

# LONKING 龙工

LONKING HOLDINGS LIMITED

中國龍工控股有限公司\*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3339



\* For Identification Purpose Only

Interim Report 2012

## CONTENTS

Financial Highlights	2
Report on Review of Interim Condensed Consolidated Financial Statements	5
Interim Consolidated Statement of Comprehensive income	7
Interim Consolidated Statement of Financial Position	8
Interim Consolidated Statement of Changes in Equity	10
Interim Consolidated Statement of Cash Flows	11
Notes to the Interim Condensed Consolidated Financial Statements	13
Management Discussion and Analysis	34
Corporate Governance Report	38
Investor Relations Management	40
Disclosure of Interests	41
Other Information	43
Corporate Information	45

## FINANCIAL HIGHLIGHTS

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

<b>Current period</b>	Six months ended 30 June 2012 <i>RMB'000</i>	Six months ended 30 June 2011 <i>RMB'000</i>	Change (+/-)
Turnover	4,723,552	8,397,733	-43.75%
Operating profits:			
– excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	503,939	1,657,594	-69.60%
– including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	595,426	1,600,142	-62.79%
EBITDA:			
– excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	676,722	1,769,769	-61.76%
– including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	768,209	1,733,423	-55.68%
Profit attributable to equity parent	276,248	1,154,155	-76.06%
<b>Per share data</b>	<i>RMB</i>	<i>RMB</i>	
Basic earnings per share <sup>(1)¶</sup> :			
– excluding foreign exchange gain and the fair value changes in derivatives components of convertible bonds	0.04	0.28	-84.48%
– including foreign exchange gain and the fair value changes in derivatives components of convertible bonds	0.06	0.27	-76.06%
Net assets per share <sup>(2)¶</sup>	1.49	1.41	+5.44%

<b>Current period</b>	Six months ended 30 June 2012 %	Six months ended 30 June 2011 %	Change (+/-)
<b>Key performance indicators</b>			
<i>Profitability</i>			
Overall gross margin	20.71	26.20	-5.49%
Net profit margin			
– excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	3.91	14.18	-10.27%
– including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	5.85	13.75	-7.90%
EBITDA margin <sup>(3)</sup> :			
– excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	14.33	21.07	-6.75%
– including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	16.26	20.64	-4.38%
Return on equity <sup>(4)</sup>			
– excluding foreign exchange gain and the fair value changes in derivatives components of convertible bonds	3.13	18.47	-15.34%
– including foreign exchange gain and the fair value changes in derivatives components of convertible bonds	4.34	19.11	-14.77%
<i>Liquidity and solvency</i>			
Current ratio <sup>(5)</sup>	1.93	2.35	-17.86%
Interest coverage ratio <sup>(6)</sup> :			
– excluding unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	2.24	9.36	-76.07%
– including unrealized gain/(loss) on fair value changes in derivatives components of convertible bonds	2.64	9.15	-71.18%
Gross debt-to-equity ratio <sup>(7)</sup>	143.93	168.97	-25.04%
<i>Management efficiency</i>			
	<i>days</i>	<i>days</i>	
Inventory turnover days <sup>(8)</sup>	191	104	+87 days
Trade and bills payables turnover days <sup>(9)</sup>	108	94	+14 days
Trade and bills receivable turnover days <sup>(10)</sup>	143	58	+85 days

- # calculated based on the 4,280,100,000 weighted average number of outstanding shares (WANOS) for the period ended 30 June 2011 (30 June 2011: 4,280,100,000).
- <sup>1</sup> 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.
- <sup>2</sup> Shareholders' equity divided by the WANOS as at the end of each period.
- <sup>3</sup> Earnings before interest, tax, depreciation and amortisation ("EBITDA") divided by turnover for each period.
- <sup>4</sup> 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.
- <sup>5</sup> Current assets divided by current liabilities as at the end of each period.
- <sup>6</sup> Earnings before interest and income tax expenses ("EBIT") divided by interest expenses.
- <sup>7</sup> Total liabilities divided by the total equity as at the end of each period.
- <sup>8</sup> Average inventories divided by cost of sales and multiplied by 183 days when turnover days are calculated for half-year periods.
- <sup>9</sup> Average trade and bills payables divided by cost of sales and multiplied by 183 days when turnover days are calculated for half-year periods.
- <sup>10</sup> 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



**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 1 to 21, which comprise the interim consolidated statement of financial position of Lonking Holdings Limited and its subsidiaries (the "Group") as at 30 June 2012 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and other 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 financial information 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 are responsible for the preparation and presentation of interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information 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 financial information 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

