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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)

**PRELIMINARY ANNOUNCEMENT OF INTERIM RESULTS
 FOR THE SIX MONTHS ENDED 30 JUNE 2009**

The board of directors (the “Board”) of Lonking Holdings Limited (the “Company” or “China Longgong”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2009 (the “Period”) together with the comparative figures for the corresponding period in 2008. The Group’s interim results for the Period is unaudited, but have been reviewed by the Company’s auditor, Deloitte Touche Tohmatsu and approved by the audit committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2009

		Six months ended	
	<i>NOTES</i>	30.6.2009	30.6.2008
		RMB’000	RMB’000
		(Unaudited)	(Unaudited)
Turnover	3	3,573,351	3,990,856
Cost of sales		(2,852,205)	(3,146,348)
Gross profit		721,146	844,508
Interest income		5,920	32,327
Other income		25,863	17,362
Other gains and losses	4	56,042	193,342
Administrative expenses		(114,582)	(90,006)
Selling and distribution costs		(196,760)	(250,341)
Other expenses		(468)	(6,108)
Finance costs	5	(91,800)	(71,482)
Profit before tax		405,361	669,602
Income tax expense	6	(44,153)	(65,791)
Profit for the period	7	361,208	603,811
Attributable to:			
Owners of the Company		361,175	603,679
Minority interests		33	132
		361,208	603,811
Earnings per share			
Basic (RMB)	9	0.17	0.28
Diluted (RMB)	9	0.15	0.20

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Six months ended	
	30.6.2009	30.6.2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period	361,208	603,811
Other comprehensive income		
Fair value gain on available-for-sale financial assets	49,555	—
Deferred tax liabilities arising from fair value gain on available-for-sale financial assets	(6,194)	—
Total comprehensive income for the period	<u>404,569</u>	<u>603,811</u>
Total comprehensive income attributable to:		
Owners of the Company	404,536	603,679
Minority interests	<u>33</u>	<u>132</u>
	<u>404,569</u>	<u>603,811</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2009

	NOTES	2009.06.30 RMB'000 (Unaudited)	2008.12.31 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		2,393,820	2,060,263
Lease premium for land – non current portion		223,341	224,441
Finance lease receivables		285,114	138,748
Deferred tax assets		91,261	103,297
Deposit paid for property, plant and equipment		187,941	175,421
		<u>3,181,477</u>	<u>2,702,170</u>
Current assets			
Lease premium for land – current portion		4,928	4,939
Inventories		1,659,773	2,347,921
Finance lease receivables		965,602	693,411
Available-for-sale investment		92,310	42,755
Other receivables and prepayments		245,650	409,643
Trade receivables	10	784,602	200,181
Bill receivables	11	237,816	343,380
Pledged bank deposits	14	1,068,327	204,488
Bank balances and cash		384,990	894,507
		<u>5,443,998</u>	<u>5,141,225</u>
Current liabilities			
Trade payables	12	852,904	687,864
Bill payables	12	317,584	652,741
Other payables and accruals		394,786	414,307
Provisions		164,580	154,475
Amounts due to related parties		16,414	13,871
Tax payable		43,347	29,628
Bank borrowings	13	1,106,682	361,000
Derivative financial instruments	15	142,834	205,872
Convertible loan notes	15	1,093,998	–
		<u>4,133,129</u>	<u>2,519,758</u>
Net current assets		<u>1,310,869</u>	<u>2,621,467</u>
		<u>4,492,346</u>	<u>5,323,637</u>
Capital and reserves			
Share capital		222,058	111,029
Reserves		3,294,399	3,048,075
Equity attributable to owners of the Company		<u>3,516,457</u>	<u>3,159,104</u>
Minority interests		884	851
Total equity		<u>3,517,341</u>	<u>3,159,955</u>
Non-current liabilities			
Deposit for finance lease		37,020	27,565
Convertible loan notes	15	–	1,476,961
Long term bank borrowings	13	915,319	637,000
Deferred tax liabilities		22,666	22,156
		<u>975,005</u>	<u>2,163,682</u>
		<u>4,492,346</u>	<u>5,323,637</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2009

1. BASIS OF PRESENTATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2000 Revision) Chapter 22 of the Cayman Islands on 11 May 2004 and its shares have been listed on the Main Board of the Stock Exchange since 17 November 2005. In the opinion of the directors, the immediate and ultimate holding company of the Company is China Longgong Group Holdings Limited, a limited liability company incorporated in the British Virgin Islands.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as appropriate.

