中国龙工
CHINA LONGGONG

CHINA INFRASTRUCTURE MACHINERY HOLDINGS LIMITED

中國龍工控股有限公司*

(incorporated in the Cayman Islands with limited liability)

Stock Code : 3339

INTERIM REPORT 2006

*For identification purposes only

CONTENTS

"TO BECOME THE LEADING MANUFACTURER IN THE INFRASTRUCTURE MACHINERY SECTOR THROUGH CONTINUOUS GROWTH AND SUSTAINABLE PROFITABILITY"

FINANCIAL HIGHLIGHTS

The table below sets forth the consolidated financial summary of China Infrastructure Machinery Holdings Ltd (the "Company" or "China Longgong") and its subsidiaries (hereinafter collectively referred as to the "Group").

	Six months ended 30 June 2006	Six months ended 30 June 2005	Change (+/–)
Current period	***RMB'000***	*RMB'000*	
Turnover	**2,080,107**	1,506,762	+38.05%
Operating Profits	**321,151**	167,801	+91.39%
Profit attributable to shareholders	**303,161**	139,889	+116.72%
Per share data	***RMB***	*RMB*	
Earnings per share(1) #	**0.29**	0.20	+45.00%
Net assets per share(2) #	**1.41**	0.84	+67.86%
Key performance indicators	**%**	%	
Profitability			
Overall gross margin	**23.65**	19.67	+3.98%
Net margin	**14.60**	9.29	+5.31%
EBITDA margin(3)	**16.29**	11.80	+4.49%
Return on equity(4)	**20.83**	23.90	–3.07%
Liquidity and solvency			
Current ratio(5)	**1.83X**	1.20X	+0.63X
Interest coverage ratio(6)	**32.98X**	11.70X	+21.28X
Gross debt-to-equity ratio(7)	**17.07**	100.80	–83.73%
Net debt-to-equity ratio(8)	**8.27**	78.57	–70.30%
Management efficiency	***days***	*days*	
Inventory turnover days(9)	**83.38**	92.36	–9 days
Trade and bills payables turnover days(10)	**42.91**	56.87	–14 days
Trade and bills receivable turnover days(11)	**51.55**	51.18	—

As at the period end	**30 June 2006** *RMB'000*	31 December 2005 *RMB'000*	30 June 2005 *RMB'000*
Equity attributable to equity holders	**1,455,921**	1,152,760	586,172
Total assets	**2,454,204**	2,074,313	1,696,464

[#] Calculated based on the 1,037,050,000 shares outstanding as at 30 June 2006 (30 June 2005: 700,000,000).

[1] Net profit attributable to shareholders of the Company for each period divided by the total number of outstanding shares as at the end of each period.

[2] Shareholders' equity divided by the total number of outstanding shares as at the end of each period.

[3] Earnings before interest, tax, depreciation and amortisation ("EBITDA") divided by turnover for each period.

[4] Net profit attributable to shareholders of the Company for each period divided by total equity as at the end of each period.

[5] Current assets divided by current liabilities as at the end of each period.

[6] Earnings before interest and income tax expenses ("EBIT") divided by interest expenses.

[7] Interest-bearing debt for each period divided by the total equity as at the end of each period.

[8] Interest-bearing debt minus bank balances and cash for each period divided by the total equity as at the end of each period.

[9] Average inventories divided by cost of sales and multiplied by 183 days when turnover days are calculated for half-year periods.

[10] Average trade and bills payables divided by cost of sales and multiplied by 183 days when turnover days are calculated for half-year periods.

[11] Average trade and bills receivables divided by turnover and multiplied by 183 days when turnover days are calculated for half-year periods.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

	Notes	Six months ended 30 June 2006 RMB'000 (Unaudited)	30 June 2005 RMB'000 (Audited)
Turnover		**2,080,107**	1,506,762
Cost of sales		**(1,588,063)**	(1,210,371)
Gross profit		**492,044**	296,391
Other income		**7,852**	4,520
Administrative expenses		**(60,520)**	(23,117)
Selling and distribution costs		**(113,543)**	(107,438)
Other operating expenses		**(4,682)**	(2,555)
Interest on bank borrowings wholly repayable within one year		**(9,736)**	(14,316)
Profit before taxation	*4*	**311,415**	153,485
Income tax expense	*5*	**(7,744)**	(13,461)
Profit for the year		**303,671**	140,024
Attributable to:			
Equity holders of the parent		**303,161**	139,889
Minority interest		**510**	135
		303,671	140,024
Dividends paid	*6*	**–**	67,684
Earnings per share – basic *(RMB)*	*7*	**0.29**	0.20

