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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 2010

The board of directors (the “Board”) of Lonking Holdings Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2010 (the “Period”) together with the comparative figures for the corresponding period in 2009. 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 2010

		Six months ended	
		30.6.2010	30.6.2009
	<i>NOTES</i>	RMB’000	RMB’000
		(Unaudited)	(Unaudited)
Turnover	3	6,566,093	3,573,351
Cost of sales		(4,910,533)	(2,852,205)
Gross profit		1,655,560	721,146
Interest income		6,058	5,920
Other income		23,223	25,863
Other gains and losses	4	117,147	56,042
Research expenditures		(73,406)	(13,463)
Administrative expenses		(115,000)	(101,119)
Selling and distribution costs		(395,346)	(196,760)
Other expenses		(870)	(468)
Finance costs	5	(92,119)	(91,800)

		Six months ended	
		30.6.2010	30.6.2009
	<i>NOTES</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Profit before tax		1,125,247	405,361
Income tax expense	6	(198,937)	(44,153)
Profit for the period	7	<u>926,310</u>	<u>361,208</u>
Profit for the period attributable to:			
Owners of the Company		926,009	361,175
Non-controlling interests		301	33
		<u>926,310</u>	<u>361,208</u>
Earnings per share			
Basic (RMB)	9	<u>0.43</u>	<u>0.17</u>
Diluted (RMB)	9	<u>0.38</u>	<u>0.15</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period	926,310	361,208
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>926,310</u>	<u>404,569</u>
Total comprehensive income attributable to:		
Owners of the Company	926,009	404,536
Non-controlling interests	<u>301</u>	<u>33</u>
	<u>926,310</u>	<u>404,569</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2010

	NOTES	2010.06.30 RMB'000 (Unaudited)	2009.12.31 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		2,890,729	2,758,437
Lease premium for land – non current portion		196,796	221,443
Finance lease receivables		1,176,184	527,718
Deferred tax assets		186,947	145,839
Deposit paid for property, plant and equipment		89,527	98,168
Loan receivable		22,061	13,987
		<u>4,562,244</u>	<u>3,765,592</u>
Current assets			
Lease premium for land - current portion		4,479	4,937
Inventories		2,048,635	2,334,982
Finance lease receivables		1,960,308	1,215,177
Other receivables and prepayments	10	312,810	393,109
Trade receivables	10	903,490	340,523
Bill receivables	10	615,659	470,597
Pledged bank deposit	13	168,028	220,293
Bank balances and cash		491,036	1,021,177
		<u>6,504,445</u>	<u>6,000,795</u>
Current liabilities			
Trade payables	11	1,333,994	1,009,815
Bill payables	11	655,782	1,072,267
Other payables and accruals		942,836	523,222
Provisions		262,335	145,043
Amounts due to related parties		15,482	22,304
Tax payable		151,072	91,578
Bank borrowings	12	1,366,299	686,718
Derivative financial instruments	14	–	113,498
Convertible loan notes	14	–	714,117
		<u>4,727,800</u>	<u>4,378,562</u>
Net current assets		<u>1,776,645</u>	<u>1,622,233</u>
		<u>6,338,889</u>	<u>5,387,825</u>

	<i>NOTES</i>	2010.06.30 <i>RMB'000</i> (Unaudited)	2009.12.31 <i>RMB'000</i> (Audited)
Capital and reserves			
Share capital		222,058	222,058
Reserves		4,362,770	3,567,301
Equity attributable to owners of the Company		4,584,828	3,789,359
Non-controlling interests		1,391	1,090
Total equity		4,586,219	3,790,449
Non-current liabilities			
Deposit for finance lease		243,792	116,854
Convertible loan notes	<i>14</i>	733,189	662,151
Long term bank borrowings	<i>12</i>	472,073	482,026
Deferred tax liabilities		40,102	25,286
Derivative financial instruments	<i>14</i>	263,514	311,059
		1,752,670	1,597,376
		6,338,889	5,387,825

