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

Interim Report 2016

* *For Identification Purpose Only*

CONTENTS

FINANCIAL HIGHLIGHTS

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

Current period	Six months ended 30 June 2016 *RMB'000*	Six months ended 30 June 2015 *RMB'000*	Change (+/–)
Turnover	2,615,197	2,944,856	-11.19%
Operating profits	229,431	245,761	-6.64%
EBITDA	502,577	517,717	-2.92%
Profit attributable to equity parent	199,667	176,867	+12.89%
Per share data		*RMB*	
Basic earnings per share[1]#	0.05	0.04	+25.00%.
Net assets per share[2]#	1.55	1.63	-4.91%
Key performance indicators			
Profitability			
Overall gross margin	23.62%	25.91%	-2.29%
Net profit margin	7.64%	6.01%	+1.63%
EBITDA margin[3]:	19.22%	17.58%	+1.64%
Return on equity[4]	3.01%	2.52%	+0.49%
Liquidity and solvency			
Current ratio[5]	2.49	2.06	+20.87%
Interest coverage ratio[6]:	4.88	5.43	-10.13%
Gross debt-to-equity ratio[7]	86.15	87.93	-1.78%
Management efficiency		*days*	
Inventory turnover days[8]	120	141	-21 days
Trade and bills payables turnover days[9]	85	76	+9 days
Trade and bills receivable turnover days[10]	127	148	-21 days

[#] calculated based on the 4,280,100,000 weighted average number of outstanding shares (WANOS) for the period ended 30 June 2016 (30 June 2015: 4,280,100,000).

[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] Total liabilities 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

EY 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 set out on pages 5 to 37, which comprise the interim condensed consolidated statement of financial position of Lonking Holdings Limited and its subsidiaries (the "Group") as at 30 June 2016 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed consolidated financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The directors of the company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower,
1 Tim Mei Avenue, Central,
Hong Kong
29 August 2016

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016

	Notes	For the six months ended 30 June 2016 Unaudited *RMB'000*	 2015 Unaudited *RMB'000*
Revenue	3	2,615,197	2,944,856
Cost of sales		(1,997,380)	(2,181,746)
Gross profit		617,817	763,110
Other income	4	17,735	25,758
Other gains and losses	4	(26,621)	(109,304)
Selling and distribution costs		(171,576)	(180,657)
Administrative expenses		(115,192)	(142,751)
Research and development costs		(91,565)	(109,642)
Other expenses		(1,167)	(753)
Operating profit		229,431	245,761
Finance income		79,334	75,196
Finance costs		(63,312)	(59,109)
Profit before tax	5	245,453	261,848
Income tax expense	6	(45,718)	(84,937)
Profit for the period		199,735	176,911
Attributable to:			
Owners of the parent		199,667	176,867
Non-controlling interests		68	44
		199,735	176,911
Earnings per share			
Basic, profit for the period attributable to ordinary equity holders of the parent (RMB)		0.05	0.04

Details of the dividends declared and paid are disclosed in note 7 to the financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	For the six months ended 30 June	
	2016 Unaudited *RMB'000*	2015 Unaudited *RMB'000*
Profit for the period	199,735	176,911
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	(19,364)	(12,995)
Income tax effect	2,904	1,949
	(16,460)	(11,046)
Exchange differences on translation of foreign operations	(101,894)	3,222
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	(118,354)	(7,824)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	–	–
Other comprehensive income for the period, net of tax	(118,354)	(7,824)
Total comprehensive income for the period, net of tax	81,381	169,087
Attributable to:		
Owners of the parent	81,464	169,055
Non-controlling interests	(83)	32
	81,381	169,087

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	30 June 2016 Unaudited *RMB'000*	31 December 2015 Audited *RMB'000*
Assets			
Non-current assets			
Property, plant and equipment	8	2,642,452	2,829,338
Prepaid land lease payments		188,335	191,239
Investments in associates		3,275	3,275
Finance lease receivables		5,695	5,049
Deferred tax assets		273,863	263,666
Available-for-sale investments	13	1,220	207,270
Prepayments for property, plant and equipment		28,291	30,775
Long-term receivables	9	89,717	114,951
Pledged deposits	16	1,261,938	2,219,324
		4,494,786	5,864,887
Current assets			
Prepaid land lease payments		5,276	5,276
Inventories	10	1,329,739	1,280,878
Finance lease receivables		65,720	70,790
Trade and bills receivables	11	1,696,947	1,931,055
Due from related parties	21	2,114	4,863
Prepayments, deposits and other receivables	12	665,819	686,963
Other current assets		656,347	830,462
Available-for-sale investments	13	475,636	289,200
Equity investments at fair value through profit or loss	14	106,296	138,783
Derivative financial instruments	15	93,704	61,217
Pledged bank deposits	16	1,111,770	204,897
Cash and cash equivalents	16	1,664,484	1,146,340
		7,873,852	6,650,724
Current liabilities			
Trade and bills payables	17	1,167,441	683,555
Other payables and accruals	18	487,213	562,607
Interest-bearing bank borrowings	19	1,298,048	292,213
Provisions		66,818	62,044
Due to related parties	21	6,290	5,953
Deferred income		3,519	7,038
Income tax payable		75,946	83,678
Dividend due to shareholders	7	62,189	–
		3,167,464	1,697,088
Net current assets		4,706,388	4,953,636
Total assets less current liabilities		9,201,174	10,818,523

	Notes	30 June 2016 Unaudited *RMB'000*	31 December 2015 Audited *RMB'000*
Non-current liabilities			
Deposits for finance leases		4,722	5,211
Interest-bearing bank borrowings	19	2,448,574	4,073,123
Deferred tax liabilities		95,073	107,406
Provisions		5,264	5,446
Deferred income		3,196	3,195
Total non-current liabilities		2,556,829	4,194,381
Net assets		6,644,345	6,624,142
Equity			
Issued capital		444,116	444,116
Share premium and reserves		6,197,516	6,177,230
Equity attributable to owners of the parent		6,641,632	6,621,346
Non-controlling interests		2,713	2,796
Total equity		6,644,345	6,624,142

