INTERIM REPORT 2009

LONKING 龙工

LONKING HOLDINGS LIMITED

中國龍工控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3339

*For Identification Purpose Only

CONTENTS

FINANCIAL HIGHLIGHTS

The table below sets forth the consolidated financial summary of Lonking Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as to the "Group").

Current period	Six months ended 30 June 2009 *RMB'000*	Six months ended 30 June 2008 *RMB'000*	Change (+/–)
Turnover	3,573,351	3,990,856	-10.46%
Operating profits:			
– excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	493,021	654,444	-24.67%
– including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	497,161	741,084	-32.91%
EBITDA:			
– excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	539,918	695,796	-22.40%
– including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	544,058	782,436	-30.47%
Profit attributable to equity parent	361,175	603,679	-40.17%
Per share data	*RMB*	*RMB*	
Basic earnings per share[(1)#]:			
– excluding foreign exchange gain and the fair value changes in derivatives components of convertible bonds	0.16	0.19	-15.79%
– including foreign exchange gain and the fair value changes in derivatives components of convertible bonds	0.17	0.28	-39.29%
Net assets per share[(2)#]	1.64	3.02	-45.70%

Current period	Six months ended 30 June 2009 %	Six months ended 30 June 2008 %	Change (+/–)
Key performance indicators			
Profitability			
Overall gross margin	20.18	21.16	-4.63%
Net profit margin			
– excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	9.99	12.96	-22.92%
– including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	10.11	15.13	-33.18%
EBITDA margin[3]:			
– excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	15.11	17.43	-13.31%
– including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	15.23	19.61	-22.34%
Return on equity[4]			
– excluding foreign exchange gain and the fair value changes in derivatives components of convertible bonds	9.95	12.27	-18.91%
– including foreign exchange gain and the fair value changes in derivatives components of convertible bonds	10.27	18.41	-44.22%
Liquidity and solvency			
Current ratio[5]	1.32	2.52	-47.62%
Interest coverage ratio[6]:			
– excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	5.37	9.16	-41.38%
– including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	5.42	10.37	-47.73%
Gross debt-to-equity ratio[7]	27.08%	55.66%	-51.35%
Management efficiency	*days*	*days*	
Inventory turnover days[8]	129	94	+35 days
Trade and bills payables turnover days[9]	81	67	+14 days
Trade and bills receivable turnover days[10]	40	41	-1 day

[#] calculated based on the 2,140,050,000 weighted average number of outstandings shares (WANOS) for the period ended 30 June 2009 (30 June 2008: 1,087,099,000).

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

[1] Net profit attributable to equity holders of the parent for each period divided by the weighted average number of outstanding shares (WANOS) as at the end of each period.

[2] Shareholders' equity divided by the WANOS 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 equity holders of the parent for each period divided by equity attributable to equity shareholders of the parent 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] Average inventories divided by cost of sales and multiplied by 183 days when turnover days are calculated for half-year periods.

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

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Deloitte.
德勤

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 7 to 34, which comprises the condensed consolidated statement of financial position of Lonking Holdings Limited (the "Company") and its subsidiaries as of 30 June 2009 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 September 2009

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2009

	NOTES	30.6.2009 *RMB'000* (Unaudited)	30.6.2008 *RMB'000* (Audited)
Non-current assets			
Property, plant and equipment	10	2,393,820	2,060,263
Lease premium for land – non current portion		223,341	224,441
Finance lease receivables		285,114	138,748
Deferred tax assets	11	91,261	103,297
Deposit paid for property, plant and equipment		187,941	175,421
		3,181,477	2,702,170
Current assets			
Lease premium for land – current portion		4,928	4,939
Inventories		1,659,773	2,347,921
Finance lease receivables		965,602	693,411
Avalable-for-sale investment		92,310	42,755
Other receivables and prepayments	12	245,650	409,643
Trade receivables	12	784,602	200,181
Bill receivables	13	237,816	343,380
Pledged bank deposits		1,068,327	204,488
Bank balances and cash		384,990	894,507
		5,443,998	5,141,225
Current liabilities			
Trade payables	14	852,904	687,864
Bill payables	14	317,584	652,741
Other payables and accruals		394,786	414,307
Provisions		164,580	154,475
Amounts due to related parties	15	16,414	13,871
Tax payable		43,347	29,628
Bank borrowings	16	1,106,682	361,000
Derivative financial instruments	19	142,834	205,872
Convertible loan notes	19	1,093,998	–
		4,133,129	2,519,758
Net current assets		1,310,869	2,621,467
		4,492,346	5,323,637