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
OPERATING CASH FLOWS BEFORE		
MOVEMENTS IN WORKING CAPITAL	1,183,717	467,912
Decrease in inventories	301,536	725,814
Increase in trade, bill and other receivables	(622,758)	(344,566)
Increase in finance lease receivables	(1,403,175)	(418,557)
Decrease (Increase) in trade, bill and other payables	148,123	(232,814)
Increase in provision	117,292	10,105
Increase in deposit for financial lease	126,938	9,455
Other working capital items	(6,822)	2,543
Cash (used in) generated from operations	(155,149)	219,892
Income tax paid	(165,735)	(24,082)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(320,884)	195,810
INVESTING ACTIVITIES		
Interest received	6,058	10,220
Purchase of property, plant and equipment	(148,932)	(382,879)
Payment for lease premium for land	–	(1,325)
Decrease (increase) in pledged bank deposits	52,265	(863,839)
Payment of loan receivables	(8,074)	–
Proceeds from disposal of property, plant and equipment	3,470	1,473
NET CASH USED IN INVESTING ACTIVITIES	(95,213)	(1,236,350)
FINANCING ACTIVITIES		
Dividends paid	–	(47,183)
Interest paid	(19,772)	(39,665)
Repayment of bank borrowings	(540,234)	(821,000)
New bank borrowings raised	1,209,862	1,845,001
Convertible loan notes repurchased and cancelled	–	(406,130)
Convertible loan notes redeemed and cancelled	(760,417)	–
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(110,561)	531,023

	Six months ended	
	30.6.2010	30.6.2009
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(526,658)	(509,517)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	1,021,177	894,507
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>(3,483)</u>	<u>—</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTING BANK BALANCES AND CASH	<u>491,036</u>	<u>384,990</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

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 Listing Rules) and with Hong Kong Accounting Standard 34 (HKAS 34), Interim Financial Reporting.

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.

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 2009 except as described as below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendment has removed such a requirement. Instead, the amendment requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of leases. No reclassification considered necessary because none of the leasehold land qualifies for finance lease classification.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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)	Improvements to HKFRSs 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 32 (Amendment)	Classification of Rights Issues ²
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ³
HKFRS 9	Financial Instruments ⁵
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁴
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ³

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

² Effective for annual periods beginning on or after 1 February 2010

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

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 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 following is an analysis of the Group's revenue and results by operating segment for the period reported to the chief operating decision maker:

For the six months ended 30 June 2010

	Sales of construction machinery RMB'000	Finance lease of construction machinery RMB'000	Total RMB'000
REVENUE			
Sales of goods	3,921,706	–	3,921,706
Finance lease sales	2,568,336	76,051	2,644,387
	<u>6,490,042</u>	<u>76,051</u>	<u>6,566,093</u>
RESULT			
Segment profit	1,030,829	71,494	1,102,323
Unallocated interest income			6,058
Unallocated other income, gains and losses			112,869
Unallocated corporate expenses			(3,884)
Finance costs			(92,119)
Profit before tax			<u>1,125,247</u>
At 30 June 2010			
Assets			
Segment assets	7,042,183	3,178,495	10,220,678
Unallocated assets			846,011
Total consolidated assets			<u>11,066,689</u>
Liabilities			
Segment liabilities	1,968,669	1,485,552	3,454,221
Unallocated liabilities			3,026,249
Total consolidated liabilities			<u>6,480,470</u>