Li San Yim
Director

Yin Kun Lun
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

2016	Attributable to owners of the parent								Non-controlling interest	Total equity
	Issued capital	Share premium	Special reserve	Non-distributable reserve	Available-for-sale reserve	Retained profits	Exchange fluctuation reserve	Total		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	444,116	854,922	382,779	1,371,351	(4,245)	3,679,986	(107,563)	6,621,346	2,796	6,624,142
Profit for the period	–	–	–	–	–	199,667	–	199,667	68	199,735
Other comprehensive income for the period:										
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	(16,309)	–	–	(16,309)	(151)	(16,460)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(101,894)	(101,894)	–	(101,894)
Total comprehensive income for the period	–	–	–	–	(16,309)	199,667	(101,894)	81,464	(83)	81,381
Final 2015 dividend declared	–	–	–	–	–	(61,178)	–	(61,178)	–	(61,178)
Transfer from retained profits	–	–	2,676	–	–	(2,676)	–	–	–	–
At 30 June 2016	444,116	854,922	385,455	1,371,351	(20,554)	3,815,799	(209,457)	6,641,632	2,713	6,644,345

2015	Attributable to owners of the parent								Non-controlling interests	Total equity
	Issued capital	Share premium	Special reserve	Non-distributable reserve	Available-for-sale reserve	Retained profits	Exchange fluctuation reserve	Total		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	444,116	854,922	377,944	1,325,794	–	3,834,134	189,645	7,026,555	2,727	7,029,282
Profit for the period	–	–	–	–	–	176,867	–	176,867	44	176,911
Other comprehensive income for the period:										
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	(11,034)	–	–	(11,034)	(12)	(11,046)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	3,222	3,222	–	3,222
Total comprehensive income for the period	–	–	–	–	(11,034)	176,867	3,222	169,055	32	169,087
Final 2014 dividend declared	–	–	–	–	–	(220,312)	–	(220,312)	–	(220,312)
Transfer from retained profits	–	–	521	46,326	–	(46,847)	–	–	–	–
At 30 June 2015	444,116	854,922	378,465	1,372,120	(11,034)	3,743,842	192,867	6,975,298	2,759	6,978,057

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	For the six months ended 30 June	
	2016 Unaudited *RMB'000*	2015 Unaudited *RMB'000*
Operating cash flows before movements in working capital:	478,347	555,008
(Increase)/decrease in inventories	(43,086)	239,379
Decrease/(increase) in trade and bills receivables	179,799	(79,878)
Decrease in prepayments, deposits and other receivables	52,808	214,664
Decrease/(increase) in finance lease receivables	4,424	(48,702)
Increase/(decrease) in trade, bills and other payables	418,522	(69,904)
Increase/(decrease) in provisions	4,592	(19,101)
Decrease/(increase) in amounts due from related parties	2,749	(1,833)
Increase/(decrease) in amounts due to related parties	337	(5,654)
(Decrease)/increase in deposits for finance leases	(489)	408
Income tax paid	(73,076)	(56,999)
Interest received	26,604	30,013
Net cash flows from operating activities	1,051,531	757,401
Cash flows from investing activities		
Purchase of property, plant and equipment	(11,503)	(24,322)
Interest received	28,226	–
Payment for lease premium for land	–	(164)
Proceeds from transfer of land	–	3,496
Decrease in deferred income	(3,518)	(3,519)
Purchase of equity investments at fair value through profit or loss	–	(200,000)
Purchase of available-for-sale investments	(120,000)	(300,000)
Purchase of an other financial investment	–	(300,000)
Proceeds from an available-for-sale investment	300,000	300,000
Proceeds from disposal of interests in associates	8,402	–
Proceeds from disposal of items of property, plant and equipment	5,388	104,476
Net cash flows from/(used in) investing activities	206,995	(420,033)

		For the six months ended 30 June	
		2016	2015
		Unaudited	Unaudited
	Notes	*RMB'000*	*RMB'000*
Cash flows from financing activities			
Proceeds from borrowings		–	273,723
Repayment of borrowings		(703,817)	(364,049)
Non-derecognized payables		(6,353)	(20,171)
Decrease/(increases) in pledged bank deposits		50,513	(61,164)
Interest paid		(64,404)	(59,117)
Interest from pledged deposits received		3,845	–
Net cash flows used in financing activities		(720,216)	(230,778)
Net increase in cash and cash equivalents		538,310	106,590
Net foreign exchange difference		(20,166)	13
Cash and cash equivalents at 1 January		1,146,340	1,088,465
Cash and cash equivalents at 30 June	16	1,664,484	1,195,068

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. Corporate information

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2016 were authorized for issue in accordance with a resolution of the directors on 29 August 2016.

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 finance leases of construction machinery.

2. Basis of preparation and changes in the Group's accounting policies

2.1 Basis of preparation

The interim condensed consolidated financial statements, which comprise the interim condensed consolidated statement of financial position of the Group as at 30 June 2016 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, have been prepared in accordance with HKAS 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

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 2015.

2. Basis of preparation and changes in the Group's accounting policies *(Continued)*

2.2 New standards, interpretations and amendments 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 consolidated financial statements for the year ended 31 December 2015, except for the adoption of new Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) effective as of 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Several new standards and amendments apply for the first time in 2016 by the Group. However, they do not have a material impact on the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

The nature and the impact of each new standard or amendment are described below:

HKFRS 14 Regulatory Deferral Accounts

HKFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of HKFRS. Entities that adopt HKFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. HKFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing HKFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

2. Basis of preparation and changes in the Group's accounting policies *(Continued)*

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

Amendments to HKFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to HKFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant HKFRS 3 *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group given that the Group has not used a revenue-based method to depreciate its noncurrent assets.

