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

ANNUAL REPORT

2012

*For Identification Purpose Only

Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors
Mr. Li San Yim *(Chairman)*
Mr. Qiu Debo *(Chief Executive Officer)*
Mr. Luo Jianru
Mr. Chen Chao
Mr. Lin Zhong Ming
Mr. Zheng Ke Wen
Mr. Yin Kun Lun

Non-executive directors
Ms. Ngai Ngan Ying

Independent non-executive directors
Mr. Pan Longqing
Dr. Qian Shizheng
Mr. Han Xue Song
Mr. Jin Zhi Guo

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

EXECUTIVE COMMITTEE

Mr. Qiu Debo *(Chairman)*
Mr. Li San Yim
Mr. Luo Jianru
Mr. Chen Chao
Mr. Lin Zhong Ming
Mr. Zheng Ke Wen
Mr. Yin Kun Lun

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
Tel: 86-21-3760 2000 ext. 8331

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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West Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

WEBSITE

http://www.lonking.cn

STOCK CODE

3339

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th FL., Royal Bank House, 24 Shedden Road,
PO Box 1586,
Grand Cayman, KY1-1110,
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

SOLICITORS

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

AUDITORS

Ernst & Young
Certified Public Accountant
22nd Floor, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

PRINCIPAL BANKERS

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

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

Financial Highlights

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

Current period	**2012 RMB'000**	2011 RMB'000	Change (+/–)
Turnover	**7,895,964**	12,721,160	-37.93%
Operating profits:			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**616,238**	2,222,941	-72.28%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**617,016**	2,462,937	-74.95%
EBITDA			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**952,173**	2,515,205	-62.14%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**952,951**	2,755,201	-65.41%
Profit attributable to equity parent	**151,486**	1,729,502	-91.24%

Per share data	**RMB**	RMB	
Basic earnings per share(1)#			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**0.04**	0.35	-89.88%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**0.04**	0.40	-91.24%
Net assets per share(2)#	**1.46**	1.50	-2.53%

Financial Highlights

Key performance indicators	%	%	
Profitability			
Overall gross margin	**19.37**	25.27	-5.90%
Net profit margin			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**1.91**	11.71	-9.80%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**1.92**	13.60	-11.68%
EBITDA margin(3)			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**12.06**	19.77	-7.71%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**12.07**	21.66	-9.59%
Return on equity(4)	**2.43**	27.00	-24.58%
Liquidity and solvency			
Current ratio(5)	**2.44**	2.36	+3.55%
Interest coverage ratio(6)			
excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**1.81**	5.63	-67.91%
including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	**1.81**	6.23	-71.00%
Gearing ratio(7)	**115.96**	151.93	-35.97%

Management efficiency	days	days	
Inventory turnover days(8)	**204**	152	+52 days
Trade and bills payables turnover days(9)	**108**	111	-3 days
Trade and bills receivable turnover days(10)	**140**	37	+103 days

Financial Highlights

#	Calculated based on the 4,280,100,000 shares outstanding as at 31 December 2012 (31 December 2011: 4,280,100,000).
1	Net profit attributable to equity holders of the parent for each period divided by the weighted average number of outstanding shares (WANOS) as at the end of each period.
2	Shareholders' equity divided by the WANOS as at the end of each period.
3	Earnings before interest, tax, depreciation and amortisation ("EBITDA") divided by turnover for each period.
4	Net profit attributable to equity holders of the parent for each period divided by equity attributable to equity shareholders of the parent as at the end of each period.
5	Current assets divided by current liabilities as at the end of each period.
6	Earnings before interest and income tax expenses ("EBIT") divided by interest expenses.
7	Total liabilities divided by the total equity as at the end of each period.
8	Average inventories divided by cost of sales and multiplied by 365 days.
9	Average trade and bills payables divided by cost of sales and multiplied by 365 days.
10	Average trade and bills receivables divided by turnover and multiplied by 365 days.

Chairman's Statement

On behalf of the Board, I am pleased to present the annual Chairman's Statement of Lonking Holdings Limited (or "Lonking") for the year ended 31 December 2012.

REVIEW OF RESULTS

The domestic and international macro-economic environment was complicated in 2012. The demand of global market experienced a sustained downturn due to the continuing European debt crisis. In the mean time, the growth of fixed assets investment and infrastructure construction slowed down in Mainland China. The GDP growth rate in 2012 is lower than 8% for the first time in the past eight years. The slowdown of economic growth and the overall weak demand of downstream industry for investment led to the significant decline of demand for construction machineries, intensifying market competition, and the increase in trade receivables and inventories of major manufacturers with serious excess capacity. The domestic sales of construction machineries such as loaders, excavators and road rollers decreased over 30% compared with that of the previous year.

Lonking could not be immune to the negative impact of above-mentioned factors and experienced the most difficult year, which could be seen in the decline in its sales revenue, decrease in its gross margin, increase in financial costs, over-production, and the previous industrial advantage of vertical integration becoming burden, especially the dramatical decline in number of various products sold, the Company underperforming the industry in terms of market share and significant decrease in its operating profits.

In the past year, the Board of Directors and the management team tempered their fighting spirit and willpower in tackling difficulties and laid a solid foundation for future development of the Company in time of crisis by taking the following measures:

1. Understanding of the industrial situation and controlling risks in a timely and effective manner. The management team of the Company attached high importance to cash flow and strictly controlled the risks of sales and trade receivables throughout the year. Due to such efforts made earlier in a more timely and effective manner than our industrial peers, the performance of indicators of the Company such as operating cash flow, total risks of trade receivables and asset to liability ratio was much better than the industrial average level as at the end of the year, which laid a solid foundation for the sustainable and healthy development of the Company.

2. Reducing inventories and costs. In 2012, the Company focused on inventory reduction by strictly examining the inventory of raw materials, products in progress and finished products and digesting with focus, and achieved a decrease of 38% in inventory compared to that at the beginning of the year. The capital expenditure and administrative expenses also reduced significantly while the workforce was optimized.

Chairman's Statement

3. Optimizing the capital structure. During the year, the Company redeemed all of its convertible bonds issued in 2007 and substantially all of its convertible bonds issued in 2009 and repurchased part of its senior notes with high interest rate due in 2016 in cash, which optimized the capital structure of the Company and significantly reduced its financial costs.

4. Keeping increasing investment in research and development of products. The Company kept increasing investment in research and development of products during the period when the operating environment was extremely difficult, and achieved breakthrough in the research of some high-end products, which accumulated positive energy for the future development of the Company.

PROSPECT

2013 is a critical and transitional year for the implementation of the "Twelfth Five-year Plan". The Chinese central government will strengthen and fine-tune the macro-control measures and continue to implement proactive fiscal policies and prudent monetary policies, so as to promote the sustainable and healthy development of economy. With the mild recovery of macro-economy, the rapid growth of investment in infrastructure construction and the stable increase in the investment in small town construction and hydraulic engineering projects, it is expected that the construction machinery industry will experience a modest recovery in 2013. Looking forward to the next five to ten years, against the backdrop of gradually stabilization and recovery of global macro-economy, stable growth of domestic economy, further implementation of new urbanization strategy and increase of major infrastructure construction for livelihood, the Company will face a good opportunity where the domestic demand for construction machinery products rises, and the demand of emerging market countries for such products will further increase. The construction machinery industry in China has vast space for growth and will remain in the golden period of development.

In the backdrop of an optimistic macro environment in the PRC, construction machinery industry may, however, encounter situations such as over-production, intensifying competitions, continuous rising of cost for production factors and demand fluctuation in the short-term. As a result, market opportunities are made for well-prepared enterprises. Based on the aforementioned, we will advance in a prudent manner in 2013. Leveraging on the reform of management and operation, active adjustments will be made. Leveraging on Longking's competitive edge, we will seek a new breakthrough and a sweet spot to achieve solid development. In 2013, we will step up our efforts in recapturing our leading position in the loader industry, facilitating steady and healthy development of excavators production industry as well as magnifying our market competitiveness of fork lifts and road rollers. By seizing both domestic and international markets, we will expand the export market for our components, promote Lonking brand presence, create core competitiveness and maximize the returns for the general investors.

Chairman's Statement

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

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

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

Li San Yim
Chairman
28 March 2013

Management Discussion and Analysis

RESULT AND BUSINESS REVIEW

The domestic economic environment was complicated and full of challenges in 2012. During the reporting period, the Group achieved the consolidated turnover of RMB7,896 million, representing a decrease of 37.93% compared with that of the previous fiscal year. The decrease was mainly due to the sharp reduction in sales volume of the Group resulting from the persistent weak demand for construction machinery from mainland China and the slowdown of growth of fixed assets investment. Affected by the factors such as change of product mix for sale and adjustment of excavators marketing strategy during the period, the average unit price of products reduced. Meanwhile, the production for the period reduced as compared to last year, resulting in a relatively higher unit sales cost, which led to a decrease in overall gross margin from 25.27% in 2011 to 19.37% in 2012. Gross profit from operation was approximately RMB1,529 million, representing a decrease of 52.42% as compared to approximately RMB3,214 million in last year. The Group recorded net profit of approximately RMB152 million in 2012, representing a decrease of 91.24% as compared to approximately RMB1,730 million in the corresponding period of last year. The decrease was mainly attributable to the followings: (1) the significant decrease in gross profit from operation; (2) the change of fair value of the convertible bonds during the period, resulting in a significant decrease in profit or loss as compared to last year; and (3) the significant increase of allowance for bad debts of receivables due to the change of business environment.

During the year, the northern regions of the PRC remained as the Company's principal marketing regions. Revenue from these regions amounted to approximately RMB2,207 million, representing 26% of our total turnover. Revenue from the northwestern regions of the PRC was approximately RMB948 million, accounting for approximately 12% of our total turnover, representing a slight decrease from 15% in last year. Revenue from other regions represented a substantially same percentage of our total turnover as last year with insignificant change. The turnover from export significantly increased as compared to last year, amounting to approximately RMB565 million (2011: approximately RMB470 million), representing 7% of our total turnover.

ANALYSIS OF PRODUCTS

Wheel Loaders

The revenue generated from wheel loader represented approximately 65.36% of total Group's turnover, representing a small drop from last year (2011: approximately 69.70% of total Group's turnover).

ZL50 series continued to be the main revenue source of the Group with turnover for the year reaching RMB4,148 million, a decrease of 44.80% compared with that of last year. ZL30 series continued to be the second largest revenue source of the Group with turnover reaching RMB786 million, a decrease of approximately 18.85% compared with that of last year. ZL40 series accounted for a small proportion in the overall sales with turnover reaching RMB24 million, representing only approximately 0.30% of the total turnover. The turnover from mini wheel loader amounted to RMB177 million, a decrease of 47.82% compared with that of last year.

Management Discussion and Analysis

Excavators

Affected by the factors such as slowdown of growth of infrastructure investment, the sales of excavators declined significantly resulting in a drop of turnover by 48.63% to RMB880 million (2011: RMB1,713 million).

Fork Lifts and Road Rollers

Relatively less affected by the growth of fixed assets investment, revenue generated from fork lifts represented an increasing percentage of our total turnover reaching 10.37% (2011: 7.31%). During the year, turnover from fork lifts decreased by 11.87% to approximately RMB819 million (2011: RMB929 million).

Revenue from road rollers reached RMB115 million, representing a decrease of 68.83% compared with that of last year.

Components

The sales generated from components amounted to approximately RMB585 million for the year ended 31 December 2012, a decrease of 7.51% compared with the corresponding period last year (2011: RMB632 million), accounting for approximately 7.41% of the total turnover of the Group.

Finance Lease Interest

Turnover from interest income of finance lease represented approximately 1.33% of the Group's total turnover in the year of 2012, representing a drop of 49% from last year to RMB105 million (2011: represented approximately 1.61% of the Group's turnover). The drop was due to the fact that finance lease business was gradually reduced by the Group.

FINANCIAL REVIEW

Cash and Bank Balance

The cash position of the Group was strong during the year. As at 31 December 2012, the Group had bank balance and cash of approximately RMB883 million (31 December 2011: approximately RMB1,684 million).

Compared with last year, cash and bank balances decreased by approximately RMB801 million, which is generated as a result of net cash inflow of around RMB1,079 million from operating activities, the net cash outflow of RMB1,129 million from investing activities and the net cash outflow of RMB751 million from financing activities.

Management Discussion and Analysis

Liquidity and Financial Resources

We are committed to build a sound finance position. Total shareholders fund as at 31 December 2012 was approximately RMB6,245 million, a 2.53% decrease from approximately RMB6,407 million as at 31 December 2011. The current ratio of the Group at 31 December 2012 was 2.44 (2011: 2.36).

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.

2007 Convertible Bonds

During the year, the Company has received the notice from the bondholders to require the Company to redeem all of the outstanding 2007 Convertible Bonds on 30 April 2012, the maturity date for redemption. After the market closed on the maturity date, the Company has redeemed an aggregate principal amount of US$3,340,000 of convertible bonds in the aggregate amount of approximately US$4 million (equivalent to HK$31 million). Upon the maturity date for redemption and as at the date of this announcement, the Company has no outstanding issued 2007 Convertible Bonds.

2009 Convertible Bonds

During the year, the Company has received early redemption notices from the bondholders to redeem an aggregate principal amount of US$125,660,000 of 2009 Convertible Bonds on 6 August 2012. After the market closed on 24 August 2012, the Company redeemed an aggregate principal amount of US$125,660,000 of convertible bonds in the applicable aggregate redemption price of approximately US$157 million (equivalent to approximately HK$1,215 million).

The Company has also repurchased an aggregate principal amount of US$8,190,000 of 2009 Convertible Bonds. There are US$1,150,000 in principal amount of 2009 Convertible Bonds outstanding as at 31 December.

Long-term Loan Notes

During the year ended 31 December 2012, the Group and the Company repurchased with cash of up to US$69,640,000 in principal amount of its outstanding US$350,000,000 8.50% senior notes due 2016 and recognised a gain of RMB9,504,000 on the repurchase in profit or loss.