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2006

	Notes	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	8	**504,527**	410,031
Lease premium for land – Non current portion		**121,995**	123,672
		626,522	533,703
Current assets			
Lease premium for land – Current portion		**2,557**	2,559
Inventories		**743,136**	704,006
Trade receivables	9	**653,352**	193,522
Bills receivable	10	**168,442**	156,540
Other receivables and prepayments	9	**74,591**	61,961
Pledged bank deposits		**57,261**	14,008
Bank balances and cash		**128,343**	408,014
		1,827,682	1,540,610
Current liabilities			
Trade payables	11	**360,536**	279,958
Bills payable	11	**93,698**	10,550
Other payables		**214,002**	113,218
Provisions		**49,139**	26,899
Amounts due to related parties	12	**5,681**	6,086
Tax payables		**24,076**	27,803
Bank borrowings	13	**248,922**	455,320
		996,054	919,834
Net current assets		**831,628**	620,776
		1,458,150	1,154,479
Capital and reserves			
Share capital	14	**107,886**	107,886
Reserves		**1,348,035**	1,044,874
Equity attributable to equity holders of the parent		**1,455,921**	1,152,760
Minority interest		**2,229**	1,719
Total equity		**1,458,150**	1,154,479

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Equity attributable to equity holders of the parent							
	Share capital	Share premium	Special reserve	Non-distributable reserve	Accumulated profits	Total	Minority interest	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005	1	91,441	355,335	25,217	40,894	512,888	–	512,888
Profit for the period and total recognised income for the period	–	–	–	–	139,889	139,889	135	140,024
Contribution from minority shareholder of subsidiary	–	–	–	–	–	–	944	944
Dividends *(Note 6)*	–	–	–	–	(67,684)	(67,684)	–	(67,684)
At 30 June 2005	1	91,441	355,335	25,217	113,099	585,093	1,079	586,172
At 1 January 2006	107,886	455,206	355,335	54,639	179,694	1,152,760	1,719	1,154,479
Profit for the period and total recognised income for the period	–	–	–	–	303,161	303,161	510	303,671
Transfer of non-distributable reserve	–	–	–	449	(449)	–	–	–
At 30 June 2006	107,886	455,206	355,335	55,088	482,406	1,455,921	2,229	1,458,150

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	Six months ended	
	30 June 2006	30 June 2005
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**90,221**	(25,418)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(110,672)**	(59,295)
(Increase) decrease in pledged bank deposits	**(43,253)**	11,890
Proceeds on disposal of property, plant and equipment	**167**	507
Payment for lease premium for land	**–**	(1,570)
Repayment of loan receivable	**–**	7,500
NET CASH USED IN INVESTING ACTIVITIES	**(153,758)**	(40,968)
FINANCING ACTIVITIES		
Repayment of bank borrowings	**(378,320)**	(281,240)
New bank borrowings raised	**171,922**	399,820
Interest paid	**(9,736)**	(14,316)
Contribution from a minority shareholder of subsidiary	**–**	944
Dividends paid	**–**	(67,684)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(216,134)**	37,524
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(279,671)**	(28,862)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**408,014**	158,908
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTING BANK BALANCE AND CASH	**128,343**	130,046

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

1. Basis of Presentation of Financial Statements

The unaudited 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 (the "HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Company was incorporated in the Cayman Islands on 11 May 2004 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 17 November 2005. In the opinion of the directors, the ultimate holding company of the Company is China Longgong Group Holdings Limited, a company incorporated in the British Virgin Islands on 3 June 2004 with limited liability.

2. Principal Accounting Policies

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies adopted in preparing the unaudited 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 2005.

In current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations of the Hong Kong Financial Reporting Standards (the "new HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006 as the case may be. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting period have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied all the new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

3. Business and Geographical Segment

During each of the six months ended 30 June 2006 and 2005, the principal activity of the Group was engaged in the manufacture and sales of wheel loaders in the People's Republic of China (the "PRC") and accordingly, no analysis of business and geographical segment is presented.

4. Profit Before Taxation

	Six months ended 30 June 2006 RMB'000	30 June 2005 RMB'000
Profit before taxation has been arrived at after charging:		
Cost of inventory recognised as expense	**1,588,063**	1,210,371
Staff costs, including directors' remuneration		
Salaries and allowances	**81,825**	50,660
Contributions to retirement benefit scheme	**1,583**	2,702
Total staff costs	**83,408**	53,362
Allowance for bad and doubtful debts	**1,729**	57
Write down of inventory	**3,590**	–
Provision for warranty cost	**36,252**	24,316
Depreciation	**16,075**	11,251
Amortisation of lease land premium	**1,679**	470
(Gain) Loss on disposal of property, plant and equipment	**(66)**	944
Research and development expenditure	**1,082**	1,361
and after crediting:		
Interest income on bank deposit	**1,878**	1,414

5. Income Tax Expense

	Six months ended 30 June 2006 RMB'000	30 June 2005 RMB'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT")	**7,744**	13,461

No provision for Hong Kong profits tax has been made for the Company and two of its subsidiaries, China Dragon Development Holdings Limited and China Dragon Investment Holdings Limited, as they had no income neither arises in, nor derived from Hong Kong.