2. Basis of preparation and changes in the Group's accounting policies *(Continued)*

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

Amendments to HKAS 16 and HKAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of HKAS 41 *Agriculture*. Instead, HKAS 16 will apply. After initial recognition, bearer plants will be measured under HKAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of HKAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group as the Group does not have any bearer plants.

Amendments to HKAS 27 Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying HKFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. First-time adopters of HKFRS electing to use the equity method in their separate financial statements will be required to apply this method from the date of transition to HKFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group's consolidated financial statements.

Annual Improvements 2012 – 2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in HKFRS 5. This amendment must be applied prospectively.

2. Basis of preparation and changes in the Group's accounting policies *(Continued)*

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

Annual Improvements 2012 – 2014 Cycle *(Continued)*

HKFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts
The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in HKFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to HKFRS 7 to condensed interim financial statements
The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

HKAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

HKAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments do not have any impact on the Group.

2. Basis of preparation and changes in the Group's accounting policies *(Continued)*

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

Amendments to HKAS 1 Disclosure Initiative

The amendments to HKAS 1 clarify, rather than significantly change, existing HKAS 1 requirements. The amendments clarify:

- The materiality requirements in HKAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under HKFRS 10 *Consolidated Financial Statements*. The amendments to HKFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to HKFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to HKAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group as the Group does not apply the consolidation exception.

2.3 Seasonality of operations

The Group's operations are not subject to seasonality.

3. Operating segment information

Operating segments

The following tables present revenue and profit information for the Group's operating segments for the six months ended 30 June 2016 and 2015:

	Sale of construction machinery *RMB'000*	Finance leases of construction machinery *RMB'000*	Financial investments *RMB'000*	Total *RMB'000*
Six months ended 30 June 2016				
Segment revenue	2,610,525	4,672	–	2,615,197
Segment results	164,799	4,180	34,111	203,090
Reconciliation:				
Interest income				79,334
Unallocated other income and gains				28,644
Corporate and other unallocated expenses				(2,303)
Finance costs				(63,312)
Profit before tax				245,453

	Sale of construction machinery *RMB'000*	Finance leases of construction machinery *RMB'000*	Financial investments *RMB'000*	Total *RMB'000*
Six months ended 30 June 2015				
Segment revenue	2,933,047	11,809	–	2,944,856
Segment results	228,442	10,361	2,626	241,429
Reconciliation:				
Interest income				75,196
Unallocated other income and gains				5,987
Corporate and other unallocated expenses				(1,655)
Finance costs				(59,109)
Profit before tax				261,848

3. Operating segment information *(Continued)*

Operating segments *(Continued)*

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

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 2016 and 31 December 2015:

	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
Segment assets:	11,722,262	12,438,981
Sale of construction machinery	10,283,296	10,800,053
Finance leases of construction machinery	106,983	113,466
Financial investments	1,331,983	1,525,462
Corporate and other unallocated assets	646,376	76,630
Consolidated assets	12,368,638	12,515,611

	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
Segment liabilities:	1,894,568	1,427,102
Sale of construction machinery	1,821,322	1,349,779
Finance leases of construction machinery	73,246	77,323
Financial investments	–	–
Corporate and other unallocated liabilities	3,829,725	4,464,367
Consolidated liabilities	5,724,293	5,891,469

3. Operating segment information *(Continued)*

Operating segments *(Continued)*

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

	For the six months ended 30 June			
	2016		2015	
	RMB'000	%	*RMB'000*	%
Sales of construction machinery:				
Wheel loaders	1,306,836	50.0	1,600,912	54.4
Excavators	323,720	12.4	342,745	11.6
Road rollers	36,438	1.4	45,778	1.6
Forklifts	620,557	23.7	557,312	18.9
Components	322,974	12.3	386,300	13.1
Subtotal	2,610,525	99.8	2,933,047	99.6
Finance lease interest income	4,672	0.2	11,809	0.4
Total	2,615,197	100.0	2,944,856	100.0

4. Other income and other gains and losses

An analysis of the Group's other income is as follows:

	For the six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Government grants	7,888	10,658
Penalty income	2,530	6,619
Reversal of inventory provision	5,775	3,392
Others	1,542	5,089
	17,735	25,758

4. Other income and other gains and losses *(Continued)*

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

	For the six months ended 30 June	
	2016 *RMB'000*	2015 *RMB'000*
Loss on disposal of items of property, plant and equipment	(2,484)	(2,700)
Allowance for bad and doubtful debts	(89,375)	(112,591)
Fair value gains, net:		
Equity investments at fair value through profit or loss – held for trading	(32,487)	(34,180)
Compensation terms for investment	39,238	34,880
Investment income	27,360	1,926
Foreign exchange gain	31,127	3,361
	(26,621)	(109,304)

5. Profit before tax

Profit before tax has been arrived at after charging:

	For the six months ended 30 June	
	2016 *RMB'000*	2015 *RMB'000*
Cost of inventories recognised as expenses	1,997,380	2,181,746
Staff costs, including directors' remuneration	180,107	166,884
Contribution to a retirement benefit scheme	14,429	17,144
Amortisation of lease payments for land	2,924	2,621
Depreciation of property, plant and equipment	190,888	194,139
Bad debt provision	89,375	112,591
and after crediting:		
Interest income on bank deposits	79,334	75,196
Income-related government grants	7,888	10,658

6. Income tax

The Group calculates the income tax expense for the current period using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the interim condensed consolidated statement of profit or loss are:

	For the six months ended 30 June	
	2016 *RMB'000*	2015 *RMB'000*
Current income tax expense	47,844	13,368
Deferred income tax expense relating to origination and reversal of temporary differences	(2,126)	71,569
Income tax expense recognised in statement of profit or loss	45,718	84,937

7. Dividend due to shareholders

The directors did not recommend the payment of an interim dividend in respect of the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

The proposed final dividend of HK$0.017 per ordinary share for the year ended 31 December 2015 was declared payable and approved by the shareholders at the annual general meeting of the Company on 26 May 2015 and was paid on 5 July 2016.

