INTERIM REPORT 2011

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 as to the "Group").

Current period	Six months ended 30 June 2011 *RMB'000*	Six months ended 30 June 2010 *RMB'000*	Change (+/–)
Turnover	8,397,733	6,566,093	+27.90%
Operating profits:			
– excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	1,647,041	1,147,835	+43.49%
– including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	1,610,695	1,217,366	+32.31%
EBITDA:			
– excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	1,769,769	1,244,850	+42.17%
– including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	1,733,423	1,314,381	+31.88%
Profit attributable to equity parent	1,154,155	926,009	+24.64%
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	0.28	0.20	+39.00%
– including foreign exchange gain and the fair value changes in derivatives components of convertible bonds	0.27	0.22	+24.64%
Net assets per share[(2)#]	1.41	1.07	+31.78%

Current period	Six months ended 30 June 2011 %	Six months ended 30 June 2010 %	Change (+/–)
Key performance indicators			
Profitability			
Overall gross margin	26.20	25.21	+0.99%
Net profit margin			
– excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	14.18	13.05	+1.13%
– including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	13.75	14.11	-0.36%
EBITDA margin[3]:			
– excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	21.07	18.96	+2.11%
– including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	20.64	20.02	+0.62%
Return on equity[4]			
– excluding foreign exchange gain and the fair value changes in derivatives components of convertible bonds	18.47	17.68	+0.79%
– including foreign exchange gain and the fair value changes in derivatives components of convertible bonds	19.11	20.20	-1.09%
Liquidity and solvency			
Current ratio[5]	2.35	1.38	70.29%
Interest coverage ratio[6]:			
– excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	9.36	12.46	-24.88%
– including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	9.15	13.22	-30.79%
Gross debt-to-equity ratio[7]	86.53	37.34	+49.19%
Management efficiency	*days*	*days*	
Inventory turnover days[8]	104	81	+23 days
Trade and bills payables turnover days[9]	94	76	+18 days
Trade and bills receivable turnover days[10]	58	32	+26 days

calculated based on the 4,280,100,000 weighted average number of outstandings shares (WANOS) for the period ended 30 June 2011 (30 June 2010: 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ERNST & YOUNG
安 永

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

INTRODUCTION

We have reviewed the accompanying interim condensed consolidated financial statements of Lonking Holdings Limited and its subsidiaries (the "Group") as at 30 June 2011, comprising of the interim consolidated statement of financial position as at 30 June 2011 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2400 "Engagements to Review Financial Statements" issued by the Hong Kong Institute of Certified Public Accountants. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, 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 accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong

24 August 2011

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Notes	For the six months ended 30 June 2011 Unaudited *RMB'000*	2010 Unaudited *RMB'000*
Turnover	4	8,397,733	6,566,093
Cost of sales		(6,197,144)	(4,910,533)
Gross profit		2,200,589	1,655,560
Other income		36,497	23,223
Other gains and losses	5	40,329	117,147
Selling and distribution costs		(385,472)	(395,346)
Administrative expenses		(139,481)	(115,000)
Research expenditures		(144,433)	(73,406)
Other expenses		(7,887)	(870)
Operating profit		1,600,142	1,211,308
Finance income		10,553	6,058
Finance costs		(176,050)	(92,119)
Profit before tax	6	1,434,645	1,125,247
Income tax expense	7	(280,248)	(198,937)
Profit for the period		1,154,397	926,310
Attributable to:			
Owners of the parent		1,154,155	926,009
Non-controlling interests		242	301
		1,154,397	926,310
Total comprehensive income for the period, net of tax			
Attributable to:			
Owners of the parent		1,154,155	926,009
Non-controlling interests		242	301
		1,154,397	926,310
Earnings per share			
Basic, profit for the period attributable to ordinary equity holders of the parent (RMB)		0.27	0.22
Diluted, profit for the period attributable to ordinary equity holders of the parent (RMB)		0.26	0.20

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Notes	30 June 2011 unaudited *RMB'000*	31 December 2010 audited *RMB'000*
Assets			
Non-current assets			
Property, plant and equipment	9	3,301,016	3,034,171
Prepaid lease premium for land		198,315	194,721
Investments in associates		56,011	–
Finance lease receivables		823,455	2,344,321
Deferred tax assets		132,718	220,087
Prepayments for property, plant and equipment		186,941	128,942
Loan receivables		16,580	20,736
		4,715,036	5,942,978
Current assets			
Prepaid lease premium for land		4,047	4,479
Inventories		3,474,217	3,539,417
Finance lease receivables		1,319,882	935,699
Trade receivables	10	2,238,729	980,959
Bill receivables	10	1,335,015	799,688
Other receivables and prepayments		608,317	624,739
Pledged bank deposits	11	138,348	328,327
Cash and cash equivalents	11	2,413,963	306,235
		11,532,518	7,519,543
Current liabilities			
Trade payables	12	1,848,434	1,623,545
Bill payables	12	1,459,894	1,450,222
Other payables and accruals		902,754	787,957
Provisions		197,079	179,225
Amounts due to related parties	17	11,077	7,035
Income tax payable		89,135	221,867
Convertible loan notes	13	25,102	–
Bank borrowings	14	382,437	1,471,658
Derivative financial instruments	13	1,721	–
		4,917,633	5,741,509
Net current assets		6,614,885	1,778,034
		11,329,921	7,721,012