The tax charge for each of the six months ended 30 June 2006 and 2005 can be reconciled to the profit per the income statement as follows:

	Six months ended			
	30 June 2006		30 June 2005	
	RMB'000	**%**	*RMB'000*	%
Profit before taxation	**311,415**		153,485	
Tax at the domestic tax rate of 33%	**102,767**	**33.0**	50,650	33.0
Tax effect of expenses that are not deductible in determining taxable profit	**4,156**	**1.4**	1,360	0.9
Tax effect of income that is not taxable in determining in taxable profit	**–**	**–**	(11)	(0.1)
Tax effect of deferred tax assets not recognised	**592**	**0.2**	–	–
Effect of tax exemptions and income tax on concessionary rate granted to PRC subsidiaries	**(99,771)**	**(32.1)**	(38,538)	(25.0)
Tax charge and effective tax rate for the period	**7,744**	**2.5**	13,461	8.8

6. Dividends

During the six month ended 30 June 2005, the Company declared and paid interim dividends of RMB67,684,000 representing RMB9.7 cents per ordinary share. No dividends was declared or paid for the six month ended 30 June 2006.

7. Earnings Per Share

The calculation of the basic earning per share is based on the profit for the period attributable to the equity holders of the Company of RMB303,161,000 (June 2005: RMB139,889,000) and on the number of 1,037,050,000 shares in issue (2005: 700,000,000 in issue and to be issued pursuant to the capitalisation issue) during the period.

8. Movements in Property, Plant and Equipment

During the period, the Group acquired property, plant and equipment of RMB110,672,000 (2005: RMB59,295,000).

In addition, the Group disposed of certain property, plant and equipment with a carrying amount of RMB101,000 (2005: RMB1,451,000) for proceeds of RMB167,000 (2005: RMB507,000), resulting in a profit on disposal of RMB66,000 (2005: loss of RMB944,000) for the period.

9. Trade Receivables, Other Receivables and Prepayments

The Group has a policy of allowing an average credit periods ranging from 30 to 180 days to its trade customers other than major customers with whom specific terms will be agreed.

The aged analysis of trade receivables is as follows:

	30 June 2006 *RMB'000*	31 December 2005 *RMB'000*
0 to 90 days	**645,971**	188,714
91 to 180 days	**3,898**	1,563
181 to 270 days	**3,275**	1,491
271 days to 1 year	**208**	418
1 to 2 years	**–**	806
2 to 3 years	**–**	530
	653,352	193,522

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

	30 June 2006 *RMB'000*	31 December 2005 *RMB'000*
Deposits for purchase of supplies and raw materials	**67,420**	45,287
Others	**7,171**	16,674
	74,591	61,961

10. Bills Receivable

Bills receivable is aged within one year from the respective balance sheet date. The directors consider that the carrying amounts of bills receivable approximate their fair value.

11. Trade and Bills Payables

The aged analysis of trade payables is as follows:

	30 June 2006 *RMB'000*	31 December 2005 *RMB'000*
Within 1 year	**357,170**	274,724
1 to 2 years	**1,183**	3,150
2 to 3 years	**137**	1,180
Over 3 years	**2,046**	904
	360,536	279,958

The bills payable is aged within one year from the respective balance sheet date.

12. Amounts Due to Related Parties

The amounts represent:

	Note	**30 June 2006** *RMB'000*	31 December 2005 *RMB'000*
Longgong Holding (HK) Limited	*1*	**–**	343
China Longgong Group Holdings Limited		**5,681**	5,743
		5,681	6,086

Notes:

1. Mr. Li San Yim and Madam Ngai Ngan Ying, the shareholders and directors of the Company, control this company.

All the amounts are unsecured, non-interest bearing and repayable on demand.

13. Bank Borrowings

During the period, the Group repaid bank loans of the amount of RMB378 million and obtained new bank loans of the amount of RMB172 million. The loans bear interest at market rates from 4.7% to 5.58% and are repayable within one year. The proceeds were used to finance working capital.