8. Property, plant and equipment

During the six months ended 30 June 2016, the Group acquired assets with a cost of RMB11,402,000 (six months ended 30 June 2015: RMB45,225,000), including property, plant and machinery in the People's Republic of China (the "PRC").

Assets with a net book value of RMB7,740,000 were disposed of by the Group during the six months ended 30 June 2016 (six months ended 30 June 2015: RMB103,169,000), resulting in a net loss on disposal of RMB2,484,000 (net loss in the six months ended 30 June 2015: RMB2,700,000).

9. Long-term receivables

Long-term receivables are the receivables with maturity within 2 years but greater than 12 months according to the credit terms, and included the following items:

	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
Trade receivables (note 11)	89,661	112,320
Other receivables (note 12)	56	2,631
	89,717	114,951

10. Inventories

	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
Raw materials	486,696	447,583
Work in progress	101,633	93,030
Finished goods	741,410	740,265
	1,329,739	1,280,878

11. Trade and bills receivables

The Group allows credit periods from 6 months up to 12 months to its trade customers. Longer credit terms may be offered to some customers with good credit history and relationships.

	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
Trade receivables	2,052,115	2,103,343
Impairment	(352,782)	(285,504)
Less: Non-current portion (note 9)	(89,661)	(112,320)
	1,609,672	1,705,519
Bills receivable	87,275	225,536
	1,696,947	1,931,055

The aged analysis of trade receivables is as follows:

	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
0-90 days	1,020,353	912,140
91-180 days	231,441	327,069
181-360 days	281,519	354,697
Over 1 year	76,359	111,613
	1,609,672	1,705,519

Bills receivable are aged within six months at the end of each reporting period. The Group had no bills receivable pledged to banks to get short-term credit facilities (31 December 2015: nil).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in both interest and/or principal payments and only a portion of the receivables is expected to be recovered.

12. Prepayments, deposits and other receivables

	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
Prepayments	90,040	85,523
Deductible value-added tax	64,807	74,684
Deposits	6,201	6,343
Total	161,048	166,550
Other receivables:		
Loan receivables	700,647	735,075
Less: non-current portion (note 9)	(56)	(2,631)
Less: impairment	(403,518)	(394,632)
Net loan receivables	297,073	337,812
Other miscellaneous receivables	208,396	184,698
Less: impairment	(698)	(2,097)
Net other miscellaneous receivables	207,698	182,601
Total other receivables	504,771	520,413
Grand total	665,819	686,963

The carrying amounts of financial assets included in prepayments, deposits and other receivables approximate to their fair values.

The individually impaired other receivables relate to customers that were in financial difficulties or were in default in both interest and/or principal payments and provision was made for these individually impaired other receivables.

12. Prepayments, deposits and other receivables *(Continued)*

A large portion of other receivables includes the loan receivables to sales agencies for their repurchase of machines. The collection of receivables of sales financed by leasing was not favourable due to the deterioration of external operating environment. According to the finance lease agreements, the sales agencies were required to fulfil the obligation to repurchase the machines and repay the outstanding lease amount to the leasing companies once the account is overdue for more than 3 months. Accordingly, the Group would extend loans to the sales agencies to help them with the settlement of repurchase. The sales agencies were required to repay within 3 months as it would normally take 3 months for resale of the machines. The Group would enter into instalment contract agreements with sales agencies if the repurchased machines had been sold again. The instalments would be arranged at interest rates ranging from 4% to 7% per annum and would mainly be repaid within 18 to 24 months.

Other receivables also include miscellaneous borrowings for sales agencies' daily operation needs.

13. Available-for-sale investments

	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
Unlisted equity investments, at cost	1,220	1,470
Unlisted equity investments, at fair value	475,636	495,000
	476,865	496,470

During the six-month period ended 30 June 2016, the gross loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB19,364,000 (2015: RMB5,000,000).

The underlying trading portfolio included equity securities, shares and bonds with no fixed maturity date or coupon rate.

14. Equity investments at fair value through profit or loss

	30 June 2016 RMB'000	31 December 2015 RMB'000
Listed equity investments, at fair value	106,296	138,783

The above equity investments at 30 June 2016 were classified as held for trading upon initial recognition.

15. Derivative financial instruments

	30 June 2016 RMB'000	31 December 2015 RMB'000
Compensation terms for investment	93,704	61,217

The compensation terms for investment is related to the equity investments at fair value through profit or loss (note 14).

The Group entered into an agreement with an asset management company with a notional amount of RMB200,000,000. When the investment return is below 7% of the notional amount, the Group will receive a compensation from the asset management company and the total return will be no less than 7% after the compensation.

16. Cash and cash equivalents

	30 June 2016 RMB'000	31 December 2015 RMB'000
Cash and bank balances	1,664,484	1,146,340
Time deposits	2,373,708	2,424,221
Less: Pledged for long-term bank loans	(1,261,938)	(2,215,938)
Pledged for bank acceptance bills	(80,934)	(34,620)
Pledged for short-term bank loans	(1,023,500)	(156,500)
Pledged for others	(7,336)	(17,163)
	1,664,484	1,146,340

Pledged bank deposits represent deposits pledged to banks to secure bank borrowings or facilities are therefore classified as current or non-current assets accordingly.

17. Trade and bills payables

The aged analysis of trade and bills payables is as follows:

	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
0-180 days	1,087,296	530,802
181 days-1 year	20,730	88,534
1-2 years	16,680	40,177
2-3 years	27,043	8,869
Over 3 years	15,692	15,173
	1,167,441	683,555

The bills payable are aged within six months at the end of each reporting period.