In the current interim period, the Group has applied, for the first time, the following new and revised Hong Kong Accounting Standards (“HKASs”), amendments and the related Interpretations (“IFRICs”) (“new and revised HKFRSs”) issued by HKICPA, which are effective for the Group’s financial year beginning on 1 January 2009.

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
Hong Kong Financial Reporting Standards (“HKFRS”) 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	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
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 of HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008 except for the adoption of HKAS 23 (Revised 2007) Borrowing Costs, HKAS 1 (Revised 2007) and HKFRS 8.

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 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.

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (Revised 2007) has had no impact on the reported results or financial position of the Group.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure Standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor Standard, HKAS 14 Segment Reporting, required the identification of two sets of segments (business and geographical) using a risks and returns approach. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see note 3).

The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new or 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 issued in 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ²
HKAS 27 (Revised in 2008)	Consolidated and Separate Financial Statements ¹
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ⁴
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ⁴
HKFRS 3 (Revised in 2008)	Business Combinations ¹
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC) – Int 18	Transfers of Assets from Customers ³

¹ Effective for annual periods beginning on or after 1 July 2009

² Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate

³ Effective for transfers on or after 1 July 2009

⁴ Effective for annual periods beginning on or after 1 January 2010

The adoption of HKFRS 3 (Revised 2008) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. the chief executive officer) in order to allocate resources to segments and to assess their performance. In contrast, the predecessor Standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14, nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

The following is an analysis of the Group's revenue and results by operating segment for the period under review:

For the six months ended 30 June 2009

	Sales of construction machinery RMB'000	Finance lease of construction machinery RMB'000	Total RMB'000
REVENUE			
Sales of goods	2,365,828	–	2,365,828
Finance lease sales	<u>1,159,849</u>	<u>47,674</u>	<u>1,207,523</u>
	<u>3,525,677</u>	<u>47,674</u>	<u>3,573,351</u>
RESULT			
Segment result	405,218	31,933	437,151
Unallocated interest income			5,920
Unallocated other income, gains and losses			59,244
Unallocated corporate expenses			(5,154)
Finance costs			<u>(91,800)</u>
Profit before tax			<u>405,361</u>
At 30 June 2009			
Assets			
Segment assets	5,709,681	1,278,906	6,988,587
Unallocated assets			<u>1,636,888</u>
Total consolidated assets			<u>8,625,475</u>
Liabilities			
Segment liabilities	1,566,118	217,170	1,783,288
Unallocated liabilities			<u>3,324,846</u>
Total consolidated liabilities			<u>5,108,134</u>

For the six months ended 30 June 2008

	Sales of construction machinery <i>RMB'000</i>	Finance lease of construction machinery <i>RMB'000</i>	Total <i>RMB'000</i>
REVENUE			
Sales of goods	3,231,545	–	3,231,545
Finance lease sales	<u>746,803</u>	<u>12,508</u>	<u>759,311</u>
	<u><u>3,978,348</u></u>	<u><u>12,508</u></u>	<u><u>3,990,856</u></u>
RESULT			
Segment result	505,467	18,427	523,894
Unallocated interest income			32,327
Unallocated other income, gains and losses			190,290
Unallocated corporate expenses			(5,427)
Finance costs			<u>(71,482)</u>
Profit before tax			<u><u>669,602</u></u>
At 31 December 2008			
Assets			
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>
Liabilities			
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>

Segment profit represents the profit earned by each segment without allocation of interest income, other income, gains and losses, central administration cost, directors' salaries, finance costs. This is the measure reported to the chief executive officer for the purposes of resource allocation and performance assessment.