14. Share Capital

	Number of shares	Amounts
		US$
Authorised:		
Ordinary shares of US$1.00 each		
At 31 December 2004 and 30 June 2005	50,000	50,000
		HK$
Redenominated to ordinary shares of HK$ 0.10 each on 10 October 2005 and 4 November 2005	3,900,000	390,000
Increase in authorised capital	4,996,100,000	499,610,000
Ordinary shares of HK$0.10 each		
At 31 December 2005	5,000,000,000	500,000,000

	Number of shares	Amounts
		US$
Issued and fully paid:		
Allotted and issued on date of incorporation	100	100
Issue of shares	18	18
At 31 December 2004 and 30 June 2005	118	118
		HK$
Redenominated to ordinary shares of HK$0.10 each on 10 October 2005 and 4 November 2005	9,204	920
Issue of shares by capitalisation of share premium account	699,990,796	69,999,080
Issue of shares for placing and public offer	337,050,000	33,705,000
At 31 December 2005	1,037,050,000	103,705,000
		RMB'000
Shown on the balance sheet at		
31 December 2004 and 30 June 2005		1
31 December 2005 and 30 June 2006		107,886

15. Operating Lease Commitments

	30 June 2006 *RMB'000*	31 December 2005 *RMB'000*
Minimum lease payments paid under operating leases in respect of premises during the period	**1,723**	2,386

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 June 2006 *RMB'000*	31 December 2005 *RMB'000*
Within one year	**2,253**	3,462
In the second to fifth year inclusive	**3,676**	3,695
Over five years	**3,333**	864
	9,262	8,021

Operating lease payments represent rentals payable by the Group for certain of its office premises and staff quarters. Leases are negotiated for an average term ranging of five to eight years and rentals are fixed for an average of five years.

16. Commitments

	30 June 2006 *RMB'000*	31 December 2005 *RMB'000*
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**52,449**	41,016

17. Contingent Liabilities

As at 30 June 2006, the Group had issued corporate guarantees to the extent of RMB234,000,000 (31 December 2005: RMB185,000,000) to the banks to secure certain banking facilities of the Group's sales agents, for their issuance bills solely to the Group. The amount of such facilities being utilised as at 30 June 2006 amounted RMB83,136,000 (31 December 2005: RMB87,559,000).

18. Related Party Transactions

The following related party transactions took place during the period ended 30 June 2006:

			Six months ended	
Name of related party	*Notes*	**Nature of transactions**	**30 June 2006**	30 June 2005
			RMB'000	RMB'000
Ngai Ngan Cun	*1*	Carriage inwards	–	1,035
Pipe Company	*2*	Purchase of goods	–	25,484
Gear Company	*2*	Purchase of goods	–	19,901
Hydraulic Company	*2*	Sales of goods	–	1,383
Hydraulic Company	*2*	Purchase of goods	–	23,073
Transportation Company	*3*	Carriage inwards	–	4,963

Notes:

1. Mr. Ngai Ngan Cun is a brother of Madam Ngai Ngan Ying, who is the director of the Company.

2. Represent transactions prior to these companies being acquired by the Group.

3. The company is established by Mr. Ngai Ngan Gui, a brother of Madam Ngai Ngan Ying.

All the transaction with Pipe Company, Hydraulics Company and Gear Company had been regarded as inter group transaction prior to the completion of the acquisition of the companies by the Group during 2005. All the other transactions described above have been terminated following the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

The remuneration of directors and other members of key management during the year was as follows:

	30 June 2006	30 June 2005
	RMB'000	*RMB'000*
Short-terms benefits	**2,006**	1,077
Post-employment benefits	**–**	–
Other long-term benefits	**–**	–
	2,006	1,077

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trend.

INDEPENDENT INTERIM REVIEW REPORT

TO THE BOARD OF DIRECTORS OF
CHINA INFRASTRUCTURE MACHINERY HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have been instructed by China Infrastructure Machinery Holdings Limited to review the interim financial report set out on pages 4 to 15.

DIRECTORS RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" ("SAS 700") issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 September 2006

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND BUSINESS REVIEW

We had a spectacular first-half year of 2006 with outstanding financial performance. Customers have confidence in our products, and sales continued to increase. The Group's consolidated turnover for the six months ended 30 June 2006 (the "Period") was approximately RMB2,080 million representing an increase of approximately 38%. As compared to approximately RMB1,507 million over the same period of 2005. Gross profit from operations was approximately RMB492 million representing an increase of approximately 66% when compared with the corresponding period in 2005. Overall gross margin has increased to approximately 23.65% as compared to approximately 20.6% from the year ended of 2005. The increase in gross margin for the Period was mainly attributable to the followings:– (i) cost savings from enhanced vertical integration manufacturing model; (ii) gradual declining of steel prices in the first-half year of 2006 and (iii) benefits from increased economies of scales of production. Profits attributable to equity shareholders for the Period was approximately RMB303 million representing an increase of approximately 117% as compared to that of 2005. The Company's basic earnings per share were approximately RMB0.29 representing an increase of approximately 45% over the corresponding period in 2005.