	NOTES	30.6.2009 *RMB'000* (Unaudited)	30.6.2008 *RMB'000* (Audited)
Capital and reserves			
Share capital	18	222,058	111,029
Reserves		3,294,399	3,048,075
Equity attributable to owners of the Company		3,516,457	3,159,104
Minority interests		884	851
Total equity		3,517,341	3,159,955
Non-current liabilities			
Deposit for finance lease		37,020	27,565
Convertible loan notes	19	–	1,476,961
Long term bank borrowings	16	915,319	637,000
Deferred tax liabilities	11	22,666	22,156
		975,005	2,163,682
		4,492,346	5,323,637

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	Attributable to owners of the company								
	Share capital	Share premium	Other reserve	Special reserve	Statutory reserve	Retained profits	Total	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008 (audited)	113,009	1,209,195	–	355,335	270,721	868,227	2,816,487	953	2,817,440
Profit and total comprehensive income for the period	–	–	–	–	–	603,679	603,679	132	603,811
Dividends paid	–	–	–	–	–	(116,156)	(116,156)	–	(116,156)
Shares repurchased and cancelled	(390)	(23,811)	–	–	–	–	(24,201)	–	(24,201)
At 30 June 2008 (unaudited)	112,619	1,185,384	–	355,335	270,721	1,355,750	3,279,809	1,085	3,280,894
At 1 January 2009	111,029	1,188,009	–	355,335	371,001	1,133,730	3,159,104	851	3,159,955
Profit for the period	–	–	–	–	–	361,175	361,175	33	361,208
Other comprehensive income	–	–	43,361	–	–	–	43,361	–	43,361
Total comprehensive income for the period	–	–	43,361	–	–	361,175	404,536	33	404,569
Dividends paid	–	–	–	–	–	(47,183)	(47,183)	–	(47,183)
Bonus shares issued (note 8)	111,029	(111,029)	–	–	–	–	–	–	–
At 30 June 2009 (unaudited)	222,058	1,076,980	43,361	355,335	371,001	1,447,722	3,516,457	884	3,517,341

Other reserve represents changes in fair value net of tax of available-for-sale financial assets of the Group.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2009

	Six months ended	
	30.6.2009	30.6.2008
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL	467,912	570,030
Decrease (increase) in inventories	725,814	(251,995)
Increase in trade, bill and other receivables	(344,566)	(312,306)
Increase in finance lease receivables	(418,557)	(400,128)
(Increase) decrease in trade, bill and other payables	(232,814)	221,371
Other working capital items	22,103	49,054
Cash generated from (used in) operations	219,892	(123,974)
Income tax paid	(24,082)	(57,204)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	195,810	(181,178)
INVESTING ACTIVITIES		
Interest received	10,220	31,686
Deposit paid for purchase of property, plant and equipment	(187,941)	(340,415)
Purchase of property, plant and equipment	(194,938)	(276,277)
Payment for lease premium for land	(1,325)	–
Increase in pledged bank deposits	(863,839)	(50,757)
Settlement of other financial assets	–	950,000
Purchase of other financial assets	–	(150,000)
Proceeds from disposal of property, plant and equipment	1,473	1,454
Other investing activities	–	(1,505)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(1,236,350)	164,186

	Six months ended	
	30.6.2009 *RMB'000* (Unaudited)	30.6.2008 *RMB'000* (Unaudited)
FINANCING ACTIVITIES		
Dividends paid	(47,183)	(116,156)
Shares repurchased and cancelled	–	(24,201)
Interest paid	(39,665)	(3,702)
Repayment of bank borrowings	(821,000)	–
New bank borrowings raised	1,845,001	–
Convertible Loan Notes repurchased and cancelled	(406,130)	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES	531,023	(144,059)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(509,517)	(161,051)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	894,507	478,064
EFFECT OF FOREIGN EXCHANE RATE CHANGES	–	(17,310)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTING BANK BALANCES AND CASH	384,990	299,703

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

1. BASIS OF PRESENTATION

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
Hong Kong Financial Reporting Standards ("HKFRS") 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements of HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

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

HKAS 23 (Revised 2007) Borrowing Costs

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS 23 (Revised 2007) removes the option available under the previous version of the standard to recognise all borrowing costs as expenses immediately and requires borrowing costs to be capitalised as part of the cost of a qualifying asset. The revised accounting policy has been applied prospectively and does not have a material effect on the reported results and financial position of the Group for the current or prior accounting periods.

