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

2010 Interim Report

* 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 2010 *RMB'000*	Six months ended 30 June 2009 *RMB'000*	Change (+/–)
Turnover	6,566,093	3,573,351	83.75%
Operating profits:			
– excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	1,147,835	493,021	132.82%
– including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	1,217,366	497,161	144.86%
EBITDA:			
– excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	1,244,850	539,918	130.56%
– including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	1,314,381	544,058	141.59%
Profit attributable to equity parent	926,009	361,175	156.39%
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	0.40	0.17	139.89%
– including foreign exchange gain and the fair value changes in derivatives components of convertible bonds	0.43	0.17	156.39%
Net assets per share(2)#	2.14	1.64	30.39%

Current period	Six months ended 30 June 2010 %	Six months ended 30 June 2009 %	Change (+/–)
Key performance indicators			
Profitability			
Overall gross margin	25.21	20.18	24.94%
Net profit margin			
– excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	13.05	9.99	30.58%
– including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	14.11	10.11	39.56%
EBITDA margin[3]:			
– excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	18.96	15.11	3.85%
– including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	20.02	15.23	4.79%
Return on equity[4]			
– excluding foreign exchange gain and the fair value changes in derivatives components of convertible bonds	17.68	10.00	7.68%
– including foreign exchange gain and the fair value changes in derivatives components of convertible bonds	20.20	10.27	9.93%
Liquidity and solvency			
Current ratio[5]	1.38	1.32	0.39%
Interest coverage ratio[6]:			
– excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	12.46	5.37	132.01%
– including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	13.22	5.42	144.02%
Gross debt-to-equity ratio[7]	37.34	41.48	-9.97%
Management efficiency	*days*	*days*	
Inventory turnover days[8]	81	129	-48 days
Trade and bills payables turnover days[9]	76	81	-5 days
Trade and bills receivable turnover days[10]	32	40	-8 days

[#] calculated based on the 2,140,050,000 weighted average number of outstandings shares (WANOS) for the period ended 30 June 2010 (30 June 2009: 2,140,050,000).

[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 35, which comprises the condensed consolidated statement of financial position of Lonking Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2010 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 "Interim Financial Reporting" ("HKAS 34") 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

26 August 2010

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

	NOTES	Six months ended 30.6.2010 RMB'000 (Unaudited)	Six months ended 30.6.2009 RMB'000 (Unaudited)
Turnover	3	6,566,093	3,573,351
Cost of sales		(4,910,533)	(2,852,205)
Gross profit		1,655,560	721,146
Interest income		6,058	5,920
Other income		23,223	25,863
Other gains and losses	4	117,147	56,042
Research expenditures		(73,406)	(13,463)
Administrative expenses		(115,000)	(101,119)
Selling and distribution costs		(395,346)	(196,760)
Other expenses		(870)	(468)
Finance costs	5	(92,119)	(91,800)
Profit before tax		1,125,247	405,361
Income tax expense	6	(198,937)	(44,153)
Profit for the period	7	926,310	361,208
Profit for the period attributable to:			
Owners of the Company		926,009	361,175
Non-controlling interests		301	33
		926,310	361,208
Earnings per share			
Basic (RMB)	9	0.43	0.17
Diluted (RMB)	9	0.38	0.15

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period	926,310	361,208
Other comprehensive income		
Fair value gain on available-for-sale financial assets	–	49,555
Deferred tax liabilities arising from fair value gain on available-for-sale financial assets	–	(6,194)
Total comprehensive income for the period	926,310	404,569
Total comprehensive income attributable to:		
Owners of the Company	926,009	404,536
Non-controlling interests	301	33
	926,310	404,569