For the six months ended 30 June 2009

	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	2,365,828	–	2,365,828
Finance lease sales	<u>1,159,849</u>	<u>47,674</u>	<u>1,207,523</u>
	<u><u>3,525,677</u></u>	<u><u>47,674</u></u>	<u><u>3,573,351</u></u>
RESULT			
Segment profit	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><u>405,361</u></u>
At 31 December 2009			
Assets			
Segment assets	6,592,762	1,786,316	8,379,078
Unallocated assets			<u>1,387,309</u>
Total consolidated assets			<u><u>9,766,387</u></u>
Liabilities			
Segment liabilities	1,779,580	1,109,925	2,889,505
Unallocated liabilities			<u>3,086,433</u>
Total consolidated liabilities			<u><u>5,975,938</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			
	30.6.2010		30.6.2009	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Wheel loaders	4,901,917	74.7	2,672,328	74.8
Excavators	1,072,386	16.3	390,149	10.9
Road rollers	14,245	0.2	138,114	3.9
Fork lifts	292,623	4.5	117,053	3.3
Others	208,871	3.1	208,033	5.8
Subtotal	6,490,042	98.8	3,525,677	98.7
Finance lease interest income	76,051	1.2	47,674	1.3
Total	<u>6,566,093</u>	<u>100.0</u>	<u>3,573,351</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	
	30.6.2010	30.6.2009
	<i>RMB'000</i>	<i>RMB'000</i>
Change in fair value of derivative financial instruments	69,531	4,140
Gain on repurchase of convertible loan notes	–	48,960
Gain on redemption of convertible loan notes	41,047	–
Exchange realignment from convertible loan notes	2,169	7,259
(Loss) gain on disposal of property, plant and equipment	1,721	(2,397)
Foreign exchange losses	2,679	(1,920)
	<u>117,147</u>	<u>56,042</u>

5. FINANCE COSTS

	Six months ended	
	30.6.2010	30.6.2009
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans, overdraft and other borrowings wholly repayable within five years	23,077	42,482
Effective interest expense on convertible loan notes	69,042	49,318
	<u>92,119</u>	<u>91,800</u>

6. INCOME TAX EXPENSE

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
The charge (credit) comprises:		
Current tax		
PRC Enterprise Income Tax	219,731	37,171
Under provision in prior year		
PRC Enterprise Income Tax	2,631	630
Deferred tax		
credit to income statement for the period	(31,101)	6,352
Effect of change in tax rate	7,676	—
Income tax expense	198,937	44,153

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 2010 and 2009 can be reconciled to the profit before tax in the condensed consolidated income statement as follows:

	Six months ended			
	30.6.2010		30.6.2009	
	RMB'000	%	RMB'000	%
Profit before tax	1,125,247		405,361	
Tax at the domestic tax rate of 25%	281,312	25.00	101,340	25.00
Effect of tax exemptions and relief granted to PRC subsidiaries	(103,647)	(9.20)	(64,611)	(15.94)
Tax effect of expenses not deductible for tax purpose	19,986	1.78	14,774	3.64
Tax effect of income not taxable for tax purpose	(29,096)	(2.59)	(15,090)	(3.72)
Under provision in prior year	2,631	0.23	630	0.16
Tax effect of tax losses not recognised	2,169	0.19	11,518	2.84
Effect of change in tax rate	7,676	0.68	—	—
Effect of withholding tax	17,906	1.59	(4,408)	(1.09)
Tax charge and effective tax rate for the period	198,937	17.68	44,153	10.89

7. PROFIT FOR THE PERIOD

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
Profit for the period has been arrived at after charging:		
Cost of inventories recognised as expenses (including reversal of allowance for inventory of 15,189 (2009: 37,666))	4,910,533	2,852,205
Staff costs, including directors' remuneration salaries and allowances	218,344	123,545
Contributions to retirement benefit scheme	10,441	7,020
Total staff costs	228,785	130,565
Allowance for bad and doubtful debts	1,566	25,402
Amortisation of lease land premium	2,216	2,436
Depreciation of property, plant and equipment	94,799	44,461
and after crediting:		
Interest income on bank deposit	6,058	5,920
Income-related government grants	10,028	17,949

8. DIVIDENDS

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
Dividends recognised as distribution during the period:		
2009 final of HK\$0.07 (2008 final: HK\$0.05) per share	130,540	47,183

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 RMB111,029,000) standing to the credit of the share premium of the Company.

In the annual general meeting held on 28 May 2010, a final dividend of HK\$0.07 (2009: HK\$0.05) 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 on 28 July 2010.

