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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

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 2012 (the “Period”) together with the comparative figures for the corresponding period in 2011. The Group’s interim results for the Period is unaudited, but have been reviewed by the Company’s auditor, Ernst & Young Certified Public Accountant (“Ernst & Young”) and approved by the audit committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2012

		For the six months ended 30 June	
		2012	2011
		Unaudited	
	<i>Notes</i>	<i>RMB’000</i>	<i>RMB’000</i>
Revenue	2	4,723,552	8,397,733
Cost of sales		<u>(3,745,280)</u>	<u>(6,197,144)</u>
Gross profit		978,272	2,200,589
Other income		79,176	36,497
Other gains and losses	3	34,123	40,329
Selling and distribution costs		(210,992)	(385,472)
Administrative expenses		(132,052)	(139,481)
Research and development costs		(145,924)	(144,433)
Other expenses		<u>(7,177)</u>	<u>(7,887)</u>

		For the six months ended 30 June	
		2012	2011
		Unaudited	
	Notes	RMB'000	RMB'000
Operating profit		595,426	1,600,142
Finance income		11,373	10,553
Finance costs		(230,159)	(176,050)
Profit before tax	4	376,640	1,434,645
Income tax expense	5	(100,337)	(280,248)
Profit for the period		<u>276,303</u>	<u>1,154,397</u>
Attributable to:			
Owners of the parent		276,248	1,154,155
Non-controlling interests		55	242
		<u>276,303</u>	<u>1,154,397</u>
Total comprehensive income for the period, net of tax			
Attributable to:			
Owners of the parent		276,248	1,154,155
Non-controlling interests		55	242
		<u>276,303</u>	<u>1,154,397</u>
Earnings per share			
Basic, profit for the period attributable to ordinary equity holders of the parent (RMB)		0.06	0.27
Diluted, profit for the period attributable to ordinary equity holders of the parent (RMB)		0.05	0.26

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

		30 June 2012 unaudited RMB'000	31 December 2011 audited RMB'000
	<i>Notes</i>		
Assets			
Non-current assets			
Property, plant and equipment		3,732,993	3,637,752
Prepaid land lease payments		324,288	205,642
Investments in associates		63,116	59,218
Finance lease receivables		185,008	446,026
Deferred tax assets		157,851	204,529
Prepayments for property, plant and equipment		200,752	239,952
Long-term receivables		79,791	—
		<u>4,743,799</u>	<u>4,793,119</u>
Current assets			
Prepaid land lease payments		7,202	5,383
Inventories		3,439,033	4,379,718
Finance lease receivables		393,462	852,340
Trade and bills receivables	7	4,239,688	3,130,134
Amount due from related parties		4,175	—
Prepayments, deposits and other receivables		1,099,111	824,690
Pledged bank deposits	8	136,513	470,649
Cash and cash equivalents	8	1,473,758	1,684,400
		<u>10,792,942</u>	<u>11,347,314</u>
Current liabilities			
Trade and bills payables	9	1,701,795	2,723,074
Other payables and accruals		2,177,251	973,513
Provisions		132,649	150,749
Due to related parties		12,709	12,704
Income tax payable		22,653	127,405
Convertible bonds	10	892,221	24,846
Interest-bearing bank borrowings		576,977	795,425
Derivative financial instruments	10	86,929	13
		<u>5,603,184</u>	<u>4,807,729</u>
Net current assets		<u>5,189,758</u>	<u>6,539,585</u>
Total assets less current liabilities		<u><u>9,933,557</u></u>	<u><u>11,332,704</u></u>

		30 June 2012 unaudited RMB'000	31 December 2011 audited RMB'000
	<i>Notes</i>		
Non-current liabilities			
Long-term payables		8,715	–
Deposits for finance leases		83,665	108,026
Convertible bonds	<i>10</i>	–	825,329
Interest-bearing bank borrowings		1,158,702	1,511,719
Long-term loan notes	<i>11</i>	2,213,715	2,205,315
Deferred tax liabilities		78,095	72,136
Provisions		21,254	24,994
Derivative financial instruments	<i>10</i>	–	178,416
Total non-current liabilities		3,564,146	4,925,935
Net assets		6,369,411	6,406,769
Equity			
Issued capital		444,116	444,116
Share premium and reserves		5,923,074	5,646,826
Proposed dividend		–	313,661
Equity attributable to owners of the parent		6,367,190	6,404,603
Non-controlling interests		2,221	2,166
Total equity		6,369,411	6,406,769

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

1. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

Basis of preparation

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 of Hong Kong Limited since 17 November 2005. The immediate and ultimate holding company of the Group is China Longgong Group Holdings Limited, a limited liability company incorporated in the British Virgin Islands.