Geographical segmentation

The northern region of the PRC remained as the Company's principal marketing region. The turnover of the northern region for the Period amounted to approximately RMB693 million, which accounted for approximately 35% of the total turnover of the Group. Sales in the north-western region amounted to approximately RMB323 million accounting for approximately 16% of the total turnover for the Period and an increase of approximately 84% when compared to the corresponding period in 2005. The Group has experienced a substantial increase in its turnover in central part of the PRC, showing an increase of approximately 170% when compared to the corresponding period last year. Sales in the central part of the PRC for the Period amounted to approximately RMB239 million, which accounted for approximately 12% of the Group's sales.

Wheel Loaders

Wheel loaders were primarily applied in a variety of infrastructure activities, including construction of roads, railways, tunnels and bridges, mining activities, water and electricity projects, steel and cements manufacturing and construction and real estates. For the six months ended 30 June 2006, approximately 42% of turnover was attributable to entities involved in the construction of roads, railways, tunnels and bridges, approximately 38% of turnover was attributable to mining and approximately 9% of turnover was attributable to water and electricity projects.

Sales in wheel loaders were again the major sales contributor for the Company which accounted for approximately 95% of the Company's turnover for the six months ended 30 June 2006. ZL50 series continued to be the main revenue driver and achieved a turnover of approximately RMB1,709 million for the Period representing an increase of approximately 36% when compared with the same period in 2005. ZL30 series is the second largest revenue generator and has achieved a turnover of approximately RMB253 million showing an increase of approximately 36% when compared to the corresponding period last year. The increase in sales volume was mainly attributable to the strong market perceptions on China Longgong's brand name and the increase in fixed assets investments (FAI) in the first half of year 2006.

Road Rollers

The Company has built up a strong market presence for road rollers since its first launch in the second half of year 2004. The operating revenues from road rollers amounted to approximately RMB26 million for the six months ended 30 June 2006, representing an increase of approximately RMB11 million (or approximately 74%) when compared with the corresponding period last year. This increase was mainly attributable to the increase in customers' satisfaction and the enhanced quality of the product.

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 Company'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.

GROSS MARGIN AND OPERATING EXPENSES

Overall gross margin for the Period was approximately 23.65%, representing an increase of approximately 3.98% as compared with approximately 19.67% in the corresponding period last year.

During the Period, the Group's total operating expenses (including administrative expenses, selling and distribution costs and other operating expenses) amounted to approximately RMB178,745,000, representing an increase of approximately RMB45,635,000 or approximately 34.28% when compared with the corresponding period last year. This increase was in line with the expansion of the business and growth of turnover.

LIQUIDITY AND FINANCIAL RESOURCES

Cash and Bank Balance

The Group maintained a sound cash position during the Period. As at 30 June 2006, the Group had bank balances and cash of approximately RMB128,343,000 (31 December 2005: approximately RMB408,014,000) and pledged bank deposit of approximately RMB57,261,000 (31 December 2005: approximately RMB14,008,000) secured for banking facilities granted to the Group. The Group also obtained banking facilities line secured by fixed deposits and corporate guarantee given by the Company.

Bank Borrowings

As at 30 June 2006, the Group had bank borrowings of approximately RMB248,922,000 (31 December 2005: approximately RMB455,320,000). The Group's gross debt-to-equity ratio, representing the interest-bearing debt divided by equity attributable to equity shareholders of the Company was approximately 17% (31 December 2005: approximately 39%).

Cash flow from Operating Activities

For the six months ended 30 June 2006, the Group's net cash flow from operating activities was approximately RMB90,221,000 representing an increase of approximately 455% over the same period of last year.

Cash flow used in Investing Activities

For the six months ended 30 June 2006, the Group's net cash flow used in investing activities was approximately RMB153,758,000, representing an increase of approximately RMB112,790,000 when compared to the corresponding period in 2005. The increase was mainly due to the expansion of production capacity and increase in the acquisition of production plant and equipment.

Cash flow used in Financing Activities

For the six months ended 30 June 2006, the Group's net cash flow used in financing activities was approximately RMB216,134,000 representing a decrease of approximately RMB253,658,000 over the same period in year 2005. The decrease was mainly attributable to the reduction of bank loans raised and the increase in repayment of bank borrowings.

Net Working Capital

The Group's liquidity position also remained healthy. As at 30 June 2006, the current assets of the Group were approximately RMB1,827,682,000 representing an increase of approximately RMB287,072,000 from the year end of 2005, which was in line with our business expansion. As at 30 June 2006 the current liabilities of the Group were approximately RMB996,054,000 which included trade and bills payables of approximately RMB454,234,000 and bank borrowings due within one year of approximately RMB248,922,000. The Group's working capital for the Period increased from approximately RMB621 million to approximately RMB832 million and the current ratio, representing the current assets divided by the current liabilities, as at 30 June 2006 was approximately 1.83 times (31 December 2005: approximately 1.67 times).