	Notes	30 June 2011 unaudited *RMB'000*	31 December 2010 audited *RMB'000*
Non-current liabilities			
Deposits for finance leases		121,811	271,214
Convertible loan notes	13	763,720	770,677
Long-term bank borrowings	14	1,606,306	970,995
Long-term loan notes	15	2,281,932	–
Deferred tax liabilities		62,406	47,670
Derivative financial instruments	13	453,050	418,425
		5,289,225	2,478,981
Equity			
Issued capital		444,116	444,116
Share premium		854,922	854,922
Special reserve		355,335	355,335
Non-distributable reserve		600,893	566,633
Accumulated profits		3,783,387	3,019,224
Equity attributable to owners of the parent		6,038,653	5,240,230
Non-controlling interests		2,043	1,801
Total equity		6,040,696	5,242,031
		11,329,921	7,721,012

Li San Yim
Director

Fang De Qin
Director

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Attributable to owners of the parent							
	Issued capital *RMB'000*	Share premium *RMB'000*	Special reserve *RMB'000*	Non-distributable reserve *RMB'000*	Accumulated profits *RMB'000*	Total *RMB'000*	Non–controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2011	444,116	854,922	355,335	566,633	3,019,224	5,240,230	1,801	5,242,031
Profit and total comprehensive income for the period	–	–	–	–	1,154,155	1,154,155	242	1,154,397
Dividends	–	–	–	–	(355,732)	(355,732)	–	(355,732)
Transfer	–	–	–	34,260	(34,260)	–	–	–
At 30 June 2011	**444,116**	**854,922**	**355,335**	**600,893**	**3,783,387**	**6,038,653**	**2,043**	**6,040,696**
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	–	–	–	–	(130,540)	(130,540)	–	(130,540)
At 30 June 2010	**222,058**	**1,076,980**	**355,335**	**525,594**	**2,404,861**	**4,584,828**	**1,391**	**4,586,219**

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	Notes	For the six months ended 30 June 2011 Unaudited *RMB'000*	2010 Unaudited *RMB'000*
Operating cash flow before movements in working capitals:		1,738,913	1,183,717
Decrease in inventories		69,187	301,536
Increase in trade and bill receivables		(1,804,042)	(622,758)
Decrease/(Increase) in finance lease receivables		1,136,683	(1,403,175)
Increase in trade, bill and other payables		349,358	148,123
Decrease/(Increase) in prepayments and deposits		16,422	(6,822)
Increase in provisions		17,854	117,292
Increase in amounts due to related parties		4,042	–
(Decrease)/Increase in deposits for finance leases		(149,403)	126,938
Income tax paid		(310,875)	(165,735)
Interest received		10,553	6,058
Net cash flows from/(used in) operating activities		1,078,692	(314,826)
Investing activities			
Purchase of property, plant and equipment	9	(449,857)	(148,932)
Acquisition of interests in associates		(56,011)	–
Payment for lease premium for land		(7,831)	–
Collection/(Payment) of loan receivables		4,156	(8,074)
Decrease in pledged bank deposits		189,979	52,265
Proceeds from sale of property, plant and equipment	9	6,953	3,470
Net cash flows used in investing activities		(312,611)	(101,271)

	Notes	For the six months ended 30 June 2011 Unaudited *RMB'000*	 2010 Unaudited *RMB'000*
Cash flows from financing activities			
Proceeds from borrowings		1,989,620	1,209,862
Repayment of borrowings		(2,432,878)	(540,234)
Proceeds from long-term loan notes		2,281,932	–
Convertible loan notes redeemed		–	(760,417)
Interest paid		(128,979)	(19,772)
Dividends paid		(355,732)	–
Net cash flows/(used in) from financing activities		1,353,963	(110,561)
Net increase/(decrease) in cash and cash equivalents		2,120,044	(526,658)
Net foreign exchange difference		(12,316)	(3,483)
Cash and cash equivalents at 1 January		306,235	1,021,177
Cash and cash equivalents at 30 June	11	2,413,963	491,036

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

1. CORPORATE INFORMATION

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2011 were authorized for issue in accordance with a resolution of the directors on 24 August 2011.

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

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

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

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with HKAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2010.

New standards, interpretations and amendments thereof, adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, except for the adoption of new standards and interpretations as of 1 January 2011, noted below:

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(Continued)*

New standards, interpretations and amendments thereof, adopted by the Group *(Continued)*

- HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* (Amendment)
  The amendment allows a first-time adopter of HKFRSs with the same relief currently available to existing HKFRS adopters from providing comparative information for periods ended before 31 December 2009 for the disclosures required by Amendments to HKFRS 7 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments issued in March 2009. The adoption of the amendment did not have any material impact on the financial position or performance of the Group.