The board of directors has proposed an interim dividend of HK\$0.10 (2009: HK\$0.065) per share for the six months ended 30 June 2010.

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	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
Earnings		
Earnings for the purpose of basic earnings per share	926,009	361,175
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	69,042	49,318
Exchange realignment from convertible loan notes	(2,169)	(7,259)
Change in fair value of derivative financial instruments	(69,531)	(4,140)
Gain on repurchase of convertible loan notes	–	(48,960)
Gain on redemption of convertible loan notes	(41,047)	–
Earnings for the purpose of diluted earnings per share	882,304	350,134

	Six months ended	
	30.6.2010	30.6.2009
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,140,050	2,140,050
Effect of dilutive potential ordinary shares:		
Convertible loan notes	209,490	147,020
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,349,540	2,287,070

The weighted average numbers of ordinary shares for the purpose of basic and diluted earnings per share for the six month period ended 30 June 2009 have been retrospectively adjusted for the bonus issue on 8 June 2009.

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

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:

	30.6.2010 RMB'000	31.12.2009 RMB'000
0 – 90 days	884,966	321,388
91 – 180 days	10,367	12,850
181 – 270 days	1,228	6,091
271 days to 1 year	6,929	194
	903,490	340,523

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

	30.6.2010 RMB'000	31.12.2009 RMB'000
Other receivables	58,201	62,235
Less: allowance for doubtful debts	(19,352)	(15,723)
	38,849	46,512
Deposits for purchase of supplies and raw materials	202,285	185,850
Value-added tax recoverable	71,676	160,747
	312,810	393,109

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

11. TRADE PAYABLES AND BILL PAYABLES

The aged analysis of trade payables presented based on invoice date is as follows:

	30.6.2010 RMB'000	31.12.2009 RMB'000
0 – 180 days	1,306,422	988,825
181 days – 1 year	18,325	11,929
1 to 2 years	4,239	5,259
2 to 3 years	3,683	2,297
Over 3 years	1,325	1,505
	1,333,994	1,009,815

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

12. BANK BORROWINGS

During the current period, the Group obtained short-term bank loans in the amount of RMB1,106,057,000 (six months ended 30 June 2009: RMB1,253,018,000) and long-term bank loan in the amount of RMB103,805,000 (six months ended 30 June 2009: RMB591,983,000). The loans carry interest at variable market rates ranging from 1.89% to 5.40% per annum (six months ended 30 June 2009: 4.95% to 6.32% per annum) and repayable in installments over a period ranging from 1 to 3 years. Repayments of the bank loans amounting to RMB540,234,000 (six months ended 30 June 2009: RMB821,000,000) were made in line with the relevant repayment terms.

13. PLEDGED BANK DEPOSIT

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

14. CONVERTIBLE LOAN NOTES AND DERIVATIVE FINANCIAL INSTRUMENTS

	Liability component RMB'000	Derivative components RMB'000	Total RMB'000
As at 30 June 2010			
2007 Convertible Loan Notes (i)	23,987	3,062	27,049
2009 Convertible Loan Notes (ii)	<u>709,202</u>	<u>260,452</u>	<u>969,654</u>
	<u><u>733,189</u></u>	<u><u>263,514</u></u>	<u><u>996,703</u></u>

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 2007 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 maturity day of the 2007 Convertible Loan Notes is 30 April 2012 (the "2007 Maturity Date"), unless previously redeemed or converted.

Pursuant to the 2007 Offering Circular, the holder of each 2007 Convertible Loan Note have the right to require the Company to redeem all or some of their 2007 Convertible Loan Notes on 30 April 2010 or on the occurrence of a change of the Company's controlling shareholders or delisting of the Company's shares at 112.203% of the initial principal amount. During the period, the bond holders exercised the early redeem option, and redeemed US\$99,280,000 of face value (equivalent to RMB760,417,000) of the issued 2007 Convertible Loan Notes and the Company recognised RMB41,047,000 gains on the redemption in the consolidated income statement based on the redemption cost and the fair value of the 2007 Convertible Loan Notes upon the redemption date.