The principal activities of the Group are the manufacture and distribution of wheel loaders, road rollers, excavators, forklifts and other infrastructure machinery and the provision of the financial leases of the constructions machinery.

The interim condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance with HKAS 34 *Interim Financial Reporting*.

The accounting policies adopted in the preparation of the unaudited interim 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 2011, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also included HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> ¹
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i> ¹
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i> ²

The adoption of the new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements. There have been no significant changes in the accounting policies applied in these interim condensed financial statements.

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

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i> ²
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i> ²
HKFRS 9	<i>Financial Instruments</i> ⁴
HKFRS 10	<i>Consolidated Financial Statements</i> ²
HKFRS 11	<i>Joint Arrangements</i> ²
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> ²

HKFRS 13	<i>Fair Value Measurement²</i>
HKAS 1 Amendments	<i>Amendments to HKAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income¹</i>
HKAS 19 (2011)	<i>Employee Benefits²</i>
HKAS 27 (2011)	<i>Separate Financial Statements²</i>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures²</i>
HK(IFRIC)-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine²</i>
HKAS 32 Amendments	<i>Amendments to HKAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities³</i>
Annual Improvements	<i>Amendments to a number of HKFRSs contained in Annual improvements 2009-2011 Cycle issued in June 2012²</i>
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	<i>Amendments to HKFRS 10 Consolidated Financial Statements, HKFRS 11 Joint Arrangements and HKFRS 12 Disclosure of Interests in Other Entities – Transition Guidance²</i>

¹ Effective for annual periods beginning on or after 1 July 2012

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 January 2014

⁴ Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

2. OPERATING SEGMENT INFORMATION

Operating segments

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2012 and 2011, respectively.

Six months ended 30 June 2012	Sale of construction machinery RMB'000	Finance leases of construction machinery RMB'000	Total RMB'000
Segment revenue	4,662,345	61,207	4,723,552
Results			
Segment results	571,207	40,371	611,578
Reconciliation:			
Finance income			11,373
Unallocated other income, gains and losses			(14,319)
Unallocated corporate expenses			(1,833)
Finance costs			(230,159)
Profit before tax			376,640

Six months ended 30 June 2011	Sale of construction machinery <i>RMB'000</i>	Finance leases of construction machinery <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	8,261,539	136,194	8,397,733
Results			
Segment results	1,399,420	115,652	1,515,072
Reconciliation:			
Finance income			10,553
Unallocated other income, gains and losses			75,136
Unallocated corporate expenses			9,934
Finance costs			(176,050)
Profit before tax			1,434,645

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

Inter-segment revenues are eliminated on consolidation.

The following table presents segment assets and liabilities of the Group's operating segments as at 30 June 2012 and 31 December 2011:

	30 June 2012 <i>RMB'000</i>	31 December 2011 <i>RMB'000</i>
Segment assets:	15,424,900	15,676,497
Sale of construction machinery	14,797,926	14,333,701
Finance leases of construction machinery	626,974	1,342,796
Corporate and other unallocated assets	111,841	463,936
Consolidated assets	15,536,741	16,140,433
	30 June 2012 <i>RMB'000</i>	31 December 2011 <i>RMB'000</i>
Segment liabilities:	5,354,502	5,850,011
Sale of construction machinery	5,250,526	5,003,607
Finance leases of construction machinery	103,976	846,404
Corporate and other unallocated liabilities	3,812,828	3,883,653
Consolidated liabilities	9,167,330	9,733,664

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

	For the six months ended 30 June			
	2012 <i>RMB'000</i>	%	2011 <i>RMB'000</i>	%
Wheel loaders	3,208,078	67.9	5,682,610	67.7
Excavators	530,229	11.2	1,302,951	15.5
Road rollers	71,997	1.5	272,378	3.2
Forklifts	422,180	9.0	468,302	5.6
Components	429,861	9.1	535,298	6.4
Subtotal	4,662,345	98.7	8,261,539	98.4
Finance lease interest income	61,207	1.3	136,194	1.6
Total	<u>4,723,552</u>	<u>100</u>	<u>8,397,733</u>	<u>100</u>