- HKAS 24 *Related Party Disclosures* (Amendment)
  The HKICPA has issued an amendment to HKAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any material impact on the financial position or performance of the Group.

- HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (Amendment)
  The amendment revises the definition of a financial liability in HKAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no material effect on the financial position or performance of the Group.

- HK (IFRIC) Int 14 *Prepayments of a Minimum Funding Requirement* (Amendments)
  The amendments remove an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contributions to cover such requirements. The amendments permit a prepayment of future service cost by the entity to be recognised as a pension asset. The Group does not have any post-employment or other long-term benefit plan that is subject to a minimum funding request. The amendments to the interpretation therefore had no material effect on the financial position or performance of the Group.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(Continued)*

New standards, interpretations and amendments thereof, adopted by the Group *(Continued)*

- HK(IFRIC)-Int 19 *Extinguishing Financial Liabilities with Equity Instruments (issued November 2009)*
  The interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are a consideration paid in accordance with HKAS 39 Financial Instruments: Recognition and Measurement and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. As the Group did not have such renegotiation on the terms of its financial liabilities, the adoption of the interpretation has had no effect on the financial position or performance of the Group.

- *Improvements to HKFRSs (issued May 2010)*
  In May 2010, the HKICPA issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any material impact on the financial position or performance of the Group.

  - HKFRS 3 *Business Combinations:* The measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

  - HKFRS 7 *Financial Instruments – Disclosures:* The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in note 14.

  - HKAS 1 *Presentation of Financial Statements:* The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(Continued)*

New standards, interpretations and amendments thereof, adopted by the Group *(Continued)*

- HKAS 34 *Interim Financial Reporting:* The amendment requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements. The Group has illustrated the adoption of the amendment in note 14.

  Other amendments resulting from *Improvements to HKFRSs* to the following standards did not have any material impact on the accounting policies, financial position or performance of the Group:

- HKFRS 3 *Business Combinations* – Clarification that contingent consideration arising from business combination prior to the adoption of HKFRS 3 (as revised in 2008) are accounted for in accordance with HKFRS 3 (2005)

- HKFRS 3 *Business Combinations* – Unreplaced and voluntarily replaced share-based payment awards and their accounting treatment within a business combination

- HKAS 27 *Consolidated and Separate Financial Statements* – applying the HKAS 27 (as revised in 2008) transition requirements to consequentially amended standards

- HK (IFRIC) 13 *Customer Loyalty Programmes* – in determining the fair value of award credits, an entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty programme

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. SEASONALITY OF OPERATIONS

The Group's products are mainly used in the infrastructure, mining and real estate development sectors in China and internationally. Due to the seasonal nature of operations, higher revenues and operating profits are usually expected in the second quarter of the year rather than in the other periods. Higher sales during the period from April to May 2011 are mainly attributable to the increased demand from the construction machinery industry during the peak season.

4. OPERATING SEGMENT INFORMATION

Operating segments

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2011 and 2010, respectively.

Six months ended 30 June 2011

	Sale of construction machinery *RMB'000*	Finance leases of construction machinery *RMB'000*	Total *RMB'000*
Turnover			
Sales of goods	8,261,539	–	8,261,539
Finance lease sales	–	136,194	136,194
Total revenue	8,261,539	136,194	8,397,733
Results			
Segment profit	1,399,420	115,652	1,515,072
Finance income			10,553
Unallocated other income, gains and losses			75,136
Unallocated corporate expenses			9,934
Finance costs			(176,050)
Profit before tax			1,434,645

4. OPERATING SEGMENT INFORMATION *(Continued)*

Operating segments *(Continued)*

Six months ended 30 June 2010

	Sale of construction machinery *RMB'000*	Finance leases of construction machinery *RMB'000*	Total *RMB'000*
Turnover			
Sales of goods	6,490,042	–	6,490,042
Finance lease sales	–	76,051	76,051
Total revenue	6,490,042	76,051	6,566,093
Results			
Segment profit	1,030,829	71,494	1,102,323
Finance 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

Inter-segment revenues are eliminated on consolidation.

The following table presents segment assets and liabilities of the Group's operating segments as at 30 June 2011 and 31 December 2010:

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
Segment assets:	13,562,525	12,607,872
Sale of construction machinery	11,394,457	9,281,347
Finance leases of construction machinery	2,168,068	3,326,525
Unallocated assets	2,685,029	854,649
Consolidated assets	16,247,554	13,462,521

4. OPERATING SEGMENT INFORMATION *(Continued)*

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
Segment liabilities:	4,541,049	4,319,198
Sale of construction machinery	3,324,837	2,903,337
Finance leases of construction machinery	1,216,212	1,415,861
Unallocated liabilities	5,665,809	3,901,292
Consolidated liabilities	10,206,858	8,220,490

Adjustments and eliminations

Finance income and expenses, and fair value gains and losses on financial liabilities are not allocated to individual segments as the underlying instruments are managed on a group basis.

Taxes and certain financial assets and liabilities are not allocated to those segments as they are also managed on a group basis.