HKAS 1 (Revised 2007) Presentation of Financial Statements

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

HKFRS 8 Operating Segments

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 27 (Revised in 2008)	Consolidated and Separate Financial Statements[1]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[4]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[4]
HKFRS 3 (Revised in 2008)	Business Combinations[1]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[3]

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

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

3 Effective for transfers on or after 1 July 2009

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

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

3. SEGMENT INFORMATION

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

3. SEGMENT INFORMATION *(Continued)*

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

For the six months ended 30 June 2009

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

3. SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2008

	Sales of construction machinery *RMB'000*	Finance lease of construction machinery *RMB'000*	Total *RMB'000*
REVENUE			
Sales of goods	3,231,545	–	3,231,545
Finance lease sales	746,803	12,508	759,311
	3,978,348	12,508	3,990,856
RESULT			
Segment result	505,467	18,427	523,894
Unallocated interest income			32,327
Unallocated other income, gains and losses			190,290
Unallocated corporate expenses			(5,427)
Finance costs			(71,482)
Profit before tax			669,602
At 30 June 2009			
Assets			
Segment assets	5,734,991	863,357	6,598,348
Unallocated assets			1,245,047
Total consolidated assets			7,843,395
Liabilities			
Segment liabilities	1,772,801	178,022	1,950,823
Unallocated liabilities			2,732,617
Total consolidated liabilities			4,683,440

3. SEGMENT INFORMATION *(Continued)*

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

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

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

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

4. OTHER GAINS AND LOSSES

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

5. FINANCE COSTS

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

6. INCOME TAX EXPENSE

	Six months ended	
	30.6.2009	30.6.2008
	RMB'000	*RMB'000*
The charge (credit) comprises:		
Current tax		
PRC Enterprise Income Tax	37,171	75,563
Under (over) provision in prior year		
PRC Enterprise Income Tax	630	(208)
Deferred tax	6,352	(9,564)
Income tax expense	44,153	65,791

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.

6. INCOME TAX EXPENSE *(Continued)*

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

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

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

7. PROFIT FOR THE PERIOD

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

8. DIVIDENDS

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

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

On 24 September 2009, the board of directors proposed an interim dividend of HK$0.065 (Six months ended 30 June 2008: HK$0.13) per ordinary share for the six months ended 30 June 2009.

9. EARNINGS PER SHARE

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

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

9. EARNINGS PER SHARE *(Continued)*

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

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

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent RMB381,888,000 (2008: RMB276,277,000) on the acquisition of property, plant and equipment including the construction in progress in the PRC in order to upgrade its manufacturing capabilities.

The Group disposed of certain property, plant and equipment with a carrying amount of RMB3,870,000 (2008: RMB1,068,000) for proceeds of RMB1,473,000 (2008: RMB1,454,000), resulting in a loss on disposal of RMB2,397,000 (2008: gain of RMB386,000) for the period.

11. DEFERRED TAXATION

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior periods:

Deferred tax assets:

	Allowance for bad and doubtful debts *RMB'000*	Provision for products warranty *RMB'000*	Allowance for inventories *RMB'000*	Unrealised profit in inventories *RMB'000*	Accrued sales promotion cost *RMB'000*	Tax losses *RMB'000*	Total *RMB'000*
At 1 January 2008	4,915	23,491	1,385	14,824	21,176	–	65,791
Credit (charge) to income statement for the period	454	10,211	615	5,703	3,983	4,584	25,550
At 30 June 2008	5,369	33,702	2,000	20,527	25,159	4,584	91,341
Credit (charge) to income statement for the period	3447	(5,161)	4,823	28,965	(17,224)	(2,894)	11,956
At 31 December 2008	8,816	28,541	6,823	49,492	7,935	1,690	103,297
Credit (charge) to income statement for the period	9,920	8,931	(1,484)	(32,209)	4,438	(1,632)	(12,036)
At 30 June 2009	18,736	37,472	5,339	17,283	12,373	58	91,261

11. DEFERRED TAXATION *(Continued)*

Deferred tax liabilities:

