	2010	2009
Discount rate	**11%**	12%
Time to expiration	**1.33 year**	1.2 year
Volatility	**33%**	63%

During the year ended 31 December 2009, the Company repurchased USD124,650,000 of face value (equivalent to RMB851,610,000) of the issued 2007 Convertible Loan Notes and recognised RMB81,614,000 gain on the repurchase in profit or loss.

During the year ended 31 December 2010, the bondholder exercised the Early Redemption Option and required the Company to redeem USD99,280,000 of face value (2009: nil) (equivalent to RMB760,417,000 (2009: nil)) of the issued 2007 Convertible Loan Notes and recognised RMB41,047,000 (2009: nil) gain on the redemption in profit or loss.

As at 31 December 2009, the derivative component and liabilities component of 2007 Convertible Loan Notes was presented as current liabilities in accordance with the early redemption date. With the expiry of early redemption option during the year ended 31 December 2010, they are then presented as non-current liabilities as at 31 December 2010 in accordance with the date of maturity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

ii) 2009 Convertible Loan Notes

Another Convertible Loan Notes of US$135 million were issued by the Company on 24 August 2009 ("2009 Convertible Loan Notes") at an issue price of US$10,000 per Convertible Loan Note of US$10,000. The 2009 Convertible Loan Notes are listed on the Singapore Exchange Securities Trading Limited. Each 2009 Convertible Loan Note entitles the holder to convert to one ordinary share of the Company at the initial conversion price of HK$7.00 (the "2009 Conversion Price"), but subject to anti-dilutive adjustment as stated in the offering circular on 6 August 2009 ("2009 Offering Circular"). On 30 November 2010, the conversion price has been revised to HK$3.34 after anti-dilutive adjustment.

The principal terms of the 2009 Convertible Loan Notes are as follows:

Interest

The 2009 Convertible Loan Notes 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 tenth day prior to 24 August 2014 ("2009 Maturity Date").

Maturity

Unless previously redeemed, purchased and cancelled or converted in the circumstances set out in the terms and conditions defined in the 2010 Offering Circular, the Company will redeem each 2009 Convertible Loan Notes at 144.504% of its principal amount on the Maturity Date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

ii) 2009 Convertible Loan Notes *(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 not less than 30 nor more than 60 days' notice to the holders, redeem the 2009 Convertible Loan Notes in whole or in part at the early redemption amount ("2009 Early Redemption Amount"), provided that no such redemption may be made unless the closing price of the Shares translated into US dollars at the prevailing exchange rate for each of any 20 trading days falling within a period of 30 consecutive trading days, the last day of which period occurs no more than 5 trading days prior to the date upon which notice of such redemption is given, was at least 130% of the Conversion Price in effect translated into US dollars at the fixed exchange rate of HK$7.815=US$1.00 on each such trading day.

Redemption at the Option of the bondholders

The Bondholder of each 2009 Convertible Loan Note ("2009 Bondholders") will have the right to require the Company to redeem all or some of the 2009 Convertible Loan Notes at 2009 Early Redemption Amount of the initial principle amount on 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 Loan Notes are split into liability component and derivative component (comprised of embedded derivatives which are considered as not closely related to the host liability component) as follow:

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

The interest charged for the year is calculated by applying an effective interest rate of approximately 16.22% to the liability component since the 2009 Convertible Loan Notes were issued.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

ii) 2009 Convertible Loan Notes *(Continued)*

Redemption at the Option of the bondholders (Continued)

(ii) Derivative component represents:

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

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

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

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

	Liability component RMB'000	**Derivative component** RMB'000	**Total** RMB'000
2009 Convertible Loan Notes:			
At date of issue on 24 August 2009, net proceeds	628,434	277,139	905,573
Exchange realignment	(255)	–	(255)
Effective interest expense charged	33,972	–	33,972
Changes in fair value	–	33,920	33,920
As at 31 December 2009	662,151	311,059	973,210
Exchange realignment	(21,544)	–	(21,544)
Effective interest expense charged	105,784	–	105,784
Changes in fair value	–	105,476	105,476
As at 31 December 2010	746,391	416,535	1,162,926

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

ii) 2009 Convertible Loan Notes *(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:

	2010	2009
Discount rate	**12%**	16%
Time to expiration	**3.65 year**	4.7 year
Volatility	**48%**	63%

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30. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the convertible loan notes disclosed in note 29 and bank borrowings in note 28, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated profits.