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

	Liability component <i>RMB'000</i>	Derivative components <i>RMB'000</i>	Total <i>RMB'000</i>
Convertible Loan Notes:			
As at 1 January 2009	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	<u>–</u>	<u>(4,140)</u>	<u>(4,140)</u>
As at 30 June 2009	1,093,998	142,834	1,236,832
Exchange realignment	122	–	122
Effective interest expense charged during the period	32,692	–	32,692
Re-purchase and cancelled	(412,695)	(67,315)	(480,010)
Changes in fair value	<u>–</u>	<u>37,979</u>	<u>37,979</u>
As at December 2009	714,117	113,498	827,615
Exchange realignment	1,587	–	1,587
Effective interest expense charged during the period	18,235	–	18,235
Redeemed and cancelled	(709,952)	(91,512)	(801,464)
Changes in fair value	<u>–</u>	<u>(18,924)</u>	<u>(18,924)</u>
As at 30 June 2010	<u><u>23,987</u></u>	<u><u>3,062</u></u>	<u><u>27,049</u></u>

ii) 2009 Convertible Loan Notes

Another Convertible Loan Notes of US\$135 million were issued by the Company on 24 August 2009 (“2009 Convertible Loan Notes”) at an issue price of US\$10,000 per Convertible Loan Note of US\$10,000. The 2009 Convertible Loan Notes are listed on the Singapore Exchange Securities Trading Limited. Each 2009 Convertible Loan Note entitles the holder to convert to one ordinary share of the Company at the initial conversion price of HK\$7.00 (the “2009 Conversion Price”), but subject to anti-dilutive adjustment as stated in the offering circular on 6 August 2009 (“2009 Offering Circular”). On 20 November 2009, the conversion price has been revised to HK\$6.89 after anti-dilutive adjustment. The maturity day of the 2009 Convertible Loan Notes is 24 August 2014 (“the 2009 Maturity Date”), unless previously redeemed or converted.

The movement of the liability component and derivative components of the 2009 Convertible Loan Notes for the period is set out below:

	Liability component RMB'000	Derivative components 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 during the period	33,972	–	33,972
Changes in fair value	<u>–</u>	<u>33,920</u>	<u>33,920</u>
As at 31 December 2009	<u>662,151</u>	<u>311,059</u>	<u>973,210</u>
Exchange realignment	(3,756)	–	(3,756)
Effective interest expense charged during the period	50,807	–	50,807
Changes in fair value	<u>–</u>	<u>(50,607)</u>	<u>(50,607)</u>
As at 30 June 2010	<u><u>709,202</u></u>	<u><u>260,452</u></u>	<u><u>969,654</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT AND BUSINESS REVIEW

For the six months ended 30 June 2010, the company recorded revenue of RMB6,566 million, representing an substantial increase of 83.75% as compared to approximately RMB3,573 million over the same period of 2009. Profit attributable to equity shareholders for the period was approximately RMB926 million, representing a sharp increase to 156.45% as compared to the same period in 2009 (six months ended 30 June 2009: approximately RMB361 million). Change in profit attributable to equity shareholders for the period was mainly attributable to the followings (i) a strong demand recovery during the period for mining equipment in the domestic market and the demand for infrastructure development will remain high, resulting in a large increase in sales volume. (ii) the overall gross profit margin during the period has increased to 25.21% (Six months ended 30 June 2009: 20.18%) due to the Company's aggressive marketing by increasing selling prices in new products such as the excavator and a decreasing steeling cost absorbed into the inventory sold during the period. Return on equity has increased to 20.20% accordingly (Six months ended 30 June 2009: 10.27%) which was mainly attributable to our continually improved management efficiency.

Geographical Results

The northern regions of the PRC continued to show a demand recovery during the period ended on 30 June 2010 and represented approximately 33% of our total turnover for the period, or an increase of 7.6% over the corresponding period in 2009 as the number of civil engineering projects increased in line with rural area development measures of the 11th Five-years guidelines and ongoing urbanization.