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

Management Discussion and Analysis

As at 31 December 2012, the gross gearing ratio (defined as total liabilities over total assets) was approximately 54.33% (31 December 2011: 60.31%).

Capital Expenditure

During the period, the Group acquired property, plant and equipment of approximately RMB565 million (2011: approximately RMB916 million) in line with a series of strategic transformation and production transformation by the Group.

The capital expenditures were financed by the internal resources and general borrowings of the Group.

Details of the movement in property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

Capital Commitment

As at 31 December 2012, the Group had contracted but not included in the financial statements expenditures of approximately RMB85 million in respect of acquisition of property, plant and equipment (31 December 2011: approximately RMB175 million).

PROSPECT

The pace of expansion of production capacity in the industry has significantly slowed down as compared to the fast growth in previous years. Looking ahead to 2013, as operating environment will remain fairly severe, the recovery of construction machinery industry will take some time. Nevertheless, the Group is facing a very favorable opportunity to develop. The national macroeconomic policy of "stable growth" will further stimulate the domestic demand. It is expected that production and sales will maintain a slow growth while operating conditions will be gradually improved. The overall situation will be better than that in the past year.

While focusing on the development of our four major products namely, wheel loaders, excavators, forklifts and road rollers as a strategy, the Group will continue to control the risks strictly, endeavor to optimize inventory and keep improving the overall operation efficiency and quality of assets, striving to achieve progress while maintaining stability. With sound customer base and continuously improving marketing capability and after-sales service level, Lonking will enhance its ability to withstand risks so as to maintain its competitiveness in the industry. The Group will keep increasing investment in technology research and development with an aim to play a cost advantage while improving the quality of products and core components self-manufacturing capability and to gradually optimize the product structure.

Looking forward, the Group will invest more resources to explore overseas markets, accelerate the construction of service team and market network and achieve the sustainable development of international business in an orderly manner. We believe that further exploration of overseas markets will gradually hedge the operating risk of single market (i.e. domestic market).

Profiles of Directors and Senior Management

Mr. Li San Yim, aged 62, is the Chairman of the Board and one of the founders 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 was a non-executive director of Weichai Power Co., Ltd (stock code: 2338).

Mr. Li is the husband of Ms. Ngai Ngan Ying, being a non-executive director. Save as disclosed above, Mr. Li has not held directorships in any other listed public companies in the last three years and does not have any other relationships with any directors, senior management, substantial or controlling shareholder of the Company. Mr. Li's interest in the shares within the meaning of Part XV of the Securities and futures Ordinances (Cap 571) (the "SFO") is set out on pages 22 to 23 of this annual report.

Mr. Qiu Debo, aged 50 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 more than 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).

Save as disclosed above, Mr. Qiu has not held directorships in any other listed public companies in the last three years. Mr. Qiu is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Qiu's interest in the shares of the Company within the meaning of Part XV of the SFO is set out on page 22 of this annual report.

Mr. Chen Chao, aged 38, is an executive Director and currently the vice-president of the Group. Mr. Chen joined the Group in July 1997, in charge of supply chain management. Mr. Chen holds an EMBA degree from Fudan University in Shanghai. Mr. Chen has over eleven years of experience in product development and quality control, and has previously served as a deputy chief of the product development department at Shanghai Longgong Machinery, manager of the research and development centre and deputy general manager of Shanghai Longgong Machinery. Mr. Chen was appointed as a member of the 5th Standing Council by the Machinery Design Society of the Chinese Mechanical Engineering Society. In addition, he has also been appointed as a qualified technology and quality expert (技術質量專家) by the Technology and Quality Standing Committee (技術質量委員會) of Mechanical Engineering Technology and Quality Message Site (全國工程機械行業技術質量信息網).

Profiles of Directors and Senior Management

Save as disclosed above, Mr. Chen has not held directorships in any other listed public companies in the last three years. Mr. Chen is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Chen's interest in the shares of the Company within the meaning of Part XV of the SFO is set out on page 22 of this annual report.

Mr. Luo Jianru, aged 66, 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 over 25 years of experience in corporate management and the infrastructure machinery industry. Mr. Luo has held various senior positions including the deputy general manager of Fujian Longyan Construction Machinery (Group) Limited, general manager of Longgong (Shanghai) Axle & Transmission Co., Limited and deputy general manager of the Group.

Save as disclosed above, Mr. Luo has not held directorships in any other listed public companies in the last three years. Mr. Luo is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Luo's interest in the shares of the Company within the meaning of Part XV of the SFO is set out on page 22 of this annual report.

Mr. Lin Zhong Ming, aged 50, 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 over nine years of experience in corporate management.

Save as disclosed above, Mr. Lin has not held directorships in any other listed public companies in the last three years. Mr. Lin is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Lin's interest in the shares of the Company within the meaning of Part XV of the SFO is set out on page 22 of this annual report.

Profiles of Directors and Senior Management

Mr. Zheng Ke Wen, aged 38, join the Group in September 1996. He was named as the "Outstanding Entrepreneur of Fujian Province" (福建省優秀企業家) in 2007-2008 and "Technical Innovation Expert" (技術創新能手) of Shanghai, and awarded a "second class" Fujian Province Science and Technology Award (福建省科學技術進步二等獎) and "Collective Representative of Model Worker of Shanghai" (上海市勞模集體代表). He was the committee member of third Youth Federation of Song Jiang District of Shanghai (上海市松江區第三屆青年聯合會委員). Mr. Zheng obtained an EMBA degree from Xiamen University. Mr. Zheng has over 15 years of experience in corporate management and sales and marketing. He has been the director of the chief control room, vice general manager and general manager of Longgong Shanghai Machinery Co. Ltd., general manager of Longgong (Shanghai) Axle & Transmission Co., Ltd., general manager of Longgong (Shanghai) Excavator Manufacturing Co. Ltd., and general manager of excavator business segment of Lonking. He is currently the vice President as well as the general manager of excavator business segment of the Company.

Save as disclosed above, Mr. Zheng has not held directorships in any other listed public companies in the last three years. Mr. Zheng is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Zheng's interest in the shares of the Company within the meaning of Part XV of the SFO is set out on page 22 of this annual report.

Mr. Yin Kun Lun, aged 45 is an executive Director and the chief financial officer of the Group. Mr. Yin obtained a Bachelor's degree from Jilin University Management School in 1990 and graduated from Washington University-Fudan University EMBA Program and obtained a MBA degree from Washington University in 2010, and is a qualified Certified Public Accountant in the PRC. He was the auditing director of a factory under China Petroleum Jilin Chemical Group, the chief financial officer of BASF JCIC NPG Company Ltd and Putzmeister Machinery (Shanghai) Company Ltd. as well as the chief financial officer of Mahle Technology (China) Holding Ltd. Mr. Yin has over 22 years of experiences in corporate finance and investment management.

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

NON-EXECUTIVE DIRECTORS

Ms. Ngai Ngan Ying, aged 57, 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.

Profiles of Directors and Senior Management

Save as disclosed above, Ms. Ngai has not held directorships in any other listed public companies in the last three years and does not have any other relationships with any directors, senior management, substantial or controlling shareholder of the Company. Ms. Ngai's interest in the shares within the meaning of Part XV of the SFO is set out on pages 22 to 23 of this annual report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Qian Shizheng, aged 61, was appointed as an independent non-executive director in February 2005. Dr. Qian serves as a vice president of Shanghai Industrial Investment (Holdings) Co. Ltd. and a director of Shanghai Industrial Urban Development Group Co. Ltd. He graduated from Fudan University with a doctorate degree in management and has taught at Fudan University as associate director and professor in the faculty of Accountancy. Dr. Qian was an executive director of Shanghai Industrial Holdings Limited (stock code: 363). Mr. Qian also serves as a vice-chairman of Haitong Securities Co., Ltd (海通證券股份有限公司), and an independent director of Zoomlion Heavy Industrial Science and Technology Co., Ltd, (中聯重科股份有限公司) which are listed on Shenzhen Stock Exchange and Hong Kong Stock Exchange (stock code: 1157). He has over 25 years of experience in the finance and accounting fields.

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

Mr. Han Xuesong, aged 76, was appointed as an independent non-executive Director in May 2008. He is a professor of engineering with a university degree. He is currently the Honorary President of China Construction Machinery Industry United Society (中國工程機械工業協會). He has served in the National Mechanical Department (國家機械部) and China National Construction Machinery Corporation (中國工程機械成套公司), and has been the Vice President, General Secretary, President and Honorary President of the China Construction Machinery Industry United Society since May 1997. Mr. Han is also an independent director of Xuzhou Construction Machinery Science & Technology Company Limited (徐州工程機械科技股份有限公司) and Changlin Company Limited (常林股份有限公司), which are listed on Shenzhen Stock Exchange and Shanghai Stock Exchange, respectively.

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

Profiles of Directors and Senior Management

Mr. Pan Longqing, aged 64, 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, the party secretary and the general manager of Shanghai International Group Corporation Ltd. Mr. Pan also serves an independent director of Metropolitan Bank (China) Ltd., a member of Metro Bank Group based in Philippine.

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

Mr. Jin Zhi Guo, aged 57, is an independent non-executive director since May 2012. Mr. Jin is currently the honorary chairman and executive advisor of Tsingtao Brewery Company Limited. He was the chairman and executive director of Tsingtao Brewery Company Limited ("Tsingtao Brewery").

Mr. Jin received an EMBA degree from China Europe International Business School and a Science PhD degree in from Qingdao University. He is the national representative of the 10th and 11th National People's Congress, "Top Ten Economic Figures" in 2007, "Chinese Brands Award – People of the Year" (品牌中國年度人物) in 2008, one of the "30 Persons in Chinese Reform-and-Open in 30 Years" (改革開放30年30人), and "Outstanding CEO" in China. He was awarded "Wuyi Laodong Award of China" (全國五一勞動獎章) and granted accredited as a "National Labour Model" (全國勞動模範). He was one of the seven entrepreneurs in China awarded the "Outstanding Brands Contribution Award" (品牌傑出貢獻獎) during the programme "60 Brands in 60 Years" of CCTV, one of the 25 Most Influential Business Leaders in 2009, 2010 and 2011, and the "Most Respected Entrepreneur Award in 2011". He is an expert with special allowance from the Sate Council.

Mr. Jin has rich experience in strategic management, sales and marketing management and capital operations. He served as an assistant to factory director of Tsingtao Brewery No.1 Factory, general manager of Tsingtao Brewery Xi'an Company Limited, assistant to general manager of Tsingtao Brewery and general manager of Tsingtao Brewery North Office, general manager of Tsingtao Brewery Xi'an Company and President and Chairman of Tsingtao Brewery Company Limited. Mr. Jin has led a group and brought Tsingtao Beer into "Top 500 Brand of the World", becoming the sixth greatest brewery company. In 2012, Tsingtao Beer has been selected by first volume of the Harvard Business Review magazine as the top ten enterprises with the most stable growth in the decade of the world, and the only Chinese enterprise on the list.

Profiles of Directors and Senior Management

Mr. Jin has been an independent non-executive director of China Dongxiang (Group) Co., Ltd since July 2010, and is a director as well as a member of the audit committee and the nomination committee of this company. China Dongxiang (Group) Co., Ltd is a company listed on the main board of The Stock Exchange of Hong Kong Limited (stock code: 03818). Mr. Jin served as a director of QKL Stores Inc., during the period from September 2009 to April 2012. QKL Stores Inc. is a company listed on NASDAQ in the US (ticker symbol: QKLS). Mr. Jin was also an independent director of Hunan Jiuzhitang Co., Ltd. (九芝堂股份有限公司) during the period from August 2010 to September 2011, and was a member of its Board strategy committee and nomination, remuneration and evaluation committee during that period. Hunan Jiuzhitang Co., Ltd. is a company listed on the Shenzhen Stock Exchange (stock code: 000989).

Save as disclosed above, Mr. Jin has not held directorships in any other listed public companies in the last three years. Mr. Jin is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Jin does not have any interest 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 2012.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated income statement on page 39 of the annual report.

An final dividend of HKD0.09 (Equivalent to RMB0.07) per share as a result of the operation of 2011 amounting to HKD385 million (Equivalent to RMB314 million) was paid to the shareholders during the year. There were no any interim dividend paid out during the year.

The directors do not recommend any final dividend for the year ended 31 December 2012.

PROPERTY, PLANT AND EQUIPMENT

The Group expended RMB 565 million on property, plant and equipment during the year.

Details of the movement during the year in property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interest of the Group for the last five financial years is set out on page 138 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 33 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 42 of the annual report.

The Company's reserves available for distribution to shareholders comprise the share premium, contributed surplus and accumulated profits which in aggregate amounted to approximately RMB4,756 million as at 31 December 2012 (2011: RMB4,976 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)
Chen Chao	(appointed on 17 February 2005)
Lin Zhong Ming	(appointed on 24 October 2006)
Fang Deqin	(appointed on 29 May 2010) (retired on 25 May 2012 and without re-election)
Zheng Kewen	(appointed on 25 May 2012)
Yin Kunlun	(appointed on 25 May 2012)

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)
Jin Zhiguo	(appointed on 25 May 2012)

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, Mr. Zheng Ke Wen, Mr. Yin Kun Lun, Ms. Ngai Ngan Ying, Mr. Pan Longqing, Dr. Qian Shizheng, Mr. Jin Zhiguo shall retire at the annual general meeting and all offer themselves for re-election at the annual general meeting. Mr. Han Xuesong being the executive director would retire at the forthcoming annual general meeting, be eligible, will not offer himself for re-election.