18. Other payables and accruals

	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
Accrued sales rebate	216,568	248,486
Salary and wages payable	39,234	59,960
Advances from customers	46,881	35,750
Payable for acquisition of property, plant and equipment	3,170	5,755
Non-derecognised endorsement bills and trade receivables	1,707	8,060
Deposit for finance leases	51,296	54,020
Other taxes payable	5,272	35,189
Other payables	86,004	81,528
Other accrued expenses	37,081	33,859
	487,213	562,607

19. Interest-bearing bank borrowings

During the six-month period ended 30 June 2016, the Group repaid short-term bank loans of US$107,250,000 (equivalent to RMB711,196,000). The short-term loans bear interest at rates ranging from 1.826% to 1.829% per annum.

The long-term loans bear interest at rates ranging from 1.73% to 3.96% per annum.

Certain of the Group and the Company's bank loans are secured by (note 16):

i) the pledge of certain of the Group's short-term time deposits amounting to RMB1,023,500,000 for short-term loans (31 December 2015: RMB156,500,000);

ii) the pledge of certain of the Group's long-term time deposits amounting to RMB1,261,938,000 for long-term loans (31 December 2015: RMB2,215,938,000).

20. Commitments and contingencies

Certain sales of the Group were funded by finance leases entered into by the end-user customers and PRC domestic banks or other finance lease providers. Under the guarantee agreement entered into between the Group and the PRC domestic banks, where the end-user customers and their guarantors fail to perform their payment obligations, the Group will repurchase the equipment from the banks or other finance lease providers to settle the outstanding amounts and the related interest. As at 30 June 2016, the Group's contingent liabilities for such repurchase obligations amounted to RMB18,924,000 (31 December 2015: RMB67,858,000) (before deduction of the security deposits paid by the end-user customers and the interest on undue rent). The directors of the Company considered that the fair value of the financial guarantees as at 30 June 2016 was insignificant.

Capital commitments

At 30 June 2016, the Group had capital commitments of RMB12,275,000 (31 December 2015: RMB20,065,000) principally relating to the acquisition of property, plant and equipment located in Shanghai and Fujian, the PRC.

21. 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 2016 and 30 June 2015 as well as balances with related parties as at 30 June 2016 and 31 December 2015:

		Sales to related parties *RMB'000*	Purchase from related parties *RMB'000*	Amounts due from related parties *RMB'000*	Amounts due to related parties *RMB'000*
Related parties:					
Longyan City Jinlong Machinery Company	2016	–	4,936	–	2,798
Limited (note a)	2015	–	12,254	–	2,987
Herkules (Shanghai) Automation Equipment	2016	–	2,159	601	793
Co. Ltd. (note b)	2015	601	4,119	601	617
Shanghai Refined Machinery	2016	–	5,669	1,497	1,686
Co., Ltd. (note c)	2015	39,561	2,958	4,129	–
Shanghai Longtui Machinery	2016	–	1,525	16	1,013
Co., Ltd. (note d)	2015	–	1,500	133	2,349
Fujian Longyan Engineering Machinery (Group)	2016	–	–	–	–
Co. Ltd. (note e)	2015	95,674	–	–	–

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: Herkules (Shanghai) Automation Equipment Co. Ltd., a company established in the PRC with limited liability and wholly owned by Mr. Chen Jie, the son-in-law of Mr. Li San Yim, an executive director, chairman and controlling shareholder of the Company.

note c: Shanghai Refined Machinery Co., Ltd. is wholly owned by Refined Holdings, which is in turn wholly owned by Mr. Li Bin, the son of Mr. Li San Yim who is a controlling shareholder of the Company, an executive director and the chairman of the Group.

note d: Shanghai Longtui Machinery Co. Ltd. is wholly owned by Mr. Li Bin, the son of Mr. Li San Yim, who is a controlling shareholder of the Company, an executive director and the chairman of the Group.

note e: Fujian Longyan Engineering Machinery (Group) Co., Ltd. is jointly owned by Madam Ngai Ngan Ying who is a non-executive director of the Company, and Mr. Li San Yim who is a controlling shareholder of the Company, an executive director and the chairman of the Group.

21. Related party transactions *(Continued)*

Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2016 *RMB'000*	2015 *RMB'000*
Short-term employee benefits	4,479	4,484
Pension scheme contributions	19	20
Total compensation paid to key management personnel	4,498	4,504

22. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

30 June 2016

Financial assets

	Financial assets at fair value through profit or loss held for trading *RMB'000*	Available-for-sale financial assets *RMB'000*	Loans and receivables *RMB'000*	Total *RMB'000*
Trade and bills receivables	–	–	1,696,947	1,696,947
Long-term receivables	–	–	89,717	89,717
Due from related parties	–	–	2,114	2,114
Financial assets included in prepayments, deposits and other receivables	–	–	493,249	493,249
Finance lease receivables	–	–	71,415	71,415
Other current assets	–	656,347	–	656,347
Available-for-sale investments	–	475,636	–	475,636
Equity investments at fair value through profit or loss	106,296	–	–	106,296
Derivative financial instruments	93,704	–	–	93,704
Pledged deposits	–	–	2,373,708	2,373,708
Cash and cash equivalents	–	–	1,664,484	1,664,484
	200,000	1,131,983	6,391,634	7,723,617

22. Financial instruments by category *(Continued)*

30 June 2016

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade and bills payables	1,167,441
Financial liabilities included in other payables and accruals	87,711
Deposits for finance leases	56,018
Interest-bearing bank borrowings	3,746,622
Dividend due to shareholders	62,189
Due to related parties	6,290
	5,126,271

31 December 2015

	Financial assets at fair value through profit or loss held for trading *RMB'000*	Available-for-sale financial assets *RMB'000*	Loans and receivables *RMB'000*	Total *RMB'000*
Trade and bills receivables	–	–	1,931,055	1,931,055
Long-term receivables	–	–	114,951	114,951
Due from related parties	–	–	4,863	4,863
Financial assets included in prepayments, deposits and other receivables	–	–	493,664	493,664
Finance lease receivables	–	–	75,839	75,839
Other current assets	–	830,462	–	830,462
Available-for-sale investments	–	496,470	–	496,470
Equity investments at fair value through profit or loss	138,783	–	–	138,783
Derivative financial instruments	61,217	–	–	61,217
Pledged deposits	–	–	2,424,221	2,424,221
Cash and cash equivalents	–	–	1,146,340	1,146,340
	200,000	1,326,932	6,190,933	7,717,865