The following is an analysis of the sales of construction machinery by products and finance lease interest income:

	Six months ended			
	30.6.2009		30.6.2008	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Wheel loaders	2,672,328	74.8	3,539,593	88.7
Excavators	390,149	10.9	107,801	2.7
Road rollers	138,114	3.9	80,384	2.0
Fork lifts	117,053	3.3	78,852	2.0
Others	208,033	5.8	171,718	4.3
Subtotal	3,525,677	98.7	3,978,348	99.7
Finance lease interest income	47,674	1.3	12,508	0.3
Total	<u>3,573,351</u>	<u>100.0</u>	<u>3,990,856</u>	<u>100.0</u>

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

4. OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2009	30.6.2008
	<i>RMB'000</i>	<i>RMB'000</i>
Change in fair value of derivative financial instruments	4,140	86,640
Gain on repurchase of convertible loan notes	48,960	—
Exchange realignment from convertible loan notes	7,259	114,591
(Loss) gain on disposal of property, plant and equipment	(2,397)	386
Foreign exchange losses	(1,920)	(11,435)
Change in fair value of other financial assets	—	3,160
	<u>56,042</u>	<u>193,342</u>

5. FINANCE COSTS

	Six months ended	
	30.6.2009	30.6.2008
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans, overdraft and other borrowings wholly paid within five years	42,482	3,702
Effective interest expense on convertible loan notes	49,318	67,780
	<u>91,800</u>	<u>71,482</u>

6. INCOME TAX EXPENSE

Six months ended
30.6.2009 30.6.2008
RMB'000 **RMB'000**

The charge (credit) comprises:

Current tax		
PRC Enterprise Income Tax	37,171	75,563
Under (over) provision in prior year		
PRC Enterprise Income Tax	630	(208)
Deferred tax	<u>6,352</u>	<u>(9,564)</u>
Income tax expense	<u>44,153</u>	<u>65,791</u>

The PRC Enterprise Income Tax is recognised based on management's best estimate of annual income tax rate expected for each subsidiary for the full financial year.

The tax charge for each of the six months ended 30 June 2009 and 2008 can be reconciled to the profit before tax in the condensed consolidated income statement as follows:

	Six months ended			
	30.6.2009		30.6.2008	
	RMB'000	%	RMB'000	%
Profit before tax	<u>405,361</u>		<u>669,602</u>	
Tax at the domestic tax rate of 25%	101,340	25.00	167,400	25.00
Effect of tax exemptions and relief granted to PRC subsidiaries	(52,402)	(12.93)	(79,980)	(11.94)
Tax effect of expenses not deductible for tax purposes	14,774	3.64	34,376	5.13
Tax effect of income not taxable for tax purposes	(15,090)	(3.72)	(63,129)	(9.43)
Under (over) provision in prior year	630	0.16	(208)	(0.03)
Tax effect of deferred tax assets not recognised	–	–	946	0.14
Tax effect of tax losses not recognised	11,518	2.84	706	0.11
Recognition of deferred tax assets on tax losses previously not recognised	–	–	(4,584)	(0.68)
Utilisation of tax losses previously not recognised	–	–	(507)	(0.08)
Deferred tax charge at different income tax rate	(12,209)	(3.01)	(5,215)	(0.78)
Effect of withholding tax (<i>note</i>)	<u>(4,408)</u>	<u>(1.09)</u>	<u>15,986</u>	<u>2.39</u>
Tax charge and effective tax rate for the period	<u>44,153</u>	<u>10.89</u>	<u>65,791</u>	<u>9.83</u>

Note: The Law of the PRC on Enterprise Income Tax imposes a withholding tax on dividend distributed from the Group's subsidiaries in the PRC to the holding companies located off-shore starting from 1 January 2008. In this period, the off-shore companies have been approved as tax residents of the Hong Kong Special Administrative Region by the Inland Revenue Department of the Hong Kong Special Administrative Region. Accordingly, withholding tax rate for dividend distributed from the PRC subsidiaries to off-shore companies is reduced from 10% to 5% effectively from 1 January 2008.