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

DIRECTORS' SERVICE CONTRACTS

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

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

At 31 December 2012, 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	30.65%
Li San Yim and Ngai Ngan Ying *(Note 1)*	Beneficial owner	1,071,467,760	25.03%
Qiu Debo	Beneficial owner	3,404,000	0.08%
Luo Jianru	Beneficial owner	1,460,000	0.03%
Chen Chao	Beneficial owner	1,344,000	0.03%
Lin Zhong Ming	Beneficial owner	372,000	0.01%
Zheng Kewen	Beneficial owner	429,900	0.01%
		2,390,536,420	55.85%

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 2012, 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 2012, 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	30.65%
Government of Singapore Investment Corporation Pte. Ltd	Investment Manager	257,764,916	6.02%

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

Saved as disclosed above, as at 31 December 2012, 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.

2007 Convertible Bonds

During the year, the Company has received the notice from the bondholders to require the Company to redeem all of the outstanding 2007 convertible bonds on 30 April 2012, the maturity date for redemption. After the market closed on the maturity date, the Company has redeemed an aggregate principal amount of US$3,340,000 of convertible bonds in the aggregate amount of US$4 million (Equitable to HK$31 million). Upon the maturity date for redemption and as the date of this announcement, the Company has no outstanding issued 2007 convertible bonds.

2009 Convertible Bonds

During the year, the Company has received early redemption notices from the holders of US$125,660,000 aggregate principal amount of the 2009 Convertible Bonds on 6 August 2012. After the market closed on 24 August 2012, the Company redeemed the US$125,660,000 aggregate principal amount of Convertible Bonds at the applicable aggregate redemption price of US$157 million (equivalent to approximately HK$1,215 million).

The Company has also repurchased an aggregate of US$8,190,000 in principal amount of the 2009 Convertible Bonds. There are US$1,150,000 in principal amount of the 2009 Convertible Bonds outstanding as at the end of 31 December.

Long-term Loan Notes

During the year ended 31 December 2012, the Group and the Company repurchased with cash of up to US$69,640,000 in principal amount of its outstanding US$350,000,000 8.50% senior notes due 2016 and recognised a gain of RMB9,504,000 on the repurchase in profit or loss.

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

At 31 December 2012, the Group employed approximately 8,338 employees.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 17% (2011: 22%) of the Group's total turnover for the year. The five largest suppliers accounted for approximately 35% (2011: 31%) of the Group's total purchases for the year and the largest supplier accounted for approximately 12% (2011: 10%) of the total purchases.

During the year, Mr. Li San Yim, the executive director of the Company, is interested in 3.26% 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

On 7 December 2009, the Company entered into a Renewed Master Purchase Agreement ("Jinlong Master Purchase Agreement") 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 agreed to purchase the Parts from Jinlong from time to time for a term commencing from 1 January 2010 and ending on 31 December 2012, together with the amendment agreement thereto dated 28 March 2011.

On 11 April 2012, the Company and Herkules (Shanghai) Automation Equipment Co. Ltd. ("Herkules"), a company established under the laws of the PRC with limited liability and wholly-owned by Mr. Chen Jie, the son-in-law of Mr. Li San Yim, an executive Director, chairman and controlling shareholder of the Company, entered into a Master Purchase Agreement ("Herkules Master Purchase Agreement"), pursuant to which the Group agreed to purchase the Automation Robot Products from Herkules from time to time for a term commencing from 11 April 2012 and ending on 31 December 2012.

Directors' Report

On 29 June 2012, the Company and Shanghai Refined Machinery Co. Ltd. ("Refined"), a company established under the laws of the PRC with limited liability and wholly-owned by Refined Holdings Limited, which is in turn wholly owned by Mr. Li Bin, the son of Mr. Li San Yim, an executive Director, chairman and controlling shareholder of the Company, entered into a Master Purchase Agreement ("Refined Master Purchase Agreement"), pursuant to which the Group agreed to purchase the Landscaper Products from Refined from time to time for a term commencing from 29 June 2012 and ending on 31 December 2012.

The transaction contemplated under each of the Jinlong Master Purchase Agreement, the Herkules Master Purchase Agreement and the Refined 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 5% on an annual basis. For the year ended 2012, the Company purchased the parts approximately RMB23 million from Jinlong under the Jinlong Master Purchase Agreement, the Automation Robot Products approximately RMB16 million from the Herkules Master Purchase Agreement and the Landscrapter Products approximately RMB10 million from the Refined Master Purchase Agreement.

Details of the related party transactions of the Company during the year are set out in Note 39 to the consolidated financial statements. Except for the related party transactions of the Company with Lonking (Xinjiang) Mechanical & Technical Service Co. Ltd as disclosed in Note 39, all the related party transactions disclosed in the annual financial statements in accordance with HKAS 24 "*Related Party Disclosure*" fall under the definition of connected transactions or continuing connected transactions in Chapter 14A of the Main Board Rules. In the opinion of the directors, the Company had during the year ended 31 December 2012 complied with all the disclosure requirements in accordance with Chapter 14A of the Main Board Rules.

The independent non-executive directors confirm that the Transactions have 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.

Company has engaged its external auditor to review the Group's continuing connected transactions with Jinlong, Herkules and Refined in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on continuing connected transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing its conclusions in respect of the non-exempted continuing connected transactions mentioned above pursuant to Rule 14A.38 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Directors' Report

POST BALANCE SHEET EVENTS

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2012.

AUDITORS

Deloitte Touche Tohmatsu, Certified Public Accountants ("Deloitte") retired as auditor of the Company on 20 May 2011. Ernst & Young, Certified Public Accountants ("Ernst & Young") was appointed by the board of directors (the "Board") to fill the casual vacancy following the retirement of Deloitte. There have been no other changes of auditor in the past three years. A resolution will be submitted to the annual general meeting of the Company to re-appoint Ernst & Young as the auditor of the Company.

On behalf of the Board

Mr. Li San Yim
CHAIRMAN

Shanghai, 28 March 2013

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.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for the corporate governance duties as follows:

(a) To develop and review the Company's policies and practices on corporate governance and make recommendations to the board;

(b) To review and monitor the training and continuous professional development of directors and senior management;

(c) To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) To review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

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

The Board is committed to maintaining and ensuring high standards of corporate governance practices.

The Board emphases on maintaining a quality Board with balance of skill set of directors, better transparency and effective accountability system in order to enhance shareholders' value. In the opinion of the directors, the Company has adopted and complied with the principles and applicable code provisions of Code on Corporate Governance and Corporate Governance Report ("New CG Code") (formerly known as Code on Corporate Governance practices ("old CG Code") as set out in Appendix 14 of the Listing Rules, except for certain deviations which are summarized as below.

Code Provision A.1.8

As stipulated in the Code provision A.1.8 of New CG Code, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. The Company has not yet made this insurance arrangement as the board of directors considers that the director liability insurance has not yet been identified on the market with reasonable insurance premium while providing adequate suitable security to directors.

Code Provision A.6.7

As stipulated in the Code provision A.6.7 of New CG Code, independent non-executive directors and other non-executive directors shall attend general meetings. Three independent non-executive directors were unable to attend annual general meeting of the Company held on 25 May 2012 (the "2012 AGM") due to other important engagement.

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 2012. 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 4 board committees, namely Executive Committee, Audit Committee, Remuneration Committee and Nomination 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 12 directors, including 7 executive directors, 1 non-executive directors and 4 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, Mr. Han Xuesong and Mr. Jin Zhi Guo 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 18 of this annual report.

Corporate Governance Report

For the year ended 31 December 2012, 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 2012:

	Number of meetings attended/Number of Meetings held for the year ended 31 December 2012					
Name of directors	Board	Executive Committee	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors						
Mr. Li San Yim *(Chairman)*	4/4	2/2	N/A	N/A	N/A	1/1
Mr. Qiu Debo *(Chief Executive Officer)*	4/4	2/2	N/A	N/A	N/A	0/1
Mr. Luo Jianru	4/4	2/2	N/A	N/A	N/A	1/1
Mr. Chen Chao	4/4	2/2	N/A	N/A	N/A	0/1
Mr. Lin Zhong Ming	4/4	2/2	N/A	N/A	N/A	0/1
Mr. Zheng Ke Wen	4/4	2/2	N/A	N/A	N/A	0/1
Mr. Yin Kun Lun	4/4	2/2	N/A	N/A	N/A	1/1
Non-Executive Director						
Ms. Ngai Ngan Ying	4/4	N/A	2/2	1/1	1/1	1/1
Independent Non-Executive Directors						
Dr. Pan Longqing	4/4	N/A	2/2	N/A	1/1	0/1
Dr. Qian Shizheng	4/4	N/A	2/2	1/1	N/A	0/1
Mr. Han Xuesong	4/4	N/A	N/A	1/1	1/1	0/1
Mr. Jin Zhiguo	4/4	N/A	N/A	N/A	N/A	N/A

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, remuneration committees and nomination committee in respect of their policy submissions. 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 7 executive directors, namely Mr. Li San Yim, Mr. Qiu Debo, Mr. Luo Jianru, Mr. Chen Chao, Mr. Lin Zhong Ming, Mr. Zheng Ke Wen and Mr. Yin Kun Lun. 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 2012.

The terms of reference of the Audit Committee are posted on the Company's Website.

AUDITOR'S REMUNERATION

For the year ended 31 December 2012, Ernst & Young Certified Public Accountants ("Ernst & Young") the external auditors of the Group received approximately RMB2.44 million (2011: approximately RMB3.02 million) for audit and review services.

REMUNERATION COMMITTEE

The remuneration committee currently consists of 1 non-executive director, namely Ms. Ngai Ngan Ying, and 2 independent non-executive directors, namely Dr. Qian Shizheng and Mr. Han Xuesong. The primary duties and responsibilities of the remuneration committee is to assist its board of directors (the "Board") in determining the policy and structure for the remuneration of its executive directors, evaluating the performance of its executive directors, reviewing incentive schemes and directors' service contracts and fixing the remuneration packages for all its directors and senior management. No director plays a part in any discussions about his own remuneration for the year ended 31 December 2012. The terms of reference of the Remuneration Committee are posted on the Company's Website.

NOMINATION COMMITTEE

The nomination committee currently comprises 1 non-executive director, namely Ms. Ngai Ngan Ying, and 2 independent non-executive directors, namely Mr. Pan Longqing and Mr. Han Xue Song. The primary duties and responsibilities of the nomination committee is to assist its board of directors (the "Board") in identification of suitable individuals qualified to become Board members, review the structure, size and composition of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. The terms of reference of the Nomination Committee are posted on the Company's Website.

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.

Corporate Governance Report

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.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to code provision A.6.5 of the Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2012, all directors have participated in continuous professional development by way of attending briefings, conference, courses, forum and seminars, teaching, self-reading and participated in business-related research which are relevant to the business or directors duties.

INVESTOR RELATIONS

Information Disclosures and Investor Relations Management

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

The Company received communications from a total of 583 domestic and overseas investors throughout the year 2012, including over 96 on-site meetings and over 64 telephone meetings. In 2012, the Company received group visits with 20 to 50 members for 15 times.

Shareholder's Rights

The Board recognises the importance of effective communication with the shareholders. The Company communicates with the shareholders through various channels including publication of interim and annual reports, announcements, circulars and other corporate communications and publications available on the websites of the Stock Exchange and the Company.

The general meetings of the Company provide an opportunity for direct communication between the Board and the shareholders. The Company encourages the participation of the shareholders through annual general meetings and other general meetings where the shareholders meet and exchange views with the Board, and to exercise their right to vote at meetings. The Company shall arrange notices of meetings and circulars containing details on proposed resolutions to be sent to the shareholders.

Corporate Governance Report

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Investor Relations Department of the Company. Investor Relations Department of the Company handles both telephone and written enquiries from Shareholders from time to time. Shareholders' enquiries and concerns will be forwarded to the Board and/or relevant Board Committees of the Company, where appropriate, to answer the Shareholders' questions. The contact details of the Investor Relations Department are set out in the Corporate Information section of this Annual Report.

Pursuant to Article 58 of the Articles of Association of the Company, the Board may whenever it thinks fit call extraordinary general meetings. Any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Pursuant to Article 88 of the Articles of Association of the Company, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that (if the Notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting. The procedures for Shareholders to propose a person for election as a Director is posted on the Company's website.

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 Governance Report

During the year ended 31 December 2012, there has been no significant change in the Company's constitutional documents.

CORPORATE SOCIAL RESPONSIBILITY

The Group also dedicates itself to contributing to the society and serving the community in the midst of its rapid development. Taking into consideration the actual situation in the place where it operates, the subsidiaries of the Group take part in local social services. Our involvement in community service helps to build a good image of the Company and contribute to the local social development.