3. OTHER GAINS AND LOSSES

An analysis of the Group's other gains and losses is as follows:

	For the six months ended 30 June	
	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Fair value gain/(loss) on derivative financial instruments	91,487	(36,346)
Exchange realignment from convertible Bonds	(3,232)	39,291
Gain on redemption of convertible Bonds	13	—
(Loss)/Gain on disposal items of property, plant and equipment	(298)	1,540
Allowance for bad and doubtful debts	(42,760)	—
Foreign exchange (loss)/gain	<u>(11,087)</u>	<u>35,844</u>
	<u>34,123</u>	<u>40,329</u>

4. PROFIT BEFORE TAX

Profit before taxation has been arrived at after charging/crediting:

	For the six months ended 30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories recognised as expenses	3,745,280	6,197,144
Staff costs, including directors' remuneration	217,360	297,588
Contribution to retirement benefit scheme	22,137	9,375
Amortisation of lease payments for land	2,848	2,692
Depreciation of property, plant and equipment	158,562	118,059
	<u>158,562</u>	<u>118,059</u>
and after crediting:		
Interest income on bank deposits	11,373	10,553
Income-related government grants	77,119	6,393
	<u>77,119</u>	<u>6,393</u>

5. INCOME TAX

The major components of income tax expense in the interim consolidated statement of comprehensive income are:

	For the six months ended 30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax expense	47,700	207,615
Deferred income tax expense related to origination and reversal of deferred taxes	52,637	72,633
	<u>52,637</u>	<u>72,633</u>
	<u>100,337</u>	<u>280,248</u>

6. DIVIDENDS PAID AND PROPOSED

	For the six months ended 30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Dividends on ordinary shares declared during the six-month period:		
Final dividend for 2011: HK\$0.09 (2010: HK\$0.10)	<u>313,661</u>	<u>355,732</u>
Dividends on ordinary shares proposed for approval (not recognised as a liability as at 30 June):		
First dividend for 2012: Nil (2011: HK\$0.06)	<u>-</u>	<u>210,311</u>

7. TRADE AND BILL RECEIVABLES

The Group allows credit periods from 3 months up to 12 months to its trade customers except for some customers with good credit history and relationships, with whom longer credit terms are agreed.

The aged analysis of trade and bill receivables is as follows:

	30 June 2012	31 December 2011
	<i>RMB'000</i>	<i>RMB'000</i>
0-90 days	2,951,111	1,775,503
91-180 days	1,164,090	1,280,421
181-270 days	49,640	74,210
271 – 360 days	<u>74,847</u>	<u>-</u>
	<u>4,239,688</u>	<u>3,130,134</u>

Bill receivables are aged within six months at the end of each reporting period. Bill receivables with a book value of RMB10,711,000 were pledged to certain banks by the Group as security to get short-term credit facilities in this period (31 December 2011: Nil).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in both interest and/or principal payments and only a portion of the receivables is expected to be recovered.

8. CASH AND CASH EQUIVALENTS

	30 June 2012 RMB'000	31 December 2011 RMB'000
Cash and bank balances	1,610,271	2,155,049
Less: Pledged bank deposits	(136,513)	(470,649)
Cash and cash equivalents	<u>1,473,758</u>	<u>1,684,400</u>

Pledged bank deposits represent deposits pledged to banks to secure short-term banking facilities in respect of purchases of raw materials for manufacturing and are therefore classified as current assets.