22. Financial instruments by category *(Continued)*

31 December 2015

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade and bills payables	683,555
Financial liabilities included in other payables and accruals	155,303
Deposits for finance leases	59,231
Interest-bearing bank borrowings	4,365,336
Due to related parties	5,953
	5,269,378

23. Fair value and fair value hierarchy

The carrying amounts and fair values of the financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		**Fair values**	
	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
Financial assets:				
Finance lease receivables, non-current portion	5,695	5,049	5,418	5,005
Financial liabilities:				
Interest-bearing bank borrowings	2,448,574	4,073,123	2,393,274	3,952,545
Deposits for finance leases	4,722	5,211	4,508	4,945
	2,458,296	4,078,334	2,397,782	3,957,490

23. Fair value and fair value hierarchy *(Continued)*

Except as detailed in the above table, management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, the current portion of finance lease receivables, other current assets, trade and bills payables, financial liabilities included in other payables and accruals, amounts due to shareholders, amounts due from/to related parties, and the current portion of interest-bearing bank borrowings approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of pledged deposits, non-current portion of finance lease receivables, long-term receivables, interest-bearing bank borrowings and the non-current portion of deposits for finance leases have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for deposits for finance leases and interest-bearing bank borrowings as at 30 June 2016 was assessed to be insignificant.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted available-for-sale equity investments have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future dividends and proceeds on subsequent disposal of the shares. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period. Derivative financial instruments are measured using present value calculations.

23. Fair value and fair value hierarchy *(Continued)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale investments	–	475,636	656,347	1,131,983
Equity investments at fair value through profit or loss	106,296	–	–	106,296
Derivative financial instruments	–	93,704	–	93,704
	106,296	569,340	656,347	1,331,983

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale investments	–	495,000	830,462	1,325,462
Equity investments at fair value through profit or loss	61,445	–	–	61,445
Derivative financial instruments	–	138,555	–	138,555
	61,445	633,555	830,462	1,525,462

23. Fair value and fair value hierarchy *(Continued)*

Fair value hierarchy *(Continued)*

Assets for which fair values are disclosed:

As at 30 June 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Finance lease receivables, non-current portion	–	5,418	–	5,418

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Finance lease receivables, non-current portion	–	5,005	–	5,005

23. Fair value and fair value hierarchy *(Continued)*

Fair value hierarchy *(Continued)*

Liabilities for which fair values are disclosed:

As at 30 June 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Interest-bearing bank borrowings	–	2,393,274	–	2,393,274
Deposits for finance leases	–	–	4,508	4,508
	–	2,393,274	4,508	2,397,782

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Interest-bearing bank borrowings	–	3,952,545	–	3,952,545
Deposits for finance leases	–	–	4,945	4,945
	–	3,952,545	4,945	3,957,490

24. Approval of the interim condensed consolidated financial statements

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 29 August 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT AND BUSINESS REVIEW

The domestic and international economic developments are still facing considerable difficulties as evidenced by the increasing downward pressure on the prevailing macroeconomic environment and the overcapacity in the traditional energy and manufacturing sectors. Against such backdrop, China's economy has entered a "new norm". Exposing to unfavorable factors such as sluggish demand for construction machinery, lower-than-expected market recovery and intensifying product competition, the Company has pressed forward amid the challenging climate and taken appropriate measures. The Company has adopted fluid and flexible marketing strategies pursuant to which the Company adhered to the risk control principle and stepped up efforts to transform and upgrade product lines whilst strengthening product awareness and service awareness, so as to increase the market share of its products. During the reporting period, the Group achieved a total revenue of RMB2,615 million, representing a decrease of RMB330 million or 11.19% as compared to RMB2,945 million in the same period of 2015. During the reporting period, the consolidated gross profit margin of the Group dropped from 25.91% to 23.62% whereas that of the Company dropped 2.29 percentage points. The overall gross profit margin remained relatively stable, mainly attributed to factors such as the increased revenue contribution from forklifts, continuous integration of purchasing transportation resource, low purchase price of steels, the main raw material, over the same period of last year, maximized advantages of the Group's vertical integration and continual enhancement in internal management. The Group achieved a net profit of approximately RMB200 million in the first half of 2016, up 12.90% as compared to the same period of last year. The change in net profit was mainly due to a reduced gross profit caused by decrease in sales, period costs savings such as administrative expenses, as well as the decrease in income tax expenses.

GEOGRAPHICAL RESULTS

During the period ended 30 June 2016, the ratio of turnover in each region in the PRC over total turnover respectively is insignificantly different, reflecting that the demand in each region is relatively mild and tends to be stable.

Northern region of PRC is the Company's principal market area, which accounted for 20.7% of the Group's total turnover. Sales from northern region in the PRC decreased 4.2% to RMB540 million as compared to the same period of last year (for the six months ended 30 June 2015: RMB564 million).

Sales from eastern region and northeastern region represented approximately 17.9% and 4.2% respectively. Sales from eastern region of PRC increased by 11.8% to RMB467 million and sales from northeastern region increased by 20.5% to RMB110 million.

Sales from southern region in the PRC decreased 29.1% from the previous fiscal year over the same corresponding period to RMB297 million (Six months ended 30 June 2015: RMB419 million) while sales from northwestern region in the PRC decreased by 20.2% to RMB225 million (Six months ended 30 June 2015: RMB281 million).

Sales from southwestern region and central region represented approximately 13.7% and 16.4% respectively. Sales from southwestern region increased by 5.5% to RMB357 million and sales from southern region increased by 4.8% to RMB428 million.