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

Independent Auditors' Report

TO THE SHAREHOLDERS OF LONKING HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Lonking Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 39 to 137, which comprise the consolidated and company statements of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

Independent Auditors' Report (Continued)

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower,
1 Tim Mei Avenue, Central,
Hong Kong
28 March 2013

Consolidated Statement of Comprehensive Income

For the Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Revenue	4	**7,895,964**	12,721,160
Cost of sales		**(6,366,750)**	(9,507,055)
Gross profit		**1,529,214**	3,214,105
Other income	5	**46,316**	93,149
Other gains and losses	5	**(83,300)**	369,509
Selling and distribution expenses		**(382,816)**	(592,782)
Administrative expenses		**(255,988)**	(294,489)
Research and development costs		**(268,030)**	(342,120)
Other expenses		**(5,757)**	(12,427)
Finance income	5	**37,377**	27,992
Finance costs	6	**(341,362)**	(395,153)
Profit before tax	7	**275,654**	2,067,784
Income tax expense	10	**(124,081)**	(337,917)
Profit for the year		**151,573**	1,729,867
Other comprehensive income		**–**	–
Total comprehensive income for the year		**151,573**	1,729,867
Attributable to:			
Owners of the parent	11	**151,486**	1,729,502
Non-controlling interests		**87**	365
		151,573	1,729,867
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic:			
– For profit for the year	13	**RMB0.04**	RMB0.40
Diluted			
– For profit for the year	13	**RMB0.04**	RMB0.34

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	*14*	**3,822,103**	3,637,752
Prepaid land lease payments	*15*	**320,618**	205,642
Investments in associates	*18*	**66,011**	59,218
Finance lease receivables	*16*	**66,346**	446,026
Deferred tax assets	*30*	**158,387**	204,529
Prepayments for property, plant and equipment		**158,068**	239,952
Long-term receivables	*19*	**122,478**	–
Pledged deposits	*23*	**1,000,000**	–
Total non-current assets		**5,714,011**	4,793,119
Current assets			
Prepaid land lease payments	*15*	**7,201**	5,383
Inventories	*20*	**2,731,223**	4,379,718
Finance lease receivables	*16*	**215,607**	852,340
Trade and bills receivables	*21*	**2,944,444**	3,130,134
Due from related parties	*39*	**1,595**	–
Prepayments, deposits and other receivables	*22*	**1,092,709**	824,690
Pledged deposits	*23*	**84,286**	470,649
Cash and cash equivalents	*23*	**883,051**	1,684,400
Total current assets		**7,960,116**	11,347,314
Current liabilities			
Trade and bills payables	*24*	**1,048,340**	2,723,074
Other payables and accruals	*25*	**896,320**	973,513
Interest-bearing bank borrowings	*26*	**1,183,924**	795,425
Convertible bonds	*27*	**–**	24,846
Due to related parties	*39*	**6,580**	12,704
Tax payable		**13,899**	127,405
Provisions	*29*	**108,020**	150,749
Derivative financial instruments	*27*	**–**	13
Total current liabilities		**3,257,083**	4,807,729
Net current assets		**4,703,033**	6,539,585
Total assets less current liabilities		**10,417,044**	11,332,704

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Non-current liabilities			
Deposits for finance leases	16	**39,879**	108,026
Interest-bearing bank borrowings	26	**2,150,643**	1,511,719
Convertible bonds	27	**8,151**	825,329
Long-term loan notes	28	**1,762,203**	2,205,315
Long-term liabilities	31	**32,138**	–
Deferred tax liabilities	30	**83,644**	72,136
Provisions	29	**22,682**	24,994
Derivative financial instruments	27	**739**	178,416
Deferred income	32	**72,284**	–
Total non-current liabilities		**4,172,363**	4,925,935
Net assets		**6,244,681**	6,406,769
Equity			
Equity attributable to owners of the parent			
Issued capital	33	**444,116**	444,116
Share premium and reserves	34	**5,798,312**	5,646,826
Proposed final dividend	12	**–**	313,661
		6,242,428	6,404,603
Non-controlling interests		**2,253**	2,166
Total equity		**6,244,681**	6,406,769

Li San Yim
DIRECTOR

Yin Kun Lun
DIRECTOR

Consolidated Statement of Changes in Equity

For the Year ended 31 December 2012

	Attributable to owners of the parent								
	Issued capital RMB'000	Share premium RMB'000	Special reserve RMB'000 *(Note 34)*	Non-distributable reserve RMB'000 *(Note 34)*	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non controlling interests RMB'000	Total equity RMB'000
At 31 December 2010 and at 1 January 2011	444,116	854,922	355,335	566,633	2,663,492	355,732	5,240,230	1,801	5,242,031
Profit and total comprehensive income for the year	–	–	–	–	1,729,502	–	1,729,502	365	1,729,867
Dividends *(note 12)*									
2010 final paid	–	–	–	–	–	(355,732)	(355,732)	–	(355,732)
2011 interim paid	–	–	–	–	(209,397)	–	(209,397)	–	(209,397)
Proposed 2011 final dividend	–	–	–	–	(313,661)	313,661	–	–	–
Transfer from retained profits	–	–	–	62,614	(62,614)	–	–	–	–
At 31 December 2011 and at 1 January 2012	444,116	854,922	355,335	629,247	3,807,322	313,661	6,404,603	2,166	6,406,769
Profit and total comprehensive income for the year	–	–	–	–	151,486	–	151,486	87	151,573
Dividends *(note 12)*									
2011 final paid	–	–	–	–	–	(313,661)	(313,661)	–	(313,661)
2012 interim paid	–	–	–	–	–	–	–	–	–
Proposed 2012 final dividend	–	–	–	–	–	–	–	–	–
Transfer from retained profits	–	–	–	58,002	(58,002)	–	–	–	–
At 31 December 2012	444,116	854,922	355,335	687,249	3,900,806	–	6,242,428	2,253	6,244,681

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**275,654**	2,067,784
Adjustments for:			
Finance costs	*6*	**341,362**	395,153
Interest income	*5*	**(37,377)**	(27,992)
Impairment of financial assets	*7*	**82,040**	6,321
Write-down of inventories to net realisable value	*7*	**1,819**	6,312
Loss on disposal of items of property, plant and equipment	*7*	**2,957**	2,608
Depreciation	*14*	**329,418**	283,501
Amortisation of land lease payments	*15*	**6,517**	8,763
Exchange gain from convertible bonds	*5*	**(105)**	(37,363)
Exchange gain from long-term loan notes		**(4,318)**	(64,295)
Exchange gain from bank loans		**(3,091)**	(19,584)
Fair value (gain)/loss on the derivative component of convertible bonds	*5*	**(778)**	(239,996)
Loss on redemption of convertible bonds	*5*	**41,354**	–
Gain on repurchase of long-term loan notes	*5*	**(9,504)**	–
		1,025,948	2,381,212
Decrease/(increase) in inventories		**1,646,676**	(846,613)
Increase in trade, bills and other receivables		**(289,067)**	(1,533,804)
Decrease in finance lease receivables		**1,016,513**	1,976,279
Increase in amounts due from related parties		**(1,595)**	–
Decrease in trade, bills and other payables		**(2,130,236)**	(153,048)
Decrease in provisions		**(45,041)**	(3,482)
(Decrease)/increase in amounts due to related parties		**(6,124)**	5,669
Decrease in deposits for finance leases		**(68,147)**	(163,188)
Increase in deferred revenue		**72,284**	–
Cash generated from operations		**1,221,211**	1,663,025
Interest received		**37,377**	27,992
Income tax paid		**(179,937)**	(392,355)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**1,078,651**	1,298,662

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(558,763)**	(1,055,078)
Purchases of interests in associates		**(6,793)**	(59,218)
Payment for lease premium for land		**–**	(20,588)
Proceeds from disposal of items of property, plant and equipment		**48,312**	26,668
Increase in pledged bank deposits		**(613,637)**	(142,322)
Collection of loan receivables		**2,120**	4,156
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(1,128,761)**	(1,246,382)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayment)/proceeds from issue of long-term loan notes		**(429,290)**	2,234,567
Convertible bonds redeemed		**(1,125,034)**	–
New bank loans		**3,511,545**	2,922,231
Non-derecognised payables		**364,785**	–
Repayment of bank loans		**(2,481,031)**	(3,038,156)
Dividends paid	*12*	**(313,661)**	(565,129)
Interest paid		**(278,553)**	(227,628)
NET CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES		**(751,239)**	1,325,885
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(801,349)**	1,378,165
Cash and cash equivalents at beginning of year		**1,684,400**	306,235
CASH AND CASH EQUIVALENTS AT END OF YEAR		**883,051**	1,684,400

Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	*14*	**19,450**	18,319
Investments in subsidiaries	*17*	**130,233**	129,825
Total non-current assets		**149,683**	148,144
Current assets			
Due from subsidiaries	*17*	**4,054,799**	3,862,134
Prepayments, deposits and other receivables	*22*	**626**	2,016
Cash and cash equivalents	*23*	**60,337**	369,688
Total current assets		**4,115,762**	4,233,838
Current liabilities			
Other payables and accruals	*25*	**13,188**	18,053
Interest-bearing bank borrowings	*26*	**543,924**	495,046
Convertible bonds	*27*	**–**	24,846
Derivative financial instruments	*27*	**–**	13
Total current liabilities		**557,112**	537,958
Net current assets		**3,558,650**	3,695,880
Total assets less current liabilities		**3,708,333**	3,844,024
Non-current liabilities			
Interest-bearing bank borrowings	*26*	**1,834,143**	64,499
Convertible bonds	*27*	**8,151**	825,329
Long-term loan notes	*28*	**1,762,203**	2,205,315
Derivative financial instruments	*27*	**739**	178,416
Total non-current liabilities		**3,605,236**	3,273,559
Net assets		**103,097**	570,465

Statement of Financial Position

31 December 2012

	Notes	**2012 RMB'000**	2011 RMB'000
Equity			
Equity attributable to owners of the parent			
Issued capital	*33*	**444,116**	444,116
Share premium and reserves	*34(b)*	**(341,019)**	(187,312)
Proposed final dividend	*12*	**–**	313,661
Total equity		**103,097**	570,465

Li San Yim
DIRECTOR

Yin Kun Lun
DIRECTOR

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

1. CORPORATE INFORMATION

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

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

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

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 Consolidation – Special Purpose Entities. HKFRS 10 replaces the portion of HKAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Associates

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

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

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Associates *(Continued)*

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

The results of associates are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill)

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

Research and development costs

All research costs are charged to profit or loss as incurred.

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

Leases

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and receivables

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

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

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

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

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

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

Impairment of financial assets

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Financial guarantee contracts

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

Convertible bonds

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

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

Derecognition of financial liabilities

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions *(Continued)*

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

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

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

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

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

Other employee benefits

Pension scheme

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING ESTIMATES

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING ESTIMATES *(Continued)*

Estimation uncertainty

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

Current income tax

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

Impairment of non-financial assets (other than goodwill)

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

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2012 was RMB37,258,000 (2011: RMB8,373,000). The amount of unrecognised tax losses at 31 December 2012 was RMB47,646,000 (2011: RMB69,364,000). Further details are contained in note 30 to the financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Deferred tax liabilities

Deferred tax liabilities are recognised for withholding corporate income taxes relating to the unremitted earnings of the Group's subsidiaries established in Mainland China that are subject to withholding taxes. Significant management judgement is required to determine the amount of deferred tax liabilities, based upon the likely distribution level of such earnings from these subsidiaries in the foreseeable future. The carrying value of deferred tax liabilities arising from the withholding tax associated with the investments in subsidiaries in Mainland China for the year ended 31 December 2012 was RMB75,723,000 (31 December 2011: RMB69,046,000). Further details are contained in note 30 to the financial statements.

Impairment of trade and bills receivables, and finance lease receivables

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

Net realisable value of inventories

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

Provision for warranty costs

As explained in note 29, the Group offers 18 months' warranty for the excavators and 12 months' warranty for the wheel loaders, road rollers, forklifts, during which free warranty service for the repair and maintenance of parts and components under normal usage is provided to the customers. The provision for warranty costs is based on the historical experience and statistics. As at 31 December 2012, the carrying amount of provision for warranty costs was RMB130,702,000 (31 December 2011: RMB175,743,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Fair value of the derivatives

The directors of the Company use their judgement in selecting appropriate valuation techniques for derivative financial instruments, where the valuation techniques are those commonly applied by market practitioners. Assumptions are made based on market statistics and adjusted for specific features of the instruments. The carrying amount of the derivative instruments was RMB739,000 (31 December 2011: RMB178,429,000). Details of the derivative financial instruments and the assumptions used are disclosed in note 27.

4. OPERATING SEGMENT INFORMATION

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

(a) the sale of construction machinery

(b) the finance lease of construction machinery

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2012

SEGMENT REVENUE AND RESULTS

	Sale of construction machinery RMB'000	Finance lease of construction machinery RMB'000	Total RMB'000
Segment revenue	7,791,273	104,691	7,895,964
Segment results	514,039	69,035	583,074
Reconciliation:			
Interest income			37,377
Unallocated other income and gains			1,697
Corporate and other unallocated expenses			(5,132)
Finance costs			(341,362)
Profit before tax			275,654
Segment assets	12,532,111	1,030,248	13,562,359
Corporate and other unallocated assets			111,768
Total assets			13,674,127
Segment liabilities	2,699,253	484,201	3,183,454
Corporate and other unallocated liabilities			4,245,992
Total liabilities			7,429,446
OTHER SEGMENT INFORMATION			
Impairment losses recognised in profit or loss	92,715	–	92,715
Impairment losses reversed in profit or loss	(5,398)	(3,458)	(8,856)
Depreciation and amortisation	334,084	1,851	335,935
Investments in associates	66,011	–	66,011
Capital expenditure	687,497	852	688,349

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2011

SEGMENT REVENUE AND RESULTS

	Sale of construction machinery RMB'000	Finance lease of construction machinery RMB'000	Total RMB'000
Segment revenue	12,515,897	205,263	12,721,160
Segment results	2,185,522	166,706	2,352,228
Reconciliation:			
Interest income			27,992
Unallocated other income and gains			95,381
Corporate and other unallocated expenses			(12,664)
Finance costs			(395,153)
Profit before tax			2,067,784
Segment assets	14,333,701	1,342,796	15,676,497
Corporate and other unallocated assets			463,936
Total assets			16,140,433
Segment liabilities	5,003,607	846,404	5,850,011
Corporate and other unallocated liabilities			3,883,653
Total liabilities			9,733,664
Impairment losses recognised in profit or loss	13,199	5,375	18,574
Impairment losses reversed in profit or loss	(5,941)	–	(5,941)
Depreciation and amortisation	290,535	1,729	292,264
Investments in associates	59,218	–	59,218
Capital expenditure	936,119	827	936,946

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

4. OPERATING SEGMENT INFORMATION *(Continued)*

Revenue from major products and services

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

	2012		2011	
	RMB'000	**%**	RMB'000	%
Wheel loaders	**5,160,573**	**65.4**	8,866,956	69.7
Excavators	**880,070**	**11.1**	1,713,353	13.5
Road rollers	**114,561**	**1.5**	367,480	2.9
Fork lifts	**818,951**	**10.4**	929,296	7.3
Others	**817,118**	**10.3**	638,812	5.0
Subtotal	**7,791,273**	**98.7**	12,515,897	98.4
Finance lease interest income	**104,691**	**1.3**	205,263	1.6
Total	**7,895,964**	**100**	12,721,160	100

