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**LONKING 龍工**  
**LONKING HOLDINGS LIMITED**  
**中國龍工控股有限公司\***  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock code: 3339)**

**ANNOUNCEMENT OF FINAL RESULTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

The board of directors (the “Board”) of Lonking Holdings Limited (the “Company”) is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2009 (the “Year”), together with the comparative figures for the corresponding period in 2009 as follows.

**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

	<i>NOTES</i>	<b>2009</b> <b>RMB'000</b>	2008 RMB'000
Turnover	4	<b>6,901,000</b>	6,144,788
Cost of goods sold		<b>(5,283,065)</b>	(4,970,297)
Gross profit		<b>1,617,935</b>	1,174,491
Interest income		<b>14,537</b>	45,948
Other income		<b>42,116</b>	20,482
Other gains and losses	5	<b>74,884</b>	260,949
Administrative expenses		<b>(184,861)</b>	(156,366)
Distribution and selling expenses		<b>(422,469)</b>	(429,121)
Research expenditures		<b>(43,514)</b>	(16,356)
Other expenses		<b>(7,588)</b>	(6,988)
Finance costs	6	<b>(185,163)</b>	(154,823)
Profit before tax	8	<b>905,877</b>	738,216
Income tax expense	7	<b>(105,652)</b>	(72,724)
Profit for the year		<b><u>800,225</u></b>	<u>665,492</u>

\* for identification purposes only

		<b>2009</b>	2008
	<i>NOTES</i>	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Profit for the year attributable to:			
Owners of the Company		<b>799,986</b>	665,594
Minority interests		<b>239</b>	(102)
		<u><b>800,225</b></u>	<u>665,492</u>
Earnings per share – basic (RMB)	<i>10</i>	<u><b>0.37</b></u>	<u>0.31</u>
Earnings per share – diluted (RMB)	<i>10</i>	<u><b>0.35</b></u>	<u>0.21</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME***FOR THE YEAR ENDED 31 DECEMBER 2009*

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2009

	<i>NOTES</i>	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i> (Restated)
<b>Non-current assets</b>			
Property, plant and equipment		<b>2,758,437</b>	2,060,263
Prepaid lease payments		<b>221,443</b>	224,441
Finance lease receivables	<i>12</i>	<b>527,718</b>	138,748
Deferred tax assets		<b>145,839</b>	103,297
Prepayment for property, plant and equipment		<b>98,168</b>	175,421
Loan receivables		<b>13,987</b>	–
		<u><b>3,765,592</b></u>	<u>2,702,170</u>
<b>Current assets</b>			
Prepaid lease payments		<b>4,937</b>	4,939
Inventories		<b>2,334,982</b>	2,347,921
Finance lease receivables	<i>12</i>	<b>1,215,177</b>	693,411
Available-for-sale investment	<i>11</i>	–	42,755
Trade receivables	<i>13</i>	<b>340,523</b>	200,181
Bill receivables	<i>13</i>	<b>470,597</b>	343,380
Other receivables and prepayments	<i>13</i>	<b>393,109</b>	409,643
Pledged bank deposits		<b>220,293</b>	204,488
Bank balances and cash		<b>1,021,177</b>	894,507
		<u><b>6,000,795</b></u>	<u>5,141,225</u>
<b>Current liabilities</b>			
Trade payables	<i>14</i>	<b>1,009,815</b>	687,864
Bill payables	<i>14</i>	<b>1,072,267</b>	652,741
Other payables and accruals	<i>14</i>	<b>523,222</b>	385,165
Provisions		<b>145,043</b>	154,475
Amounts due to related parties		<b>22,304</b>	13,871
Tax payable		<b>91,578</b>	29,628
Bank borrowings	<i>15</i>	<b>686,718</b>	361,000
Derivative financial instruments	<i>16</i>	<b>113,498</b>	–
Convertible loan notes	<i>16</i>	<b>714,117</b>	–
		<u><b>4,378,562</b></u>	<u>2,284,744</u>
<b>Net current assets</b>		<u><b>1,622,233</b></u>	<u>2,856,481</u>
		<u><b>5,387,825</b></u>	<u><b>5,558,651</b></u>