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	NOTES	2010.06.30 *RMB'000* (Unaudited)	2009.12.31 *RMB'000* (Audited)
Non-current assets			
Property, plant and equipment	10	2,890,729	2,758,437
Lease premium for land – non current portion		196,796	221,443
Finance lease receivables		1,176,184	527,718
Deferred tax assets	11	186,947	145,839
Deposit paid for property, plant and equipment		89,527	98,168
Loan receivable		22,061	13,987
		4,562,244	3,765,592
Current assets			
Lease premium for land - current portion		4,479	4,937
Inventories		2,048,635	2,334,982
Finance lease receivables		1,960,308	1,215,177
Other receivables and prepayments	12	312,810	393,109
Trade receivables	12	903,490	340,523
Bill receivables	12	615,659	470,597
Pledged bank deposit	16	168,028	220,293
Bank balances and cash		491,036	1,021,177
		6,504,445	6,000,795
Current liabilities			
Trade payables	13	1,333,994	1,009,815
Bill payables	13	655,782	1,072,267
Other payables and accruals		942,836	523,222
Provisions		262,335	145,043
Amounts due to related parties	14	15,482	22,304
Tax payable		151,072	91,578
Bank borrowings	15	1,366,299	686,718
Derivative financial instruments	18	–	113,498
Convertible loan notes	18	–	714,117
		4,727,800	4,378,562
Net current assets		1,776,645	1,622,233
		6,338,889	5,387,825

	NOTES	2010.06.30 *RMB'000* (Unaudited)	2009.12.31 *RMB'000* (Audited)
Capital and reserves	17		
Share capital		222,058	222,058
Reserves		4,362,770	3,567,301
Equity attributable to owners of the Company		4,584,828	3,789,359
Non-controlling interests		1,391	1,090
Total equity		4,586,219	3,790,449
Non-current liabilities			
Deposit for finance lease		243,792	116,854
Convertible loan notes	18	733,189	662,151
Long term bank borrowings	15	472,073	482,026
Deferred tax liabilities	11	40,102	25,286
Derivative financial instruments	18	263,514	311,059
		1,752,670	1,597,376
		6,338,889	5,387,825

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Attributable to owners of the company								
	Share capital	Share premium	Investment revaluation reserve	Special reserve	Non distributable reserve	Accumulated profits	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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 recognised as distribution	–	–	–	–	–	(47,183)	(47,183)	–	(47,183)
Bonus shares issued	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
At 1 January 2010	222,058	1,076,980	–	355,335	525,594	1,609,392	3,789,359	1,090	3,790,449
Profit and total comprehensive income for the period	–	–	–	–	–	926,009	926,009	301	926,310
Dividends recognised as distribution	–	–	–	–	–	(130,540)	(130,540)	–	(130,540)
At 30 June 2010 (unaudited)	222,058	1,076,980	–	355,335	525,594	2,404,861	4,584,828	1,391	4,586,219

The investment revaluation reserve represents the changes in fair value of available-for-sale financial assets of Group after deducting the relevant deferred tax liabilities.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

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

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
FINANCING ACTIVITIES		
Dividends paid	–	(47,183)
Interest paid	(19,772)	(39,665)
Repayment of bank borrowings	(540,234)	(821,000)
New bank borrowings raised	1,209,862	1,845,001
Convertible loan notes repurchased and cancelled	–	(406,130)
Convertible loan notes redeemed and cancelled	(760,417)	–
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(110,561)	531,023
NET DECREASE IN CASH AND CASH EQUIVALENTS	(526,658)	(509,517)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	1,021,177	894,507
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(3,483)	–
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTING BANK BALANCES AND CASH	491,036	384,990

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

1. BASIS OF PRESENTATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules) and with Hong Kong Accounting Standard 34 (HKAS 34), Interim Financial Reporting.

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009 except as described as below.

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

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

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

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

For the six months ended 30 June 2010

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

3. SEGMENT INFORMATION *(Continued)*

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 profit	405,218	31,933	437,151
Unallocated interest income			5,920
Unallocated other income, gains and losses			59,244
Unallocated corporate expenses			(5,154)
Finance costs			(91,800)
Profit before tax			405,361

At 31 December 2009

	Sales of construction machinery *RMB'000*	Finance lease of construction machinery *RMB'000*	Total *RMB'000*
Assets			
Segment assets	6,592,762	1,786,316	8,379,078
Unallocated assets			1,387,309
Total consolidated assets			9,766,387
Liabilities			
Segment liabilities	1,779,580	1,109,925	2,889,505
Unallocated liabilities			3,086,433
Total consolidated liabilities			5,975,938