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

Geographical information

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

	Group	
	2012	2011
	RMB'000	RMB'000
Finance income		
Bank interest income	**37,377**	27,992
Other income		
Government grants	**40,763**	60,184
Penalty income	**4,190**	19,296
Others	**1,363**	13,669
	46,316	93,149

	Group	
	2012	2011
	RMB'000	RMB'000
Other gains and losses		
Fair value gain on the derivative component of convertible bonds	**778**	239,996
Loss on redemption of convertible bonds	**(41,354)**	–
Gain on repurchase of long-term loan notes	**9,504**	–
Exchange realignment from convertible bonds	**105**	37,363
Foreign exchange gains	**32,664**	58,018
Loss on disposal of items of property, plant and equipment	**(2,957)**	(2,608)
Allowance for bad and doubtful debts	**(82,040)**	(6,321)
Gain on disposal of obsolete and waste materials	**–**	43,061
	(83,300)	369,509

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

6. FINANCE COSTS

An analysis of finance costs from operations is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	**130,013**	149,522
Interest on long-term loan notes	**182,112**	93,726
Interest on convertible bonds	**64,849**	116,862
Other finance costs	**–**	35,043
Total interest expense on financial liabilities not at fair value through profit or loss	**376,974**	395,153
Less: interest capitalised	**(35,612)**	–
	341,362	395,153

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

7. PROFIT BEFORE TAX

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

	2012	2011
	RMB'000	RMB'000
Cost of inventories sold	**6,366,750**	9,507,055
Depreciation *(note 14)*	**329,418**	283,501
Amortisation of land lease payments *(note 15)*	**6,517**	8,763
Research and development costs	**268,030**	342,120
Auditors' remuneration	**2,440**	3,020
Employee benefit expense		
(excluding directors' remuneration *(note 8)*)		
Wages and salaries	**379,866**	563,833
Contributions to retirement benefit scheme	**40,880**	46,666
Total staff costs	**420,746**	610,499
Foreign exchange differences, net	**32,769**	95,381
Impairment/(reversal of impairment) of financial assets		
– trade receivables *(note 21)*	**32,078**	945
– other receivables *(note 22)*	**50,062**	1
– finance lease receivables *(note 16)*	**(100)**	5,375
	82,040	6,321
Write-down of inventories to net realisable value	**1,819**	6,312
Product warranty provision	**167,986**	280,978
Loss on redemption of convertible bonds	**41,354**	–
Gain on repurchase of long-term loan notes	**(9,504)**	–
Fair value gain on the derivative component of convertible bonds	**(778)**	(239,996)
Bank interest income	**(37,377)**	(27,992)
Loss on disposal of items of property, plant and equipment	**2,957**	2,608
Gain on disposal of obsolete and waste materials	**–**	(43,061)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

8. DIRECTORS' REMUNERATION

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

	Group	
	2012	2011
	RMB'000	RMB'000
Fees	**1,500**	1,600
Other emoluments:		
Salaries, allowances and bonuses	**15,068**	16,339
Pension scheme contributions	**34**	22
	15,102	16,361
	16,602	17,961

(a) Independent non-executive directors

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

	2012	2011
	RMB'000	RMB'000
Dr. Qian Shizheng	**100**	200
Mr. Han Xuesong	**100**	100
Mr. Pan Longqin	**100**	100
	300	400

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and a non-executive director

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2012					
Executive directors:					
Mr. Li San Yim	–	2,000	–	–	2,000
Mr. Qiu Debo	–	1,000	4,437	7	5,444
Mr. Luo Jianru	–	600	1,479	7	2,086
Mr. Yin Kun Lun*	–	400	–	6	406
Ms. Fang De Qin*	–	150	1,479	–	1,629
Mr. Chen Chao	–	600	1,479	7	2,086
Mr. Zheng Kewen	–	600	–	7	607
Mr. Lin Zhong Ming	–	400	444	–	844
	–	5,750	9,318	34	15,102
Non-executive director:					
Ms. Ngai Ngan Ying	1,200	–	–	–	1,200
	1,200	5,750	9,318	34	16,302

* Ms. Fang De Qin retired as an executive director of the Company with effect from 25 May 2012 and was replaced by Mr. Yin KunLun.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

8. DIRECTORS' REMUNERATION *(Continued)*

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

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

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

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group in 2012 and 2011 were all directors of the Company and details of their emoluments are included in note 8 above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

10. INCOME TAX EXPENSE

	2012 RMB'000	2011 RMB'000
Group:		
Current tax		
Charged for the year	**72,808**	321,246
Overprovision in prior years	**(6,909)**	(23,353)
Withholding tax paid	**532**	–
	66,431	297,893
Deferred tax *(note 30)*	**57,650**	40,024
Total tax charge for the year	**124,081**	337,917

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

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

(a) Subsidiaries of the Group established in the PRC before 16 March 2007, which are qualified as foreign investment enterprises, are entitled to an exemption from PRC income tax for two years starting from their first profit making year, followed by a 50% reduction for the next three years ("Tax Holidays"). Therefore, certain subsidiaries are subject to an income tax rate of 12.5% during the year.

(b) In 2012, about 9 entities had been identified as "High and New Technology Enterprises" ("HNTE") and in accordance with the EIT Law they were subject to an income tax rate of 15% for the effective years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

10. INCOME TAX EXPENSE *(Continued)*

(c) The EIT Law imposes withholding tax on dividend distributed from the Group's subsidiaries in Mainland China to the holding companies located off-shore starting from 1 January 2008. In 2009, the off-shore intermediate holding companies have been recognised as the tax residents of Hong Kong by the Inland Revenue Department of Hong Kong. Since their PRC subsidiaries declared dividend in 2010 out of the 2009 after-tax profit, the tax bureaus in charge of the subsidiaries elect to apply a 5% preferential withholding income tax rate on the dividend based on the tax treaty between the Hong Kong Special Administrative Region and Mainland China. In view of the above, a 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, and was also applicable in year 2012.

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

	Group			
	2012		2011	
	RMB'000	**%**	RMB'000	%
Profit before tax	**275,654**		2,067,784	
Tax at the statutory tax rate of 25% (2011: 25%)	**68,780**	**25.0**	516,946	25.0
Income not subject to tax (i)	**(2,571)**	**(0.9)**	(86,855)	(4.2)
Expenses not deductible for tax (ii)	**76,585**	**27.8**	50,632	2.4
Tax effect of tax losses not recognised	**–**	**–**	5,855	0.3
Underprovision/(overprovision) in respect of prior years	**(6,909)**	**(2.5)**	(2,701)	(0.1)
Deferred tax charged at different income tax rates	**(6,674)**	**(2.4)**	291	0.01
Effect of withholding tax	**7,209**	**2.6**	24,978	1.2
Effect of preferential tax rates of 12.5% and 15%	**(12,339)**	**(4.5)**	(171,229)	(8.3)
Tax charge and effective tax rate for the year	**124,081**	**45.1**	337,917	16.3

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

10. INCOME TAX EXPENSE *(Continued)*

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

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

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a loss of RMB153,707,000 which has been dealt with in the financial statements of the Company (note 34(b)).

12. DIVIDENDS

	2012 **RMB'000**	2011 RMB'000
Dividends recognised as distribution during the year:		
2011 final of HK$0.09 per share		
(2010 final: HK$0.10)	**313,661**	355,732
2012 interim of nil per share		
(2011 interim: HK$0.06)	**–**	209,397
	313,661	565,129

In the annual general meeting held on 25 May 2012, a final dividend of HK$0.09 (2010: HK$0.10) per share in respect of the year ended 31 December 2011 was approved by the shareholders and subsequently paid to the shareholders of the Company.

The Directors do not recommend any final dividend for the year ended 31 December 2012.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 4,280,100,000 (2011: 4,280,100,000) in issue during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

13. EARNINGS PER SHARE *(Continued)*

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

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

	2012 **RMB'000**	2011 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**151,486**	1,729,502
Interest on convertible bonds	**–**	116,862
Exchange realignment on convertible bonds	**–**	(37,363)
Fair value gain on the derivative component of convertible bonds	**–**	(239,996)
Profit attributable to ordinary equity holders of the parent, as adjusted for the effect of convertible bonds	**151,486**	1,569,005

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

13. EARNINGS PER SHARE *(Continued)*

	Number of shares	
	2012	2011
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**4,280,100**	4,280,100
Effect of dilution – weighted average number of ordinary shares:		
Convertible bonds	**–**	327,611
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**4,280,100**	4,607,711

Because the convertible bonds had an anti-dilutive effect on the basic earnings per share for the year ended 31 December 2012 and were therefore not included in the calculation of diluted earnings per share.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

14. PROPERTY, PLANT AND EQUIPMENT

Group

2012	**Buildings RMB'000**	**Plant and machinery RMB'000**	**Motor vehicles RMB'000**	**Furniture and fixtures RMB'000**	**Construction in progress RMB'000**	**Total RMB'000**
Cost						
At 1 January 2012	**1,324,145**	**2,382,216**	**58,072**	**130,882**	**564,339**	**4,459,654**
Additions	**2,324**	**137,728**	**3,823**	**1,108**	**420,055**	**565,038**
Transfers	**55,230**	**299,295**	**732**	**421**	**(355,678)**	**–**
Disposals	**–**	**(136,328)**	**(1,946)**	**(1,445)**	**–**	**(139,719)**
At 31 December 2012	**1,381,699**	**2,682,911**	**60,681**	**130,966**	**628,716**	**4,884,973**
Accumulated depreciation and impairment						
At 1 January 2012	**180,659**	**562,153**	**26,944**	**52,146**	**–**	**821,902**
Charge for the year	**61,154**	**243,621**	**9,039**	**15,604**	**–**	**329,418**
Disposals	**–**	**(86,413)**	**(898)**	**(1,139)**	**–**	**(88,450)**
At 31 December 2012	**241,813**	**719,361**	**35,085**	**66,611**	**–**	**1,062,870**
Carrying amount						
At 31 December 2012	**1,139,886**	**1,963,550**	**25,596**	**64,355**	**628,716**	**3,822,103**

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

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For the year ended 31 December 2012

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

Company

2012	**Buildings RMB'000**	**Furniture and fixtures RMB'000**	**Total RMB'000**
Cost			
At 1 January 2012	**17,971**	**378**	**18,349**
Additions	**1,834**	**–**	**1,834**
At 31 December 2012	**19,805**	**378**	**20,183**
Accumulated depreciation and impairment			
At 1 January 2012	**–**	**30**	**30**
Charge for the year	**573**	**130**	**703**
At 31 December 2012	**573**	**160**	**733**
Carrying amount			
At 31 December 2012	**19,232**	**218**	**19,450**

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

The buildings of the Group are situated in Mainland China under a long term lease.

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

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

As at 31 December 2012, the Group was in the process of applying for title certificates of certain buildings with a carrying amount of RMB484,175,000 (2011: RMB268,720,000). The directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 31 December 2012.

As at 31 December 2012, no property, plant and equipment of the Group were pledged (2011: Nil).

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2012	2011
	RMB'000	RMB'000
Carrying amount at 1 January	**211,025**	199,200
Additions	**123,311**	20,588
Amortisation	**(6,517)**	(8,763)
Carrying amount at 31 December	**327,819**	211,025
Current portion	**(7,201)**	(5,383)
Non-current portion	**320,618**	205,642

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

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

The Group is in the process of obtaining the land use right certificate for the leasehold land with a carrying amount of RMB123,764,000 at 31 December 2012 (2011: RMB2,100,000).

The directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned leasehold land. The directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 31 December 2012.

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16. FINANCE LEASE RECEIVABLES

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Finance lease receivables comprise:				
Within one year	**235,093**	910,261	**215,607**	852,340
1 to 5 years	**78,627**	493,787	**71,621**	451,401
	313,720	1,404,048	**287,228**	1,303,741
Less: Unearned finance income	**26,492**	100,307	**–**	–
Less: Provision for impairment	**5,275**	5,375	**5,275**	5,375
Present value of minimum lease payment receivables	**281,953**	1,298,366	**281,953**	1,298,366
Analysed as:				
Current			**215,607**	852,340
Non-current			**66,346**	446,026
			281,953	1,298,366

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

	2012 RMB'000	2011 RMB'000
At 1 January	**5,375**	–
Impairment losses recognised *(note 7)*	**–**	5,375
Write-off *(note 7)*	**(100)**	–
At 31 December	**5,275**	5,375

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

16. FINANCE LEASE RECEIVABLES *(Continued)*

Effective interest rates of the above finance leases range from 6.8% to 8.95% (2011: 6.8% to 20%) per annum.

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

As at 31 December 2012, the Group's refundable finance lease deposits are as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Current *(note 25)*	**113,301**	219,994
Non-current	**39,879**	108,026
	153,180	328,020

The finance lease deposits are non-interest-bearing and are settled on terms according to the lease agreements.