9. TRADE AND BILL PAYABLES

The aged analysis of trade and bills payables is as follows:

	30 June 2012 RMB'000	31 December 2011 RMB'000
0-180 days	1,649,469	2,674,804
181 days-1 year	23,942	21,842
1-2 years	6,427	16,317
2-3 years	9,885	3,831
Over 3 years	12,072	6,280
	<u>1,701,795</u>	<u>2,723,074</u>

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

10. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS

	Liability component RMB'000	Derivative component RMB'000	Total RMB'000
As at 30 June 2012			
2007 Convertible bonds (i)	—	—	—
2009 Convertible bonds (ii)	<u>892,221</u>	<u>86,929</u>	<u>979,150</u>
	<u>892,221</u>	<u>86,929</u>	<u>979,150</u>

i) 2007 Convertible Bonds

Convertible Bonds of US\$287 million were issued by the Company on 30 April 2007 (the “2007 Convertible Bonds”) at an issue price of US\$10,000 per Convertible Bond of US\$10,000. The 2007 Convertible Bonds are listed on the Singapore Exchange Securities Trading Limited. Each 2007 Convertible Bond entitles the holder to convert to one ordinary share of the Company at the initial conversion price of HK\$20.4525 (the “2007 Conversion Price”), but subject to anti-dilutive adjustment as stated in the offering circular on 27 April 2007 (the “2007 Offering Circular”). On 23 June 2011, the 2007 Conversion Price has been revised to HK\$4.51 after anti-dilutive adjustment.

The principal terms of the Convertible Bonds are as follows:

Interest

The 2007 Convertible Bonds do not bear any interest.

Conversion period

The conversion period starts from the 40th day after the issue of the 2007 Convertible Bonds 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 Bond at 121.155% of its principal amount on the 2007 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 Bonds in whole or in part at the early redemption amount (or “2007 Early Redemption Amount”), provided that no such redemption may be made unless the closing price of the Company’s 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 2007 Conversion Price in effect translated into US dollars at the fixed exchange rate of HK\$7.8175 = US\$1.00 on each such stock exchange business day.

Redemption at the Option of the bondholders

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

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

- (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 period is calculated by applying an effective interest rate of approximately 7.73% to the liability component since the Convertible Bonds were issued.

- (ii) Derivative component represents:
 - (a) The fair value of the option of the 2007 Bondholders to convert the 2007 Convertible Bonds into shares of the Company at an initial conversion price of HK\$20.4525 per ordinary share of HK\$0.1 in the share capital of the Company (“Share”) and subject to anti-dilutive adjustments.
 - (b) The fair value of the option of the Company to early redeem the 2007 Convertible Bonds.
 - (c) The fair value of the option of the 2007 Bondholders to require the Company to early redeem the 2007 Convertible Bonds.

Pursuant to the terms and conditions of the Convertible Bonds, the 2007 Convertible Bonds would mature on 30 April 2012 (the “Maturity Date”). Unless previously redeemed, converted and cancelled as provided in the terms and conditions of the Convertible Bonds, the Company shall redeem each Convertible Bond at 121.155% of its principal amount on the Maturity Date. On 30 April 2012, the Company received a notice from the holders of the Convertible Bonds to require the Company to redeem all of the outstanding Convertible Bonds on the Maturity Date. After the market closed on the Maturity Date, the Company has redeemed all the Convertible Bonds in an aggregate principal amount of US\$3,340,000 for a total sum of US\$4,046,577 (equivalent to approximately HK\$31 million). The Company has satisfied such payment by means of internal resources of the Group.

The Board considers that the redemption of the Convertible Bonds at maturity does not have any material adverse effect on the Group’s financial position.

Upon the redemption of the Convertible Bonds on the Maturity Date, there are no outstanding 2007 Convertible Bonds.

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

	Liability component RMB'000	Derivative component RMB'000	Total RMB'000
2007 Convertible Bonds:			
As at 31 December 2010	24,286	1,890	26,176
Exchange realignment	(503)	–	(503)
Effective interest expense charged	1,319	–	1,319
Changes in fair value	–	(169)	(169)
As at 30 June 2011	25,102	1,721	26,823
Exchange realignment	(604)	–	(604)
Effective interest expense charged	348	–	348
Changes in fair value	–	(1,708)	(1,708)
As at 31 December 2011	24,846	13	24,859
Exchange realignment	88	–	88
Effective interest expense charged	570	–	570
Redeemed and cancelled	(25,504)	(13)	(25,517)
Changes in fair value	–	–	–
As at 30 June 2012	–	–	–

ii) 2009 Convertible Bonds

Another Convertible Bonds of US\$135 million was issued by the Company on 24 August 2009 (the “2009 Convertible Bonds”) at an issue price of US\$10,000 per Convertible Bond of US\$10,000. The 2009 Convertible Bonds are listed on the Singapore Exchange Securities Trading Limited. Each 2009 Convertible Bond entitles the holder to convert to one ordinary share of the Company at the initial conversion price of HK\$7.00 (the “2009 Conversion Price”), but subject to anti-dilutive adjustment as stated in the offering circular on 6 August 2009 (the “2009 Offering Circular”). On 7 October 2011, the 2009 Conversion Price has been revised to HK\$3.20 after anti-dilutive adjustment. On 24 August 2012, 93.08% of the total principal amount of the convertible bonds has been redeemed, which led to US\$156,721,000 cash outflow in subsequent period.