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

31. FINANCIAL INSTRUMENTS

31.1. Categories of financial instruments

	2010 **RMB'000**	2009 RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**2,489,843**	2,113,089
Financial liabilities:		
FVTPL	**418,425**	424,557
Amortised cost	**6,911,942**	5,051,753

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

31. FINANCIAL INSTRUMENTS *(continued)*

31.2. Financial risk management objectives and polices

The Group's major financial instruments include trade receivables, other receivable, loan receivables, bill receivables, finance lease receivables, pledged bank deposits, bank balances and cash, trade payables, other payables, bill payables, amounts due to related parties, bank borrowings and convertible loan notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

31. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk (continued)

(i) Currency risk *(continued)*

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

	Assets		**Liabilities**	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
USD	**187,477**	523,309	**1,455,151**	1,890,302
EURO	**15,502**	61,114	**408**	12,812
HKD	**3,055**	6,430	**226,648**	9,057
JPY	**2,547**	11,931	**–**	–

Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% (2009: 5%) increase and decrease in Renminbi against the relevant foreign currencies. 5% (2009: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at end of the period for a 5% (2009: 5%) change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in post-tax profit where Renminbi strengthen 5% (2009: 5%) against the relevant currency. For a 5% (2009: 5%) weakening of Renminbi against the relevant currency, there would be an equal and opposite impact on post-tax profit for the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

31. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk (continued)

(i) Currency risk *(continued)*

Sensitivity analysis *(continued)*

	USD impact		EUR impact		HK$ impact		JPY impact	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Increase (decrease) in post-tax profit *(note)*	**64,225**	66,668	**(642)**	(2,113)	**11,180**	131	**(108)**	(522)

Note: The USD impact in 2010 and 2009 is mainly attributable to the exposure on the USD denominated Convertible Loan Notes outstanding at the end of the reporting periods.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to finance leases and fixed-rate bank borrowings (see note 28 for details of these borrowings). The Group's interest rate risk relates to financial liabilities are detailed in the liquidity risk management section of this note. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see note 22) and variable-rate bank borrowings (see note 28 for details of these borrowings).

The Group has not entered into any interest rate hedging contracts or any other derivative financial instrument. The management closely monitors such risks and will consider hedging significant interest rate risk exposure should the need arise.

31. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(ii) Interest rate risk *(continued)*

Sensitivity analysis

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

If interest rates had been 50 basis points higher/lower for the variable-rate bank loans and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2010 would decrease/increase by RMB4,802,000 (2009: decrease/increase by RMB1,219,000). If interest rates had been 10 basis points higher/lower for the bank balance and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2010 would increase/decrease by RMB248,000 (2009: increase/decrease by RMB537,000).

(iii) Price risk

Convertible Bond Notes

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

31. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk (continued)

(iii) Price risk *(continued)*

Sensitivity analysis

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

If the Company's share price have been 5% higher/lower and all other variables were held constant, the Group's post-tax profit for the year (as a result of changes in fair value of derivative option component of convertible loan notes) would decrease by RMB67,777,000/increase by RMB37,577,000 (2009: decrease by RMB24,349,000/ increase by RMB40,599,000).

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

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position or the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 34.

In order to minimize the credit risk in relation to trade receivables and other receivables, the Group trades only with recognised, creditworthy third parties and has made policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, the Group reviews the recoverable amount of each individual trade debt and other receivable at the end of reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. The amounts presented in the consolidated statement of financial position are net of allowances for doubtful receivables, if any, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

31. FINANCIAL INSTRUMENTS *(continued)*

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

Credit risk (continued)

In order to minimise the credit risk on finance lease receivables and financial guarantee, the Group reviews each customer's credit standing before financing the lease, meanwhile, the Group received certain deposits from sales agents or the customers and also required the sales agents provide guarantee for the payment by the customers before the lease term commenced or the financial guarantee provided. If any customer delays lease payment over 3 months, the Group will deduct deposits from the sales agents or the customers directly, or get compensation from sales agents to the extent of the guarantee provided. The management closely monitors such risks and will consider hedging significant credit risk exposure should the need arise. Therefore, the directors of the Company believe that the credit risk of the Group has been significantly reduced.