Reconciliation of assets	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
Segment operating assets	13,562,525	12,607,872
Deferred tax assets	132,718	220,087
Pledged bank deposits	138,348	328,327
Cash and cash equivalents	2,413,963	306,235
Group operating assets	16,247,554	13,462,521

4. OPERATING SEGMENT INFORMATION *(Continued)*

Reconciliation of liabilities	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
Segment operating liabilities	4,541,049	4,319,198
Bank borrowings	382,437	1,471,658
Long-term borrowings	1,606,306	970,995
Long-term loan notes	2,281,932	–
Convertible loan notes	788,822	770,677
Derivative financial instruments	454,771	418,425
Deferred tax liabilities	62,406	47,670
Income tax payable	89,135	221,867
Group operating liabilities	10,206,858	8,220,490

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

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

	For the six months ended 30 June			
	2011 *RMB'000*	%	2010 RMB'000	%
Wheel loaders	5,682,610	67.7	4,641,433	70.7
Excavators	1,302,951	15.5	1,072,386	16.3
Road rollers	272,378	3.2	274,729	4.2
Forklifts	468,302	5.6	292,623	4.5
Components	329,779	3.9	200,870	3.0
Others	205,519	2.5	8,001	0.1
Subtotal	8,261,539	98.4	6,490,042	98.8
Finance lease interest income	136,194	1.6	76,051	1.2
Total	8,397,733	100	6,566,093	100

5. OTHER GAINS AND LOSSES

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

	For the six months ended 30 June	
	2011 *RMB'000*	2010 *RMB'000*
Fair value gain/(loss) of derivative financial instruments	(36,346)	69,531
Exchange realignment from convertible loan notes	39,291	2,169
Gain on redemption of convertible loan notes	–	41,047
Gain on disposal of property, plant and equipment	1,540	1,721
Foreign exchange gains	35,844	2,679
	40,329	117,147

6. PROFIT BEFORE TAX

Profit before taxation has been arrived at after charging:

	For the six months ended 30 June	
	2011 *RMB'000*	2010 *RMB'000*
Cost of inventories recognised as expenses	6,197,144	4,910,533
Staff costs, including directors' remuneration	297,588	218,344
Contribution to retirement benefit scheme	9,375	10,441
Amortisation of lease payments for land	4,669	2,216
Depreciation of property, plant and equipment	118,059	94,799
and after crediting:		
Interest income on bank deposits	10,553	6,058
Income-related government grants	6,393	10,028

7. INCOME TAX

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

	For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Current income tax expense	207,615	230,038
Deferred income tax expense related to origination and reversal of deferred taxes	72,633	(31,101)
	280,248	198,937

8. DIVIDENDS PAID AND PROPOSED

	For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Dividends on ordinary shares declared and paid during the six-month period:		
Final dividend for 2010: HK$0.10 (2009: HK$0.07)	355,732	130,540
Dividends on ordinary shares proposed for approval (not recognised as a liability as at 30 June):		
Interim dividend for 2011: HK$0.06 (2010: HK$0.10)	210,311	184,001

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2011, the Group acquired assets with a cost of RMB417,689,000 (2010: RMB228,840,000), including property, plant and machinery in the People's Republic of China (the "PRC") in order to upgrade its manufacturing capabilities.

Assets with a net book value of RMB6,953,000 were disposed of by the Group during the six months ended 30 June 2011 (2010: RMB1,749,000), resulting in a net gain on disposal of RMB1,540,000 (2010: RMB1,721,000).

10. TRADE AND BILL RECEIVABLES

The Group allows credit periods of up to 90 days to its trade customers except for some customers with good credit history and relationships, with whom longer credit terms are agreed.

The aged analysis of trade receivable is as follows:

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
0-90 days	2,162,661	972,083
91-180 days	67,466	7,963
181-270 days	8,102	311
271 days - 1 year	500	602
	2,238,729	980,959

Bill receivables are aged within six months at the end of each reporting period. Bill receivables with a carrying value of RMB76,425,224 (31 December 2010: RMB166,470,868) were pledged to certain banks as security for bank loans granted to the Group.

11. CASH AND CASH EQUIVALENTS

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
Cash and bank balances	2,552,311	634,562
Less: Pledged bank deposits	(138,348)	(328,327)
Cash and cash equivalents	2,413,963	306,235

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

12. TRADE AND BILL PAYABLES

The aged analysis of trade payables is as follows:

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
0-180 days	1,685,841	1,542,811
181 days-1 year	136,835	68,702
1-2 years	17,360	4,746
2-3 years	3,548	4,999
Over 3 years	4,850	2,287
	1,848,434	1,623,545

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

13. CONVERTIBLE LOAN NOTES AND DERIVATIVE FINANCIAL INSTRUMENTS

	Liability component *RMB'000*	Derivative component *RMB'000*	Total *RMB'000*
As at 30 June 2011			
2007 Convertible Loan Notes (i)	25,102	1,721	26,823
2009 Convertible Loan Notes (ii)	763,720	453,050	1,216,770
	788,822	454,771	1,243,593

i) 2007 Convertible Loan Notes

Convertible Loan Notes of US$287 million were issued by the Company on 30 April 2007 (the "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 (the "2007 Offering Circular"). On 23 June 2011, the 2007 Conversion Price has been revised to HK$4.51 after anti-dilutive adjustment.

