LONKING HOLDINGS LIMITED
中國龍工控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3339)

PRELIMINARY ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

The board of directors (the "Board") of Lonking Holdings Limited (the "Company") announces the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011 (the "Period") together with the comparative figures for the corresponding period in 2010. The Group's interim results for the Period is unaudited, but have been reviewed by the Company's auditor, Ernst & Young Certified Public Accountant ("Ernst & Young") and approved by the audit committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2011

		For the six months ended 30 June	
		2011	2010
		Unaudited	
	Notes	***RMB'000***	*RMB'000*
Turnover	*2*	**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	*3*	**40,329**	117,147
Selling and distribution costs		**(385,472)**	(395,346)
Administrative expenses		**(139,481)**	(115,000)
Research expenditure		**(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)

	Notes	For the six months ended 30 June **2011** Unaudited *RMB'000*	2010 *RMB'000*
Profit before tax	*4*	**1,434,645**	1,125,247
Income tax expense	*5*	**(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		**0.27**	0.22
Diluted, profit for the period attributable to Ordinary equity holders of the parent		**0.26**	0.20

CONDENSED 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		**3,301,016**	3,034,171
Prepaid lease premium for land		**198,315**	194,721
Investment 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	7	**2,238,729**	980,959
Bill receivables	7	**1,335,015**	799,688
Other receivables and prepayments		**608,317**	624,739
Pledged bank deposits	8	**138,348**	328,327
Cash and cash equivalents	8	**2,413,963**	306,235
		11,532,518	7,519,543
Current liabilities			
Trade payables	9	**1,848,434**	1,623,545
Bill payables	9	**1,459,894**	1,450,222
Other payables and accruals		**902,754**	787,957
Provisions		**197,079**	179,225
Amounts due to related parties		**11,077**	7,035
Income tax payable		**89,135**	221,867
Convertible loan notes	10	**25,102**	–
Bank borrowings		**382,437**	1,471,658
Derivative financial instruments		**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 lease		**121,811**	271,214
Convertible loan notes		**763,720**	770,677
Long-term bank borrowings		**1,606,306**	970,995
Long-term loan notes	*11*	**2,281,932**	–
Deferred tax liability		**62,406**	47,670
Derivative financial instruments		**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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	For the six months ended 30 June	
	2011	2010
	Unaudited	
	RMB'000	*RMB'000*
Operating cash flow before movements in working capital:	**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 lease	**(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	**(449,857)**	(148,932)
Acquisition of interest 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	**6,953**	3,470
Net cash flows used in investing activities	**(312,611)**	(101,271)
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 from financing activities	**1,353,963**	(110,561)
Net increase 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	**2,413,963**	491,036

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

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

Basis of preparation

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

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

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 the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 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:

- **HKAS 24 *Related Party Transactions* (Amendment)**

  The HKASB has issued an amendment to HKAS 24 that clarifies the definitions of a related party. The new 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 impact on the financial position or performance of the Group.

- **HKAS 32 *Financial Instruments: Presentation* (Amendment)**

  The amendment alters 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 effect on the financial position or performance of the Group.

- **HK (IFRIC) Int 14 *Prepayments of a Minimum Funding Requirement* (Amendment)**

  The amendment removes 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 amendment permits a prepayment of future service cost by the entity to be recognised as pension asset. The Group does not have post-employment or other long-term benefit plan that is subject to minimum funding request. The amendment to the interpretation therefore had no effect on the financial position or performance of the Group.

- ***Improvements to HKFRSs (issued May 2010)***

  In May 2010, the HKCPA 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 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.

  - 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.

  - HKAS 34 *Interim Financial Statements*: 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.

  Other amendments resulting from Improvements to HKFRSs to the following standards did not have any 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 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 its 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.

2. OPERATING SEGMENT INFORMATION

Operating segments

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

Six months ended 30 June 2011

	Sales of construction machinery *RMB'000*	Finance lease 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**
Result			
Segment profit	**1,399,420**	**115,652**	**1,515,072**
Finance income			**10,553**
Unallocated other income, gain and losses			**75,136**
Unallocated corporate expenses			**9,934**
Finance costs			**(176,050)**
Profit before tax			**1,434,645**

Six months ended 30 June 2010

	Sales of construction machinery *RMB'000*	Finance lease 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
Result			
Segment profit	1,030,829	71,494	1,102,323
Finance income			6,058
gain 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
Sales of construction machinery	**11,394,457**	9,281,347
Finance lease of construction machinery	**2,168,068**	3,326,525
Unallocated assets	**2,685,029**	854,649
Consolidated assets	**16,247,554**	13,462,521

	30 June 2011 ***RMB'000***	31 December 2010 *RMB'000*
Segment liabilities:	**4,541,049**	4,319,198
Sales of construction machinery	**3,324,837**	2,903,337
Finance lease 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, 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**	31 December 2010
	RMB'000	*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

Reconciliation of liabilities	**30 June 2011**	31 December 2010
	RMB'000	*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 liability	**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, 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	**%**	2010	%
	RMB'000		*RMB'000*	
Wheel loaders	**5,497,450**	**65.5**	4,641,433	70.7
Excavators	**1,380,269**	**16.4**	1,072,386	16.3
Road rollers	**272,378**	**3.2**	274,729	4.2
Forklifts	**468,167**	**5.6**	292,623	4.5
Others	**643,275**	**7.7**	208,871	3.1
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