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			
	30.6.2010		30.6.2009	
	RMB'000	%	*RMB'000*	%
Wheel loaders	4,641,433	70.7	2,672,328	74.8
Excavators	1,072,386	16.3	390,149	10.9
Road rollers	274,729	4.2	138,114	3.9
Fork lifts	292,623	4.5	117,053	3.3
Others	208,871	3.1	208,033	5.8
Subtotal	6,490,042	98.8	3,525,677	98.7
Finance lease interest income	76,051	1.2	47,674	1.3
Total	6,566,093	100.0	3,573,351	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	
	30.6.2010	30.6.2009
	RMB'000	*RMB'000*
Change in fair value of derivative financial instruments	69,531	4,140
Gain on repurchase of convertible loan notes	–	48,960
Gain on redemption of convertible loan notes	41,047	–
Exchange realignment from convertible loan notes	2,169	7,259
(Loss) gain on disposal of property, plant and equipment	1,721	(2,397)
Foreign exchange losses	2,679	(1,920)
	117,147	56,042

5. FINANCE COSTS

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

6. INCOME TAX EXPENSE

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

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

6. INCOME TAX EXPENSE *(Continued)*

The tax charge for each of the six months ended 30 June 2010 and 2009 can be reconciled to the profit before tax in the condensed consolidated income statement as follows:

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

Note 1: 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 2009, 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.

Note 2: During this period, two subsidiaries in PRC were granted with New and High Technology Qualification by the local government, which results the applicable tax rate decreased from 25% to 15%, therefore, the changes in tax rate impact the deferred taxes brought forward by RMB7,676,000 for the six months ended at 30 June 2010.

7. PROFIT FOR THE PERIOD

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

8. DIVIDENDS

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

8. DIVIDENDS *(Continued)*

At the annual general meeting held on 29 May 2009, an ordinary resolution was passed in respect of the bonus issue of new shares on the basis of one bonus share for every one existing share of the Company held by the qualifying shareholders on 29 May 2009. As a result, 1,070,025,000 new ordinary shares of HK$0.10 each were allotted and distributed, credited as fully paid up by capitalising an amount of HK$107,002,500 (equivalent to approximately RMB111,029,000) standing to the credit of the share premium of the Company.

In the annual general meeting held on 28 May 2010, a final dividend of HK$0.07 (2009: HK$0.05) per share in respect of the year ended 31 December 2009 was approved by the shareholders and subsequently paid to the shareholders of the Company on 28 July 2010.

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

9. EARNINGS PER SHARE

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

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

9. EARNINGS PER SHARE *(Continued)*

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

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

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent RMB228,840,000 (2009: RMB381,888,000) 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 RMB1,749,000 (2009: RMB3,870,000) for proceeds of RMB3,470,000 (2009: RMB1,473,000), resulting in a gain on disposal of RMB1,721,000 (2009: loss of RMB2,397,000) 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	Provision for products warranty	Allowance for inventories	Unrealised profit in inventories	Accrued sales rebate	Tax losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	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
Credit (charge) to income statement for the period	2,171	(5,649)	348	49,413	8,353	(58)	54,578
At 31 December 2009	20,907	31,823	5,687	66,696	20,726	–	145,839
Credit (charge) to income statement for the period	846	25,827	(3,797)	(24,146)	50,054	–	48,784
Effect of change in tax rate	(4,675)	–	–	(3,001)	–	–	(7,676)
At 30 June 2010	17,078	57,650	1,890	39,549	70,780	–	186,947

11. DEFERRED TAXATION *(Continued)*

Deferred tax liabilities:

	Gain on fair value change of available-for-sale investment	Fair value adjustment on land and buildings	Withholding taxes on undistributed dividends	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
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
(Credit) charge to income statement for the period	–	(284)	9,303	9,019
Credit to other reserve	(6,194)	–	–	(6,194)
Withholding tax paid	–	–	(205)	(205)
At 31 December 2009	–	4,111	21,175	25,286
(Credit) charge to income statement for the period	–	(222)	17,905	17,683
Withholding tax paid	–	–	(2,867)	(2,867)
At 31 December 2009	–	3,889	36,213	40,102