PROSPECT

In the second-half year of 2006, we expect to build on the momentum of the first-half of the year and to continue generating greater market share and improving operating performance across our businesses.

Significant economic growth together with Government's economic plan in China serves as catalyst for strong infrastructure machinery market demand

The Company's growth is closely related to the FAI and economic developments of the PRC. This year, the economy of the PRC continued steady and rapid growth. According to the statistics released by the National Bureau of Statistics of China, the gross domestic products (GDP) of the PRC for the first-half of year 2006 was increased by 10.9%. FAI for the first-half of the year was increased by approximately 30%. In addition, year 2006 is the first year of the Eleventh Five-Year Development Plan for National Economic and Social Development (2006-2010), a lot of infrastructural projects are in pipeline in the PRC. Domestic demand and consumption capacity continued to raise, the level of industrial investment increased, the level of industrialization, modernization and internationalization continued to increase, and the volume of trading rose rapidly. These developments have provided a favorable business environment and provided the Company potentials for further growth in the PRC.

The Company is in the best position to take advantage of this market trend, given the Group's unrivalled competitive edges and in-depth understanding of market trends, China Longgong will further enhance its product mix. The Group believed that the Company will build on the momentum of the first-half and continued to achieve outstanding performance in the second half of year 2006.

Diversified products portfolio development

Sticking to the Company's management philosophy "to maximize our product mix", the Company took initiatives in research and development of new products based on market responses and the changing customers' needs. Since the inception of the business in 1993, the Company had developed more than 30 new models of wheel loaders. Apart from wheel loaders and road rollers, the Company has developed its own China Longgong's excavators in the first-half year of 2006 and hopefully it will not be launched to the market in early 2007 after the completion of testing in the fourth quarter of this year. Besides, the Company has targeted to enter the domestic PRC fork-lifters market and has developed approximately ten different models of fork-lifters for factory godowns, warehouse, ports and supermarkets. Hopefully, they will be launched to the market in the second half of this year. The Company has committed to explore new products which would enhance the Company's profits.

Overseas Markets

With a view to increasing sales and broaden customer base through better network coverage, the Company will further expand its nationwide distribution system and service network. The Company distinguished after-sales service provides an effective competitive edge in attracting new customers. The Company will also explore opportunities in the overseas market. With the improved quality and excellent value to price ratio, the Company will develop customized product to meet the specific requirements and needs of overseas customers. The Company will adopt a proactive promotion strategy to raise its profile and brand awareness of the China Longgong brand name in the overseas market. For the six months ended 30 June 2006, the Company has achieved approximately RMB16 million exports sales to Middle East and Russia. It is anticipated that at least 20% of the Group's turnover will be contributed from overseas markets after the next five years.

CORPORATE GOVERNANCE

Audit Committee

The Company has an audit committee which was established on 10 October 2005 to assist the board of directors (the "Board") in fulfilling its oversight responsibilities of the Company's compliance with legal and regulatory requirements with respect to financial matters. The audit committee, comprising one non-executive director and two independent non-executive directors, is responsible for reviewing the accounting principles and practices adopted by the Group, the interim and annual reports of the Group, connected transactions and discussed with management the auditing, internal control and financial reporting matters.

The functions of audit committee include but not limited to the following:

- Serve as an independent party to monitor the integrity of the Company's financial statements, reporting process and internal control mechanism;
- Review and assess audit efforts of the Company's independent auditors;
- Directly appointing, retaining, compensating, evaluating and terminating the Company's independent auditors;
- Review the qualifications, independence and performance of the independent auditor and
- Provide an intermediary of open communication among the Company's independent auditors, financial and senior management and board of directors.

Executive Committee

The executive committee is responsible for recommending general policy and advising direction for the Company to the Board and as such, it interacts with the audit and remuneration committees in respect of their policy submissions. Since, the Company does not have a separate nomination committee, the nomination and appointment of new directors is a function of the executive committee. The executive committee reviews on a regular basis the need to appoint directors with specific business acumen in appropriate sectors that would further enhance the present skill set, or add expertise in a developing business sector.

Remuneration Committee

The primary duties and responsibilities of the remuneration committee are to advise the Board on the remuneration policy, review and determine the remuneration of all executive directors and senior management with reference to the Company's objectives from time to time. In addition, the remuneration committee needs to review other human resources issues, including group-wide remuneration policies and the development of human resources.

Compliance with the Code on Corporate Governance Practices (the "Code")

The board is committed to maintaining and ensuring high standards of corporate governance practices. The Board emphases on maintaining a quality Board with balance of skill set of directors, better transparency and effective accountability system in order to enhance shareholders' value. In the opinion of the directors, the Company had during the 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.