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

i) 2007 Convertible Loan Notes *(Continued)*

The principal terms of the Convertible Loan Notes are as follows:

Interest

The 2007 Convertible Loan Notes do not bear any interest.

Conversion period

The conversion period starts from the 40th day after the issue of the 2007 Convertible Loan Notes and will cease on the 7th business day prior to the maturity day of 30 April 2012 (the "2007 Maturity Date").

Maturity

Unless previously redeemed or converted, the Company will redeem each 2007 Convertible Loan Note at 121.155% of its principal amount on the 2007 Maturity Date.

Redemption at the Option of the Company

On and at any time after 30 April 2010 but not less than seven business days prior to the 2007 Maturity Date nor within the closed period which is defined in the 2007 Offering Circular, the Company may, having given not less than 30 nor more than 60 days' notice to the holders, redeem the 2007 Convertible Loan Notes in whole or in part at the early redemption amount (or "2007 Early Redemption Amount"), provided that no such redemption may be made unless the closing price of the Company's shares translated into US dollars at the prevailing exchange rate for each of any 20 trading days falling within a period of 30 consecutive trading days, the last day of which period occurs no more than 5 trading days prior to the date upon which notice of such redemption is given, was at least 130% of the 2007 Conversion Price in effect translated into US dollars at the fixed exchange rate of HK$7.8175=US$1.00 on each such stock exchange business day.

Redemption at the Option of the bondholders

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

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

i) 2007 Convertible Loan Notes *(Continued)*

Redemption at the Option of the bondholders (Continued)

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

(i) Liability component represents the present value of the contractual stream of future cash flows discounted at the prevailing market interest rate at that time applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the embedded derivatives.

The interest charged for the year is calculated by applying an effective interest rate of approximately 7.73% to the liability component since the Convertible Loan Notes were issued.

(ii) Derivative component represents:

(a) The fair value of the option of the 2007 Bondholders to convert the 2007 Convertible Loan Notes into shares of the Company at an initial conversion price of HK$20.4525 per ordinary share of HK$0.1 in the share capital of the Company ("Share") and subject to anti-dilutive adjustments.

(b) The fair value of the option of the Company to early redeem the 2007 Convertible Loan Notes.

(c) The fair value of the option of the 2007 Bondholders to require the Company to early redeem the 2007 Convertible Loan Notes.

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

i) 2007 Convertible Loan Notes *(Continued)*

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

	Liability component *RMB'000*	Derivative component *RMB'000*	Total *RMB'000*
2007 Convertible Loan Notes:			
As at 31 December 2009	714,117	113,498	827,615
Exchange realignment	1,587	–	1,587
Effective interest expense charged	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**
Exchange realignment	(605)	–	(605)
Effective interest expense charged	904	–	904
Changes in fair value	–	(1,172)	(1,172)
As at 31 December 2010	**24,286**	**1,890**	**26,176**
Exchange realignment	(503)	–	(503)
Effective interest expense charged	1,319	–	1,319
Changes in fair value	–	(169)	(169)
As at 30 June 2011	**25,102**	**1,721**	**26,823**

13. 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 (the "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 (the "2009 Offering Circular"). On 23 June 2011, the 2009 Conversion Price has been revised to HK$3.26 after anti-dilutive adjustment.

The principal terms of the 2009 Convertible Loan Notes are as follows:

Interest
The 2009 Convertible Loan Notes do not bear any interest.

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

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

Redemption at the Option of the Company
On and at any time after 24 August 2012 but not less than seven business days prior to the 2009 Maturity Date nor within the closed period which is defined in the 2009 Offering Circular, the Company may, having given not less than 30 nor more than 60 days' notice to the holders, redeem the 2009 Convertible Loan Notes in whole or in part at the early redemption amount (the "2009 Early Redemption Amount"), provided that no such redemption may be made unless the closing price of the Company's shares translated into US dollars at the prevailing exchange rate for each of any 20 trading days falling within a period of 30 consecutive trading days, the last day of which period occurs no more than 5 trading days prior to the date upon which notice of such redemption is given, was at least 130% of the 2009 Conversion Price in effect translated into US dollars at the fixed exchange rate of HK$7.815=US$1.00 on each such trading day.

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

ii) 2009 Convertible Loan Notes *(Continued)*

Redemption at the Option of the bondholders

The Bondholder of each 2009 Convertible Loan Note (the "2009 Bondholders") will have the right to require the Company to redeem all or some of the 2009 Convertible Loan Notes at the 2009 Early Redemption Amount of the initial principle amount on 24 August 2012 or on the occurrence of a change of the Company's controlling shareholders or delisting of the Company's shares.

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

(i) Liability component represents the present value of the contractual stream of future cash flows discounted at the prevailing market interest rate at that time applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the embedded derivatives.