At 30 June 2010, the Group has unused tax losses of RMB64.6 million (2009: RMB55.9 million) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses 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:

11. DEFERRED TAXATION *(Continued)*

	30.6.2010 *RMB'000*	30.6.2009 *RMB'000*
2012	6,326	6,326
2013	39,341	39,341
2014	10,264	10,264
2015	8,675	–
	64,606	55,931

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

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

The aged analysis of trade receivables is as follows:

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

12. TRADE RECEIVABLES, BILL RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

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

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

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

13. TRADE PAYABLES AND BILL PAYABLES

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

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

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

14. AMOUNTS DUE TO RELATED PARTIES

The amounts represent:

	30.6.2010 *RMB'000*	31.12.2009 *RMB'000*
Non-trade in nature		
China Longgong Group Holdings Limited (note a)	–	4,865
Trade in nature		
Longyan City Jinlong Machinery Company Limited (note b)	10,726	8,811
Sichuan Deying Bonding Company Limited (note c)	4,756	8,628
	15,482	22,304

Note a: Mr. Li San Yim and Madam Ngai Ngan Ying (the director of the company), hold controlling interest in this entity. The amount due to this entity was repaid during this period.

Note b: Mr. Ngai Ngan Gin, the brother of Madam Ngai Ngan Ying, holds controlling interest in this entity. The amount due to this entity represents payable for purchase of spare parts.

Note c: Mr. Chen Jie, the son-in-law of Mr. Li San Yim, holds controlling interest in this entity. The amount represents guarantee deposits paid by this entity for finance lease of construction machinery to the customers handled by this entity.

All the amounts are unsecured, non-interest bearing and repayable on demand or based on the agreed credit term of approximately 90 days. The amounts due to related parties for trading are aged within 90 days at the end of each reporting period.

15. BANK BORROWINGS

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

16. PLEDGED BANK DEPOSIT

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

17. SHARE CAPITAL

Ordinary shares of HK$ 0.10 each

Issued and fully paid

	Number of shares *'000*	**Share capital** *HK$'000*
At 1 January 2009	1,070,025	107,002
Bonus shares issued	1,070,025	107,002
At 30 June 2009, 31 December 2009 and 30 June 2010	2,140,050	214,004

Shown in the condensed consolidated financial statements as:

	Share capital *RMB'000*
At 31 December 2009 and 30 June 2010	222,058

Pursuant to an ordinary resolution passed at annual general meeting on 29 May, 2009, 1,070,025,000 ordinary shares were issued and allotted on 8 June, 2009 as fully paid up by way of one for one bonus issue in respect of which an amount of RMB111,029,000 was applied to the credit of the share premium account.

18. CONVERTIBLE LOAN NOTES AND DERIVATIVE FINANCIAL INSTRUMENTS

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

i) 2007 Convertible Loan Notes

Convertible loan notes of US$287 million were issued by the Company on 30 April 2007 ("2007 Convertible Loan Notes") at an issue price of US$10,000 per Convertible Loan Note of US$10,000. The 2007 Convertible Loan Notes are listed on the Singapore Exchange Securities Trading Limited. Each 2007 Convertible Loan Note entitles the holder to convert to one ordinary share of the Company at the initial conversion price of HK$20.4525 (the "2007 Conversion Price"), but subject to anti-dilutive adjustment as stated in the offering circular on 27 April 2007 ("2007 Offering Circular"). On 20 November 2009, the conversion price has been revised to HK$9.54 after anti-dilutive adjustment. The maturity day of the 2007 Convertible Loan Notes is 30 April 2012 (the "2007 Maturity Date"), unless previously redeemed or converted.