28 August 2012

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Notes	For the six months ended 30 June	
		2012 Unaudited RMB'000	2011 Unaudited RMB'000
<b>Revenue</b>		4,723,552	8,397,733
Cost of sales		(3,745,280)	(6,197,144)
<b>Gross profit</b>		978,272	2,200,589
Other income		79,176	36,497
Other gains and losses	4	34,123	40,329
Selling and distribution costs		(210,992)	(385,472)
Administrative expenses		(132,052)	(139,481)
Research and development costs		(145,924)	(144,433)
Other expenses		(7,177)	(7,887)
<b>Operating profit</b>		595,426	1,600,142
Finance income		11,373	10,553
Finance costs		(230,159)	(176,050)
<b>Profit before tax</b>	5	376,640	1,434,645
Income tax expense	6	(100,337)	(280,248)
<b>Profit for the period</b>		276,303	1,154,397
Attributable to:			
Owners of the parent		276,248	1,154,155
Non-controlling interests		55	242
		276,303	1,154,397
<b>Total comprehensive income for the period, net of tax</b>			
Attributable to:			
Owners of the parent		276,248	1,154,155
Non-controlling interests		55	242
		276,303	1,154,397
Earnings per share			
Basic, profit for the period attributable to ordinary equity holders of the parent (RMB)		0.06	0.27
Diluted, profit for the period attributable to ordinary equity holders of the parent (RMB)		0.05	0.26

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Notes	30 June 2012 Unaudited RMB'000	31 December 2011 Audited RMB'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	3,732,993	3,637,752
Prepaid land lease payments		324,288	205,642
Investments in associates		63,116	59,218
Finance lease receivables		185,008	446,026
Deferred tax assets		157,851	204,529
Prepayments for property, plant and equipment		200,752	239,952
Long-term receivables	17	79,791	–
		4,743,799	4,793,119
<b>Current assets</b>			
Prepaid land lease payments		7,202	5,383
Inventories		3,439,033	4,379,718
Finance lease receivables		393,462	852,340
Trade and bills receivables	9	4,239,688	3,130,134
Due from related parties	16	4,175	–
Prepayments, deposits and other receivables		1,099,111	824,690
Pledged bank deposits	10	136,513	470,649
Cash and cash equivalents	10	1,473,758	1,684,400
		10,792,942	11,347,314
<b>Current liabilities</b>			
Trade and bills payables	11	1,701,795	2,723,074
Other payables and accruals		2,177,251	973,513
Provisions		132,649	150,749
Due to related parties	16	12,709	12,704
Income tax payable		22,653	127,405
Convertible bonds	12	892,221	24,846
Interest-bearing bank borrowings	13	576,977	795,425
Derivative financial instruments	12	86,929	13
		5,603,184	4,807,729
<b>Net current assets</b>		5,189,758	6,539,585
<b>Total assets less current liabilities</b>		9,933,557	11,332,704

	Notes	30 June 2012 Unaudited RMB'000	31 December 2011 Audited RMB'000
<b>Non-current liabilities</b>			
Long-term payables		8,715	–
Deposits for finance leases		83,665	108,026
Convertible bonds	12	–	825,329
Interest-bearing bank borrowings	13	1,158,702	1,511,719
Long-term loan notes	14	2,213,715	2,205,315
Deferred tax liabilities		78,095	72,136
Provisions		21,254	24,994
Derivative financial instruments	12	–	178,416
<b>Total non-current liabilities</b>		<b>3,564,146</b>	<b>4,925,935</b>
<b>Net assets</b>		<b>6,369,411</b>	<b>6,406,769</b>
<b>Equity</b>			
Issued capital		444,116	444,116
Share premium and reserves		5,923,074	5,646,826
Proposed dividend		–	313,661
<b>Equity attributable to owners of the parent</b>		<b>6,367,190</b>	<b>6,404,603</b>
Non-controlling interests		2,221	2,166
<b>Total equity</b>		<b>6,369,411</b>	<b>6,406,769</b>

**Li San Yim**  
Director

**Yin Kun Lun**  
Director

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to owners of the parent							
	Issued capital	Share premium	Non-			Total	Non- controlling interests	Total equity
			Special reserve	distributable reserve	Accumulated profits			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	444,116	854,922	355,335	629,247	4,120,983	6,404,603	2,166	6,406,769
Profit and total comprehensive income for the period	-	-	-	-	276,248	276,248	55	276,303
Dividends	-	-	-	-	(313,661)	(313,661)	-	(313,661)
Transfer	-	-	-	13,870	(13,870)	-	-	-
<b>At 30 June 2012</b>	<b>444,116</b>	<b>854,922</b>	<b>355,355</b>	<b>643,117</b>	<b>4,069,700</b>	<b>6,367,190</b>	<b>2,221</b>	<b>6,369,411</b>
At 1 January 2011	444,116	854,922	355,335	566,633	3,019,224	5,240,230	1,801	5,242,031
Profit and total comprehensive income for the period	-	-	-	-	1,154,155	1,154,155	242	1,154,397
Dividends	-	-	-	-	(355,732)	(355,732)	-	(355,732)
Transfer	-	-	-	34,260	(34,260)	-	-	-
<b>At 30 June 2011</b>	<b>444,116</b>	<b>854,922</b>	<b>355,335</b>	<b>600,893</b>	<b>3,783,387</b>	<b>6,038,653</b>	<b>2,043</b>	<b>6,040,696</b>