	Gain on fair value change of available-for-sale investments	Fair value adjustment on land and buildings	Withholding taxes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	–	5,671	–	5,671
Charge to income statement for the period			15,986	15,986
At 30 June 2008	–	5,671	15,986	21,657
Charge to income statement for the period	–	–	499	499
At 1 January 2009	–	5,671	16,485	22,156
Credit to income statement for the period	–	(1,276)	(4,408)	(5,684)
Charge to other reserve	6,194	–	–	6,194
At 30 June 2009	6,194	4,395	12,077	22,666

At the end of the reporting period, certain subsidiaries of the Group have unused tax losses of approximately RMB92 million (2008: RMB53 million) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB 232,000 (2008: RMB6,761,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB 91,738,000 (2008: RMB45,867,000) due to the unpredictability of future profit streams of these subsidiaries. Pursuant to the relevant laws and regulations in the PRC, the unrecognised tax losses at the reporting date will expire in the following years:

	30.6.2009	31.12.2008
	RMB'000	*RMB'000*
2012	6,326	6,326
2013	39,341	39,341
2014	46,071	–
	91,738	45,667

12. TRADE RECEIVABLES AND OTHER RECEIVABLES

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

The aged analysis of trade receivables is as follows:

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

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

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

13. BILL RECEIVABLES

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

14. TRADE PAYABLES AND BILL PAYABLES

The aged analysis of trade payables is as follows:

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

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

15. AMOUNTS DUE TO RELATED PARTIES

The amounts represent:

	30.6.2009 *RMB'000*	31.12.2008 *RMB'000*
Non-trade in nature		
Shanghai Longgong Machinery Co., Ltd. (note a)	2,079	2,079
China Longgong Group Holdings Limited	4,867	4,867
Trade in nature		
Longyan City Jinlong Machinery Company Limited (note b)	6,892	4,253
Sichuan Deying Bonding Company Limited (note c)	2,576	2,672
	16,414	13,871

Note a: Mr. Li San Yim, chairman of the Company, and his spouse, Madam Ngai Ngan Ying, are the controlling shareholders of this company.

Note b: Mr Ngai Ngan Gin, the brother of Madam Ngai Ngan Ying, is the controlling shareholder of this company. The amounts due to Longyan City Jinlong Machinery Company Limited are aged within two months at the end of each reporting period.

Note c: Mr. Chen Jie, the son-in-law of Mr. Li San Yim, holds beneficial interest in this company. The amount due to Sichuan Deying Bonding Company Limited represents deposits for finance lease of wheel loaders.

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

16. BANK BORROWINGS

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

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

17. PLEDGED BANK DEPOSITS

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

18. SHARE CAPITAL

Ordinary shares of HK$0.10 each

Issued and fully paid

	Number of shares *'000*	**Share capital** *HK$'000*
At 1 January 2008	1,089,050	108,905
Shares repurchased and cancelled	(4,314)	(431)
At 30 June 2008	1,084,736	108,474
Shares repurchased and cancelled	(14,711)	(1,472)
At 31 December 2008	1,070,025	107,002
Bonus shares issued	1,070,025	107,002
At 30 June 2009	2,140,050	214,004

18. SHARE CAPITAL *(Continued)*

Shown in the consolidated financial statements as:

	Share capital *RMB'000*
At 31 December 2008	111,029
At 30 June 2009	222,058

In June 2009, the Company issued 1,070,025,000 bonus shares of HK$0.10 each. Details of this are set out in note 8.

All shares issued during the period rank pari passu with the existing shares in all respects.

19. CONVERTIBLE LOAN NOTES AND DERIVATIVE FINANCIAL INSTRUMENTS

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

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

19. CONVERTIBLE LOAN NOTES AND DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

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

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

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

20. CAPITAL COMMITMENTS

	30.6.2009 *RMB'000*	31.12.2008 *RMB'000*
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	476,231	594,052

21. RELATED PARTY TRANSACTIONS

Except for related party balances set out in note 15, the Group has the following related party transactions during the period:

		Six months ended	
Name of related party	**Nature of transactions**	30.6.2009 RMB'000	30.6.2008 RMB'000
Longyan City Jinlong Machinery Company Limited	Purchase of goods	17,429	15,725

Compensation of key management personnel

The remuneration of directors and other members of key management during the period were as follows:

	Six months ended	
	30.6.2009 *'RMB'000*	30.6.2008 *RMB'000*
Short-terms employee benefits	1,975	2,235
Post-employment benefits	13	13
	1,988	2,248

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

22. EVENTS AFTER THE END OF REPORTING PERIOD

Up to 25 September 2009, the Group has repurchased US$37,500,000 (equivalent to RMB256,139,000) in face value of the issued Convertible Loan Notes. The Group is assessing the financial impact on the Group's result of operation and financial position.