Sales from overseas market recorded approximately RMB186 million, representing a decrease of nearly 54.8% as compared to the corresponding period of last year (for the six months ended 30 June 2015: RMB412 million) due to a continuous sluggish demand. We will work to further improve and strengthen distributorships in the overseas market.

PRODUCTS ANALYSIS

Wheel Loaders

Wheel loader again remained as the Company's main revenue driver and achieved a turnover of approximately RMB1,307 million, which accounted for approximately 50.0% of the Company's turnover for the period. Although turnover from mini loader series accounted for only approximately 3.0% of the Group's total turnover, turnover from mini loader series significantly increased by 30.4% to RMB78 million when compared with the corresponding period in 2015, this was mainly attributable to a stable demand of mini loader series in PRC. ZL50 series achieved a turnover of approximately RMB1,067 million for the period, representing a decrease of 17.7% when compared with the corresponding period in 2015. ZL30 is the second largest revenue contributor and has achieved a turnover of approximately RMB129 million, representing a decrease of 37.3% when compared to the corresponding period of last year. The revenue generated from ZL40 decreased 12.1% to approximately RMB13 million.

Overall, demand in wheel loader remained sluggish as impacted by the slow economic recovery.

Fork Lifts and Road Rollers

The Group has established strong brand awareness for fork lifts series and effort has been made to expand market share in order to further strengthen its leading position in the industry.

The turnover from fork lifts amounted to approximately RMB621 million (six months ended 30 June 2015: RMB557 million), representing an significant increase of 11.5% compared to the corresponding period of last year.

The operating revenue from road rollers amounted to RMB36 million, representing a decrease of 20.4% compared to the corresponding period of last year, which was mainly due to a decrease in demand of road rollers influenced by the macro-economic environment.

Excavator

Sales from excavators series slightly decreased 5.6% to approximately RMB324 million (for the six months ended 30 June 2015: RMB343 million) and we see the demand for the excavator series remained weak as a result of the slowdown of macro economy and fixed assets investment.

Components

The sales generated from components amounted to approximately RMB323 million for the period, representing an decrease of 16.4% as compared to the same period in 2015.

Finance Lease Interest

Turnover from finance lease interest amounted to approximately RMB4.7 million, representing a decrease of 60.4%, as compared to the same period of last year, which was due to the fact that finance lease business was gradually reduced by the Group since 2011.

FINANCIAL REVIEW

The Group financed its operations from internally generated cash flow, bank borrowings and accumulated retained earnings. The Group adopted a prudent finance strategy in managing the 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.

Cash and Bank Balance

As at 30 June 2016, the Group had bank balances and cash of approximately RMB1,664 million (31 December 2015: approximately RMB1,146 million) and pledged bank deposit of approximately RMB2,374 million (31 December 2015: approximately RMB2,424 million). Compared with last year, the cash and bank balance increased about RMB518 million, which was as a result of net cash inflow of RMB1,052 million from operating activities, net cash inflow of RMB207 million from investing activities and net cash outflow of RMB720 million from financing activities and effect of foreign exchange rate changes of RMB21 million.

The pledged deposit balance at 30 June 2016 decreased approximately RMB50 million. Details of pledged Bank deposit for the period ended 30 June 2016 are set out in Note 16 to the interim results.

Liquidity and Financial Resources

We are committed to build a sound finance position. Total shareholders fund as at 30 June 2016 was approximately RMB6,644 million, an 0.30% increase from approximately RMB6,624 million as at 31 December 2015.

The current ratio of the Group at 30 June 2016 was 2.49 (31 December 2015: 3.92). The Directors believed that the Group has sufficient resources to support its working capital requirement and meet its foreseeable capital expenditure.

Capital Structure

During the period ended on 30 June 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company'shares and any other listed securities.

As at 30 June 2016, the gross gearing ratio (defined as total liabilities over total assets) was approximately 46.3% (as at 31 December 2015: 47.1%).

Capital Expenditure

During the period, the Group acquired property, plant and equipment of approximately RMB11 million (six months ended 30 June 2015: approximately RMB45 million) in line with a series of strategic transformation and production transformation by the Group.

The capital expenditures were fully financed by the internal resources of the Group and general borrowings of the Group.

Exposure in Exchange Rate Fluctuation

The Group adopts a prudent treasury and hedging policy consistently.

The Group's operations were mainly conducted in China and the majority of the businesses were transacted in Renminbi except for the Group's bank borrowings related to overseas sources. The Board is of the view that the Group's operating cash flow and liquidity is not subject to significant foreign exchange rate risks and therefore no hedging arrangements were made. However, the Group will continue to pay close attention to the fluctuations of the relevant currency foreign exchange rate, and may adopt proper measures to reduce the currency risk exposures of the Group when appropriate.

Capital Commitment

As at 30 June 2016, the Group had contracted but not included in the financial statements in respect of acquisition of property, plant and equipment amounting to approximately RMB12 million (31 December 2015: approximately RMB20 million).

PROSPECT

Following the global economic slowdown, the entire construction machinery industry has entered a "new norm" of extremely difficult phase characterized by significant downside risks and fragility such as increased market competition, accumulated risk factors and substantially persistent overcapacity. Facing various challenges along with the industrial development, the Company will diligently excel ourselves, effectively arouse crisis awareness, refine and implement its corporate governance and management respectively, and enhance the training to improve self-discipline of employees. The Company will generally enhance its operating effectiveness, explore and develop the market for its products and improve the sales channel management. The Company will continue to dedicate ourselves to the construction machinery business by producing high quality products such as loaders, forklifts, excavators, four major pavement machinery products and other core components. Internally we will strengthen the management based on the product-oriented strategy and system-building oriented approach. On the other hand, adhering to the fluid and flexible marketing strategies, we focused to increase our market share as the priority and integrate the marketing channels. The Company will also expand the R&D and related resources for new products and technologies, promote technological innovation, focus on the research of key parts and components, develop the marketable transformed product lines, research, develop and launch new products, particularly vigorously drive the development of the environmentally intelligent products. In addition, the Company will enhance the brand influence and awareness to continue to maintain the leading position of the core products in the domestic market, further cultivate the forklift market and increase the market share of its forklift products. The Company will pursue its prudent and healthy operation philosophy and business integrity principle to ensure a healthy development of win-win relationship with its distributors. On one hand, we will consolidate the domestic market share, and further explore the international market on the other hand. Aligning with our commitment, the Company will continue to push forward the risk control, cost optimization, exploring potential profits, team building and service innovation with dedication to the drive the sustainable and healthy development of the Group.