The interest charged for the year is calculated by applying an effective interest rate of approximately 16.22% to the liability component since the 2009 Convertible Loan Notes were issued.

(ii) Derivative component represents:

(a) The fair value of the option of the 2009 Bondholders to convert the 2009 Convertible Loan Notes into shares of the Company at an initial conversion price of HK$7.00 per ordinary Share and subject to anti-dilutive adjustments.

(b) The fair value of the option of the Company to early redeem the 2009 Convertible Loan Notes.

(c) The fair value of the option of the 2009 Bondholders to require the Company to early redeem the 2009 Convertible Loan Notes.

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

ii) 2009 Convertible Loan Notes *(Continued)*

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

	Liability component *RMB'000*	Derivative component *RMB'000*	Total *RMB'000*
2009 Convertible Loan Notes:			
As at 31 December 2009	662,151	311,059	973,210
Exchange realignment	(3,756)	–	(3,756)
Effective interest expense charged	50,807	–	50,807
Changes in fair value	–	(50,607)	(50,607)
As at 30 June 2010	709,202	260,452	969,654
Exchange realignment	(17,788)	–	(17,788)
Effective interest expense charged	54,977	–	54,977
Changes in fair value	–	156,083	156,083
As at 31 December 2010	746,391	416,535	1,162,926
Exchange realignment	(38,788)	–	(38,788)
Effective interest expense charged	56,117	–	56,117
Changes in fair value	–	36,515	36,515
As at 30 June 2011	763,720	453,050	1,216,770

14. OTHER FINANCIAL LIABILITIES

Other Financial Liabilities

Borrowing and Repayment of Debt

During the six-month period ended 30 June 2011, the Group obtained short-term bank loans of RMB1,594,951,000, US$13,719,000 (equivalent to RMB89,820,000) and EUR518,000 (equivalent to RMB4,849,000), repaid RMB2,327,601,000 and US$12,555,000 (equivalent to RMB82,197,000). The short-term loans bear interest at rates ranging from 3.22% to 5.04% per annum.

The Group obtained long-term bank loans of RMB300,000,000 and repaid RMB23,080,000. The long-term loans bear interest at rates ranging from 4.27% to 6.95% per annum.

Fair value hierarchy

All financial instruments carried at fair value fall into three categories as follows:

Level 1-Quoted market prices
Level 2-Valuation techniques (market observable)
Level 3-Valuation techniques (non-market observable)

As at 30 June 2011, the Group held the following financial instruments measured at fair value:

Liabilities Measured at Fair Value

	30 June 2011	**Level 1**	**Level 2**	**Level 3**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Derivative financial instruments	454,771	–	–	454,771

During the six-month period ended 30 June 2011, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. No transfers between any levels of the fair value hierarchy took place in the equivalent comparative period. There were also no changes in the purpose of any financial asset that subsequently resulted in a different classification of that asset.

The above table illustrates the classification of the Group's financial instruments based on the fair value hierarchy as required for a complete set of financial statements. This classification provides a reasonable basis to illustrate the nature and extent of risks associated with those financial instruments.

15. LONG-TERM NOTES

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

Optional redemption of the Notes

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

Year	Redemption Price
2014	104.250%
2015 and thereafter	102.125%

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

16. COMMITMENTS AND CONTINGENCIES

Certain sales of the Group were funded by finance leases entered into by end-user customers and PRC domestic banks. Under the agreement, where the end-user customers and their guarantors fail to perform their payment obligations, the Company will repurchase the equipment from the banks. As at 30 June 2011, the Group's commitment for such repurchase obligation amounted to RMB910,493,000 (before deduction of the security deposits paid by the end-user customers and the interests on undue rent). The directors of the Company considered that the fair value of the financial guarantees as at 30 June 2011 was insignificant.

16. COMMITMENTS AND CONTINGENCIES *(Continued)*

Capital Commitments

At 30 June 2011, the Group had capital commitments of RMB205,741,000 (31 December 2010: RMB251,150,000) principally relating to the acquisition of property, plant and equipment located in Shanghai and Fujian, the PRC.

17. RELATED PARTY TRANSACTIONS

The following table provides the total amounts of transactions which have been entered into with related parties during the six-month periods ended 30 June 2011 and 30 June 2010 as well as balances with related parties as of 30 June 2011 and 31 December 2010:

		Purchase From Related Parties *RMB'000*	**Amounts Owed to Related Parties** *RMB'000*
Longyan City Jinlong Machinery Company Limited (note a)	2011	27,137	11,077
	2010	26,539	2,304
Sichuan Deying Bonding Company Limited (note b)	2011	–	–
	2010	–	4,731

note a: Mr. Ngai Ngan Gin, the brother of Madam Ngai Ngan Ying (a director of the Company), holds a controlling interest in this entity.

note b: Mr. Chen Jie, the son-in-law of Mr. Li San Yim (a director of the Company), holds a controlling interest in this entity.