7. PROFIT FOR THE PERIOD

	Six months ended	
	30.6.2009	30.6.2008
	RMB'000	RMB'000
Profit for the period has been arrived at after charging:		
Cost of inventories recognised as expenses (including allowance for inventories)	2,852,205	3,146,348
Staff costs, including directors' remuneration salaries and allowances	123,545	142,461
Contributions to retirement benefit scheme	7,020	5,195
Total staff costs	130,565	147,656
Allowance for bad and doubtful debts	25,402	3,449
Amortisation of lease land premium	2,436	2,115
Depreciation of property plant and equipment	44,461	41,352
Research expenditures	13,463	8,420
and after crediting:		
Interest income on bank deposit	5,920	4,011
Interest income on loan receivable from financial institutions	–	28,316
Government grants	17,949	1,600

8. DIVIDENDS

	Six months ended	
	30.6.2009	30.6.2008
	RMB'000	RMB'000
Dividends recognised as distribution during the period:		
2008 final of HK\$0.05 (2007 final: HK\$0.12) per share	47,183	116,156

At the annual general meeting held on 29 May 2009, an ordinary resolution was passed in respect of the bonus issue of new shares on the basis of one bonus share for every one existing share of the Company held by the qualifying shareholders on 29 May 2009. As a result, 1,070,025,000 new ordinary shares of HK\$0.10 each were allotted and distributed, credited as fully paid up by capitalising an amount of HK\$107,002,500 (equivalent to approximately RMB111,020,000) standing to the credit of the share premium of the Company.

The board of directors has proposed an interim dividend of HK\$0.065 per ordinary share for the six months ended 30 June 2009 (six months ended 30 June 2008: HK\$0.13).

9. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2009	30.6.2008
	RMB'000	RMB'000
Earnings		
Earnings for the purposes of basic earnings per share	361,175	603,679
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	49,318	67,780
Exchange realignment from convertible loan notes	(7,259)	(114,591)
Change in fair value of derivative financial instruments	(4,140)	(86,640)
Gain on repurchase of convertible loan notes	(48,960)	—
Earnings for the purposes of diluted earnings per share	<u>350,134</u>	<u>470,228</u>

	Six months ended	
	30.6.2009	30.6.2008
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,140,050	2,174,198
Effect of dilutive potential ordinary shares:		
Convertible loan notes	<u>147,020</u>	<u>220,544</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>2,287,070</u>	<u>2,394,742</u>

The weighted average numbers of ordinary shares for the purpose of basic and diluted earnings per share for both periods have been retrospectively adjusted for the bonus issue on 8 June 2009.

10. TRADE RECEIVABLES AND OTHER RECEIVABLES

The Group allows an average credit periods ranging from 0 to 90 days to its trade customers other than some customers with good credit history and relationships, with whom longer credit terms will be agreed.

The aged analysis of trade receivables is as follows:

	30.6.2009 RMB'000	31.12.2008 RMB'000
0 – 90 days	726,319	138,439
91 – 180 days	34,974	38,221
181 – 270 days	14,660	16,485
271 days to 1 year	8,649	7,036
	<u>784,602</u>	<u>200,181</u>

The breakdown of major items in other receivables and prepayments of the Group is as follows:

	30.6.2009 RMB'000	31.12.2008 RMB'000
Other receivables	71,748	62,854
Less: allowance for doubtful debts	(16,161)	(15,074)
	55,587	47,780
Deposits for purchase of supplies and raw materials	96,548	105,570
Value-added tax recoverable	93,515	251,755
Interest receivables from financial institutions	–	4,538
	<u>245,650</u>	<u>409,643</u>

11. BILL RECEIVABLES

The bill receivables are aged within six months at the end of each reporting period.

12. TRADE PAYABLES AND BILL PAYABLES

The aged analysis of trade payables is as follows:

	30.6.2009 RMB'000	31.12.2008 RMB'000
0 – 180 days	758,362	665,239
181 days – 1 year	80,450	11,374
1 to 2 years	6,758	9,631
2 to 3 years	6,953	1,538
Over 3 years	381	82
	<u>852,904</u>	<u>687,864</u>

The bill payables are aged within six months at the end of each reporting period.

13. BANK BORROWINGS

During the current period, the Group obtained short-term bank loans in the amount of RMB1,253,018,000 (six months ended 30 June 2008: Nil) and long-term bank loan in the amount of RMB591,983,000 (six months ended 30 June 2008: Nil). The loans carry interest at variable market rates ranging from 4.95% to 6.32% per annum and repayable in installments over a period of 3 years. Repayments of other bank loans amounting to RMB821,000,000 (six months ended 30 June 2008: Nil) were made in line with the relevant repayment terms.