The Group does not have significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. The Group considers the credit risk on bill receivables is limited because the bill receivables are accepted by the state-owned banks located in PRC.

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

Liquidity risk

In the management of the liquidity risk, the Group closely monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The Group relies on bank balances and cash, bank borrowings, convertible loan notes and bill payables as significant sources of liquidity.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

31. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk (continued)

	Weighted average interest rate	Less than 3 months	3-6 months	6 months to 1 year	1-2 years	2-3 years	3-4 years	Undiscounted cash flow	Total carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2010									
Non-derivative financial liabilities									
Trade, bill and other payable		2,056,159	1,146,160	39,456	–	–	–	3,241,775	3,241,775
Bank borrowing									
– Fixed rate	4.69%	292,487	376,734	383,792	103,882	168,250	–	1,325,145	1,278,383
– Variable-rate	4.89%	337,309	58,251	63,694	133,925	679,439	–	1,272,618	1,164,270
Amounts due to related party		7,035	–	–	–	–	–	7,035	7,035
2007 Convertible									
Loan Notes *(note)*	7.73%	–	–	–	26,713	–	–	26,713	24,286
2009 Convertible									
Loan Notes *(note)*	16.22%	–	–	–	–	1,115,077	–	1,115,077	746,391
Deposit for finance lease		20,977	49,764	107,847	196,990	64,750	9,474	449,802	449,802
Financial guarantee contract		462	1,345	40,935	70,823	29,643	13,572	156,780	–
Total		2,714,429	1,632,254	635,724	532,333	2,057,159	23,046	7,594,945	6,911,942

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

31. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk (continued)

	Weighted average interest rate %	Less than 3 months RMB'000	3-6 months RMB'000	6 months to 1 year RMB'000	1-2 years RMB'000	2-3 years RMB'000	3-4 years RMB'000	Undiscounted cash flow RMB'000	Total carrying amount RMB'000
2009									
Non-derivative financial liabilities									
Trade, bill and other payable		1,421,392	724,377	56,040	–	–	–	2,201,809	2,201,809
Bank borrowings									
– Fixed rate	4.01%	132,753	106,796	408,725	109,914	167,121	–	925,309	892,720
– Variable-rate	5.06%	–	10,510	41,901	210,885	33,848	603	297,747	276,024
Amounts due to related party	–	22,304	–	–	–	–	–	22,304	22,304
2007 Convertible Loan Notes *(note)*	7.73%	–	786,218	–	–	–	–	786,218	714,117
2009 Convertible Loan Notes *(note)*	16.22%	–	–	–	–	1,149,678	–	1,149,678	662,151
Deposit for finance lease	–	19,423	29,101	117,250	109,454	7,400	–	282,628	282,628
Total		1,595,872	1,657,002	623,916	430,253	1,358,047	603	5,665,693	5,051,753

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

31. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk (continued)

Certain long term bank borrowing with a repayment on demand clause are included in the "less than 3 month" time band in the above maturity analysis, the aggregate undiscounted principal amounts of which as at 31 December 2010 amounted to RMB225,172,000. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The following table details the maturity of such bank borrowing which the directors believe to be repaid in accordance with the scheduled repayment dates set out in the loan agreements:

	Weighted average interest rate	Less than 3 months	3-6 months	6 months to 1 year	1-2 years	2-3 years	Undiscounted cash flow	Total carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2010								
Non-derivative financial liabilities								
Bank borrowings	4.69%	6,630	–	54,151	93,308	82,463	236,552	225,172

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee at the end of the reporting period. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

31. FINANCIAL INSTRUMENTS *(continued)*

31.3. Fair value

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

The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The fair value of the derivative financial instruments is determined using Binomial Model using market inputs (Note 29).