CORPORATE GOVERNANCE

The Board is committed to maintaining and ensuring high standards of corporate governance practices. In the opinion of the directors, the Company has adopted and complied with the principles and applicable code provisions of Code on Corporate Governance and Corporate Governance Report ("CG Code") as set out in Appendix 14 of the Listing Rules, except for certain deviations which are summarized as below.

Code Provision A.1.8

As stipulated in the Code provision A.1.8 of CG Code, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. The Company has not yet made this insurance arrangement as the board of directors considers that the director liability insurance has not yet been identified on the market with reasonable insurance premium while providing adequate suitable security to directors.

Code Provision A.6.7

As stipulated in the Code provision A.6.7 of CG Code, independent non-executive directors and other non-executive directors shall attend general meetings. Four independent non-executive directors were unable to attend annual general meeting of the Company held on 26 May 2016 (the "2016 AGM") due to other important engagement.

Code Provision A.4.3

Mr. Qian Shi Zheng ("Mr. Qian") has been appointed as an independent non-executive Director for more than nine years since February 2005. Pursuant to Code A.4.3 of the CG Code, (a) having served the Company for more than nine years could be relevant to the determination of an independent non-executive director's independence and (b) if an independent non-executive director has served more than nine years, his further appointment should be subject to a separate resolution to be approved by shareholders.

Mr. Qian has extensive experience in the finance and accounting fields. He provides a wide range of expertise and experience which can meet the requirement of Group's business and his participant in the Board brings independent judgment on issues relating to the Group's strategy, performance, conflicts of interest and management process to ensure that the interest of the shareholders have been duly considered.

The Company has received from Mr. Qian a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Mr. Qian has not engaged in any executive management of the Group. Taking into consideration of his independent scope of works in the past years, the Directors consider Mr. Qian to be independent under the Listing Rules despite the fact that he has served the Company for more than nine years. Accordingly, Mr. Qian shall be subject to retirement rotation and re-election by way of a separate resolution approved by the Shareholders at the annual general meeting. At the Annual General Meeting of the Company held on 26 May 2016, a separate resolution to re-elect Mr. Qian, a retiring Director, as an independent non-executive Director was passed by the Shareholders by way of poll.

Code Provision A.2.1

As stipulated in the Code provision A.2.1 of CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Li San Yim ("Mr. Li"), an executive director of the Company and the chairman of the Board has been appointed by the Board to act as the chief executive officer concurrently since 21 December 2015. As Mr. Li serves as both the chairman of the Board and the chief executive officer of the Group, such practice deviates from code provision A.2.1 of the CG Code. The Board is of the view that it is appropriate and in the best interests of the Company for Mr. Li to hold both positions as it helps to maintain the continuity of the policies and the stability of the operations of the Company. Therefore, the Board considers that the deviation from the code provision A.2.1 of the CG Code is appropriate in such circumstance. Notwithstanding the above, the Board is of the view that this management structure is effective for the Group's operations and sufficient checks and balances are in place.

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.

Improvements in Internal Control Systems

Additional measures and improvements for the internal control systems of the Company during the six months ended 30 June 2016.

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 2016, 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

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DISCLOSURE OF INTERESTS

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

As at 30 June 2016, 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 2016
Li San Yim and Ngai Ngan Ying (Note 1)	held by controlled corporation (Note 2)	1,312,058,760	30.65%
Li San Yim and Ngai Ngan Ying (Note 1)	beneficial owner	1,073,257,760	25.08%
Luo Jianru	beneficial owner	1,083,000	0.03%
Chen Chao	beneficial owner	1,200,000	0.03%
Zheng Ke Wen	beneficial owner	429,900	0.01%
		2,388,029,420	55.80%

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 2016
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 2016, 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 2016, 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 2016
China Longgong Group Holdings Ltd (Note 1)	beneficial owner	1,312,058,760	30.65%
GIC Private Limited	Investment Manager	300,905,916	7.03%

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 2016, 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 Directors do not recommend any interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: HK$0 cents per shares).

Employees and emolument policy

The emolument policy of the employees of the Group is set up by the Human Resources Division on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

As at 30 June 2016, the Group employed approximately 4,866 employees.

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

During the period ended on 30 June 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares and 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, risk management, internal control and financial reporting matters and reviewed the financial results of the Group.

The interim results for the six months ended 30 June 2016 have been reviewed by the audit committee of the Company.

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

Hong Kong, 29 September 2016

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors
Mr. Li San Yim *(Chairman and Chief Executive Officer)*
Mr. Chen Chao
Mr. Luo Jianru
Mr. Zheng Ke Wen
Mr. Yin Kun Lun

Non-executive directors
Ms. Ngai Ngan Ying

Independent non-executive directors
Dr. Qian Shizheng
Mr. Wu Jian Ming
Mr. Chen Zhen

AUDIT COMMITTEE
Dr. Qian Shizheng *(Chairman)*
Mr. Chen Zhen
Ms. Ngai Ngan Ying

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

NOMINATION COMMITTEE
Mr. Chen Zhen *(Chairman)*
Ms. Ngai Ngan Ying

EXECUTIVE COMMITTEE
Mr. Li San Yim
(Chairman and Chief Executive Officer)
Mr. Chen Chao
Mr. Luo Jianru
Mr. Zheng Ke Wen
Mr. Yin Kun Lun

COMPANY SECRETARY
Mr. Chu Shun

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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AUDITORS

Ernst & Young
Certified Public Accountants
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