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

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

i) 2007 Convertible Loan Notes *(Continued)*

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

	Liability component *RMB'000*	Derivative components *RMB'000*	Total *RMB'000*
Convertible Loan Notes:			
As at 1 January 2009	1,476,961	205,872	1,682,833
Exchange realignment	(7,259)	–	(7,259)
Effective interest expense charged during the period	49,318	–	49,318
Re-purchase and cancelled	(425,022)	(58,898)	(483,920)
Changes in fair value	–	(4,140)	(4,140)
As at 30 June 2009	1,093,998	142,834	1,236,832
Exchange realignment	122	–	122
Effective interest expense charged during the period	32,692	–	32,692
Re-purchase and cancelled	(412,695)	(67,315)	(480,010)
Changes in fair value	–	37,979	37,979
As at December 2009	714,117	113,498	827,615
Exchange realignment	1,587	–	1,587
Effective interest expense charged during the period	18,235	–	18,235
Redeemed and cancelled	(709,952)	(91,512)	(801,464)
Changes in fair value	–	(18,924)	(18,924)
As at 30 June 2010	23,987	3,062	27,049

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

ii) 2009 Convertible Loan Notes

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

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

	Liability component	**Derivative components**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
2009 Convertible Loan Notes:			
At date of issue on 24 August 2009 (net proceeds)	628,434	277,139	905,573
Exchange realignment	(255)	–	(255)
Effective interest expense charged during the period	33,972	–	33,972
Changes in fair value	–	33,920	33,920
As at 31 December 2009	662,151	311,059	973,210
Exchange realignment	(3,756)	–	(3,756)
Effective interest expense charged during the period	50,807	–	50,807
Changes in fair value	–	(50,607)	(50,607)
As at 30 June 2010	709,202	260,452	969,654

19. CAPITAL COMMITMENTS

	30.6.2010 *RMB'000*	31.12.2009 *RMB'000*
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	210,453	311,764

20. RELATED PARTY TRANSACTIONS

Save as disclosed in note 14, the Group has the following transactions with the related parties during the period:

		Six months ended	
Name of related party	**Nature of transactions**	30.6.2010 *RMB'000*	30.6.2009 *RMB'000*
Longyan City Jinlong Machinery Company Limited	Purchase of goods	26,539	17,429

Compensation of key management personnel

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

	Six months ended	
	30.6.2010 *RMB'000*	30.6.2009 *RMB'000*
Short-terms employee benefits	10,372	1,975
Post-employment benefits	11	13
	10,383	1,988

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

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT AND BUSINESS REVIEW

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

Geographical Results

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

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

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

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

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

Products Analysis

Wheel Loaders

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

Excavator

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

Fork lifts and Road Rollers

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

Components

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

Finance lease interest

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

FINANCIAL REVIEW

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

Capital Structure

During the period ended on 30 June 2010, the Company has not redeemed any of its shares during the Period.

During the period ended on 30 June 2010, the Company has received early redemption notices from the Bondholders to redeem a significant portion of the Convertible Bonds issued in 2007 in total principal amount of US$99,280,000 (equivalent to RMB760,417,000) which recognized RMB41,047,000 gain on the redemption in the consolidated income statement. Upon such redemption and as at the date of this report, the principal amount of the outstanding issued 2007 Convertible Bonds was US$3,340,000 (see Notes 18).

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

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

Capital Expenditure

During the period, the Group acquired property, plant and equipment approximately RMB229 million (six months ended 30 June 2009: RMB382 million) including the construction in progress in the PRC in order to upgrade its manufacturing capabilities. The general increase in capital expenditure was in line with the Group's strategy of expansion. The Group expect the current production facility will be sufficient for the coming years' production requirement. These capital expenditures were fully financed by the convertible loan notes, bank borrowings and internal funds of the Group.

Liquidity and Financial Resources

As at 30 June 2010, the Group had bank balances and cash of approximately RMB491 million (31 December 2009: approximately RMB1,021 million) and pledged bank deposit of approximately RMB168 million (31 December 2009: approximately RMB220 million). Compared with last year, the cash and bank balance decreased about RMB530 million, which was used as a result of net cash outflow of RMB321 million from operating activities, net cash outflow of RMB95 million from investing activities, net cash outflow of RMB111 million from financing activities and RMB3.48 million loss of foreign exchange rate changes.

