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 2010

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 2010 (the "Period"), together with the comparative figures for the corresponding period in 2009 as follows.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTES	2010 RMB'000	2009 RMB'000
Turnover	4	**12,019,933**	6,901,000
Cost of goods sold		**(8,593,391)**	(5,283,065)
Gross profit		**3,426,542**	1,617,935
Investment income		**10,058**	14,537
Other income		**48,068**	42,116
Other gains and losses	5	**(13,540)**	74,884
Administrative expenses		**(246,826)**	(184,861)
Distribution and selling expenses		**(616,665)**	(422,469)
Research expenditures		**(241,200)**	(43,514)
Other expenses		**(18,265)**	(7,588)
Finance costs	6	**(206,010)**	(185,163)
Profit before tax	8	**2,142,162**	905,877
Income tax expense	7	**(375,845)**	(105,652)
Profit for the year		**1,766,317**	800,225

* *for identification purposes only*

	NOTES	**2010** *RMB'000*	2009 *RMB'000*
Other comprehensive income			
Fair value gain on available-for-sale financial assets		**–**	82,719
Reclassification adjustments for the cumulative gain upon disposal of available-for-sale financial assets		**–**	(82,719)
Total comprehensive income for the year		**1,766,317**	800,225
Profit for the year attributable to:			
Owners of the Company		**1,765,606**	799,986
Non-controlling interests		**711**	239
		1,766,317	800,225
Total comprehensive income attributable to:			
Owners of the Company		**1,765,606**	799,986
Non-controlling interests		**711**	239
		1,766,317	800,225
Earnings per share – basic (RMB)	10	**0.41**	0.19
Earnings per share – diluted (RMB)	10	**0.39**	0.18

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	NOTES	**2010** *RMB'000*	2009 *RMB'000*
Non-current assets			
Property, plant and equipment		**3,034,171**	2,758,437
Prepaid lease payments		**194,721**	221,443
Finance lease receivables		**2,344,321**	527,718
Deferred tax assets		**220,087**	145,839
Deposits for property, plant and equipment		**128,942**	98,168
Loan receivables		**20,736**	13,987
		5,942,978	3,765,592
Current assets			
Prepaid lease payments		**4,479**	4,937
Inventories		**3,539,417**	2,334,982
Finance lease receivables	*11*	**935,699**	1,215,177
Trade receivables	*12*	**980,959**	340,523
Bill receivables		**799,688**	470,597
Other receivables and prepayments		**624,739**	393,109
Pledged bank deposits		**328,327**	220,293
Bank balances and cash		**306,235**	1,021,177
		7,519,543	6,000,795
Current liabilities			
Trade payables	*13*	**1,623,545**	1,009,815
Bill payables		**1,450,222**	1,072,267
Other payables and accruals		**787,957**	523,222
Provisions		**179,225**	145,043
Amounts due to related parties		**7,035**	22,304
Tax liabilities		**221,867**	91,578
Bank borrowings	*14*	**1,471,658**	686,718
Derivative financial instruments		**–**	113,498
Convertible loan notes	*15*	**–**	714,117
		5,741,509	4,378,562
Net Current Assets		**1,778,034**	1,622,233
Total Assets less Current Liabilities		**7,721,012**	5,387,825

	NOTES	**2010** RMB'000	2009 RMB'000
Capital and reserves			
Share capital		**444,116**	222,058
Share premium and Reserves		**4,796,114**	3,567,301
Equity attributable to owners of the Company		**5,240,230**	3,789,359
Non-controlling interests		**1,801**	1,090
Total Equity		**5,242,031**	3,790,449
Non-current liabilities			
Deposits for finance lease		**271,214**	116,854
Convertible loan notes	*15*	**770,677**	662,151
Long term bank borrowings		**970,995**	482,026
Deferred tax liabilities		**47,670**	25,286
Derivative financial instruments		**418,425**	311,059
		2,478,981	1,597,376
		7,721,012	5,387,825

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

1. GENERAL

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 that are measured at fair values, as explained in the accounting policies set out below.

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

4. SEGMENT INFORMATION

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

2010

SEGMENT REVENUE AND RESULTS

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

SEGMENT ASSETS AND LIABILITIES

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

2009

SEGMENT REVENUE AND RESULTS

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

SEGMENT ASSETS AND LIABILITIES

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

5. OTHER GAINS AND LOSSES

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

6. FINANCIAL COSTS

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

7. INCOME TAX EXPENSE

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

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

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

8. PROFIT BEFORE TAX

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

9. DIVIDENDS

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

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

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

A final dividend of HKD0.1 (Equivalent to RMB0.08 per ordinary share for the year ended 31 December 2010 has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting to be held on 20 May 2011.

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:

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

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

11. FINANCE LEASE RECEIVABLES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14. BORROWINGS

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

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

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

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

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

15. CONVERTIBLE LOAN NOTES AND DERIVATIVE FINANCIAL INSTRUMENTS

i) 2007 Convertible loan notes

Convertible Loan Notes of USD287 million were issued by the Company on 30 April 2007 ("2007 Convertible Loan Notes") at an issue price of USD10,000 per Convertible Loan Note of USD10,000. 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 HKD20.4525 (the "2007 Conversion Price"), but subject to anti-dilutive adjustment as stated in the offering circular on 27 April 2007 ("2007 Offering Circular"). On 30 November 2010, the conversion price has been revised to HKD4.62 after anti-dilutive adjustment.

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

Interest

The 2007 Convertible Loan Notes do not bear any interest.