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

Interest

The 2009 Convertible Bonds do not bear any interest.

Conversion period

The conversion period starts from any time on or after 5 October 2009 on the business day falling on or immediately before the 10th day prior to 24 August 2014 (the “2009 Maturity Date”)

Maturity

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

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 Bonds in whole or in part at the early redemption amount (the “2009 Early Redemption Amount”), provided that no such redemption may be made unless the closing price of the Company’s 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 2009 Conversion Price in effect translated into US dollars at the fixed exchange rate of HK\$7.815 = US\$1.00 on each of such trading days.

Redemption at the Option of the bondholders

The Bondholder of each 2009 Convertible Bond (the “2009 Bondholders”) will have the right to require the Company to redeem all or some of the 2009 Convertible Bonds at the 2009 Early Redemption Amount of the initial principal amount on 24 August 2012 which is US\$12,471.79 for each US\$10,000 in the principal amount of the bonds or on the occurrence of a change of the Company’s controlling shareholders or delisting of the Company’s shares.

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

- (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 period is calculated by applying an effective interest rate of approximately 16.22% to the liability component since the 2009 Convertible Bonds were issued.

(ii) Derivative component represents:

- (a) The fair value of the option of the 2009 Bondholders to convert the 2009 Convertible Bonds into shares of the Company at an initial conversion price of HK\$7.00 per ordinary Share and subject to anti-dilutive adjustments.
- (b) The fair value of the option of the Company to early redeem the 2009 Convertible Bonds.
- (c) The fair value of the option of the 2009 Bondholders to require the Company to early redeem the 2009 Convertible Bonds.

The movement of the liability component and the derivative component of the 2009 Convertible Bonds for the period since issuance is set out below:

	Liability component <i>RMB'000</i>	Derivative component <i>RMB'000</i>	Total <i>RMB'000</i>
2009 Convertible Bonds:			
As at 31 December 2010	746,391	416,535	1,162,926
Exchange realignment	(38,788)	–	(38,788)
Effective interest expense charged	56,117	–	56,117
Changes in fair value	–	36,515	36,515
As at 30 June 2011	763,720	453,050	1,216,770
Exchange realignment	2,532	–	2,532
Effective interest expense charged	59,077	–	59,077
Changes in fair value	–	(274,634)	(274,634)
As at 31 December 2011	825,329	178,416	1,003,745
Exchange realignment	3,144	–	3,144
Effective interest expense charged	63,748	–	63,748
Changes in fair value	–	(91,487)	(91,487)
As at 30 June 2012	892,221	86,929	979,150

11. LONG-TERM NOTES

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

Optional redemption of the Notes

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

Year	Redemption price
2014	104.250%
2015 and thereafter	102.125%

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

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT AND BUSINESS REVIEW

Due to persistent weak demand for construction machinery from mainland China, the revenue of the Group reduced significantly in the first half of 2012. For the six months ended 30 June 2012, revenue of the Group was RMB4,724 million, representing a substantial decrease of 43.8% as compared to RMB8,398 million of the corresponding period in 2011, which was due to: (i) sales price of products decreased to different extent; (ii) sharp reduction in sales volume. Gross profit from operation was approximately RMB978 million, representing a decrease of 55.5% as compared to approximately RMB2,201 million of the corresponding period of last year. Overall gross margin decreased from 26.2% to 20.7%. The decrease was due to the followings: (i) unit price of excavator series products decreased significantly as a result of promotion strategies; (ii) production of our main products-loaders reduced as compared to the corresponding period of last year, which led to a higher unit cost. During the period, profit attributable to equity holders of the Group was RMB276 million, representing a decrease of 76.1% as compared to RMB1,154 million of the corresponding period of last year. The decrease was attributable to significant reduction in gross profit from operation and provision of bonds interest for the senior bonds issued last year led to significant increase in finance cost.