	<i>NOTES</i>	<b>2009</b> <b>RMB'000</b>	2008 RMB'000 (Restated)
Capital and reserves			
Share capital		<b>222,058</b>	111,029
Reserves		<b>3,567,301</b>	3,048,075
		<hr/>	<hr/>
Equity attributable to owners of the Company		<b>3,789,359</b>	3,159,104
Minority interests		<b>1,090</b>	851
		<hr/>	<hr/>
Total equity		<b><u>3,790,449</u></b>	<b><u>3,159,955</u></b>
Non-current liabilities			
Deposit for finance lease	<i>12</i>	<b>116,854</b>	56,707
Convertible loan notes	<i>16</i>	<b>662,151</b>	1,476,961
Long term bank borrowings	<i>15</i>	<b>482,026</b>	637,000
Deferred tax liability		<b>25,286</b>	22,156
Derivative financial instruments	<i>16</i>	<b>311,059</b>	205,872
		<hr/>	<hr/>
		<b><u>1,597,376</u></b>	<b><u>2,398,696</u></b>
		<hr/>	<hr/>
		<b><u>5,387,825</u></b>	<b><u>5,558,651</u></b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

## 1. GENERAL

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

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

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

The consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company.

The principal activities of the Group are the manufacture and distribution of wheel loaders, road rollers, excavators, fork lifts, and other infrastructure machinery and the provision of finance lease for the infrastructure machinery.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

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

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives

HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39 and the amendment to paragraph 69 of HKAS 1

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

### **HKAS 1 (Revised 2007) Presentation of Financial Statements**

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

### **HKFRS 8 Operating Segments**

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments (see note 4).

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

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

### **HKAS 23 (Revised 2007) Borrowing Costs**

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

## **Amendments to HKAS 1 Presentation of Financial Statements**

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

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

## **Amendments to HKAS 1 Presentation of Financial Statements**

As part of Improvements to HKFRSs (2009) early adopted by the Group, HKAS 1 "Presentation of Financial Statements" has been amended to clarify the classification of liability as current or non-current. The amendment requires the entity to classify a liability as current when it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. However, terms of liability that could result in its settlement by the issue of the Group's equity instruments at the option of the counterparty do not affect its classification. The early adoption of the amendment has had no material impact on the Group's result for the reported periods.

The application of amendments of HKAS 1 (2008 and 2009) has resulted in the derivative financial instruments relating to the 2007 convertible loan notes with carrying amounts of RMB205,872,000 and RMB 305,461,000 as at 31 December 2008 and 1 January 2008 being reclassified from current to non-current. As at 31 December 2009 and 31 December 2008, the 2009 and 2007 convertible loan notes with carrying amount of approximately RMB 662,151,000 and RMB 1,476,961, and their related derivatives with carrying amount of RMB 311,059,000 and RMB 205,872,000 have been presented as non-current based on the earliest date that the Group is required to transfer cash or other assets.

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

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2009 <sup>2</sup> except for the amendment to paragraph 69 of HKAS 1
HKAS 24 (Revised)	Related Party Disclosures <sup>5</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>1</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>4</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>1</sup>
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters <sup>3</sup>
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>6</sup>
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions <sup>3</sup>

HKFRS 3 (Revised)	Business Combinations <sup>1</sup>
HKFRS 9	Financial Instruments <sup>7</sup>
HK (IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>5</sup>
HK (IFRIC)-Int 17	Distribution of Non-cash Assets to Owners <sup>1</sup>
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>6</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009.

<sup>2</sup> Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2010.

<sup>4</sup> Effective for annual periods beginning on or after 1 February 2010.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2011.

<sup>6</sup> Effective for annual periods beginning on or after 1 July 2010.

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2013.