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

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT AND BUSINESS REVIEW

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

Geographical Analysis

Northern region of the PRC again remained as the company's principal marketing area for the period ended on 30 June 2009. The turnover of this region accounted for 25% of the group's total turnover as compared to approximately 38% over the same period of 2008. The sales from eastern and southwestern regions represented around 14% and 18% of our total turnover respectively as compared to only 6% and 11% of our total turnover respectively over the same period of 2008. The increase in the percentage of total turnover in these areas was mainly attributed to the PRC government's encouraging policy to the infrastructure investment in these areas, including reconstruction of Sichuan after the earthquake in May 2008. The company continued its efforts to the eastern and south western market. The central, southern and north eastern regions represented approximately 22.54% of our total turnover for the period to ended on 30 June 2009 (six months ended 30 June 2008: 23.34%).

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

Products Analysis

Wheel Loaders

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

Excavator

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

Fork lifts and Road rollers

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

Other Construction Machines and Components

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

Finance Lease Interest

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

FINANCIAL REVIEW

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

Capital Structure

During the period ended on 30 June 2009, the Company repurchased back issued Convertible Bonds Notes in total principal amount of USD64,150,000 (equivalent to RMB434,960,000), which recognized RMB48,960,000 gain on the repurchase in the income statement. The Directors consider that the exercise of the Convertible Bonds Notes repurchase did not have a material adverse impact on the working capital or gearing level of the Company.

As at 30 June 2009, the Gross Debt to Equity ratio, defined as total Non-current liabilities (excluding deferred tax liability) over total equity was approximately 27.08% (as at 30 June 2008: 55.66%)

Capital Expenditure

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

Liquidity and Financial Resources

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

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

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

The Directors believed that the Group will be in a strong and healthy position and has sufficient resources in support of its working capital requirement and meet its foreseeable capital expenditure.

Capital Commitment

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

PROSPECTS

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

1) Development of Lonking Products.

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

2) Further Enhancement of Market Position in Overseas Market.

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

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

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

4) Business Expansion in the Entire Value Chain

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

CORPORATE GOVERNANCE REPORT

To become a company which enjoys the continuously growing trust of its shareholders and all other stakeholders by maximizing its corporate value, the Company is working to improve its management efficiency, advocate corporate ethics and ensure sound management on a Group-wide basis.

To further improve the transparency of the management to shareholders and investors, the Company will disclose information in a fair and timely manner and actively engage in investor relations activities by holding meetings in the PRC and Hong Kong to explain its business results and operations.

The Company will endeavor to comply with the laws and regulations of the place of operation of the Company and the requirements and guidelines of the Stock Exchange of Hong Kong Limited and local regulatory bodies.

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

In the opinion of the directors, the Company had during the Period ended 30 June 2009 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 the Company

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 six months ended 30 June 2009.

The Board will continue to review and foster its own Code of Corporate Governance Practices from time to time. The Company will seek to improve its management and raise its control level to enhance the Company's competitiveness and operating efficiency, to ensure its sustainable development and to generate greater returns for the shareholders.

Improvements in Internal Control Systems

Additional measures and improvements for the internal control systems of the Company during the six months ended 30 June 2009.

The Company focused on the details of its internal control system and made the following enhancements:

1. Improved the Group's supply chain management in purchasing, supplying, warehousing, manufacturing and sales so as to expand its channels and achieve better coordination, and to enhance the quality and competitive strength of our products.

2. Further optimized the establishment of our control system and information management with check and balance as well as mutual supervision among different departments, achieving systematic, regulated and standardized operation of the Company.

3. Further revised and improved the effectiveness of our decision-making, management and balance of authority mechanisms.

    (i) Improved the investor relationship system to safeguard the interests and right of information of public shareholders effectively.

    (ii) Strengthened our financial control and arranged professionals to conduct comprehensive review on the Company for at least every six months, and supervised the execution of duties by the directors and senior management.

    (iii) Established and further refined the assessment procedures of our management team so as to carry out effective supervision and set up a performance evaluation and assessment mechanism.

INVESTOR RELATIONS MANAGEMENT

Information disclosures

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.

During the first half year of 2009, the Company maintained its good relationship with the international capital markets through the announcement of annual results, participation in global or international investors' forums, non-deal roadshows and reverse roadshows.