The pledged deposit balance at 30 June 2010 decreased approximately RMB52 million. It was because that the Group decreased the deposit pledged as security for the bank facilities granted to the Group to issue of bank acceptance notes and letters of credit for the purpose of purchase of materials.

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

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

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

Capital Commitment

As at 30 June 2010, the Group had contracted but not provided in the financial statements in respect of acquisition of property, plan and equipment amounted to approximately RMB210 million (31 December 2009: approximately RMB312 million).

PROSPECTS

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

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

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

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

CORPORATE GOVERNANCE 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 and during the period ended 30 June 2010 complied with all the applicable code provision 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 of 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 2010.

Improvements in Internal Control Systems

Additional measures and improvements for the internal control systems of the Company during the six months ended 30 June 2010.

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 2010, 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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Mr. Liu Shen Xian

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DISCLOSURE OF INTERESTS

Directors' and chief executive's interests in shares and underlying shares

As at 30 June 2010, 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 2010
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%
Qiu Debo	beneficial owner	202,000	0.01%
Luo Jianru	beneficial owner	704,000	0.03%
Mon Yanqun	beneficial owner	701,000	0.03%
Chen Chao	beneficial owner	663,000	0.03%
Lin Zhongming	beneficial owner	186,000	0.01%
Fang Deqin	beneficial owner	501,000	0.02%
		1,181,651,760	55.21%

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, which 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 2010
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 2010, 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 2010, 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 2010
China Longgong Group Holdings Ltd (Note 1)	beneficial owner	656,029,380	30.66%

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 2010, 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$10 cents (30 June 2009: Hk$6.5 cents) per Share for the six months ended 30 June 2010.

PROPOSED BONUS ISSUE OF SHARES

The Board has recommended a bonus issue (the "Bonus Issue") on the basis of one new ordinary share of HK$0.1 each, credited as fully paid, for every one existing share held by the shareholders of the Company whose names are on the register of members of the Company on 15 October 2010. The necessary resolution will be proposed at the forthcoming extraordinary general meeting of the Company to be held on or about 15 October 2010.

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

During the period ended on 30 June 2010, the Company has not redeemed any of its shares during the Period.

During the period ended on 30 June 2010, the Company has received early redemption notices from the Bondholders to redeem a significant portion of the Convertible Bonds issued in 2007 in total principal amount of US$99,280,000 (equivalent to RMB760,417,000) which recognized RMB41,047,000 gain on the redemption in the consolidated income statement. Upon such redemption and as at the date of this report, the principal amount of the outstanding issued 2007 Convertible Bonds was US$3,340,000 (see notes 18).

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 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 2010 have been reviewed by the audit committee of the Company.

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

Hong Kong, 24 September 2010

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
Ms. Fang De Qin

Non-executive directors
Ms. Ngai Ngan Ying

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

AUDIT COMMITTEE
Dr. Qian Shizheng *(Chairman)*
Mr. Pan Longqing
Ms. Ngai Ngan Ying

REMUNERATION COMMITTEE
Mr. Han Xue Song *(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

HEAD OFFICE
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Songjiang Industrial,
Shanghai (201612), PRC

REGISTERED OFFICE
Cricket Square
Hutchins Drive
P.O. Box 2681
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INVESTOR RELATIONS
Mr. Liu Shen Xian
LSX@lonking.cn

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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168-200 Connaught Road Central
Hong Kong

WEBSITE

http://www.lonking.cn

STOCK CODE

3339

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P. O. Box 609
Grand Cayman, KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
Shops 1712-1716, 17/F, Hopewell Centre,
183 Queen's Road East, Wanchai,
Hong Kong

SOLICITORS

Sidley Austin
39/F, Two International Finance Centre
8 Finance Street Central, Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

PRINCIPAL BANKERS

Bank of China
Longyan Branch
Bank of China Tower
No. 1 Longchuan Bei Road Longyan City
Fujian, PRC

China Construction Bank
Shanghai Songjiang Branch
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Songjiang District
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