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

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

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

### **3. SIGNIFICANT ACCOUNTING POLICIES**

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

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

#### 4. SEGMENT INFORMATION

Segment information about these businesses is presented below:

**2009**

##### SEGMENT REVENUE AND RESULTS

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

##### SEGMENT ASSETS AND LIABILITIES

<b>Assets</b>			
Segment assets	6,592,762	1,786,316	8,379,078
Unallocated assets			<u>1,387,309</u>
Total consolidated assets			<u><b>9,766,387</b></u>
<b>Liabilities</b>			
Segment liabilities	1,779,580	1,109,925	2,889,505
Unallocated liabilities			<u>3,086,433</u>
Total consolidated liabilities			<u><b>5,975,938</b></u>

2008

SEGMENT REVENUE AND RESULTS

	Sales of construction machinery <i>RMB'000</i>	Interest income on finance lease of construction machinery <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment Revenue</b>			
Sales of goods	4,716,311	–	4,716,311
Finance lease sales	<u>1,374,984</u>	<u>53,493</u>	<u>1,428,477</u>
	<u><u>6,091,295</u></u>	<u><u>53,493</u></u>	<u><u>6,144,788</u></u>
<b>Segment profit</b>			
	530,057	36,499	<u>566, 556</u>
Unallocated interest income			45,948
Unallocated other gains and losses			291,577
Unallocated expenses			(11,042)
Finance costs			<u>(154,823)</u>
Profit before tax			738,216
Income tax expense			<u>(72,724)</u>
Profit for the year			<u><u>665,492</u></u>
<b>SEGMENT ASSETS AND LIABILITIES</b>			
<b>Assets</b>			
Segment assets	5,734,991	863,357	6,598,348
Unallocated assets			<u>1,245,047</u>
Total consolidated assets			<u><u>7,843,395</u></u>
<b>Liabilities</b>			
Segment liabilities	1,772,801	178,022	1,950,823
Unallocated liabilities			<u>2,732,617</u>
Total consolidated liabilities			<u><u>4,683,440</u></u>

**Geographical information**

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

## 5. OTHER GAINS AND LOSSES

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Gain on disposal of available-for-sale investment ( <i>note 11</i> )	82,719	–
Gain on disposal of property, plant and equipment	787	988
Exchange realignment from convertible loan notes	7,392	123,587
Foreign exchange gains (losses)	4,269	(29,332)
Change in fair value of derivative financial instruments	(67,759)	53,961
Gain on repurchase of convertible loan notes	81,614	126,960
Allowance for bad and doubtful debts	(34,138)	(15,215)
	<u>74,884</u>	<u>260,949</u>

## 6. FINANCIAL COSTS

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

## 7. INCOME TAX EXPENSE

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

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

	2009		2008	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Profit before taxation	<u>905,877</u>	-	<u>738,216</u>	-
Tax at the domestic tax rate of 25% (2008:25%)	226,469	25	184,554	25.0
Tax effect of income that are not taxable for tax purpose	(20,790)	(2.3)	(73,596)	(10.0)
Tax effect of expenses that are not deductible for tax purpose	45,162	5.0	38,428	5.2
Tax effect of tax losses not recognized	2,566	0.3	9,835	1.3
Utilisation of tax losses previously not recognised	-	-	(3,921)	(0.5)
Over provision in respect of prior years	(1,889)	(0.2)	(185)	(0.0)
Deferred tax charged at different income tax rate	(6,455)	(0.7)	(1,690)	(0.2)
Effect of withholding tax	4,895	0.5	16,485	2.2
Effect of tax exemptions and income tax on concessionary rate granted to PRC subsidiaries	<u>(144,306)</u>	<u>(15.9)</u>	<u>(97,186)</u>	<u>(13.2)</u>
Tax charge and effective tax rate for the year	<u>105,652</u>	<u>11.7</u>	<u>72,724</u>	<u>9.9</u>

## 8. PROFIT BEFORE TAX

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

*Note:* The government grants in 2009 represent incentives granted to three of the Group entities in PRC and approved by the local government which have been received in 2009. There are no unfulfilled conditions and other contingencies attaching to the government grants.

## 9. DIVIDENDS

	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
Dividends recognised as distribution during the year:		
2008 final of HKD0.05 per share (2007 final: 0.12 HKD)	<b>47,183</b>	116,156
2009 interim of HKD0.065 per share (2008 interim: 0.13 HKD)	<b>122,548</b>	123,805
	<b>169,731</b>	239,961

In the annual general meeting held on 15 May 2009, a final dividend of HKD0.05 (2008: HKD0.12) per share in respect of the year ended 31 December 2008 was approved by the shareholders and subsequently paid to the shareholders of the Company.