Among the short-term bank borrowings, there were intercompany bank acceptance bills amounting to RMB868,500,000 factored by the Group (which are secured by pledged deposits of RMB864,894,000) arising from intercompany transaction to banks with full recourse. The related bank borrowings or RMB868,500,000 was fully settled in August 2009 and was classified as current liabilities. There were no such arrangements during the six months ended 30 June 2008.

14. PLEDGED BANK DEPOSIT

The pledged bank deposit at the end of reporting period was secured for the bank facilities granted to the Group to issue bank acceptance bills and letters of credit for the purpose of purchase of materials.

15. CONVERTIBLE LOAN NOTES AND DERIVATIVE FINANCIAL INSTRUMENTS

Convertible loan notes of US\$287 million were issued by the Company on 30 April, 2007 at an issue price of US\$10,000 per Convertible Loan Note of US\$10,000. The 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 of HK\$0.10 each at an initial conversion price of HK\$20.4525 (the “Conversion Price”), but will be subject to anti-dilutive adjustment as stated in the offering circular dated 27 April, 2007 (“Offering Circular”). Unless previously redeemed or converted, the Company will redeem each Convertible Loan Note on 30 April 2012 (“Maturity Date”). On 8 June 2009, the conversion price has been revised to HK\$9.6883 as result of the bonus issue.

During the period, the Company repurchased US\$64,150,000 of face value (equivalent to RMB434,960,000) of the issued convertible loan notes and recognised RMB48,960,000 gains on the repurchase in the consolidated income statement.

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

	Liability component RMB'000	Derivative components RMB'000	Total RMB'000
Convertible Loan Notes:			
On 1 January 2008	1,843,920	305,461	2,149,381
Exchange realignment	(114,591)	–	(114,591)
Effective interest expense charged during the period	67,780	–	67,780
Changes in fair value	–	(86,640)	(86,640)
On 30 June 2008	1,797,109	218,821	2,015,930
Exchange realignment	(8,996)	–	(8,996)
Effective interest expense charged during the period	68,626	–	68,626
Re-purchase and cancelled	(379,778)	(51,453)	(431,231)
Changes in fair value	–	38,504	38,504
On 31 December 2008	1,476,961	205,872	1,682,833
Exchange realignment	(7,259)	–	(7,259)
Effective interest expense charged during the period	49,318	–	49,318
Re-purchase and cancelled	(425,022)	(58,898)	(483,920)
Changes in fair value	–	(4,140)	(4,140)
On 30 June 2009	<u>1,093,998</u>	<u>142,834</u>	<u>1,236,832</u>

In accordance with the term of the Convertible Loan Notes, the holder of each Convertible Loan Note will have the right to require the Company to redeem all or some of their Convertible Loan Notes on 30 April 2010, therefore, the Convertible Loan Notes has been disclosed as current liability as at 30 June 2009.

16. EVENTS AFTER THE END OF REPORTING PERIOD

Up to 24 September 2009, the Group has repurchased US\$20,500,000 (equivalent to RMB140,048,000) in face value of the issued Convertible Loan Notes. The Group is assessing the financial impact on the Group's result of operation and financial position.

On 24 August 2009, the Group issued zero coupon Convertible Loan Notes due 2014 ("new Convertible Loan Notes") at an issue price of aggregate principal amount of US\$135,000,000 (equivalent to RMB922,050,000). Pursuant to the Offering Circular dated 21 August 2009, each new Convertible Loan Note entitles the holder to convert to one ordinary share of the Company at the conversion price of HK\$7.00, but subject to adjustment for certain events. The new Convertible Loan Notes are listed on the Singapore Exchange Securities Trading Limited on 25 August 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT AND BUSINESS REVIEW

As a result of the economic downturn due to the global financial crisis, Lonking faced a challenging environment of a sharp drop demand in the first half of the year 2009. The Group continued to record revenue of RMB3,573 million, representing a decrease of 10.5% as compared to approximately RMB3,991 million over the same period of 2008. The gross margin of the Group for the period continued to reach a level over 20% at 20.18% (six months ended 30 June 2008: 21.16%). This is mainly due to (i) the continuous innovation of technologies in our new products resulting in a sharp decrease in the raw material cost per unit; (ii) the significant increase in the sales of new products, which offset the decline in sales of wheel loaders to a certain extent; (iii) the increasing steel cost of last year has been absorbed into the inventory sold this year, leading to an adverse effect on the overall profit margin. The group's profit for the period attributable to equity holders amounted to RMB361 million (six months ended 30 June 2008: RMB604 million). Such decrease in net profit was primarily attributable to (i) the reduction in foreign exchange gain (ii) the fair value adjustments of the derivative financial instrument embedded with the outstanding convertible bonds of the Company.