Improving the Company's system of internal control

It is the Board's responsibility for developing and maintaining an internal control system of the Company to protect shareholders' interest and to safeguard the Group' property and assets by reviewing major control procedures for financial, compliance and enterprise risk management matters.

1. The Company enhances the independence of internal audit department in the first half of year 2006 for the purpose of reviewing, in a more effective manner, the companywide systems of internal control. The department was monitored and held responsible to the Board and as well as to the audit committee. The internal audit department carries out inspection, monitoring and evaluation of the Company's financial information disclosures, operations and internal control procedures on a regular or in ad hoc basis, with a view to ensuring transparency in information disclosures, operational efficiencies and effectiveness of the corporate control regime. Independent evaluations and recommendations is the core element in the department, the internal audit staff are authorized to access any information relating to the Company and to make enquiries to staff concerned. Besides that, internal audit department would assist external auditors during an external audit by providing pertinent financial information in a timely manner.

2. Effective from 1 January 2006, the Company has fully adopted a comprehensive budget management and a level-based performance appraisal management, so as to monitor the operations of the Company according to the budget and adjust operating objectives and management initiatives in a timely manner.

3. For a more scientific and effective human resources management, the Company has, from 1 January 2006, carried out in-depth analysis on each position for a clear and reasonable definition of job missions, duties, skills requirements and key performance targets.

INVESTOR RELATIONS

Information Disclosures and Investor Relations Management

The Company strives to ensure that all shareholders and investors are able to fully exercise their rights on an equal basis. The Company regards effective communication as the core of investor relations, and believes that a high transparent organization and promptly dissemination of information to our investors are important ingredients to the success of a company. A designated team including an executive director from senior management, the Company Secretary and delegates from the Company's financial management department was set up in 2005 managing information disclosures and investor relations to ensure that information disclosures are open, fair and impartial. It helps investors improve their understanding of, and identification with, the Company through full disclosure of information to them, and seeks to strengthen communication and interaction with them through various means to enhance the Company's transparency.

During the first-half year of 2006, the Company maintained its good relationship with the international capital markets through the announcement of annual results, global or international investors' forums, non-deal roadshows and company visits. During the first-half year of 2006, there are approximately 60 investors companies visited the Company. The major investor relations events took place in the first-half year of 2006 include:

Date	**Major Events**
March 2006	Announcement of 2005 annual results
April 2006	Participated in the China Investment Conference 2006 held by JP Morgan in Beijing
May 2006	Participated in the China Investment Forum 2006 held by CLSA in Shanghai Participated in the Medium and Small Cap Corporate Day held by BNP Paribas Peregrine in Hong Kong Reverse roadshow with around 30 investors and analysts visited the Company
June 2006	Participated in the third annual China Investment Forum at the Metropolitan Club in New York City held by Merrill Lynch Participated in the China Access Day held by CLSA in Hong Kong

Other Stakeholders' interests

While dedicated to maximizing shareholders' value, the Company is also committed to its customers, in terms of provision of quality products and services, and to the staff, by making available opportunities to them for career development. The Company had a strong commitment to shareholders, investors, staff, customers, suppliers and the community at large and always acting in good faith and with integrity. The Company believed that the sustainable development of a company cannot be achieved in isolation from a healthy environment. The Company pledges to contribute to the community while pursuing profit growth, by managing the business within the bounds of relevant laws and environmental regulations, improving standard of corporate governance and enhancing corporate transparency and actively participating in social charities and contribute to the local social development.

Contact

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DISCLOSURE OF INTERESTS

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2006, the interests of the directors and chief executive of the Company in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register to be kept by the Company pursuant to Section 352 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(1) *Long positions in the ordinary shares of the Company*

Name of directors	Capacity	Number of shares held	Percentage of issued share capital as at 30 June 2006
Mr. Li San Yim *(Note 1)*	Interest of controlled corporation *(Note 2)*	611,347,380	58.95
Ms. Ngai Ngan Ying *(Note 1)*	Interest of controlled corporation *(Note 2)*	611,347,380	58.95

Note 1: Mr. Li San Yim and Ms. Ngai Ngan Ying are husband and wife to each other and are deemed to be interested in each other's interest.

Note 2: These shares were held through China Longgong Group Holdings Limited, a company that was wholly owned by Mr. Li San Yim and Ms. Ngai Ngan Ying as to 55% and 45% respectively, is the registered shareholder of these 611,347,380 shares.