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	RMB'000	RMB'000
Unlisted shares, at cost	**130,233**	129,825

The amounts due from subsidiaries included in the Company's current assets of RMB4,054,799,000 (2011: RMB3,862,134,000) are unsecured, interest-free and are repayable on demand.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries are as follows:

Name	Type of legal entity	Paid-in issued/ registered ordinary	Attributable equity interest	Principal activities
Lonking Shanghai Machinery Co., Ltd. (龍工(上海)機械製造有限公司)	13 August 2004 People's Republic of China ("PRC") Sino foreign equity joint venture	HK$448,000,000	99.89%	Manufacture and distribution of wheel loaders
Lonking (Shanghai) Axle & Transmission Co., Ltd. (龍工(上海)橋箱有限公司)	17 September 2001 PRC wholly-owned foreign investment enterprise ("WOFE")	HK$168,000,000	100%	Manufacture and distribution of axles and great boxes
Lonking Fujian Machinery Co., Ltd. (龍工(福建)機械有限公司)	15 September 2004 PRC WOFE	HK$400,000,000	100%	Manufacture and distribution of wheel loaders
Fujian Longyan Lonking Machinery Components Co., Ltd. (福建龍岩龍工機械配件有限公司)	1 March 1999 PRC WOFE	HK$29,680,000	100%	Manufacture and distribution of wheel loader components
Lonking (Shanghai) Hydraulic Co., Ltd. (龍工(上海)液壓機械有限公司, formerly known as Hydraulics (Shanghai) Hydraulics Machinery Co., Ltd.)	30 September 2003 PRC WOFE	US$31,800,000	100%	Manufacture and distribution of wheel loader components
Lonking (Shanghai) Machinery Components Co., Ltd. (龍工(上海)機械部件有限公司, formerly known as Refined (Shanghai) Machinery Co., Ltd.)	27 November 2003 PRC WOFE	HK$50,000,000	100%	Manufacture and distribution of wheel loader components
Lonking (Jiangxi) Machinery Co., Ltd. (龍工(江西)機械有限公司)	12 September 2003 PRC WOFE	RMB257, 350,253	100%	Manufacture and distribution of wheel loader components

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17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Type of legal entity	Paid-in issued/ registered ordinary	Attributable equity interest	Principal activities
Lonking (Fujian) Hydraulics Machinery Co., Ltd. (龍工(福建)液壓有限公司)	15 January 2007 PRC WOFE	HK$100,000,000	100%	Manufacture and distribution of wheel loader components
Lonking (Fujian) Axle & Transmission Co., Ltd. (龍工(福建)橋箱有限公司)	16 January 2007 PRC WOFE	HK$200,000,000	100%	Manufacture and distribution of axles and great boxes
Lonking (Shanghai) Road Machinery Construction Co., Ltd. (龍工(上海)路面機械製造有限公司)	12 September 2007 PRC WOFE	HK$100,000,000	100%	Manufacture and distribution of wheel loaders and road rollers
Lonking (Shanghai) Excavator Co., Ltd. (龍工(上海)挖掘機製造有限公司)	12 September 2007 PRC WOFE	HK$260,000,000	100%	Manufacture and distribution of excavators
Monarch (Shanghai) Machinery Co., Ltd. (摩納凱(上海)機械有限公司)	1 January 2007 PRC WOFE	HK$83,600,000	100%	Manufacture and distribution of hydraulic parts and other machinery products
Lonking (Shanghai) Forklift Co., Ltd. (龍工(上海)叉車有限公司)	7 Feb 2007 PRC WOFE	HK$200,000,000	100%	Manufacture and distribution of forklifts
Henan Lonking Machinery Co., Ltd. (河南龍工機械製造有限公司)	11 July 2002 PRC Sino foreign equity joint venture	RMB482,700,000	99.95%	Manufacture and distribution of wheel loaders and farm machines
Lonking (Shanghai) Financial Leasing Co., Ltd. (龍工(上海)融資租賃有限公司)	28 March 2008 PRC WOFE	US$10,000,000	100%	Financing leasing for wheel loaders and other machinery
Lonking (China) Machinery Sales Co., Ltd. (龍工(中國)機械銷售有限公司)	12 September 2008 PRC WOFE	RMB850,000,000	100%	Distribution of wheel loaders and other machinery

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17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Type of legal entity	Paid-in issued/ registered ordinary	Attributable equity interest	Principal activities
Lonking (Fujian) International Trade Co., Ltd. (龍工(福建)國際貿易有限公司)	19 June 2008 PRC WOFE	RMB30,000,000	100%	Distribution of wheel loaders and other machinery
Lonking (Fujian) Casting & Forging Co., Ltd. (龍工(福建)鑄鍛有限公司)	13 August 2008 PRC WOFE	US$65,000,000	100%	Manufacture and distribution of wheel loader components
China Dragon Development Holdings Ltd. (中國龍工發展控股有限公司) *(note 1)*	3 May 2004 British Virgin Islands ("BVI")	US$50,000	100%	Investment holding
China Dragon Investment Holdings Ltd. (中國龍工投資控股有限公司) *(note 1)*	3 May 2004 BVI	US$50,000	100%	Investment holding
Lonking (Hong Kong) International Trading Co., Ltd. (龍工(香港)國際貿易有限公司) *(note 1)*	10 December 2011 HK	HK$500,000	100%	Trading of infrastructure machinery and components
Lonking (Fujian) Excavator Co., Ltd. (龍工(福建)挖掘機有限公司)	20 September 2010 PRC WOFE	RMB100,000,000	100%	Manufacture and distribution of excavators

Note 1: The Company directly holds the interests in China Dragon Development Holdings Ltd., China Dragon Investment Holdings Ltd. and Lonking (Hong Kong) International Trading Co., Ltd. All other interests shown above are indirectly held by the Company.

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

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18. INVESTMENTS IN ASSOCIATES

	Group 2012 RMB'000	Group 2011 RMB'000
Unlisted shares, at cost		
Share of net assets	**66,011**	59,218

Particulars of the associates are as follows:

Name	Registered capital RMB'000	Place of registration	Percentage of ownership interest attributable to the Group	Principal activities
Longgong (Xinjiang) Machinery Technical Services Co., Ltd. (龍工新疆機械技術服務股份有限公司)	10,000	Xinjiang, PRC	40%	After-sales service of wheel loaders
Fujian Changfeng Gear Co., Ltd. (福建暢豐齒輪有限公司)	200,000	Fujian, PRC	40%	Manufacture and sale of gears
Neimenggu Zhongcheng Machinery Co., Ltd. (內蒙古中城機械有限公司)	50,000	Neimenggu, PRC	20%	Sale, maintenance and lease of engineering machines

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

Neimenggu Zhongcheng Machinery Co., Ltd. was incorporated in year 2012, and is still in the phase of starting up.

The Group's trade receivables and payables with the associates are disclosed in note 39 to the financial statements.

Notes to the Consolidated Financial Statements

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18. INVESTMENTS IN ASSOCIATES *(Continued)*

All the associates are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The following table illustrates the summarised financial information of the associates extracted from its management accounts or financial statements:

	2012
	RMB'000
Assets	**13,240**
Liabilities	**3,745**
Revenues	**22,978**
Loss	**(1,049)**

19. LONG-TERM RECEIVABLES

Long-term receivables are the receivables mature within 2 years according to the credit terms, and included the following items:

	2012
	RMB'000
Trade receivables *(note 21)*	20,182
Other receivables *(note 22)*	102,296
	122,478

The carrying amounts of long-term receivables approximate to their fair values. The long-term trade receivables are non-interest-bearing and the long-term other receivables bear interest at approximately 6.8% per annum.

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20. INVENTORIES

	Group	
	2012	2011
	RMB'000	RMB'000
Raw materials	**826,198**	1,197,593
Work in progress	**155,032**	211,540
Finished goods	**1,749,993**	2,970,585
	2,731,223	4,379,718

21. TRADE AND BILLS RECEIVABLES

	Group	
	2012	2011
	RMB'000	RMB'000
Trade receivables	**2,493,863**	2,444,862
Impairment	**(97,486)**	(66,568)
Less: Non-current portion *(note 19)*	**(20,182)**	–
	2,376,195	2,378,294
Bills receivable	**568,249**	751,840
	2,944,444	3,130,134

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

21. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	2012	2011
	RMB'000	RMB'000
Within 3 months	**1,514,186**	1,775,503
3 to 6 months	**323,767**	528,581
6 months to 1 year	**538,242**	74,210
	2,376,195	2,378,294

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

	2012	2011
	RMB'000	RMB'000
At 1 January	**66,568**	65,623
Impairment losses recognised *(note 7)*	**32,078**	945
Amount written off as uncollectible	**(1,160)**	–
At 31 December	**97,486**	66,568

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB97,486,000 (2011: RMB66,568,000) with a carrying amount before provision of RMB97,486,000 (2011: RMB66,568,000).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in both interest and/or principal payments and full provision was made for these individually impaired trade receivables.

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

Notes to the Consolidated Financial Statements

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21. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	Group	
	2012	2011
	RMB'000	RMB'000
Neither past due nor impaired	**1,837,953**	2,304,084
Less than 1 month past due	**292,854**	68,060
1 to 3 months past due	**199,159**	6,150
3 months to 1 year past due	**46,229**	–
	2,376,195	2,378,294

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

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

Bills receivable are aged within 6 months at the end of the reporting period. At 31 December 2012, the Group has pledged bills receivable of RMB70,616,000 to banks to get short-term credit facilities (2011: Nil) (note 24).

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For the year ended 31 December 2012

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**228,958**	348,944	**–**	–
Deductible value-added tax	**158,312**	385,761	**–**	–
Deposits	**21,450**	12,006	**–**	–
Total	**408,720**	746,711	**–**	–
Other receivables:				
Loan receivables*	**785,065**	16,580	**–**	–
Less: non-current portion	**(102,296)**	–	**–**	–
Less: impairment	**(53,420)**	–	**–**	–
Net loan receivables	**629,349**	16,580	**–**	–
Other miscellaneous receivables	**70,635**	80,752	**626**	2,016
Less: impairment	**(15,995)**	(19,353)	**–**	–
Net other miscellaneous receivables	**54,640**	61,399	**626**	2,016
Total other receivables	**683,989**	77,979	**626**	2,016
Grand total	**1,092,709**	824,690	**626**	2,016

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22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

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

	Group	
	2012	2011
	RMB'000	RMB'000
At 1 January	**19,353**	19,352
Impairment losses recognised *(note 7)*	**50,062**	1
At 31 December	**69,415**	19,353

The carrying amounts of financial assets included in prepayments, deposits and other receivables approximate to their fair values.

Included in the above provision for impairment of other receivables is a provision for individually impaired other receivables of RMB69,415,000 (2011: RMB19,353,000) with a carrying amount before provision of RMB69,415,000 (2011: RMB19,353,000).

The individually impaired other receivables relate to customers that were in financial difficulties or were in default in both interest and/or principal payments and full provision was made for these individually impaired trade receivables.

A large portion of other receivables includes the loan receivables to sales agencies for its repurchase of machines. The collection of receivables of sales financed by leasing went worse due to the deterioration of external operating environment. According to the finance lease agreements, the sales agencies were required to fulfil the obligation to repurchase the machines and pay the outstanding lease amount back to the lease companies once there is overdue balance for more than three months. The Group lent to the sales agencies for the settlement of repurchase. And the sales agencies were required to pay off within 3 months as it normally takes 3 months to resale the machines. The Group would enter into instalment contracts with sales agencies if the repurchased machines had been sold again. The instalments would be arranged at approximately a 6.8% interest rate p.a. and mainly repaid within 18 to 24 months.

Other receivables also include miscellaneous borrowings for sales agencies' daily operation needs.

Notes to the Consolidated Financial Statements

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22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

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

	2012	2011
	RMB'000	RMB'000
Within 3 months	**78,835**	–
3 to 6 months	**214,627**	–
6 months to 1 year	**438,183**	–
Over 1 year	**–**	16,580
	731,645	16,580

An aged analysis of the loan receivables that are not individually nor collectively considered to be impaired, based on the due dates, is as follows:

	2012	2011
	RMB'000	RMB'000
Neither past due nor impaired	**710,042**	16,580
Less than 3 months past due	**21,603**	–
	731,645	16,580

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

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

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23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**924,621**	2,092,473	**60,337**	311,926
Time deposits	**1,042,716**	62,576	**–**	57,762
	1,967,337	2,155,049	**60,337**	369,688
Less: Pledged cash and bank balances and time deposits:				
Pledged for long term bank loans *(note 26)*	**(1,000,000)**	–	**–**	–
Pledged for short term bank loans *(note 26)*	**(40,000)**	–	**–**	–
Pledged for bank acceptance bills *(note 24)*	**(44,286)**	(470,649)	**–**	–
Cash and cash equivalents	**883,051**	1,684,400	**60,337**	369,688

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

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

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23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS *(Continued)*

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

Original currency	**US$**	**HK$**	**EUR**
	RMB'000	RMB'000	RMB'000
As at 31 December 2012	81,343	4,192	65
As at 31 December 2011	74,987	3,090	67

24. TRADE AND BILLS PAYABLES

	2012	2011
	RMB'000	RMB'000
Trade payables	**881,239**	1,793,168
Bills payable	**167,101**	929,906
	1,048,340	2,723,074

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

	2012	2011
	RMB'000	RMB'000
Within 6 months	**947,535**	2,674,804
6 months to 1 year	**48,799**	21,842
1 to 2 years	**34,786**	16,317
2 to 3 years	**9,706**	3,831
Over 3 years	**7,514**	6,280
	1,048,340	2,723,074

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24. TRADE AND BILLS PAYABLES *(Continued)*

Bills payable are aged within 6 months at the end of the reporting period and secured by pledged bank deposits (note 23) and bills receivable (note 21).

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

25. OTHER PAYABLES AND ACCRUALS

Group

	2012 **RMB'000**	2011 RMB'000
Advances from customers	**32,934**	170,198
Deposit for finance leases *(note 16)*	**113,301**	219,994
Non-derecognised endorsement bills and trade receivables *(note 40)*	**364,785**	–
Salary and wages payable	**45,900**	63,362
Payable for acquisition of property, plant and equipment	**33,427**	17,863
Other taxes payable	**8,459**	14,289
Accrued sales rebate	**98,519**	319,063
Other payables	**182,193**	127,419
Other accrued expenses	**16,802**	41,325
	896,320	973,513

Company

	2012 **RMB'000**	2011 RMB'000
Other payables	**13,188**	18,053

Other payables are non-interest-bearing and have different credit terms within one year.