Geographical Analysis

Northern region of the PRC again remained as the company's principal marketing area for the period ended on 30 June 2009. The turnover of this region accounted for 25% of the group's total turnover as compared to approximately 38% over the same period of 2008. The sales from eastern and southwestern regions represented around 14% and 18% of our total turnover respectively as compared to only 6% and 11% of our total turnover respectively over the same period of 2008. 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 company continued its efforts to the eastern and south western market. The central, southern and north eastern regions represented approximately 22.54% of our total turnover for the period to ended on 30 June 2009 (six months ended 30 June 2008: 23.34%).

The sales from overseas market amounted to approximately RMB7 million, representing a decrease of nearly 97% as compared to the corresponding period last year (six months ended 30 June 2008: RMB250 million). The decrease was mainly attributable to the demand sliding worldwide during the global recession. However, the business environment continued to improve since June 2009, we will seize the opportunities to further expand the overseas market.

Products Analysis

Wheel Loaders

Sales from our three principal series of wheel loaders, the ZL30, ZL40 and ZL50 for the six months under review decreased 23.8% from the corresponding period a year ago to RMB2,626 million (six months ended 30 June 2008: RMB3,445 million) due to a sharp drop in demand in the first half year. Among which, revenue generated from ZL50 and ZL30 showed a decrease of 22.9% and 29.8% respectively, representing 65.4% and 7.8% of total revenue respectively. We significantly outperformed the overall trend in the wheel loaders industry during the period.

Excavator

In the first half of the year, the Group expanded sales by stepping up sales of the excavators, our new product which was launched in 2007. Sales from this series for the period amounted to RMB390 million, representing an increase of 261.9% as compared to the same period in 2008 (six months ended 30 June 2009: RMB108 million). In response to the challenging business environment, Lonking is going to continue its efforts to ensure an outstanding performance in this series.

Fork lifts and Road rollers

For the six months ended 30 June 2009, the Group recorded 2,198 units sales in fork lifts, amounting to approximately RMB117 million (six months ended 30 June 2008: 1,366 units on RMB79 million). We attribute such an increase in the sales to our aggressive price strategy, leading to a steadily increasing demand. The revenue generated from our road rollers amounted to RMB138 million with 568 units in sales, or representing 71% increase as compared to the same period in 2008 (six months ended 30 June 2008: 339 units and RMB80 million). Both of our fork lifts and road roller series have been widely realized and recognized by the market.

Other Construction Machines and Components

Sales from harvester and land leveler represented nearly 1.51% of the Group's total revenue. Revenue generated from components sales amounted to approximately RMB154 million for the period ended on 30 June 2009, representing 21.16% increase when compared with the same period in 2008. Sales of components for the period contributed a higher gross margin of 26.95% compared with the same period in 16.18%.

Finance Lease Interest

Turnover from finance lease interest represented nearly 1.33% of the Group's total revenue in the first half year of 2009 (six months ended 30 June 2008: 0.31%) or an sharply increase of 281.15% from the same period of last year. This change was mainly attributable to the finance lease sales for the period increased, representing nearly 32.90% of the total sales of construction machinery for the period. (six months ended 30 June 2008: 18%).

FINANCIAL REVIEW

The Group financed its operations from internally generated cash flow, bank borrowings and accumulated retained earnings. The Group adopts a prudent finance strategy in managing Group's financing needs. The Group believes that its cash holding, cash flow from operation, future revenue and available banking facilities will be sufficient to fund its working capital requirements.