Compensation of key management personnel of the Group:

	For the six months ended 30 June 2011 *RMB'000*	2010 *RMB'000*
Short-term employee benefits	9,302	10,372
Pension scheme contributions	73	11
Total compensation paid to key management personnel	9,375	10,383

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT AND BUSINESS REVIEW

The Group's consolidated turnover for the six months ended 30 June 2011 (the "Period") was approximately RMB8,397 million, representing an increase of 27.9% as compared to approximately RMB6,566 million over the same period of 2010. Gross profit from operations was approximately RMB2,201 million, representing an increase of 32.9% as compared to RMB1,656 million over the same period of 2010. Overall gross profit margin increased lightly to 26.2% during the period (Six months ended 30 June 2010: 25.2%) due to an increase in the average selling prices of wheel loaders over the same period of last year, which contributed a higher turnover during the period. The group's profit for the period attributable to equity holders amounted to RMB1,154 million (Six months ended 30 June 2010: RMB926 million), representing an increase of nearly 24.6%. The increase in net profit was mainly attributed to (1) the increase in sales of our products due to stable market demand; (2) the increase in sales of ZL50 wheel loaders and excavators with higher gross margin.

Geographical Results

During the period ended 30 June 2011, demand for construction and mining equipment maintained at high level in the overall PRC market, especially in northern western regions, the turnover of this region accounted for nearly 16.9% of the Group's total turnover, as compared to only 7.2% over the same period of previous year. Sales from northern western region expanded by 201.11% to RMB1,421 million (Six month ended 30 June 2010: RMB472 million). We attributed such an increase to the thriving demand in the mining industry, the advancement of infrastructure development and urbanization. The turnover of central, northern eastern and southern regions showed a stable growth of 20.8%, 27.3% and 50.3% respectively and represented around 13.5%, 7.3% and 7.7% of our total turnover respectively as compared to 14.3%, 7.3% and 6.5% of our total turnover respectively over the same period of 2010. In eastern regions and southern western region, turnover decreased slightly by 23.8% and 11.2% to RMB885 million and RMB713 million (Six month ended 30 June 2010: RMB1,161 million and RMB804 million respectively) and represented approximately 10.5% and 8.5% of our total turnover for the period. In northern regions of PRC, demand for mining equipment continued to expand, turnover recorded an increase of 20.5% to RMB2,600 million (Six month ended 30 June 2010: RMB2,158 million).

Products Analysis

Wheel Loaders

The revenue attributed to three principal series of wheel loaders, the ZL30, ZL40 and ZL50 series amounted to RMB5,503 million, representing an increase of 21.2% as compared to same period last year (for the six months ended on 30 June 2010: approximately RMB4,539 million). We made sizable gain by expanding the sales volume in these series while increasing the selling price. In comparison to the previous year, revenue generated from mini wheel loader amounted to RMB180 million, representing an improvement of 74.7%. The total turnover from wheel loaders represented around 67.7% of our total turnover for the period, showing a slightly decrease from 70.7%. It was attributed to our continuing structural reform efforts in expanding our product range.

Excavator

In response to the expanding market, Lonking continued to focus its efforts especially to expand production capacity in this series. Demand for construction and mining equipment continued to expand, reflecting an increased volume of sales. For the first half year ended 30 June 2011, we recorded a substantial gain in both sales and profits. Sales in this series increased by 21.4% to RMB1,302 million. Lonking worked to strengthen its product support capacity and expand its product range to bring more next-generation products.

Fork lifts and Road Rollers

Demand for fork lifts continued to expand. For the six month ended 30 June 2011, turnover attributable to fork lifts increased by 60.04% from the same period in 2010 to RMB468 million. The selling price in this series maintained stable while sales volume continued to increase. We expect to further our product competiveness and product development capability. With regards to road rollers, we see an intensive competition in the market, the turnover from this series was down 0.9 percentage points from the previous year to RMB272 million (for the six months ended on 30 June 2010: approximately RMB275 million).

Components

Revenue generated from components sales amounted to approximately RMB330 million for the period ended on 30 June 2011, representing 41.03% increase when compared with the same period in 2010. We improved the production capabilities of components and service networks and is expecting a stable demand of components in the future.

Finance lease interest

Turnover from finance lease interest represented nearly 1.6% of our total turnover in the first half year of 2011 or an significant increase of 79.0% from the same period of last year. We attribute such increase to the significant interest incomes recognized during the period.

FINANCIAL REVIEW

The Group financed its operations from internally generated cash flow, bank borrowings, long-term loan notes 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 2011, the Company has not redeemed any of its shares.

During the period ended on 30 June 2011, the Company has issued senior notes in the aggregate principal amount of USD350 million on 3 June 2011. The Note will bear interest at the rate of 8.5% per annum and will mature on 3 June 2016.

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 2011, the gearing ratio (defined as total liabilities over assets) was approximately 62.82% (as at 31 December 2010: 61.06%)

Capital Expenditure

During the period, the Group acquired property, plant and equipment approximately RMB418 million (six months ended 30 June 2010: RMB229 million) 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, long-term notes, bank borrowings and internal sources of the Group.