In eastern and central regions, demand accelerated against the backdrop of the Chinese government's economic stimulus measures advanced large-scale infrastructure developments such as railways and highways. As a result, sales in these two regions represented around 18% and 14% of our total turnover respectively as compared to only 14% and 9% of our total turnover respectively over the same period of 2009.

The sales from south western and north western regions represented around 12% and 7% of our total turnover respectively for the period ended on 30 June 2010 as compared to 18% and 14% of our total turnover respectively over the same period in 2009.

The north eastern and south regions of the PRC still maintain a stable-growing trend during the period, representing approximately 14% of our total turnover for the period.

The sales from overseas market amounted to approximately RMB39 million, representing an increase of nearly 428% as compared to the corresponding period last year. (six months ended 30 June 2009: RMB7 million) due to an improved market demand. We will work to further improve and strengthen distributorships in the overseas market.

Products Analysis

Wheel Loaders

Wheel loader again remained as the company's main revenue driver and achieved a turnover of approximately RMB4,605 million which accounted for approximately 70.12% of the company's turnover for the period. ZL50 series achieved a turnover of approximately RMB4,052 million for the period, representing an increase of 73.41% when compared with the same period in 2009. ZL30 is the second largest revenue contributor and has achieved a turnover of approximately RMB444 million, showing an increase of 58.53% when compared to the corresponding period last year. The revenue generated from ZL40 increased 35.63% to approximately RMB12 million. The mini loader showed an obvious increase of 106.78% which amounted to approximately RMB96 million. We contribute such a significant increase in wheel loader series to a high rate of growth in demand for our equipment in the Chinese market during the period. Thanks to Chinese government's economic stimulus measures which benefited the number of large-scale infrastructure development projects, resulting in demand recovery.

Excavator

With respect to excavator, we have proactively expanded the production capacity. The company recorded 2,496 units sales in this series, amounting to approximately RMB1,072 million during the period ended on 30 June 2010. (six months ended 30 June 2009: RMB390 million in 1,011 units), representing an increase of 146.88% in units sold and 174.87% in revenue. The company engaged in aggressive business activities such as increasing selling prices and launching of renewed models in this series. By anticipating further market expansion, the company will work to further improve management efficiency.

Fork lifts and Road Rollers

The operating revenue from fork lifts and road rollers amounted to approximately RMB283 million and RMB275 million respectively, or an increase of 141.69% and 98.91% respectively from the same period in last year. We work to step up sales of these two series with sales promotion and other efforts in collaboration with the distributors.

Components

The sales generated from components amounted to approximately RMB234 million for the period, representing an increase of 52.06% when compared with the same period in 2009. we carried out aggressive sales activities by strengthen the distributors network.

Finance lease interest

Turnover from finance lease interest represented nearly 1.16% of our total turnover in the first half year of 2010 or an significant increase of 59.52% from the same period of last year. We contribute the increase in interest income to a significant increase of finance lease sales.

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 2010, the Company has not redeemed any of its shares during the Period.

During the period ended on 30 June 2010, the Company has received early redemption notices from the Bondholders to redeem a significant portion of the Convertible Bonds issued in 2007 in total principal amount of US\$99,280,000 (equivalent to RMB760,417,000) which recognized RMB41,047,000 gain on the redemption in the consolidated income statement. Upon such redemption and as at the date of this announcement, the principal amount of the outstanding issued 2007 Convertible Bonds was US\$3,340,000 (see Notes 14).

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.