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

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

## 10. EARNINGS PER SHARE

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

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

## 11. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Listed investments:		
– Equity securities listed in PRC	<u>–</u>	<u>42,755</u>

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

## 12. FINANCE LEASE RECEIVABLES

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

	Minimum lease payments		Present value of minimum lease payments	
	2009 <i>RMB'000</i>	2008 <i>RMB\$'000</i>	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Finance lease receivables comprise:				
Within one year	1,313,168	738,135	1,215,177	693,411
In more than one year but not more than two years	386,707	130,976	369,296	126,101
In more than two years but not more than five years	<u>165,287</u>	<u>14,020</u>	<u>158,422</u>	<u>12,647</u>
	1,865,162	883,131	1,742,895	832,159
Less: unearned finance income	<u>122,267</u>	<u>50,972</u>	<u>–</u>	<u>–</u>
Present value of minimum lease payment receivables	<u>1,742,895</u>	<u>832,159</u>	<u>1,742,895</u>	<u>832,159</u>
Analysed as:				
Current			1,215,177	693,411
Non-current			<u>527,718</u>	<u>138,748</u>
			<u>1,742,895</u>	<u>832,159</u>

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

Effective interest rates of the above finance leases range from 6.8% to 9.5% per annum.

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

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

	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
Current	<b>165,774</b>	108,638
Non-current	<b>116,854</b>	56,707
	<b><u>282,628</u></b>	<b><u>165,345</u></b>

### 13. TRADE RECEIVABLES, BILL RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

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

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

The aged analysis of trade receivables is as follows:

	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
0 - 90 days	<b>321,388</b>	138,439
91 - 180 days	<b>12,850</b>	38,221
181 - 270 days	<b>6,091</b>	16,485
271 days to 1 year	<b>194</b>	7,036
	<b><u>340,523</u></b>	<b><u>200,181</u></b>

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

#### 14. TRADE PAYABLES, BILL PAYABLES, OTHER PAYABLES AND ACCRUALS

The aged analysis of trade payables is as follows:

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

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

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

## 15. BORROWINGS

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

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

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

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

Original currency	USD <i>RMB'000</i>	EURO <i>RMB'000</i>
As at 31 December 2009	<u>83,851</u>	<u>1,149</u>
As at 31 December 2008	<u>–</u>	<u>–</u>

## 16. CONVERTIBLE LOAN NOTES AND DERIVATIVE FINANCIAL INSTRUMENTS

### i) 2007 Convertible loan notes

Convertible Loan Notes of US\$287 million were issued by the Company on 30 April 2007 (“2007 Convertible Loan Notes”) at an issue price of US\$10,000 per Convertible Loan Note of US\$10,000. The 2007 Convertible Loan Notes are listed on the Singapore Exchange Securities Trading Limited. Each Convertible Loan Note entitles the holder to convert to one ordinary share of the Company at the initial conversion price of HK\$20.4525 (the “2007 Conversion Price”), but subject to anti-dilutive adjustment as stated in the offering circular on 27 April 2007 (“2007 Offering Circular”). On 20 November 2009, the conversion price has been revised to HK\$9.54 after anti-dilutive adjustment.

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

	<b>Liability component</b>	<b>Derivative component</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
2007 Convertible Loan Notes:			
As at 31 December 2007	1,843,920	305,461	2,149,381
Exchange realignment	(123,587)	–	(123,587)
Effective interest expense charged during the period	136,406	–	136,406
Re-purchased and cancelled	(379,778)	(51,453)	(431,231)
Changes in fair value	–	(48,136)	(48,136)
	<u>1,476,961</u>	<u>205,872</u>	<u>1,682,833</u>
As at 31 December 2008			
Exchange realignment	(7,137)	–	(7,137)
Effective interest expense charged during the period	82,010	–	82,010
Re-purchased and cancelled	(837,717)	(126,213)	(963,930)
Changes in fair value	–	33,839	33,839
	<u>714,117</u>	<u>113,498</u>	<u>827,615</u>
As at 31 December 2009			

**ii) 2009 Convertible Loan Notes**

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

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

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

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **RESULT AND BUSINESS REVIEW**

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

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

### **ANALYSIS OF PRODUCTS**

#### **Wheel Loaders**

The revenue generated from wheel loader represented approximately 73% of total Group's turnover which was 13% lower than that of last year (2008: approximately 86% of total Group's turnover). It was because that the Company increased marketing effort of other core products such as excavators, road roller and fork lifts.