Geographical Results

During the period ended 30 June 2011, the ratio of turnover in each region in the PRC over total turnover respectively is insignificantly different, reflecting that the demand in each region is relatively mild and tends to be stable.

Sales from northern region in the PRC maintained as high as 32.30% (for the period ended 30 June 2011: turnover from this region represented approximately 30.97% of our total turnover), primarily attributable to great demands from large-scale projects, infrastructure and transportation construction for construction machinery.

Sales from southwestern region and northwestern region represented approximately 8.85% and 15.21% of our total turnover respectively as compared to 8.50% and 16.92% of our total turnover respectively over the corresponding period in 2011.

The sales from eastern and central regions represented approximately 11.24% and 12.50% of our total turnover respectively as compared to 10.54% and 13.46% of our total turnover respectively over the corresponding period in 2011.

The sales from northeastern region in the PRC decreased slightly and represented approximately 5.37% of the total turnover for the period, or a decrease of 1.93% over the corresponding period in 2011 (for the period ended 30 June 2011: turnover from this region represented 7.30% of our total turnover).

The sales from overseas market recorded approximately RMB277 million, representing an increase of nearly 9.43% as compared to the corresponding period of last year (for the six months ended 30 June 2011: RMB253 million). 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 RMB3,208 million, which accounted for approximately 67.92% of the Company's turnover for the period. ZL50 series achieved a turnover of approximately RMB2,629 million for the period, representing a decrease of 46.41% when compared with the corresponding period in 2011. ZL30 is the second largest revenue contributor and has achieved a turnover of approximately RMB464 million, representing a decrease of 20.13% when compared to the corresponding period of last year. The revenue generated from ZL40 decreased 26.14% to approximately RMB13 million. The turnover from the mini loader decreased 42.81% to RMB103 million. The significant decrease of wheel loader series is due to impact from the state macro economy, the sales of which dropped significantly as compared to the fast growth in previous years.

Excavator

For the period ended 30 June 2012, percentage of the sales of the Company's excavators over its total sales decreased to 11% from 16% over the corresponding period of last year. The sales of excavators amounted to approximately RMB530 million (for the six months ended 30 June 2011: the sales amounted to RMB1,303 million), and the revenue decreased 59.31%. The decrease of revenue was primarily attributable to price reduction to different extent as promotion strategies adopted by the Group, which resulted in the selling price of this series decreasing significantly when compared to the corresponding period of last year; Influenced by the tightening macro environment, individual customers' demand for this series reduced significantly, which resulted in the sale volume decreasing significantly.

Fork Lifts and Road Rollers

As fork lifts were affected by macro policies slightly, its turnover accounting for the Company's turnover increased to 8.94% in the current period from approximately 5.58% in the same period of last year. The turnover from fork lifts amounted to approximately RMB422 million, representing a decrease of 9.85% compared to the corresponding period of last year, which was mainly due to the sale volume of fork lifts remain decreasing significantly as compared to the same period of last year.

The operating revenue from road rollers amounted to RMB72 million, representing a decrease of 73.57% compared to the corresponding period of last year, which was mainly due to the significant decrease in sales volume of road rollers influenced by the macro-economic environment.

Components

The sales generated from components amounted to approximately RMB420 million for the period, representing a decrease of 20.82% as compared to the same period in 2011.

Finance Lease Interest

Turnover from finance lease interest represented approximately 1.3% of the Group's total turnover in the first half of 2012, representing a decrease of 55.06% as compared to the same period of last year, which was due to the fact that finance lease business was gradually reduced by the Group.

FINANCIAL REVIEW

The Group financed its operations from internally generated cash flow, bank borrowings and accumulated retained earnings. The Group adopted a prudent finance strategy in managing the 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 2012, the Company has not redeemed any of its shares during the period.

During the period ended on 30 June 2012, the Company has received the notice from the bondholders to require the Company to redeem all of the outstanding convertible bonds on 30 April 2012, the maturity date for redemption.