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

	2010		2009	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Financial liabilities				
2007 Convertible Loan Notes	**24,286**	**23,046**	714,117	654,746
2009 Convertible Loan Notes	**746,391**	**854,335**	662,151	666,978

Fair value measurements recognised in the statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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31. FINANCIAL INSTRUMENTS *(continued)*

31.3. Fair value *(continued)*

		31/12/2010		
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities at FVTPL				
Derivative financial instruments	–	–	418,425	418,425

Reconciliation of Level 3 fair value measurements of financial liabilities

	Derivative financial instruments
	RMB'000
At 1 January, 2010	424,557
Total Loss in profit or loss	85,380
Settlements from 2007 Convertible Loan Notes	(91,512)
At 31 December, 2010	418,425

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

Significant assumptions used in determining fair value of financial liabilities

Convertible Loan Notes

The fair value of the liability component of 2007 convertible notes is determined assuming redemption on maturity and using an 11% interest rate based on a quoted comparable US corporate bond rate of 9.65% plus country risk premium 1.35%.

The fair value of the liability component of 2009 convertible notes is determined assuming redemption on 24 August 2012 and using a 12% interest rate based on a quoted comparable US corporate bond rate of 10.65% plus country risk premium 1.35%.

Notes to the Consolidated Financial Statements

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32. OPERATING LEASE COMMITMENTS

	2010 RMB'000	2009 RMB'000
Minimum lease payments paid under operating leases in respect of premises during the year	**5,915**	5,812

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

	2010 RMB'000	2009 RMB'000
Within one year	**4,738**	4,815
In the second to fifth year inclusive	**1,794**	6,392
	6,532	11,207

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

33. CAPITAL COMMITMENTS

	2010 RMB'000	2009 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**251,150**	311,764

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

34. CONTINGENT LIABILITIES

Certain sales of the Group's products was arranged and funded by the banks in PRC under finance lease, as at 31 December 2010, the Group has issued guarantees to the extent of RMB156,780,000 (2009: nil) to the banks to secure the payment of the finance lease by the end-user customers. The director of the Company considered that the fair value of the financial guarantee as at 31 December 2010 is insignificant.

35. RELATED PARTY TRANSACTIONS

Save as disclosed in note 25, the Group has the following transactions with related party during the year:

Name of related party	Nature of transactions	2010 RMB'000	2009 RMB'000
Jinlong	Purchase of goods	**48,437**	39,153

Compensation of key management personnel

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

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

36. RETIREMENT BENEFIT SCHEME

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

The total expense recoginised in the profit or loss of RMB40,420,000 (2009: RMB21,531,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. No significant contributions payable to the plans were unpaid at the end of reporting period.

Notes to the Consolidated Financial Statements

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37. SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2010 and 2009 are as follows:

Name	Date and place of establishment/ incorporation	Paid-up issued/ registered ordinary	Attributable equity interest	Principal activities
Longgong Shanghai Machinery Co., Ltd. (龍工(上海)機械製造有限公司)	13 August 2004 PRC Sino foreign equity joint venture	HK$448,000,000	99.89%	Manufacture and distribution of wheel loaders
Longgong (Shanghai) Axle &Transmission Co., Ltd. (龍工(上海)橋箱有限公司)	17 September 2001 PRC wholly-owned foreign investment enterprise ("WOFE")	HK$168,000,000	100%	Manufacture and distribution of axles and great-box
Longgong Fujian Machinery Co., Ltd. (龍工(福建)機械有限公司)	15 September 2004 PRC WOFE	HK$260,000,000	100%	Manufacture and distribution of wheel loaders
Fujian Longyan Longgong Machinery Components Co., Ltd. (福建龍岩龍工機械配件有限公司)	1 March 1999 PRC WOFE	HK$29,680,000	100%	Manufacture and distribution of wheel loader component
Hydraulics (Shanghai) Hydraulic Machinery Co., Ltd. 海克力斯(上海)液壓機械有限公司	30 September 2003 PRC WOFE	USD31,800,000	100%	Manufacture and distribution of wheel loader component
Refined (Shanghai) Machinery Co., Ltd. 鋭帆德(上海)機械有限公司	27 November 2003 PRC WOFE	HK$50,000,000	100%	Manufacture and distribution of wheel loader component
Longgong (Jiangxi) Gear Co., Ltd. 龍工(江西)齒輪有限公司	12 September 2003 PRC WOFE	RMB257,350,253	100%	Manufacture and distribution of wheel loader component
Longgong (Fujian) Hydraulics Machinery Co., Ltd. 龍工(福建)液壓機械有限公司	15 January 2007 PRC WOFE	HK$100,000,000	100%	Manufacture and distribution of wheel loader component