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26. INTEREST-BEARING BANK BORROWINGS

Group	2012			2011		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – unsecured	**5.21**	**2013**	**20,000**	3.22 – 7.22	2012	700,225
Current portion of long term bank loans – unsecured	**4.31 – 5.99**	**2013**	**973,869**	4.86 – 7.28	2012	95,200
Bank loans – secured *(note 23)*	**2.91**	**2013**	**190,055**			–
			1,183,924			795,425
Non-current						
Bank loans – unsecured	**4.86 – 6.65**	**2014 – 2015**	**316,500**	4.86 – 7.28	2013 – 2014	1,511,719
Bank loans – secured *(note 23)*	**2.54**	**2015**	**1,834,143**			–
			2,150,643			1,511,719
			3,334,567			2,307,144

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

Company	2012			2011		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured *(note 23)*	**2.91**	**2013**	**190,055**	4 – 6.5	2012	495,046
Current portion of long term bank loans – unsecured	**4.31**	**2013**	**353,869**	–		–
			543,924			495,046
Non-current						
Bank loans – unsecured			**–**	1.89 – 3.7	2013 – 2014	64,499
Bank loans – secured *(note 23)*	**2.54**	**2015**	**1,834,143**			–
			2,378,067			559,545

	Group		**Company**	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Analysed into:				
Within one year	**1,183,924**	795,425	**543,924**	495,046
In the second year	**295,000**	866,719	**–**	64,499
In the third to fifth years, inclusive	**1,855,643**	645,000	**1,834,143**	–
	3,334,567	2,307,144	**2,378,067**	559,545

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

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

Original currency	US$ RMB'000	HK$ RMB'000	EUR RMB'000
As at 31 December 2012	**376,001**	–	–
As at 31 December 2011	196,794	115,930	4,228

Certain of the Group and the Company's bank loans are secured by (note 23):

i) the pledge of certain of the Group's short term time deposits amounting to RMB40,000,000 for short-term loans (2011: Nil);

ii) the pledge of certain of the Group's long term time deposits amounting to RMB1,000,000,000 for long-term loans (2011: Nil).

27. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS

Group and Company	Liability component RMB'000	Derivative component RMB'000	Total RMB'000
As at 31 December 2012			
2007 Convertible Bonds (i)	–	–	–
2009 Convertible Bonds (ii)	**8,151**	**739**	**8,890**
	8,151	**739**	**8,890**
As at 31 December 2011			
2007 Convertible Bonds (i)	24,846	13	24,859
2009 Convertible Bonds (ii)	825,329	178,416	1,003,745
	850,175	178,429	1,028,604

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

(i) 2007 Convertible Bonds

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

The principal terms of the Convertible Bonds are as follows:

Interest

The 2007 Convertible Bonds do not bear any interest.

Conversion period

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

Maturity

Unless previously redeemed or converted, the Company will redeem each 2007 Convertible Bond at 121.155% of its principal amount on the maturity date.

Redemption at the option of the Company

On and at any time after 30 April 2010 but not less than seven business days prior to the 2007 Maturity Date nor within the closed period which is defined in the 2007 Offering Circular, the Company may, having given notice of not less than 30 nor more than 60 days to the holders, redeem the 2007 Convertible Bonds in whole or in part at the early redemption amount (the "2007 Early Redemption Amount"), provided that the closing price of the Company's shares translated into United States 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, must be at least 130% of the Conversion Price in effect translated into United States dollars at the fixed exchange rate of HK$7.8175=US$1.00 on each such trading day.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

(i) 2007 Convertible Bonds *(Continued)*

Redemption at the option of the bondholders

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

The gross proceeds net of transaction costs received from the issue of the 2007 Convertible Bonds are split into the liability component and the derivative component (comprised of embedded derivatives which are considered as not closely related to the host liability component) as follows:

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

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

(b) Derivative component represents:

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

(i) 2007 Convertible Bonds *(Continued)*

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

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

Group and Company

	Liability component RMB'000	**Derivative component** RMB'000	**Total** RMB'000
2007 Convertible Bonds:			
As at 1 January 2011	24,286	1,890	26,176
Exchange realignment	(1,107)	–	(1,107)
Interest expense	1,667	–	1,667
Changes in fair value	–	(1,877)	(1,877)
As at 31 December 2011	24,846	13	24,859
Exchange realignment	**(88)**	**–**	**(88)**
Interest expense	**571**	**–**	**571**
Redemption	**(25,329)**	**(13)**	**(25,342)**
As at 31 December 2012	**–**	**–**	**–**

On the maturity date of 30 April 2012, the Company redeemed all the 2007 Convertible Bonds at 121.155% of its principal amount.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

27. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS

(Continued)

(ii) 2009 Convertible Bonds

Convertible Bonds of US$135 million were issued by the Company on 24 August 2009 (the "2009 Convertible Bonds") at an issue price of US$10,000 per Convertible Bond of US$10,000. The 2009 Convertible Bonds are listed on the Singapore Exchange Securities Trading Limited. Each of the 2009 Convertible Bonds entitles the holder to convert to one ordinary share of the Company at the initial conversion price of HK$7.00 (the "2009 Conversion Price"), but subject to anti-dilutive adjustment as stated in the offering circular on 6 August 2009 (the "2009 Offering Circular"). On 12 September 2012, the 2009 Conversion Price has been revised to HK$3.10 after an anti-dilutive adjustment.

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

Interest

The 2009 Convertible Bonds do not bear any interest.

Conversion period

The conversion period starts from at any time on or after 5 October 2009 on the Business Day falling on or immediately before the 10th day prior to 24 August 2014 (the "2009 Maturity Date").

Maturity

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

(ii) 2009 Convertible Bonds *(Continued)*

Redemption at the option of the Company

On and at any time after 24 August 2012 but not less than seven business days prior to the 2009 Maturity Date nor within the closed period which is defined in the 2009 Offering Circular, the Company may, having given notice of not less than 30 but not more than 60 days to the holders, redeem the 2009 Convertible Bonds in whole or in part at the early redemption amount (the "2009 Early Redemption Amount"), provided that the closing price of the Shares translated into United States 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 United States 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 Bond (the "2009 Bondholders") will have the right to require the Company to redeem all or some of the 2009 Convertible Bonds at the 2009 Early Redemption Amount of the initial principal amount on 24 August 2012 or on the occurrence of a change of the Company's controlling shareholders or delisting of the Company's shares.

The gross proceeds net of transaction costs received from the issue of the 2009 Convertible Bonds are split into the liability component and the derivative component (comprised of embedded derivatives which are considered as not closely related to the host liability component) as follows:

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

(ii) 2009 Convertible Bonds *(Continued)*

Redemption at the option of the bondholders (Continued)

(b) Derivative component represents:

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

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

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

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

Group and Company

	Liability component RMB'000	**Derivative component** RMB'000	**Total** RMB'000
2009 Convertible Bonds:			
As at 1 January 2011	746,391	416,535	1,162,926
Exchange realignment	(36,256)	–	(36,256)
Interest expense	115,194	–	115,194
Changes in fair value	–	(238,119)	(238,119)
As at 31 December 2011	825,329	178,416	1,003,745
Exchange realignment	**(17)**	**–**	**(17)**
Interest expense	**64,278**	**–**	**64,278**
Redemption	**(881,439)**	**(176,899)**	**(1,058,338)**
Changes in fair value	**–**	**(778)**	**(778)**
As at 31 December 2012	**8,151**	**739**	**8,890**

Notes to the Consolidated Financial Statements

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

(ii) 2009 Convertible Bonds *(Continued)*

Redemption at the option of the bondholders (Continued)

During the year ended 31 December 2012, the bondholders exercised the Early Redemption Option and required the Company to redeem US$125,660,000 of the value (equivalent to RMB795,451,000) of the issued 2009 Convertible Bonds. And also the Company repurchased US$8,190,000 of the face value (equivalent to RMB51,726,000), and the Group and the Company recognised a loss of RMB41,354,000 on the redemption in profit or loss.

28. LONG-TERM LOAN NOTES

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

Optional redemption of the Notes

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

Year	Redemption price
2014	104.250%
2015 and thereafter	102.125%

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

Optional redemption of the Notes *(Continued)*

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

During the year ended 31 December 2012, the Group and the Company repurchased for cash up to US$69,640,000 in the principal amount of its outstanding US$350,000,000 8.5% senior notes due 2016 and recognised a gain of RMB9,504,000 on repurchase in profit or loss.

29. PROVISIONS

	Group	
	2012	2011
	RMB'000	RMB'000
At 1 January	**175,743**	179,225
Additional provision	**166,999**	280,978
Amounts utilised	**(212,040)**	(284,460)
At 31 December	**130,702**	175,743
Analysis of total provision		
Current	**108,020**	150,749
Non-current	**22,682**	24,994
	130,702	175,743

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

29. PROVISIONS *(Continued)*

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

30. DEFERRED TAX

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

Deferred tax assets:

Group

	Allowance for bad and doubtful debts	Provision for product warranty	Allowance for inventories	Unrealised profit in inventories	Accrued sales rebate	Tax losses	Deferred income	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	14,793	40,153	2,926	109,112	53,103	–	–	220,087
Credited/(charged) to the profit or loss for the year	1,988	(9,147)	949	(34,289)	16,568	8,373	–	(15,558)
At 31 December 2011	**16,781**	**31,006**	**3,875**	**74,823**	**69,671**	**8,373**	**–**	**204,529**
Credited/(charged) to the profit or loss for the year	**14,978**	**(6,016)**	**1,027**	**(49,122)**	**(46,737)**	**28,885**	**10,843**	**(46,142)**
At 31 December 2012	**31,759**	**24,990**	**4,902**	**25,701**	**22,934**	**37,258**	**10,843**	**158,387**

Notes to the Consolidated Financial Statements

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30. DEFERRED TAX *(Continued)*

Deferred tax liabilities:

Group

	Fair value arising from acquisition of a subsidiary RMB'000	Withholding taxes on undistributed dividends RMB'000	Capitalised interest RMB'000	Total RMB'000
At 1 January 2011	3,600	44,070	–	47,670
(Credited)/charged to profit or loss for the year	(510)	24,976	–	24,466
At 31 December 2011	**3,090**	**69,046**	**–**	**72,136**
(Credited)/charged to profit or loss for the year	**(511)**	**6,677**	**5,342**	**11,508**
At 31 December 2012	**2,579**	**75,723**	**5,342**	**83,644**

At the end of the reporting period, certain subsidiaries of the Group have unused tax losses arising in Mainland China of RMB47,646,000 (2011: RMB69,364,000) that will expire in one to five years for offsetting against future taxable profits. No deferred tax asset has been recognised in respect of such losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the above tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

Notes to the Consolidated Financial Statements

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30. DEFERRED TAX *(Continued)*

Deferred tax liabilities: *(Continued)*

At 31 December 2012, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's certain subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totally approximately RMB303,096,000 at 31 December 2012 (2011: RMB1,165,547,000).

31. LONG-TERM LIABILITIES

Long-term liabilities represent mainly the money received from employees of the Group in advance for the construction of employees' housing which would be sold to the staff when finished.

32. DEFERRED INCOME

Deferred income represents government grants received related to assets whose useful lives are 5 or 50 years.

	2012 **RMB'000**	2011 RMB'000
Special purpose for technology improvements	**72,284**	–

The movements in government grants during the year are as follows:

	2012 **RMB'000**	2011 RMB'000
At the beginning of the year	**–**	–
Additions	**79,893**	–
Recognised as income during the year	**(7,609)**	–
At the end of the year	**72,284**	–

Notes to the Consolidated Financial Statements

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33. ISSUED CAPITAL

Shares

	2012 RMB'000	2011 RMB'000
Authorised:		
20,000,000,000 ordinary shares of HK$0.1 each	**2,000,000**	2,000,000
Issued and fully paid:		
4,280,100,000 ordinary shares of HK$0.1 each	**444,116**	444,116

34. SPECIAL RESERVE AND NON-DISTRIBUTABLE RESERVE

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 6 of the financial statements.

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 the subsidiaries established in Mainland China in accordance with the PRC laws and regulations.

Notes to the Consolidated Financial Statements

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34. SPECIAL RESERVE AND NON-DISTRIBUTABLE RESERVE *(Continued)*

(b) Company

	Share premium RMB'000	Accumulated losses RMB'000	Proposed final dividend RMB'000	Total RMB'000
Balance at 1 January 2011	982,757	(2,002,207)	355,732	(663,718)
Total comprehensive income for the year	–	1,355,196	–	1,355,196
2010 final dividend of HK$0.10 per share	–	–	(355,732)	(355,732)
2011 interim dividend of HK$0.06 per share	–	(209,397)	–	(209,397)
Proposed 2011 final dividend	–	(313,661)	313,661	–
At December 2011	982,757	(1,170,069)	313,661	126,349
Total comprehensive income for the year	**–**	**(153,707)**	**–**	**(153,707)**
2011 final dividend of HK$0.09 per share	**–**	**–**	**(313,661)**	**(313,661)**
Proposed 2012 final dividend	**–**	**–**	**–**	**–**
At 31 December 2012	**982,757**	**(1,323,776)**	**–**	**(341,019)**

35. CONTINGENT LIABILITIES

Certain sales of the Group were funded by finance leases entered into by the end-user customers and PRC domestic banks or other finance lease providers. Under the guarantee agreement entered into between the Group and the PRC domestic banks, where the end-user customers and their guarantors fail to perform their payment obligations, the Group will repurchase the equipment from the banks or other finance lease providers to settle the outstanding amounts and the related interest. As at 31 December 2012, the Group's contingent liabilities for such repurchase obligation amounted to RMB1,074,042,000 (31 December 2011: RMB1,766,799,000) (before deduction of the security deposits paid by the end-user customers and the interest on undue rent). The directors of the Company considered that the fair value of the financial guarantees as at 31 December 2012 was insignificant.

Notes to the Consolidated Financial Statements

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36. PLEDGE OF ASSETS

Details of the Group's bank loans and bills payables which are secured by the assets of the Group, are included in notes 26 and 24, respectively, to the financial statements.