After the market closed on the maturity date, the Company has redeemed an aggregate principal amount of US\$3,340,000 of convertible bonds in the aggregate amount of US\$4,046,577 (equivalent to HK\$31 million). Upon the maturity date for redemption and as at the date of this announcement, the Company has no outstanding issued 2007 convertible bonds.

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

As at 30 June 2012, the gross gearing ratio (defined as total liabilities over assets) was approximately 59.00% (as at 30 June 2011: 60.31%).

Liquidity and Financial Resources

As at 30 June 2012, the Group had bank balances and cash of approximately RMB1,474 million (31 December 2011: approximately RMB1,684 million) and pledged bank deposit of approximately RMB137 million (31 December 2011: approximately RMB471 million). Compared with last year, the cash and bank balance decreased about RMB211 million, which was as a result of net cash inflow of RMB366 million from operating activities, net cash inflow of RMB1 million from investing activities and net cash outflow of RMB578 million from financing activities.

The pledged deposit balance at 30 June 2010 decreased approximately RMB335 million. It was due to the decreased deposit pledged by the Group 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 1.93 (31 December 2011: 2.36).

The Directors believed that the Group has sufficient resources to support its working capital requirement and meet its foreseeable capital expenditure.

Capital Commitment

As at 30 June 2012, the Group had contracted but not provided in the financial statements in respect of acquisition of property, plant and equipment amounting to approximately RMB306 million (31 December 2011: approximately RMB175 million).

OUTLOOK

After past few years of significant growth, the construction machinery industry entered a slowdown stage with lower market demand, increased competition and decreased gross margin and profit. However, we expect that demand for construction machinery products tends to be stable in the second half of 2012, driven by a series of governmental macro-control measures, such as pro-active fiscal policy and prudent monetary policy. The construction machinery industry in which the Group operated is still full of challenges as well as opportunities in the long run. Meanwhile, with many years of sustained, health and rapid development, the Group improved technology strength, established a wide distribution network for its products, equipped with advanced manufacture processing facilities, accumulated abundant management experience as well as enhanced risk prevention capability, which will provide favorable conditions for the new round of adjustment and competition in the industry.

Under the strategic guidance of the second five-year growth plan for the “Round Two Venture” formulated by the board of directors, the Group will continue to focus on the development of four major products including loader, excavator, forklift and road roller in the future. In current circumstances, we will also make efforts to achieve self-improvement, especially explore new mode for product distribution actively, enhance risk management, intensify product upgrade, and accelerate the development of new products as well as speed up the establishment of domestic and international distribution networks while maintaining our leading position in loader industry.

CORPORATE GOVERNANCE

The Company is committed to maintenance of high standard corporate governance for the benefits of its shareholders.

The Company has adopted and complied with the principles and applicable code provisions of Code on Corporate Governance and Corporate Governance Report (“New CG Code”) (formerly known as Code on Corporate Governance Practices (“Old CG Code”)) as set out in Appendix 14 of the Listing Rules, except for certain deviations which are summarized as below.

Code Provision A.1.8

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

Code Provision A.6.7

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

Compliance with the Model Code for Securities Transactions by Directors of 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 2012 have been reviewed by the external auditors of the Company.

PAYMENT OF FINAL DIVIDED

Reference is made to the announcement of the Company in respect of the voting results for the annual general meeting of the Company dated 25 May 2012 (the “Announcement”). Capital terms used herein shall have the same meanings as those used in the Announcement unless otherwise stated. At the annual general meeting held on 25 May 2012, the Company declared a final dividend of HK\$0.09 per share for distribution to the shareholders of the Company for the year ended 31 December 2011. The dividends will be paid on or before 28 September 2012 to shareholders of the Company whose names appear on the register of members of the Company on 4 June 2012.

INTERIM DIVIDEND

The Directors do not recommend any interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: HK\$6 cents per shares).

PUBLICATION OF FINANCIAL INFORMATION

The Company’s 2012 interim report for the six months ended 30 June 2012 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, 28 August 2012

As at the date of this announcement, Mr. Li San Yim, Mr. Qiu Debo, Mr. Luo Jianru, Mr. Chen Chao, Mr. Lin Zhong Ming, Mr. Zheng Ke Wen and Mr. Yin Kun Lun 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, Mr. Han Xuesong and Mr. Jin Zhi Guo are the independent non-executive directors of the Company.

* *For identification purposes only*