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For the year ended 31 December 2010

37. SUBSIDIARIES *(continued)*

Name	Date and place of establishment/ incorporation	Paid-up issued/ registered ordinary	Attributable equity interest	Principal activities
Longgong (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
Longgong (Shanghai) Road Machinery Manufacturing 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 loader and road roller
Longgong (Shanghai) Excavator Manufacturing Co., Ltd. 龍工(上海)挖掘機製造有限公司	12 September 2007 PRC WOFE	HK$260,000,000	100%	Manufacture and distribution of excavator
Monarch (Shanghai) Machinery Co., Ltd. 摩納凱(上海)機械有限公司	1 January 2007 PRC WOFE	HK$83,600,000	100%	Manufacture and distribution of hydraulic parts and other machinery products
Monarch (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 forklift
Henan Longgong Machinery Manufacturing Co., Ltd. 河南龍工機械製造有限公司	11 July 2002 PRC Sino foreign equity joint venture	RMB82,700,000	99.95%	Manufacture and distribution of wheel loader and farm machines
Longgong (Shanghai) Financing Leasing Co., Ltd. 龍工(上海)融資租賃有限公司	28 March 2008 PRC WOFE	US$10,000,000	100%	Financing Lease for wheel loader and other machinery
Longgong (China) Machinery Sales Co., Ltd. 龍工(中國)機械銷售有限公司	12 September 2008 PRC WOFE	RMB50,000,000	100%	Distribution of Wheel loaders and other machinery

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For the year ended 31 December 2010

37. SUBSIDIARIES *(continued)*

Name	Date and place of establishment/ incorporation	Paid-up issued/ registered ordinary	Attributable equity interest	Principal activities
Longgong (Fujian) International Trade Co., Ltd. 龍工(福建)國際貿易有限公司	19 June 2008 PRC WOFE	RMB30,000,000	100%	Distribution of Wheel loaders and other machinery
Longgong (Fujian) Casting & Forging Co., Ltd. 龍工(福建)鑄鍛有限公司	13 August 2008 PRC WOFE	US$65,000,000	100%	Manufacture and distribution of wheel loader component
China Dragon Development Holdings Ltd. (中國龍工發展控股有限公司)*(note 1)*	3 May 2004 British Virgin Islands ("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
Longgong (Datong) Machinery Co., Ltd. 大同龍工機械有限公司	1 August 2009 PRC WOFE	RMB5,000,000	100%	Distribution of machinery
Longgong (Fujian) Excavator Manufacturing Co., Ltd. 龍工(福建)挖掘機製造有限公司	20 September 2010 PRC WOFE	RMB100,000,000	100%	Manufacture and distribution of excavator

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

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

Summary of Financial Information

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

	For the year ended 31 December				
	2006	2007	2008	2009	**2010**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Result					
Profit before taxation	616,076	684,130	738,216	905,877	**2,142,162**
Income tax credit (expense)	9,272	(54,681)	(72,724)	(105,652)	**(375,845)**
Profit for the year	625,348	629,449	665,492	800,225	**1,766,317**
Attributable to:					
Equity holder of the parent	624,154	629,616	665,594	799,986	**1,765,606**
Non-controlling interests	1,194	(167)	(102)	239	**711**
	625,348	629,449	665,492	800,225	**1,766,317**
Dividends	–	349,155	239,961	169,731	**314,735**
Earnings per share-basic (RMB)	0.60	0.59	0.31	0.19	**0.41**

	As at 31 December				
	2006	2007	2008	2009	**2010**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets and Liabilities					
Total assets	2,841,808	6,520,386	7,843,395	9,766,387	**13,462,521**
Total liabilities	1,063,829	3,702,946	4,683,440	5,975,938	**8,220,490**
	1,777,979	2,817,440	3,159,955	3,790,449	**5,242,031**
Equity attributable to equity holders of the parent	1,776,914	2,816,487	3,159,104	3,789,359	**5,240,230**
Non-controlling interests	1,065	953	851	1,090	**1,801**
	1,777,979	2,817,440	3,159,955	3,790,449	**5,242,031**