Liquidity and Financial Resources

As at 30 June 2011, the Group had bank balances and cash of approximately RMB2,414 million (31 December 2010: approximately RMB306 million) and pledged bank deposit of approximately RMB138 million (31 December 2010: approximately RMB328 million). Compared with last year, the cash and bank balance increased about RMB2,108 million, which was used as a result of net cash inflow of RMB1,078 million from operating activities, net cash outflow of RMB313 million from investing activities, net cash inflow of RMB1,354 million from financing activities and RMB12 million loss of foreign exchange rate changes.

The pledged deposit balance at 30 June 2011 decreased approximately RMB190 million. The bill payables are normally pledged by bill receivables in the Group, the bill receivables are usually collected and placed to pledge bank deposit when mature. Most bill receivables pledged were still within credit period compared with last year, accordingly the pledged bank deposit decreased.

The current ratio of the Group at 30 June 2011 was 2.35 (31.12.2010: 1.31). The inventory turnover decreased to 104 days (30.12.2010: 125 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 2011 due to increase in the demand of the products during the period. The trade and bill receivables turnover and trade and bill payables turnover decreased to 58 days and 94 days respectively.

The total of current and non-current finance lease receivables balance as at 30 June 2011 decreased approximately RMB1,137 million because the Group has begun to change business strategy since 2011. The finance leases business will be gradually transferred to the third party finance lease providers in order to avoid cash flow pressure and finance risk.

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 2011, the Group had contracted but not provided in the financial statements in respect of acquisition of property, plant and equipment amounted to approximately RMB206 million (31 December 2010: approximately RMB251 million).

PROSPECT

While the economic environment at home and abroad is rather complex and uncertain, the PRC economy generally maintains healthy momentum, developing in line with the macro-control targets. It is expected that domestic fixed asset investments will continue to grow at a sustainable and steady pace, which has become a major driver for the growth of our revenue and profit.

The second five-year plan for "Round Two Venture" had been put into implementation in 2011. The Board of Directors has established the discretionary management accountability and general manager accountability in order to foster constant and effective internal management. The gross margin achieved steady growth and is expected to stay on the upward track. With the rapid expansion of the production capacity of our excavator products, the sales volume continued to increase sharply and our market share kept growing. Meanwhile, the Company has stepped up its investments in product research and development, so as to further enhance product quality and make innovations.

As to marketing, the Company has increased its input in after-sale services through improving our after-sale service network, with a view to strengthening the competitiveness of our products. We will make greater efforts in this regard for higher added values of our products.

In the overseas market, the Company will continue to allocate more resources to establish its overseas sales network. It is expected that the percentage of our overseas revenue over our aggregate revenue will continue to rise.

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 during the period ended 30 June 2011 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 2011.

Improvements in Internal Control Systems

Additional measures and improvements for the internal control systems of the Company during the six months ended 30 June 2011.

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 2011, 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

Investor Relations
Ms. Jenny Lv

Tel: 86-21-3760 2000 ext. 8331
E-mail address: Lzz@lonking.cn

DISCLOSURE OF INTERESTS

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

As at 30 June 2011, 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 2011
Li San Yim and Ngai Ngan Ying (Note 1)	held by controlled corporation (Note 2)	1,312,058,760	30.66%
Li San Yim and Ngai Ngan Ying (Note 1)	beneficial owner	1,045,330,760	24.42%
Qiu Debo	beneficial owner	3,404,000	0.08%
Luo Jianru	beneficial owner	1,460,000	0.03%
Chen Chao	beneficial owner	1,326,000	0.03%
Lin Zhongming	beneficial owner	372,000	0.01%
Fang Deqin	beneficial owner	1,336,000	0.03%
		2,365,287,520	55.26%

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 1,312,058,760 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 2011
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 2011, 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 2011, 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 2011
China Longgong Group Holdings Ltd (Note 1)	beneficial owner	1,312,058,760	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 2011, 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 cents (six months ended 30 June 2010: Hk$10 cents) per Share for the six months ended 30 June 2011.

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

During the period ended on 30 June 2011, the Company has not redeemed any of its shares.

During the period ended on 30 June 2011, the Company has issued senior notes in the aggregate principal amount at USD350 million on 3 June 2011. The Note will bear intent at the rate of 8.5% per annum and will mature on 3 June 2016.

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 2011 have been reviewed by the audit committee of the Company.

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

Hong Kong, 30 September 2011

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors
Mr. Li San Yim *(Chairman)*
Mr. Qiu Debo *(Chief Executive Officer)*
Mr. Luo Jianru
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
Mr. Chen Chao
Mr. Lin Zhong Ming
Ms. Fang De Qin

COMPANY SECRETARY
Mr. Chu Shun

HEAD OFFICE
No. 26 Mingyi Road, Xinqiao,
Songjiang Industrial,
Shanghai (201612), PRC

REGISTERED OFFICE
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

INVESTOR RELATIONS
Ms. Jenny Lv
Lzz@lonking.cn

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 3413, China Merchants Tower
Shun Tak Centre
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

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre,
8 Finance Street,
Central,
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
No. 89 Zhongshan Zhong P.O. Road
Songjiang District
Shanghai, PRC