## **Excavators**

Overall excavators series continued to grow in units sold and revenue. Revenue of excavators increased by 247.18% in 2009 compared to 2008 and it is expected that this trend will continue. Sales from excavators have a substantial positive impact on revenue and gross margin percentage. We will continue our efforts in improvement of this product's design and technology while good pricing strategy at the same time to maintain our competitive advantage in this yield.

## **Road Roller and Fork Lifts**

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

## **Components**

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

## **Finance Lease Interest**

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

## **FINANCIAL REVIEW**

### **Cash and Bank Balance**

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

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

## **Liquidity and Financial Resources**

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

The current ratio of the Group at 31 December 2009 was 1.37 (31.12.2008: 2.25). The inventory turnover increased to 162 days (31.12.2008: 141 days). It was mainly attributed to that the Group maintained a comparably higher level of the finished goods at the year end with an expected high demand in first quarter of 2010 . The Directors believed that the Group will be in a strong and healthy position and has sufficient resources in support of its working capital requirement and meet its foreseeable capital expenditure.

## **Capital Structure**

During the year, 1,070,025,000 ordinary shares were issued and allotted on 8 June, 2009 pursuant to an ordinary resolution passed at annual general meeting on 29 May 2009. The Company had 2,140,050,000 shares in issue with total shareholder's fund of the Group amounting to approximately RMB3,790 million.

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

The Company repurchase back issued Convertible Bonds Notes in total principal amount of USD124,650,000 (equivalent to RMB851,610,000), which recognised RMB81,614,000 gain on the repurchase in the consolidated income statement. The Directors consider that the exercise of the Convertible Bonds Notes repurchase did not have a material adverse impact on the working capital or gearing level of the Company.

As at 31 December 2009, the Gross Debt to Equity ratio, defined as total non-current liabilities (excluding deferred tax liability) over total equity was approximately 41.47% (31 December 2008: 75.21%).

## **Capital Commitment**

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

## **PROSPECT**

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

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

## **CORPORATE GOVERNANCE**

### **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 emphasizes 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 had during the year complied with all the applicable code provisions of the Code as set out in Appendix 14 to the Listing Rules

### **Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers**

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.

### **Audit Committee**

The audit committee, together with the management and the external auditors, has reviewed constantly the accounting principles and practices adopted by the Group, discussed auditing, internal control and financial reporting matters and reviewed the financial results of the Group.

The annual results for the year ended 31 December 2009 have been reviewed by the audit committee of the Company.

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

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

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

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

## **DIVIDENDS**

An interim dividend of HKD0.065 per share amounting to HKD139 million (equivalent to RMB123 million) was paid to the shareholders during the year. The board of directors (the "Board") has proposed a final dividend of HKD0.07 per ordinary share for the year ended 31 December 2009.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Tuesday, 26 May 2010 to Friday, 28 May 2010, both days inclusive, during which period no transfers of shares will be effected. To determine entitlement to the final dividend and in order to qualify for the Bonus Issue, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Computershare Hong Kong Investor Services Ltd (at shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong), for registration not later than 4:30 p.m. on Monday, 28 May 2010.

## **SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU**

The figures in respect of the Group's consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December, 2009 as set out in the Preliminary Announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2009. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the Preliminary Announcement.

## **PUBLICATION OF FINANCIAL INFORMATION**

This preliminary results announcement and the annual report will be dispatched to the shareholders at the appropriate time and will be at the same time be published on the Stock Exchange's website ([www.hkex.com.hk](http://www.hkex.com.hk)) as well as the Company's website ([www.lonking.cn](http://www.lonking.cn)).

By Order of the Board  
**Lonking Holdings Limited**  
**Li San Yim**  
*Chairman*

Hong Kong, 30 March 2010

*As at the date of this announcement, Mr. Li San Yim, Mr. Qiu Debo, Mr. Luo Jianru, Dr. Mou Yan Qun, Mr. Chen Chao, Mr. Lin Zi-tong Ming are the executive directors of the Company, Ms. Ngai Ngan Ying and Ms. Fang Deqin are the non-executive directors of the Company and Mr. Pan Longqing, Dr. Qian Shizheng and Mr. Han Xuesong are the independent non-executive directors of the Company.*