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

		For the six months ended 30 June	
		2012	2011
		Unaudited	Unaudited
Notes		RMB'000	RMB'000
<b>Operating cash flows before movements in working capital:</b>			
		726,276	1,738,913
	Decrease in inventories	937,060	69,187
	Increase in trade and bill receivables	(1,138,689)	(1,804,042)
	Decrease in finance lease receivables	719,896	1,136,683
	(Decrease)/increase in trade, bill and other payables	(319,395)	349,358
	(Increase)/decrease in prepayments and deposits	(367,838)	16,422
	(Decrease)/increase in provisions	(21,840)	17,854
	Increase in amounts due from related parties	(4,175)	–
	Increase in amounts due to related parties	5	4,042
	Decrease in deposits for finance leases	(24,361)	(149,403)
	Income tax paid	(152,452)	(310,875)
	Interest received	11,373	10,553
<b>Net cash flows from operating activities</b>		<b>365,860</b>	<b>1,078,692</b>
<b>Cash flows from investing activities</b>			
	Purchase of property, plant and equipment	8 (337,957)	(449,857)
	Acquisition of interests in associates	(3,898)	(56,011)
	Payment for lease premium for land	(4)	(7,831)
	Collection of loan receivables	–	4,156
	Decrease in pledged bank deposits	334,136	189,979
	Proceeds from disposal of items of property, plant and equipment	8 8,463	6,953
<b>Net cash flows from/(used in) investing activities</b>		<b>740</b>	<b>(312,611)</b>

		<b>For the six months ended 30 June</b>	
		2012	2011
		Unaudited	Unaudited
		<i>RMB'000</i>	<i>RMB'000</i>
	Notes		
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		1,318,513	1,989,620
Repayment of borrowings		(1,718,938)	(2,432,878)
Proceeds from long-term loan notes		–	2,281,932
Convertible bonds redeemed		(25,504)	–
Interest paid		(151,648)	(128,979)
Dividends paid		–	(355,732)
<b>Net cash flows (used in)/from financing activities</b>		<b>(577,577)</b>	<b>1,353,963</b>
Net (decrease)/increase in cash and cash equivalents		(210,977)	2,120,044
Net foreign exchange difference		335	(12,316)
Cash and cash equivalents at 1 January		1,684,400	306,235
<b>Cash and cash equivalents at 30 June</b>	10	<b>1,473,758</b>	<b>2,413,963</b>

## **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

For the six months ended 30 June 2012

### **1. CORPORATE INFORMATION**

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2012 were authorised for issue in accordance with a resolution of the directors on 28 August 2012.

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**

#### **Basis of preparation**

The interim condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance with HKAS 34 Interim Financial Reporting.

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

### **Basis of preparation** *(Continued)*

The accounting policies adopted in the preparation of the unaudited 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 2011, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") that affect the Group and are adopted for the first time for the current period's financial statements.

HKFRS 1 Amendments

Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*

HKFRS 7 Amendments

Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*

HKAS 12 Amendments

Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements. There have been no significant changes in the accounting policies applied in these interim condensed financial statements.

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

### Basis of preparation (Continued)

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i> <sup>2</sup>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i> <sup>2</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>4</sup>
HKFRS 10	<i>Consolidated Financial Statements</i> <sup>2</sup>
HKFRS 11	<i>Joint Arrangements</i> <sup>2</sup>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> <sup>2</sup>
HKFRS 13	<i>Fair Value Measurement</i> <sup>2</sup>
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i> <sup>1</sup>
HKAS 19 (2011)	<i>Employee Benefits</i> <sup>2</sup>
HKAS 27 (2011)	<i>Separate Financial Statements</i> <sup>2</sup>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> <sup>2</sup>
HK(IFRIC)-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i> <sup>2</sup>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> <sup>3</sup>
Annual Improvements	Amendments to a number of HKFRSs contained in <i>Annual Improvements 2009-2011 Cycle issued in June 2012</i> <sup>2</sup>
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Amendments to HKFRS 10 <i>Consolidated Financial Statements</i> , HKFRS 11 <i>Joint Arrangements</i> and HKFRS 12 <i>Disclosure of Interests in Other Entities – Transition Guidance</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

### 3. 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 2012 and 2011.

#### Six months ended 30 June 2012

	Sale of construction machinery <i>RMB'000</i>	Finance leases of construction machinery <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue</b>	4,662,345	61,207	4,723,552
<b>Results</b>			
Segment results	571,207	40,371	611,578
Reconciliation:			
Finance income			11,373
Unallocated other income, gains and losses			(14,319)
Unallocated corporate expenses			(1,833)
Finance costs			(230,159)
<b>Profit before tax</b>			376,640

### 3. OPERATING SEGMENT INFORMATION *(Continued)*

#### Operating segments *(Continued)*

#### Six months ended 30 June 2011

	Sale of construction machinery <i>RMB'000</i>	Finance leases of construction machinery <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue</b>	8,261,539	136,194	8,397,733
<b>Results</b>			
Segment results	1,399,420	115,652	1,515,072
Reconciliation:			
Finance income			10,553
Unallocated other income, gains and losses			75,136
Unallocated corporate expenses			9,934
Finance costs			(176,050)
<b>Profit before tax</b>			<b>1,434,645</b>

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

Inter-segment revenues are eliminated on consolidation.