3. OTHER GAINS AND LOSSES

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

	For the six months ended 30 June	
	2011	2010
	RMB'000	*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 gain	**35,844**	2,679
	40,329	117,147

4. PROFIT BEFORE TAX

Profit before taxation has been arrived at after charging:

	For the six months ended 30 June	
	2011	2010
	RMB'000	*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

5. INCOME TAX

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

	For the six months ended 30 June	
	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

6. 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

7. TRADE AND BILL RECEIVABLES

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

The aged analysis of trade receivable is as follows:

	30 June 2011	31 December 2010
	RMB'000	*RMB'000*
0-90 days	**2,162,661**	972,083
90-180 days	**67,466**	7,963
181-270 days	**8,102**	311
270 days to 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.

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

9. TRADE AND BILL PAYABLES

The aging 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
181-1 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.

10. 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 ("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 23 June 2011, the conversion price has been revised to HK$4.51 after anti-dilutive adjustment.

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 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 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 ("2007 Early Redemption Amount"), provided that no such redemption may be made unless the closing price of the Company 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 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 ("2007 Bondholders") will have the right to require the Company to redeem all or some of their 2007 Convertible Loan Notes at 2007 Early Redemption Amount of the initial principal amount on 30 April 2010 or on the occurrence of a change of the Company's controlling shareholders or delisting of the Company's shares.

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

(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:

(i) The fair value of the option of 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 each in the share capital of the Company ("Share") and subject to anti-dilutive adjustments.

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

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

The movement of the liability component and derivative component of the 2007 Convertible Loan Notes for the year 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**

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 23 June 2011, the 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 at any time on or after 5 October 2009 on the Business Day falling on or immediately before the tenth day prior to 24 August 2014 ("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 Notes 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 ("2009 Early Redemption Amount"), provided that no such redemption may be made unless the closing price of the 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 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.

Redemption at the Option of the bondholders

The Bondholder of each 2009 Convertible Loan Note ("2009 Bondholders") will have the right to require the Company to redeem all or some of the 2009 Convertible Loan Notes at 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 liability component and derivative component (comprised of embedded derivatives which are considered as not closely related to the host liability component) as follow:

(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:

(i) The fair value of the option of 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.

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

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

The movement of the liability component and derivative component of the 2009 Convertible Loan Notes for the year 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**

11. LONG-TERM NOTES

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

Optional redemption of the Notes

On or after 3 June 2014, the Company may on any one or more occasions redeem all or any part of the Notes, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if any, on the Notes redeemed, to the applicable date of redemption, if redeemed during the twelve-month period beginning on 3 June of the years indicated below, subject to the rights of holders of 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 remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT AND BUSINESS REVIEW

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 RMB 6,566 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 RMB 1,154 million (Six months ended 30 June 2010: RMB 926 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: RMB 472 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: RMB 1,161 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 RMB 2,600 million (Six month ended 30 June 2010: RMB 2,158 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 69.02% increase when compared with the same period in 2010. We improved the production capabilities of components and service networks and is expecting a strong 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.

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 30 June 2010: 61.06%)

Capital Expenditure

During the period, the Group acquired property, plant and equipment approximately RMB418million (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 RMB2,414million (31 December 2010: approximately 306 million) and pledged bank deposit of approximately RMB138million (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 RMB12million 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, plan 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

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

The Group is committed to maintaining and ensuring high standards of corporate governance practices. The Board emphases on maintaining a quality Board with balance of skill set of directors, better transparency and effective accountability system in order to enhance shareholders' value. In the opinion of directors, the Company had during the Period complied with all the applicable code provisions of the Code as set out in Appendix 14 to the Listing Rules.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding directors' securities transactions. Specific enquiry has been made to all Directors, who have confirmed that they had complied with the required standard set out in the Model Code for the Period.

Review of the Interim Results

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

The interim results for the six months ended 30 June 2011 have been reviewed by the external auditors of the Company.

INTERIM DIVIDEND

The Directors 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, which is expected to be payable to shares by post on or about 31 October 2011. The dividend will be payable to shareholders whose names appear on the Register of Members of the Company at the close of business on Friday, 23 September 2011.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 21 September 2011 to Friday, 23 September 2011, both days inclusive, during which period no transfers of shares will be effected. To determine entitlement to the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Computershare Hong Kong Investor Services Ltd (at shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong), for registration not later than 4:30 p.m. on Tuesday, 20 September 2011).

PUBLICATION OF FINANCIAL INFORMATION

The Company's 2011 interim report for the six months ended 30 June 2011 will be despatched to the shareholders at the appropriate time and will at the same time be published on the Stock Exchange's website (www.hkex.com.hk).

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

Hong Kong, 24 August 2011

As at the date of this announcement, Mr. Li San Yim, Mr. Qiu Debo, Mr. Luo Jianru, Mr. Chen Chao, Mr. Lin Zhong Ming, Ms. Fang Deqin are the executive directors of the Company and Ms. Ngai Ngan Ying is the non-executive directors of the Company and Mr. Pan Longqing, Dr. Qian Shizheng and Mr. Han Xuesong are the independent non-executive directors of the Company.

* *For identification purposes only*