Conversion period

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

Maturity

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

Redemption at the Option of the Company

On and at any time after 30 April 2010 but not less than seven business days prior to the 2007 Maturity Date nor within the closed period which is defined in the 2007 Offering Circular, the Company may, having given not less than 30 nor more than 60 days' notice to the holders, redeem the 2007 Convertible Loan Notes in whole or in part at the early redemption amount ("2007 Early Redemption Amount") at 112.203% of their principal amount, provided that no such redemption may be made unless the closing price of the Company shares translated into US dollars at the prevailing exchange rate for each of any 20 trading days falling within a period of 30 consecutive trading days, the last day of which period occurs no more than 5 trading days prior to the date upon which notice of such redemption is given, was at least 130% of the Conversion Price in effect translated into US dollars at the fixed exchange rate of HKD7.8175=USD1.00 on each such stock exchange business day.

Redemption at the Option of the bondholders

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

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

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

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

(ii) Derivative component represents:

(i) The fair value of the option of 2007 Bondholders to convert the 2007 Convertible Loan Notes into shares of the Company at an initial conversion price of HKD20.4525 per ordinary share of HKD0.1 each in the share capital of the Company ("Share") and subject to anti-dilutive adjustments.

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

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

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

	Liability component	**Derivative component**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
2007 Convertible Loan Notes:			
As at 31 December 2008	1,476,961	205,872	1,682,833
Exchange realignment	(7,137)	–	(7,137)
Effective interest expense charged	82,010	–	82,010
Re-purchased and cancelled	(837,717)	(126,213)	(963,930)
Changes in fair value	–	33,839	33,839
As at 31 December 2009	714,117	113,498	827,615
Exchange realignment	982	–	982
Effective interest expense charged	19,139	–	19,139
Redeemed and cancelled	(709,952)	(91,512)	(801,464)
Changes in fair value	–	(20,096)	(20,096)
As at 31 December 2010	24,286	1,890	26,176

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

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

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

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

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

ii) 2009 Convertible Loan Notes

Another Convertible Loan Notes of USD135 million were issued by the Company on 24 August 2009 ("2009 Convertible Loan Notes") at an issue price of USD10,000 per Convertible Loan Note of USD10,000. 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 HKD7.00 (the "2009 Conversion Price"), but subject to anti-dilutive adjustment as stated in the offering circular on 6 August 2009 ("2009 Offering Circular"). On 30 November 2010, the conversion price has been revised to HKD3.34 after anti-dilutive adjustment.

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

Interest

The 2009 Convertible Loan Notes do not bear any interest.

Conversion period

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

Maturity

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

Redemption at the Option of the Company

On and at any time after 24 August 2012 but not less than seven business days prior to the 2009 Maturity Date nor within the closed period which is defined in the 2009 Offering Circular, the Company may, having given not less than 30 nor more than 60 days' notice to the holders, redeem the 2009 Convertible Loan Notes in whole or in part at the early redemption amount ("2009 Early Redemption Amount"), provided that no such redemption may be made unless the closing price of the Shares translated into US dollars at the prevailing exchange rate for each of any 20 trading days falling within a period of 30 consecutive trading days, the last day of which period occurs no more than 5 trading days prior to the date upon which notice of such redemption is given, was at least 130% of the Conversion Price in effect translated into US dollars at the fixed exchange rate of HKD7.815=USD1.00 on each such trading day.

Redemption at the Option of the bondholders

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

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

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

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

(ii) Derivative component represents:

    (i) The fair value of the option of 2009 Bondholders to convert the 2009 Convertible Loan Notes into shares of the Company at an initial conversion price of HKD7.00 per ordinary Share and subject to anti-dilutive adjustments.

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT AND BUSINESS REVIEW

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

During the year, the northern regions of the PRC continuously remained as the Company's principal marketing regions and represented approximately 19.69% of our total turnover, the demand for equipment for use in mines in this areas remained strong. Supported by the Chinese government's economic stimulus package, public works have become active, sales in central and southern regions increased by 180.94% and 185.39% from the previous fiscal year to RMB1,992 million and RMB1,353 million respectively, representing approximately 16.58% and 11.26% of our total turnover for the period as compared to only 10.31% and 6.87% of our total turnover over the same period of 2009. In response to expanding market, we will continued efforts to further the relationship with the distributors in both central and southern areas. South western of the PRC showed a stable growth of 32.92% this year, representing approximately 12.32% of our total turnover respectively for the year (2009: 16.14%). Sales from eastern, northwestern and northeastern regions increased around 50.34%, 78.67% and 69.04% respectively, representing around 32.02% of our total turnover for the year which was nearly same as last year (2009: 33.91%). We see a sign of recovery in the demand for our equipment in the overseas market.

ANALYSIS OF PRODUCTS

Wheel Loaders

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

EXCAVATORS

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

FORK LIFTS AND ROAD ROLLERS

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

COMPONENTS

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

FINANCE LEASE INTEREST

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

FINANCIAL REVIEW

Cash and Bank Balance

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

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

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

Liquidity and Financial Resources

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

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

Capital Structure

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

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

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

PROSPECT

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

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

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

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 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 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 2010 have been reviewed by the audit committee of the Company.

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

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

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

DIVIDENDS

An interim dividend of HKD0.10 per share amounting to HKD214 million (equivalent to RMB184 million) was paid to the shareholders during the year. The board of directors (the "Board") has proposed a final dividend of HKD0.10 per ordinary share for the year ended 31 December 2010.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 18 May 2011 to Friday, 20 May 2011, 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, 17 May 2011.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December, 2010 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 2010. 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 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) as well as the Company's website (www.lonking.cn).

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

Hong Kong, 20 March 2011

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 Zhong Ming and Ms. Fang Deqin are the executive directors of the Company, Ms. Ngai Ngan Ying is 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.