### 3. OPERATING SEGMENT INFORMATION *(Continued)*

#### Operating segments *(Continued)*

The following table presents segment assets and liabilities of the Group's operating segments as at 30 June 2012 and 31 December 2011:

	30 June 2012 <i>RMB'000</i>	31 December 2011 <i>RMB'000</i>
Segment assets:	15,424,900	15,676,497
Sale of construction machinery	14,797,926	14,333,701
Finance leases of construction machinery	626,974	1,342,796
Corporate and other unallocated assets	111,841	463,936
<b>Consolidated assets</b>	<b>15,536,741</b>	<b>16,140,433</b>
	30 June 2012 <i>RMB'000</i>	31 December 2011 <i>RMB'000</i>
Segment liabilities:	5,354,502	5,850,011
Sale of construction machinery	5,250,526	5,003,607
Finance leases of construction machinery	103,976	846,404
Corporate and other unallocated liabilities	3,812,828	3,883,653
<b>Consolidated liabilities</b>	<b>9,167,330</b>	<b>9,733,664</b>

### 3. OPERATING SEGMENT INFORMATION *(Continued)*

#### Operating segments *(Continued)*

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			
	2012 RMB'000	%	2011 RMB'000	%
Wheel loaders	3,208,078	67.9	5,682,610	67.7
Excavators	530,229	11.2	1,302,951	15.5
Road rollers	71,997	1.5	272,378	3.2
Forklifts	422,180	9.0	468,302	5.6
Components	429,861	9.1	535,298	6.4
Subtotal	4,662,345	98.7	8,261,539	98.4
Finance lease interest income	61,207	1.3	136,194	1.6
Total	4,723,552	100	8,397,733	100

#### 4. OTHER GAINS AND LOSSES

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

	For the six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Fair value gain/(loss) on derivative financial instruments	91,487	(36,346)
Exchange realignment from convertible bonds	(3,232)	39,291
Gain on redemption of convertible bonds	13	–
(Loss)/gain on disposal items of property, plant and equipment	(298)	1,540
Allowance for bad and doubtful debts	(42,760)	–
Foreign exchange (loss)/gain	(11,087)	35,844
	34,123	40,329

#### 5. PROFIT BEFORE TAX

Profit before taxation has been arrived at after charging/crediting:

	For the six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Cost of inventories recognised as expenses	3,745,280	6,197,144
Staff costs, including directors' remuneration	217,360	297,588
Contribution to retirement benefit scheme	22,137	9,375
Amortisation of lease payments for land	2,848	2,692
Depreciation of property, plant and equipment	158,562	118,059
and after crediting:		
Interest income on bank deposits	11,373	10,553
Income-related government grants	77,119	6,393

## 6. 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	
	2012 RMB'000	2011 RMB'000
Current income tax expense	47,700	207,615
Deferred income tax expense related to origination and reversal of deferred taxes	52,637	72,633
	100,337	280,248

## 7. DIVIDENDS PAID AND PROPOSED

	For the six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Dividends on ordinary shares declared during the six-month period:		
Final dividend for 2011: HK\$0.09 (2010: HK\$0.10)	313,661	355,732
Dividends on ordinary shares proposed for approval (not recognised as a liability as at 30 June):		
First dividend for 2012: Nil (2011: HK\$0.06)	–	210,311

## 8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group acquired assets with a cost of RMB385,872,000 (2011: RMB417,689,000), including property, plant and machinery in the People's Republic of China (the "PRC").

Assets with a net book value of RMB 8,761,000 were disposed of by the Group during the six months ended 30 June 2012 (2011: RMB6,953,000), resulting in a net loss on disposal of RMB298,000 (net gain in 2011: RMB1,540,000).

## 9. TRADE AND BILLS RECEIVABLES

The Group allows credit periods from 3 months up to 12 months to its trade customers except for some customers with good credit history and relationships, with whom longer credit terms are agreed.

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

	30 June 2012 <i>RMB'000</i>	31 December 2011 <i>RMB'000</i>
0-90 days	2,951,111	1,775,503
91-180 days	1,164,090	1,280,421
181-270 days	49,640	74,210
271 – 360 days	74,847	–
	<b>4,239,688</b>	<b>3,130,134</b>

Bills receivable are aged within six months at the end of each reporting period. Bills receivable with a book value of RMB10,711,000 were pledged to certain banks by the Group as security to get short-term credit facilities in this period (31 December 2011: 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.