(2) *Long positions in the ordinary shares of the associated corporation of the Company, Longgong (Shanghai) Machinery Co., Ltd.*

Name of directors	**Capacity**	**Registered share capital**	**Percentage of issued share capital as at 30 June 2006**
Mr. Li San Yim *(Note 1)*	Corporate *(Note 2)*	480,000	0.24
Ms. Ngai Ngan Ying *(Note 1)*	Corporate *(Note 2)*	480,000	0.24

Note 1: Mr. Li San Yim and Ms. Ngai Ngan Ying are husband and wife to each other and are deemed to be interested in each other's interest.

Note 2: The 0.24% interest is held by Shanghai Longgong Machinery Co., Ltd. which is owned by Mr. Li San Yim and Ms. Ngai Ngan Ying as to 39.5% and 60.5% respectively.

Save as disclosed above as at 30 June 2006, none of the directors, chief executives of the Company or any of their associates, had registered any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded and kept in the register by the Company in accordance with the Section 352 of the SFO, or any interests required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' and Other Person's Interests in Shares and Underlying Shares

As at 30 June 2006, the following interests of 5% or more of the nominal value of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in the ordinary shares of the Company

Name of shareholder	Capacity	Number of ordinary shares	Percentage of issued share capital as at 30 June 2006
China Longgong Group Holdings Ltd	Beneficial owner	611,347,380	58.95
DBS Nominees (Private) Ltd	Beneficial owner	88,652,620	8.55
DBS Bank Ltd	Beneficial owner	88,652,620 *(Note 1)*	8.55
DBS Group Holdings Ltd	Beneficial owner	88,652,620 *(Note 2)*	8.55
Government of Singapore Investment Corporation Pte Ltd	Beneficial owner	72,918,000	7.03
Horseman Global Fund Limited	Beneficial owner	72,540,000	6.99
Cazenove Asia Limited	Beneficial owner	60,414,000	5.83
JPMorgan Cazenove Limited	Beneficial owner	60,414,000 *(Note 3)*	5.83
JPMorgan Cazenove Holdings	Beneficial owner	60,414,000 *(Note 4)*	5.83
Cazenove Holdings Limited	Beneficial owner	60,414,000 *(Note 5)*	5.83

Note1: These shares were held through DBS Nominees (Private) Ltd., a wholly owned subsidiary of DBS Bank Ltd.

Note 2: These shares were held through DBS Nominees (Private) Ltd., a wholly owned subsidiary of DBS Bank Ltd., which is in return wholly owned by DBS Group Holdings Ltd.

Note 3: These shares were held through Cazenove Asia Limited, a wholly owned subsidiary of JPMorgan Cazenove Limited.

Note 4: These shares were held through Cazenove Asia Limited, a wholly owned subsidiary of JPMorgan Cazenove Limited, which is in return wholly owned by JPMorgan Cazenove Holdings.

Note 5: These shares were held through Cazenove Asia Limited, a wholly owned subsidiary of JPMorgan Cazenove Limited, which is in return wholly owned by JPMorgan Cazenove Holdings. JPMorgan Cazenove Holdings is owned by Cazenove Holdings Limited as to 49.99%.

Saved as disclosed above, as at 30 June 2006, the Company has not been notified of any interests in the issued share capital of the Company as recorded and kept under Section 336 of the SFO as having an interest of 5% or more of or any short positions in the issued share capital of the Company.

OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

There was no purchase, sale or redemption by the Company or any of its subsidiaries, of the Company's listed securities during the six months ended 30 June 2006.

Review of interim results by audit committee

The audit committee together with the management and the external auditors has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the interim financial results. The Group's interim results for the Period have been reviewed and approved by the audit committee of the Company.

Publication of Financial Information

The Company's 2006 interim report for the six months ended 30 June 2006 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
LI San Yim
Chairman

24 September 2006

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr. Li San Yim *(Chairman)*
Mr. Qiu Debo *(Chief Executive Officer)*
Mr. Luo Jianru
Ms. Feng Wanru
Mr. Chen Chao
Mr. Zhu Yong Sheng
Dr. Zhang Hong

Non-executive directors

Ms. Ngai Ngan Ying
Mr. Zhu Mantian Myron

Independent non-executive directors

Prof. Yang Hongqi
Dr. Qian Shizheng
Mr. Lo Peter

AUDIT COMMITTEE

Dr. Qian Shizheng *(Chairman)*
Mr. Lo Peter
Mr. Zhu Mantian Myron

REMUNERATION COMMITTEE

Mr. Lo Peter *(Chairman)*
Dr. Qian Shizheng
Ms. Ngai Ngan Ying

EXECUTIVE COMMITTEE

Mr. Qiu Debo *(Chairman)*
Mr. Li San Yim
Mr. Luo Jianru
Ms. Feng Wanru
Mr. Chen Chao
Mr. Zhu Yong Sheng
Dr. Zhang Hong

COMPANY SECRETARY

Mr. Shoom Chin Wan

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STOCK CODE

3339

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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COMPLIANCE ADVISOR

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