As at 30 June 2010, the Gross Debt to Equity ratio, defined as total Non-current liabilities (excluding deferred tax liability) over total equity was approximately 37.34% (as at 30 June 2009: 27.08%)

Capital Expenditure

During the period, the Group acquired property, plant and equipment approximately RMB229 million (six months ended 30 June 2009: RMB382 million) including the construction in progress in the PRC in order to upgrade its manufacturing capabilities. The general increase in capital expenditure was in line with the Group's strategy of expansion. The Group expect the current production facility will be 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 2010, the Group had bank balances and cash of approximately RMB491 million (31 December 2009: approximately RMB1,021 million) and pledged bank deposit of approximately RMB168 million (31 December 2009: approximately RMB220 million). Compared with last year, the cash and bank balance decreased about RMB530 million, which was used as a result of net cash outflow of RMB321 million from operating activities, net cash outflow of RMB95 million from investing activities, net cash outflow of RMB111 million from financing activities and RMB3.48 million loss of foreign exchange rate changes.

The pledged deposit balance at 30 June 2010 decreased approximately RMB52 million. It was because that the Group decreased 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.

The current ratio of the Group at 30 June 2010 was 1.38 (31.12.2009: 1.37). The inventory turnover decreased to 81 days (30.6.2009: 129 days) as the Group maintained a lower inventory closing balance in both raw material and finished goods at the end of period as at 30 June 2010 because the market showed a huge demand of the products during period. The trade and bill receivables turnover and trade and bill payables turnover decreased to 32 days and 75 days respectively.

The current and non-current finance lease receivables balance as at 30 June 2010 increased approximately RMB745 Million and RMB648 million respectively because the finance lease sales generated from excavators represent a significant increase during the period.

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 2010, the Group had contracted but not provided in the financial statements in respect of acquisition of property, plan and equipment amounted to approximately RMB210 million (31 December 2009: approximately RMB312 million).

PROSPECTS

Benefiting from the further recovery of the macro economy, the management expects that the demand for construction machinery will grow at a fast rate from 25% to 30% and the demand for infrastructure development will remain high. In particular, the policies promulgated by the PRC government to increase the fixed asset investments in rural areas and continue to accelerate urbanization will have a positive and active effect on maintaining the fast growth of Lonking's future revenue.

Following the improvement of the infrastructure machinery and equipment configuration in the four major production bases of the Group, the production capacity for various products of the Company has been expanded at full-scale under a comprehensive production structure. In addition, the Company has stepped up its investment in technological research and developed a variety of competitive products through the cooperation with internationally renowned organizations and prestigious academic institutions. It is expected that the enhancement in product quality and technology will generate additional value to the shareholders.

At the same time, the Company has formulated a diversified system to make use of the economies of scale and enhancement of internal control to maintain the consolidated gross profit margin at an industry leading level.

The Company will also adopt effective measures to push ahead its marketing efforts, pursue active brand building, expand distribution network, strengthen support services, implement mega customer resource integration and risk management so as to further expand the market share of the products.

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 2010 have been reviewed by the external auditors of the Company.

INTERIM DIVIDEND

The Directors has resolved to recommend payment of an interim dividend of HK\$10 cents (six months ended 30 June 2009: HK\$6.5 cents) per share for the six months ended 30 June 2010, which is expected to be payable to shares by post on or about 30 November 2010. 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, 15 October 2010.

PROPOSED BONUS ISSUE OF SHARES

The Board has recommended a bonus issue (the “Bonus Issue”) on the basis of one new ordinary share of HK\$0.1 each, credited as fully paid, for every one existing share held by the shareholders of the Company whose names are on the register of members of the Company on 15 October 2010. The necessary resolution will be proposed at the forthcoming extraordinary general meeting of the Company to be held on or about 15 October 2010. For details of the Bonus Issue, please refer to the announcement of the Company dated 26 August 2010 in respect of the Bonus Issue. A circular containing, among other things, further details of the Bonus Issue will be dispatched to the shareholders of the Company as soon as practicable

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 13 October 2010 to Friday, 15 October 2010, 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, 12 October 2010).

PUBLICATION OF FINANCIAL INFORMATION

The Company's 2010 interim report for the six months ended 30 June 2010 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, 26 August 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 Zhong Ming, Ms. Fang Deqin are the executive directors of the Company and 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.

* *For identification purposes only*