## 10. CASH AND CASH EQUIVALENTS

	30 June 2012 <i>RMB'000</i>	31 December 2011 <i>RMB'000</i>
Cash and bank balances	1,610,271	2,155,049
Less: Pledged bank deposits	(136,513)	(470,649)
<b>Cash and cash equivalents</b>	<b>1,473,758</b>	<b>1,684,400</b>

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

## 11. TRADE AND BILLS PAYABLES

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

	30 June 2012 <i>RMB'000</i>	31 December 2011 <i>RMB'000</i>
0-180 days	1,649,469	2,674,804
181 days-1 year	23,942	21,842
1-2 years	6,427	16,317
2-3 years	9,885	3,831
Over 3 years	12,072	6,280
	<b>1,701,795</b>	<b>2,723,074</b>

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

## 12. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS

	Liability component <i>RMB'000</i>	Derivative component <i>RMB'000</i>	Total <i>RMB'000</i>
<b>As at 30 June 2012</b>			
2007 Convertible Bonds (i)	–	–	–
2009 Convertible Bonds (ii)	892,221	86,929	979,150
	<b>892,221</b>	<b>86,929</b>	<b>979,150</b>

### i) 2007 Convertible Bonds

Convertible Bonds of US\$287 million were issued by the Company on 30 April 2007 (the "2007 Convertible Bonds") at an issue price of US\$10,000 per convertible bond of US\$10,000. The 2007 Convertible Bonds are listed on the Singapore Exchange Securities Trading Limited. Each 2007 Convertible Bond entitles the holder to convert to one ordinary share of the Company at the initial conversion price of HK\$20.4525 (the "2007 Conversion Price"), but subject to anti-dilutive adjustment as stated in the offering circular on 27 April 2007 (the "2007 Offering Circular"). On 23 June 2011, the 2007 Conversion Price has been revised to HK\$4.51 after anti-dilutive adjustment.

## 12. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS

(Continued)

### i) **2007 Convertible Bonds** (Continued)

The principal terms of the convertible bonds are as follows:

#### *Interest*

The 2007 Convertible Bonds do not bear any interest.

#### *Conversion period*

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

#### *Maturity*

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

#### *Redemption at the option of the Company*

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

#### *Redemption at the option of the bondholders*

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

## 12. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS

(Continued)

### i) 2007 Convertible Bonds (Continued)

*Redemption at the option of the bondholders (Continued)*

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

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

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

- (ii) Derivative component represents:
  - (a) The fair value of the option of the 2007 Bondholders to convert the 2007 Convertible Bonds into shares of the Company at an initial conversion price of HK\$20.4525 per ordinary share of HK\$0.1 in the share capital of the Company ("Share") and subject to anti-dilutive adjustments.
  - (b) The fair value of the option of the Company to early redeem the 2007 Convertible Bonds.
  - (c) The fair value of the option of the 2007 Bondholders to require the Company to early redeem the 2007 Convertible Bonds.

Pursuant to the terms and conditions of the Convertible bonds, the 2007 Convertible Bonds would mature on 30 April 2012 (the "Maturity Date"). Unless previously redeemed, converted and cancelled as provided in the terms and conditions of the convertible bond, the Company shall redeem each convertible bond at 121.155% of its principal amount on the Maturity Date. On 30 April 2012, the Company received a notice from the holders of the convertible bonds to require the Company to redeem all of the outstanding convertible bonds on the Maturity Date. After the market closed on the Maturity Date, the Company has redeemed all the convertible bonds in an aggregate principal amount of US\$3,340,000 for a total sum of US\$4,046,577 (equivalent to approximately HK\$31 million). The Company has satisfied such payment by means of internal resources of the Group.

## 12. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS

(Continued)

### i) 2007 Convertible Bonds (Continued)

The board considers that the redemption of the convertible bonds at maturity does not have any material adverse effect on the Group's financial position.

Upon the redemption of the convertible bonds on the Maturity Date, there are no outstanding 2007 Convertible bonds.

The movement of the liability component and the derivative component of the 2007 convertible bonds for the period is set out below:

	Liability component <i>RMB'000</i>	Derivative component <i>RMB'000</i>	Total <i>RMB'000</i>
<b>2007 Convertible Bonds:</b>			
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)
<b>As at 30 June 2011</b>	<b>25,102</b>	<b>1,721</b>	<b>26,823</b>
Exchange realignment	(604)	–	(604)
Effective interest expense charged	348	–	348
Changes in fair value	–	(1,708)	(1,708)
<b>As at 31 December 2011</b>	<b>24,846</b>	<b>13</b>	<b>24,859</b>
Exchange realignment	88	–	88
Effective interest expense charged	570	–	570
Redeemed and cancelled	(25,504)	(13)	(25,517)
Changes in fair value	–	–	–
<b>As at 30 June 2012</b>	<b>–</b>	<b>–</b>	<b>–</b>

## 12. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS

*(Continued)*

### ii) 2009 Convertible Bonds

Another convertible bond of US\$135 million was issued by the Company on 24 August 2009 (the "2009 Convertible Bonds") at an issue price of US\$10,000 per convertible bond of US\$10,000. The 2009 Convertible Bonds are listed on the Singapore Exchange Securities Trading Limited. Each 2009 Convertible Bond entitles the holder to convert to one ordinary share of the Company at the initial conversion price of HK\$7.00 (the "2009 Conversion Price"), but subject to anti-dilutive adjustment as stated in the offering circular on 6 August 2009 (the "2009 Offering Circular"). On 7 October 2011, the 2009 Conversion Price has been revised to HK\$3.20 after anti-dilutive adjustment. On 24 August 2012, 93.08% of the total principal amount of the convertible bonds has been redeemed, which led to US\$156,721,000 cash outflow in the subsequent period.