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 in shares and underlying shares

As at 30 June 2009, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code were as follows:

(1) Long positions in shares and underlying shares of the Company

Ordinary shares of HK$0.10 each of the Company

Name of directors	Capacity	Number of shares held	Percentage of issued share capital as at 30 June 2009
Li San Yim and Ngai Ngan Ying (Note 1)	held by controlled corporation (Note 2)	656,029,380	30.66%
Li San Yim and Ngai Ngan Ying (Note 1)	beneficial owner	522,665,380	24.42%
		1,178,694,760	55.08%

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 under the SFO.

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 656,029,380 shares.

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

Ordinary shares of HK$0.10 each of the Company

Name of directors	Capacity	Registered share capital	Percentage of issued share capital as at 30 June 2009
Mr. Li San Yim	corporate (Note 1)	480,000	0.11%
Ms. Ngai Ngan Ying	corporate (Note 1)	480,000	0.11%

Note 1: The 0.11% interest of Longgong (Shanghai) Machinery Co., Ltd, is held by Shanghai Longgong Machinery limited, 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 2009, 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 2009, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of directors and chief executives, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company.

Long positions

ordinary shares of HK$0.10 each of the Company

Name of shareholder	Capacity	Number of ordinary shares interested	Percentage of issued share capital as at 30 June 2009
China Longgong Group Holdings Ltd (Note 1)	beneficial owner	656,029,380	30.66%
Deutsche Bank Aktiengesellschaft	beneficial owner	150,603,697	7.04%
Templeton Asset Management Ltd.	Investment manager	67,211,000	6.23%
Government of Singapore	Investment manager	62,867,297	5.88%

Note 1: China Longgong Group Holdings Limited, a company incorporated in the British Virgin Island, is owned as to 55% by Li San Yim and as to 45% by Ngai Ngan Ying, the spouse of Li San Yim.

Saved as disclosed above, as at 30 June 2009, the Company has not been notified of any other interests or short positions 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 in the issued share capital of the Company.

OTHER INFORMATION

Interim dividend

The Board has resolved to recommend payment of an interim dividend of HK$6.5 cents (30 June 2008: HK$13 cents) per share for the six months ended 30 June 2009.

Purchase, sale or redemption of the Company's listed securities

During the six months ended 30 June 2009, the Company repurchased US$64,150,000 of face value (equivalent to RMB434,960,000) of the issued convertible loan notes.

Trading Date	Amount of Convertible Bonds purchased	Repurchase price Highest	Repurchase price Lowest	Total Paid
	US$	*US$*	*US$*	*US$*
7 January 2009	11,000,000	0.910	0.910	10,010,000
23 January 2009	6,670,000	0.918	0.918	6,119,725
17 March 2009	1,900,000	0.925	0.925	1,757,500
20 March 2009	5,000,000	0.925	0.925	4,625,000
25 March 2009	5,000,000	0.925	0.925	4,625,000
1 June 2009	3,000,000	1.043	1.043	3,127,500
11 June 2009	12,000,000	1.060	1.060	12,720,000
23 June 2009	15,580,000	1.055	1.055	16,436,900
30 June 2009	4,000,000	1.055	1.055	4,220,000
Total	64,150,000			63,641,625

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.

Review of accounts by audit committee

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

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

By Order of the Board
Li San Yim
Chairman

28 September 2009

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors
Mr. Li San Yim *(Chairman)*
Mr. Qiu Debo *(Chief Executive Officer)*
Mr. Luo Jianru
Dr. Mou Yan Qun
Mr. Chen Chao
Mr. Lin Zhong Ming

Non-executive directors
Ms. Ngai Ngan Ying
Ms. Fang De Qin

Independent non-executive directors
Mr. Pan Longqing
Dr. Qian Shizheng
Mr. Han Xuesong

AUDIT COMMITTEE
Dr. Qian Shizheng *(Chairman)*
Mr. Pan Longqing
Ms. Fang De Qin

REMUNERATION COMMITTEE
Mr. Han Xuesong *(Chairman)*
Dr. Qian Shizheng
Ms. Ngai Ngan Ying

EXECUTIVE COMMITTEE
Mr. Qiu Debo *(Chairman)*
Mr. Li San Yim
Mr. Luo Jianru
Dr. Mou Yan Qun
Mr. Chen Chao
Mr. Lin Zhong Ming

COMPANY SECRETARY
Mr. Chu Shun

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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Services Limited
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Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
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