Capital Structure

During the period ended on 30 June 2009, the Company repurchased back issued Convertible Bonds Notes in total principal amount of USD64,150,000 (equivalent to RMB434,960,000), which recognized RMB48,960,000 gain on the repurchase in the 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 30 June 2009, the Gross Debt to Equity ratio, defined as total Non-current liabilities (excluding deferred tax liability) over total equity was approximately 27.08% (as at 30 June 2008: 55.66%)

Capital Expenditure

During the period, the Group acquired property, plant and equipment approximately RMB382 million (six months ended 30 June 2008: RMB276 million) including the construction in progress in the PRC in order to upgrade its manufacturing capabilities. The Group expect the current production facility will be maintained and sufficient for the coming years' production requirement. These capital expenditures were fully financed by the Convertible Loan Notes, bank borrowings and internal funds of the Group.

Liquidity and Financial Resources

As at 30 June 2009, the Group had bank balances and cash of approximately RMB385 million (31 December 2008: approximately RMB895 million) and pledged bank deposit of approximately RMB1,068 million (31 December 2008: approximately RMB204 million). Compared with last year, the cash and bank balance decreased about RMB510 million, which was generated as a result of net cash inflow of RMB196 million from operating activities, net cash outflow of RMB1,236 million from investing activities, net cash inflow of RMB531 million from financing activities.

The pledged deposit balance at 30 June 2009 increased approximately RMB864 million. It was because that the Group increased the deposit pledged as security for the bank facilities granted to the Group to issue of bank acceptance notes and letters of credit for the purpose of purchase of materials due to the less interest rate changed for the bill payable.

The current ratio of the Group at 30 June 2009 was 1.32 (31.12.2008: 2.04). The inventory turnover increased to 129 days (30.6.2008: 94 days) as the Group maintained a large raw material closing balance at the end of year end of 2008 however the Group reduced the raw material inventory since the raw material cost will maintain a stable level this year. The trade and bill receivables turnover and trade and bill payables turnover increased to 40 days and 81 days respectively.

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 Commitment

As at 30 June 2009, the Group had contracted but not provided in the financial statements in respect of acquisition of property, plant and equipment amounted to approximately RMB476,231,000 (31 December 2008: approximately RMB594,052,000).

PROSPECTS

The Group has been ranked No.35 of Global Construction Machinery 50 Rank 2009 by China Construction Machinery Association. Although we are facing a challenging business environment, we are continuing our efforts regarding the following activities to maintain our high-level profitability and financial position in the industry.

1) Development of Lonking Products.

We are promoting our new products by taking advantage of our strengths such as in-house capabilities.

2) Further Enhancement of Market Position in Overseas Market.

We will step up our efforts to expand into the overseas market and explore new overseas agents to further enhance our position in the overseas market.

3) Improvement of Research and Development (the “R&D”) capabilities

Our R&D is comprised of more than 300 engineers and technical officers focused on the development of new products and the improvement of our axles and transmissions production. We believe our R&D capabilities enable us to expand our product portfolio and to customize our products to meet our customers’ specific requirement.

4) Business Expansion in the Entire Value Chain

We are working further to generate revenue from our peripheral business such as financing lease in relation to construction machinery, which result in an increase of demand for our products and an increase in finance lease interest income.

CORPORATE GOVERNANCE

Compliance with the Code on Corporate Governance Practices (the “Code”)

The Group 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 directors, the Company had during the Period 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 Period.

Review of the Interim Results

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

The interim results for the six months ended 30 June 2009 have been reviewed by the external auditors of the Company.

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

During the period, the Company repurchased US\$64,150,000 of face value (equivalent to RMB434,960,000) of the issued convertible loan notes and recognised RMB48,960,000 gains 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 period.

INTERIM DIVIDEND

The Directors has resolved to recommend payment of an interim dividend of HK\$6.5 cents (six months ended 30 June 2008: HK\$13 cents) per share for the six months ended 30 June 2009, which is expected to be payable to shares by post on or about 30 November 2009. The dividend will be payable to shareholders whose names appear on the Register of Members of the Company at the close of business on Friday, 16 October 2009.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 14 October 2009 to Friday, 16 October 2009, both days inclusive, during which period no transfers of shares will be effected. To determine entitlement to the interim dividend, 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 Tuesday, 13 October 2009).

PUBLICATION OF FINANCIAL INFORMATION

The Company's 2009 interim report for the six months ended 30 June 2009 will be despatched to the shareholders at the appropriate time and will at the same time be published on the Stock Exchange's website (www.hkex.com.hk).

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

Hong Kong, 24 September 2009

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 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.

* *For identification purposes only*