The principal terms of the 2009 Convertible Bonds are as follows:

#### *Interest*

The 2009 Convertible Bonds do not bear any interest.

#### *Conversion period*

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

#### *Maturity*

Unless previously redeemed, purchased and cancelled or converted in the circumstances set out in the terms and conditions defined in the 2010 Offering Circular, the Company will redeem each 2009 Convertible Bond 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 Bonds in whole or in part at the early redemption amount (the "2009 Early Redemption Amount"), provided that no such redemption may be made unless the closing price of the Company's shares translated into US dollars at the prevailing exchange rate for each of any 20 trading days falling within a period of 30 consecutive trading days, the last day of which period occurs no more than 5 trading days prior to the date upon which notice of such redemption is given, was at least 130% of the 2009 Conversion Price in effect translated into US dollars at the fixed exchange rate of HK\$7.815 = US\$1.00 on each of such trading days.

## 12. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS

(Continued)

### ii) 2009 Convertible Bonds (Continued)

#### *Redemption at the option of the bondholders*

The bondholder of each 2009 Convertible Bond (the "2009 Bondholders") will have the right to require the Company to redeem all or some of the 2009 Convertible Bonds at the 2009 Early Redemption Amount of the initial principal amount on 24 August 2012 which is US\$12,471.79 for each US\$10,000 in the principal amount of the bonds 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 Bonds are split into the liability component and the derivative component (comprised of embedded derivatives which are considered as not closely related to the host liability component) as follows:

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

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

- (ii) Derivative component represents:
  - (a) The fair value of the option of the 2009 Bondholders to convert the 2009 Convertible Bonds into shares of the Company at an initial conversion price of HK\$7.00 per ordinary Share and subject to anti-dilutive adjustments.
  - (b) The fair value of the option of the Company to early redeem the 2009 Convertible Bonds.
  - (c) The fair value of the option of the 2009 Bondholders to require the Company to early redeem the 2009 Convertible Bonds.

## 12. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS

(Continued)

### ii) 2009 Convertible Bonds (Continued)

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

	Liability component <i>RMB'000</i>	Derivative component <i>RMB'000</i>	Total <i>RMB'000</i>
<b>2009 Convertible Bonds:</b>			
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
<b>As at 30 June 2011</b>	<b>763,720</b>	<b>453,050</b>	<b>1,216,770</b>
Exchange realignment	2,532	–	2,532
Effective interest expense charged	59,077	–	59,077
Changes in fair value	–	(274,634)	(274,634)
<b>As at 31 December 2011</b>	<b>825,329</b>	<b>178,416</b>	<b>1,003,745</b>
Exchange realignment	3,144	–	3,144
Effective interest expense charged	63,748	–	63,748
Changes in fair value	–	(91,487)	(91,487)
<b>As at 30 June 2012</b>	<b>892,221</b>	<b>86,929</b>	<b>979,150</b>

## 13. OTHER FINANCIAL LIABILITIES

### Borrowings and repayment of debt

During the six-month period ended 30 June 2012, the Group obtained short-term bank loans of RMB1,184,688,000 and US\$21,504,000 (equivalent to RMB136,773,000), repaid RMB1,171,350,000, US\$21,086,000 (equivalent to RMB133,097,000), HK\$71,000,000 (equivalent to RMB57,234,000) and EUR518,000 (equivalent to RMB4,228,000). The short-term loans bear interest at rates ranging from 1.89% to 4% per annum.

The Group repaid long-term bank loans of RMB337,220,000 and US\$2,500,000 (equivalent to RMB15,809,000). The long-term loans bear interest at rates ranging from 1.89% to 6.65% per annum.

### Fair value hierarchy

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

Level 1-Quoted market prices

Level 2-Valuation techniques (market observable)

Level 3-Valuation techniques (non-market observable)

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

### Liabilities measured at fair value

	<b>30 June</b>			
	<b>2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Derivative financial instruments	86,929	–	–	86,929

During the six-month period ended 30 June 2012, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. No transfers between any levels of the fair value hierarchy took place in the equivalent comparative period. There were also no changes in the purpose of any financial asset that subsequently resulted in a different classification of that asset.

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

## 14. 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 3 June and 3 December of each year, commencing 3 December 2011.

### Optional redemption of the Notes

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

Year	Redemption price
2014	104.250%
2015 and thereafter	102.125%

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

## 15. 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 leases provider. Under the agreement, 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 leases provider. As at 30 June 2012, the Group's commitment for such repurchase obligation amounted to RMB1,427,303,000 (before deduction of the security deposits paid by the end-user customers and the interest on undue rent). In addition, as at 30 June 2012, the Group has provided a guarantee for RMB21,532,000 of net banking facilities granted to certain of its end-user customers. The directors of the Company considered that the fair value of the financial guarantees as at 30 June 2012 was insignificant.

## 15. COMMITMENTS AND CONTINGENCIES *(Continued)*

### Capital commitments

At 30 June 2012, the Group had capital commitments of RMB305,809,000 (31 December 2011: RMB175,175,000) principally relating to the acquisition of property, plant and equipment located in Shanghai and Fujian, the PRC.