37. OPERATING LEASE ARRANGEMENTS

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

At 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

Group

	2012 **RMB'000**	2011 RMB'000
Within one year	**2,866**	3,440
	2,866	3,440

38. COMMITMENTS

In addition to the operating lease commitments detailed in note 37 above, the Group had the following capital commitments at the end of the reporting period:

Group

	2012 **RMB'000**	2011 RMB'000
Contracted, but not provided for:		
Plant and machinery	**53,924**	129,240
Land and buildings	**30,695**	45,935
	84,619	175,175

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39. RELATED PARTY TRANSACTIONS

(a) The following table provides the total amounts of transactions which have been entered into with related parties during the years ended 31 December 2012 and 31 December 2011 as well as balances with related parties as at 31 December 2012 and 31 December 2011:

		Sales to related parties RMB'000 (i)	**Purchase from related parties** RMB'000 (ii)	**Amounts owed by related parties** RMB'000	**Amounts owed to related parties** RMB'000
Related parties:					
Longyan City Jinlong					
Machinery Company	2012	–	22,643	–	5,647
Limited *(note a)*	2011	–	53,246	–	12,704
Herkules (Shanghai)					
Automation Equipment	2012	1,680	15,592	265	932
Co. Ltd. *(note b)*	2011	–	–	–	–
Shanghai Refined Machinery	2012	1,082	9,089	–	1
Co. Ltd. *(note c)*	2011	–	–	–	–
Associate:					
Lonking (Xinjiang) Mechanical					
& Technical Service	2012	5,153	11,268	1,330	–
Co. Ltd. *(note d)*	2011	–	–	–	–

Notes:

note a: Mr. Ngai Ngan Gin, the brother of Madam Ngai Ngan Ying (a director of the Company), holds a controlling interest in this entity.

note b: Herkules (Shanghai) Automation Equipment Co. Ltd., a company established in the PRC with limited liability and wholly owned by Mr. Chen Jie, the son-in-law of Mr. Li San Yim, an executive director, chairman and controlling shareholder of the Company as at the date of this announcement.

note c: Shanghai Refined Machinery is wholly owned by Refined Holdings, which is in turn wholly owned by Mr. Li Bin, the son of Mr. Li San Yim who is a controlling shareholder of the Company, an executive director and the chairman of the Group.

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39. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Notes: (Continued)

note d: Established in March 2011, Lonking (Xinjiang) Mechanical & Technical Service Co., Ltd is a joint venture company invested by Xinjiang Junqi Construction Machinery Co., Ltd and Lonking (China) Machinery Sales Co., Ltd.

(i) The sales to the associates and related parties were made according to the published prices and conditions offered to the major customers of the Group.

(ii) The purchases from the associates and related parties were made according to the published prices and conditions offered by the associates to their major customers.

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

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

	2012	2011
	RMB'000	RMB'000
Short-term employee benefits	**16,568**	17,939
Pension scheme contributions	**34**	22
Total compensation paid to key management personnel	**16,602**	17,961

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40. TRANSFERS OF FINANCIAL ASSETS

a. Financial assets that are not derecognised in their entirety

During the year ended 2012, the Group served as the sales agencies' guarantor for bank acceptance bills payable which could only be issued to the Group and for factoring arrangement between the sales agencies and certain banks. At 31 December 2012, the Group endorsed the related bills receivable (the "Endorsed Bills") with a carrying amount of RMB205,882,000 (2011: RMB305,250,000) (after deduction of the security deposit undertaken by sales agencies) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). The Endorsed Bills have a maturity from one to six months at the end of the reporting period. In addition, as at 31 December 2012, the Group also provided guarantees for the sales agencies' factored accounts receivable amounting to RMB158,904,000 (31 December 2011: Nil). The Group will execute the guarantor's liabilities if the sales agencies could not repay the money to the banks. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills and accounts receivable, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills, accounts receivable and the associated trade payables settled. Subsequent to the Endorsement, the Group does not retain any rights on the use of the Endorsed Bills, including sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the associated liabilities included in other payables is RMB364,786,000 (2011: RMB305,250,000) as at 31 December 2012.

b. Financial assets that are derecognised in their entirety

At 31 December 2012, the Group endorsed certain bills receivable accepted by banks in the PRC (the "Derecognised Bills"), to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB1,327,423,000 (2011: RMB300,000,000). The Derecognised Bills have a maturity from one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the Relevant Periods, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the continuing involvement, both during the year or cumulatively. The Endorsement has been made evenly throughout the Relevant Periods.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

41. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

2012

Financial assets

	Loans and receivables RMB'000
Trade and bills receivables	2,944,444
Long-term receivables	122,478
Due from related parties	1,595
Financial assets included in prepayments, deposits and other receivables *(note 22)*	701,670
Finance lease receivables *(note 16)*	281,953
Pledged deposits *(note 23)*	1,084,286
Cash and cash equivalents	883,051
	6,019,477

Financial liabilities

	Financial liabilities at fair value through profit or loss designated as such upon initial recognition RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	1,048,340	1,048,340
Financial liabilities included in other payables and accruals *(note 25)*	–	626,305	626,305
Deposit for finance leases *(note 16)*	–	153,180	153,180
Derivative financial instruments	739	–	739
Convertible bonds	–	8,151	8,151
Long-term loan notes	–	1,762,203	1,762,203
Interest-bearing bank borrowings *(note 26)*	–	3,334,567	3,334,567
Due to related parties	–	6,580	6,580
	739	6,939,326	6,940,065

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

41. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Group *(Continued)*

2011

Financial assets

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

Financial liabilities

	Financial liabilities at fair value through profit or loss designated as such upon initial recognition RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	2,723,074	2,723,074
Financial liabilities included in other payables and accruals	–	208,644	208,644
Deposit for finance leases *(note 16)*	–	328,020	328,020
Derivative financial instruments *(note 27)*	178,429	–	178,429
Convertible bonds *(note 27)*	–	850,175	850,175
Long-term loan notes *(note 28)*	–	2,205,315	2,205,315
Interest-bearing bank borrowings *(note 26)*	–	2,307,144	2,307,144
Due to related parties *(note* 39)	–	12,704	12,704
	178,429	8,635,076	8,813,505

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

41. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Company

2012

Financial assets

	Loans and receivables RMB'000
Financial assets included in prepayments, deposits and other receivables	626
Due from subsidiaries	4,054,799
Cash and cash equivalents	60,337
	4,115,762

Financial liabilities

	Financial liabilities at fair value through profit or loss designated as such upon initial recognition RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Financial liabilities included in other payables and accruals	–	13,188	13,188
Derivative financial instruments *(note 27)*	739	–	739
Convertible bonds *(note 27)*	–	8,151	8,151
Interest-bearing bank borrowings *(note 26)*	–	2,378,067	2,378,067
Long-term loan notes *(note 28)*	–	1,762,203	1,762,203
	739	4,161,609	4,162,348

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

41. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Company *(Continued)*

2011

Financial assets

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

Financial liabilities

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

42. FAIR VALUE AND FAIR VALUE HIERARCHY

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

Group and Company

	Carrying amounts		Fair values	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial liabilities:				
Long term loan notes	**1,762,203**	2,205,315	**1,815,072**	1,941,339
Convertible bonds				
2007 convertible bonds	**–**	24,286	**–**	24,416
2009 convertible bonds	**8,151**	825,329	**8,151**	878,850

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

42. FAIR VALUE AND FAIR VALUE HIERARCHY *(Continued)*

Fair value hierarchy

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

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

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

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

Liabilities measured at fair value:

As at 31 December 2012	**Level 3** **RMB'000**
Derivative financial instruments	**739**

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

42. FAIR VALUE AND FAIR VALUE HIERARCHY *(Continued)*

Fair value hierarchy *(Continued)*

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

Derivative financial instruments:	2012 RMB'000	2011 RMB'000
At 1 January	**178,429**	418,425
Total gain recognised in the profit or loss included in other gains and losses	**(778)**	(239,996)
Redeemed	**(176,912)**	–
At 31 December	**739**	178,429

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Credit risk

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 35 to the financial statements.

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

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates related primarily to the Group's long term debt obligations with a floating interest rate.

The Group has not entered into any interest rate hedging contracts or any other similar derivative financial instruments. The management closely monitors such risks and will consider hedging significant interest rate risk exposure should the need arise. At 31 December 2012, approximately RMB2,378,067,000 (31 December 2011: RMB1,291,111,000) of the Group's interest-bearing borrowings bore interest at floating rates, with the rest at fixed rates.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk *(Continued)*

	Increase/ (decrease) in basis points	Group Increase/ (decrease) in profit before tax RMB'000	Company Increase/ (decrease) in profit before tax RMB'000
2012			
US$	**(50)**	**94**	**94**
RMB	**(50)**	**–**	**–**
US$	**50**	**(94)**	**(94)**
RMB	**50**	**–**	**–**
2011			
US$	50	(113)	(113)
RMB	50	(2,886)	–
US$	(50)	113	113
RMB	(50)	2,886	–

Foreign currency risk

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk *(Continued)*

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

	Assets		Liabilities	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
US$	**287,669**	179,797	**4,151,347**	3,260,094
HK$	**4,192**	3,090	**–**	115,933

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

	Change in foreign currency rate	Increase/(decrease) in profit before tax
	%	RMB'000
2012		
If RMB weakens against US$	**5%**	**(193,184)**
If RMB strengthens against US$	**5%**	**193,184**
If RMB weakens against HK$	**5%**	**210**
If RMB strengthens against HK$	**5%**	**(210)**
2011		
If RMB weakens against US$	5%	(154,015)
If RMB strengthens against US$	5%	154,015
If RMB weakens against HK$	5%	(5,642)
If RMB strengthens against HK$	5%	5,642

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, convertible bonds, and other interest-bearing loans. The Group's policy is that not more than 35% of the borrowings should mature in any 12-month period. 23% of the Group's debts would mature in less than one year as at 31 December 2012 (2011: 15%) based on the carrying value of borrowings reflected in the financial statements.

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

Group

2012

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Convertible bonds	–	–	–	10,105	10,105
Interest-bearing bank borrowings	–	49,913	1,256,073	2,225,260	3,531,246
Trade and bills payables	52,005	48,799	947,536	–	1,048,340
Other payables and accruals	626,305	–	–	–	626,305
Due to related parties	6,580	–	–	–	6,580
Long-term loan notes	–	–	149,787	2,211,565	2,361,352
Deposits for finance leases	113,301	–	–	39,879	153,180
Financial guarantee contracts	1,074,042	–	–	–	1,074,042
	1,872,233	98,712	2,353,396	4,486,809	8,811,150

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

Group *(Continued)*

2011

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Convertible bonds	–	–	25,414	980,927	1,006,341
Interest-bearing bank borrowings	–	43,339	777,428	1,655,109	2,475,876
Trade and bills payables	574,894	1,218,274	929,906	–	2,723,074
Other payables and accruals	208,644	–	–	–	208,644
Due to related parties	12,704	–	–	–	12,704
Long-term loan notes	–	–	187,452	2,097,863	2,285,315
Deposits for finance leases	108,026	–	–	219,994	328,020
Financial guarantee contracts	1,766,799	–	305,250	–	2,072,049
	2,671,067	1,261,613	2,225,450	4,953,893	11,112,023

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

Company

2012

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Convertible bonds	–	–	–	10,105	10,105
Interest-bearing bank borrowings	–	16,756	604,049	1,900,309	2,521,114
Other payables and accruals	13,188	–	–	–	13,188
Long-term loan notes	–	–	149,787	2,211,565	2,361,352
	13,188	16,756	753,836	4,121,979	4,905,759

2011

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Convertible bonds	–	–	25,414	980,927	1,006,341
Interest-bearing bank borrowings	–	–	511,285	70,588	581,873
Other payables and accruals	18,053	–	–	–	18,053
Long-term loan notes	–	–	187,452	2,097,863	2,285,315
	18,053	–	724,151	3,149,378	3,891,582

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 31 December 2011.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management *(Continued)*

Group

	2012	2011
	RMB'000	RMB'000
Interest-bearing bank borrowings *(note 26)*	**3,334,567**	2,307,144
Trade and bills payables	**1,048,340**	2,723,074
Other payables and accruals	**896,320**	973,513
Long-term loan notes	**1,762,203**	2,205,315
Due to related parties	**6,580**	12,704
Less: Cash and cash equivalents	**(883,051)**	(1,684,400)
Net debt	**6,164,959**	6,537,350
Convertible bonds, the liability component *(note 27)*	**8,151**	850,175
Equity attributable to owners of the parent	**6,242,428**	6,404,603
Adjusted capital	**6,250,579**	7,254,778
Adjusted capital and net debt	**12,415,538**	13,792,128
Gearing ratio	**50%**	47%

44. EVENTS AFTER THE REPORTING PERIOD

No event occurred after the end of the reporting period to 28 March 2013 that needs to be disclosed.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been authorised for issue by the board of directors on 28 March 2013.

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				
	2008	2009	2010	2011	**2012**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Result					
Profit before taxation	738,216	905,877	2,142,162	2,067,784	**275,654**
Income tax credit (expense)	(72,724)	(105,652)	(375,845)	(337,917)	**(124,081)**
Profit for the year	665,492	800,225	1,766,317	1,729,867	**151,573**
Attributable to:					
Equity holder of the parent	665,594	799,986	1,765,606	1,729,502	**151,486**
Non-controlling interests	(102)	239	711	365	**87**
	665,492	800,225	1,766,317	1,729,867	**151,573**
Dividends	239,961	169,731	314,735	565,129	**313,661**
Earnings per share-basic (RMB)	0.31	0.19	0.41	0.40	**0.04**

	As at 31 December				
	2008	2009	2010	2011	**2012**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets and Liabilities					
Total assets	7,843,395	9,766,387	13,462,521	16,140,433	**13,674,127**
Total liabilities	4,683,440	5,975,938	8,220,490	9,733,664	**7,429,446**
	3,159,955	3,790,449	5,242,031	6,406,769	**6,244,681**
Equity attributable to equity holders of the parent	3,159,104	3,789,359	5,240,230	6,404,603	**6,242,428**
Non-controlling interests	851	1,090	1,801	2,166	**2,253**
	3,159,955	3,790,449	5,242,031	6,406,769	**6,244,681**