## 16. 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 2012 and 30 June 2011 as well as balances with related parties as at 30 June 2012 and 31 December 2011:

			Purchase Sales to related parties <i>RMB'000</i>	Amounts from related parties <i>RMB'000</i>	Amounts owed by related parties <i>RMB'000</i>	owed to related parties <i>RMB'000</i>
<b>Related parties:</b>						
Longyan City Jinlong						
Machinery Company	2012	–	12,276	–	–	10,021
Limited (note a)	2011	–	27,137	–	–	11,077
Herkules (Shanghai)						
Automation Equipment	2012	1,418	5,840	3,809	–	161
Co. Ltd. (note b)	2011	–	–	–	–	–
Shanghai Refined						
Machinery	2012	188	3,330	366	–	–
Co., Ltd (note c)	2011	–	–	–	–	–
<b>Associate:</b>						
Lonking (Xinjiang)						
Mechanical &						
Technical Service	2012	–	5,312	–	–	2,527
Co., Ltd (note d)	2011	–	–	–	–	–

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 as at the date of this announcement

## 16. RELATED PARTY TRANSACTIONS *(Continued)*

note c: Shanghai Refined Machinery 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: Established in March 2011, Lonking (Xinjiang) Mechanical & Technical Service Co., Ltd is a joint venture company invested by Xinjiang Junqi Construction Machinery Co., Ltd and Lonking (China) Machinery Sales Co., Ltd.

Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Short-term employee benefits	3,830	9,302
Pension scheme contributions	16	73
Total compensation paid to key management personnel	3,846	9,375

## 17. LONG-TERM RECEIVABLES

At 30 June 2012, the Group had funded some close sales agencies for the purpose of operating cash borrowing with RMB79,791,000 aged over one year.

## 18. EVENTS AFTER THE REPORTING PERIOD

On 6 July 2012, the Company announced to repurchase an amount of US\$5,190,000 of the Company's convertible bonds at the price of US\$1.24 for each share, represented approximately 3.84% of the total principal amount of the convertible bonds.

On 3 August 2012, the close date of the notice period to notify The Bank of New York Mellon ("BNYM") of exercising the put option on 24 August 2012, an amount of US\$125,660,000 of the Company's convertible bonds have been claimed to redeem, which is 93.08% of the total principal amount of the convertible bonds. Under the rate of 124.7179%, the redemption cash outflow is US\$156,721,000.

As a consequence, the total out cash flow is US\$156,721,000 as at the payment date on 24 August 2012 to BNYM with an estimated redeemed loss of RMB82,895,000 incurred upon its redemption and cancellation.

On 25 July 2012, the Company obtained a three years long term loan of US\$156,720,000 with bank of China Tokyo branch, to meet the cash demand of the redemption payment.

## MANAGEMENT DISCUSSION AND ANALYSIS

### RESULT AND BUSINESS REVIEW

Due to persistent weak demand for construction machinery from mainland China, the revenue of the Group reduced significantly in the first half of 2012. For the six months ended 30 June 2012, revenue of the Group was RMB4,724 million, representing a substantial decrease of 43.8% as compared to RMB8,398 million of the corresponding period in 2011, which was due to: (i) sales price of products decreased to different extent; (ii) sharp reduction in sales volume. Gross profit from operation was approximately RMB978 million, representing a decrease of 55.5% as compared to approximately RMB2,201 million of the corresponding period of last year. Overall gross margin decreased from 26.2% to 20.7%. The decrease was due to the followings: (i) unit price of excavator series products decreased significantly as a result of promotion strategies; (ii) production of our main products-loaders reduced as compared to the corresponding period of last year, which led to a higher unit cost. During the period, profit attributable to equity holders of the Group was RMB276 million, representing a decrease of 76.1% as compared to RMB1,154 million of the corresponding period of last year. The decrease was attributable to significant reduction in gross profit from operation and provision of bonds interest for the senior bonds issued last year led to significant increase in finance cost.

### Geographical Results

During the period ended 30 June 2011, 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.

Sales from northern region in the PRC maintained as high as 32.30% (for the period ended 30 June 2011: turnover from this region represented approximately 30.97% of our total turnover), primarily attributable to great demands from large-scale projects, infrastructure and transportation construction for construction machinery.

Sales from southwestern region and northwestern region represented approximately 8.85% and 15.21% of our total turnover respectively as compared to 8.50% and 16.92% of our total turnover respectively over the corresponding period in 2011.

The sales from eastern and central regions represented approximately 11.24% and 12.50% of our total turnover respectively as compared to 10.54% and 13.46% of our total turnover respectively over the corresponding period in 2011.

The sales from northeastern region in the PRC decreased slightly and represented approximately 5.37% of the total turnover for the period, or a decrease of 1.93% over the corresponding period in 2011 (for the period ended 30 June 2011: turnover from this region represented 7.30% of our total turnover).

The sales from overseas market recorded approximately RMB277 million, representing an increase of nearly 9.43% as compared to the corresponding period of last year (for the six months ended 30 June 2011: RMB253 million). 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 RMB3,208 million, which accounted for approximately 67.92% of the Company's turnover for the period. ZL50 series achieved a turnover of approximately RMB2,629 million for the period, representing a decrease of 46.41% when compared with the corresponding period in 2011. ZL30 is the second largest revenue contributor and has achieved a turnover of approximately RMB464 million, representing a decrease of 20.13% when compared to the corresponding period of last year. The revenue generated from ZL40 decreased 26.14% to approximately RMB13 million. The turnover from the mini loader decreased 42.81% to RMB103 million. The significant decrease of wheel loader series is due to impact from the state macro economy, the sales of which dropped significantly as compared to the fast growth in previous years.

### Excavator

For the period ended 30 June 2012, percentage of the sales of the Company's excavators over its total sales decreased to 11% from 16% over the corresponding period of last year. The sales of excavators amounted to approximately RMB530 million (for the six months ended 30 June 2011: the sales amounted to RMB1,303 million), and the revenue decreased 59.31%. The decrease of revenue was primarily attributable to price reduction to different extent as promotion strategies adopted by the Group, which resulted in the selling price of this series decreasing significantly when compared to the corresponding period of last year; Influenced by the tightening macro environment, individual customers' demand for this series reduced significantly, which resulted in the sale volume decreasing significantly.

### Fork lifts and Road Rollers

As fork lifts were affected by macro policies slightly, its turnover accounting for the Company's turnover increased to 8.94% in the current period from approximately 5.58% in the same period of last year. The turnover from fork lifts amounted to approximately RMB422 million, representing a decrease of 9.85% compared to the corresponding period of last year, which was mainly due to the sale volume of fork lifts remain decreasing significantly as compared to the same period of last year.

The operating revenue from road rollers amounted to RMB72 million, representing a decrease of 73.57% compared to the corresponding period of last year, which was mainly due to the significant decrease in sales volume of road rollers influenced by the macro-economic environment.

### **Components**

The sales generated from components amounted to approximately RMB420 million for the period, representing a decrease of 20.82% as compared to the same period in 2011.

### **Finance lease interest**

Turnover from finance lease interest represented approximately 1.3% of the Group's total turnover in the first half of 2012, representing a decrease of 55.06% 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.

## **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.

### **Capital Structure**

During the period ended on 30 June 2012, the Company has not redeemed any of its shares during the period.

During the period ended on 30 June 2012, the Company has received the notice from the bondholders to require the Company to redeem all of the outstanding convertible bonds on 30 April 2012, the maturity date for redemption.

After the market closed on the maturity date, the Company has redeemed an aggregate principal amount of US\$3,340,000 of convertible bonds in the aggregate amount of US\$4,046,577 (equivalent to HK\$31 million). Upon the maturity date for redemption and as at the date of this announcement, the Company has no outstanding issued 2007 convertible bonds.

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

As at 30 June 2012, the gross gearing ratio (defined as total liabilities over assets) was approximately 59.00% (as at 30 June 2011: 60.31%).

## Liquidity and Financial Resources

As at 30 June 2012, the Group had bank balances and cash of approximately RMB1,474 million (31 December 2011: approximately RMB1,684 million) and pledged bank deposit of approximately RMB137 million (31 December 2011: approximately RMB471 million). Compared with last year, the cash and bank balance decreased about RMB211 million, which was as a result of net cash inflow of RMB366 million from operating activities, net cash inflow of RMB1 million from investing activities and net cash outflow of RMB578 million from financing activities.

The pledged deposit balance at 30 June 2010 decreased approximately RMB335 million. It was due to the decreased deposit pledged by the Group as security for the bank facilities granted to the Group to issue of bank acceptance notes and letters of credit for the purpose of purchase of materials.

The current ratio of the Group at 30 June 2010 was 1.93 (31 December 2011: 2.36).

The Directors believed that the Group has sufficient resources to support its working capital requirement and meet its foreseeable capital expenditure.

## Capital Commitment

As at 30 June 2012, the Group had contracted but not provided in the financial statements in respect of acquisition of property, plant and equipment amounting to approximately RMB306 million (31 December 2011: approximately RMB175 million).

## OUTLOOK

After past few years of significant growth, the construction machinery industry entered a slowdown stage with lower market demand, increased competition and decreased gross margin and profit. However, we expect that demand for construction machinery products tends to be stable in the second half of 2012, driven by a series of governmental macro-control measures, such as pro-active fiscal policy and prudent monetary policy. The construction machinery industry in which the Group operated is still full of challenges as well as opportunities in the long run. Meanwhile, with many years of sustained, health and rapid development, the Group improved technology strength, established a wide distribution network for its products, equipped with advanced manufacture processing facilities, accumulated abundant management experience as well as enhanced risk prevention capability, which will provide favorable conditions for the new round of adjustment and competition in the industry.

Under the strategic guidance of the second five-year growth plan for the “Round Two Venture” formulated by the board of directors, the Group will continue to focus on the development of four major products including loader, excavator, forklift and road roller in the future. In current circumstances, we will also make efforts to achieve self-improvement, especially explore new mode for product distribution actively, enhance risk management, intensify product upgrade, and accelerate the development of new products as well as speed up the establishment of domestic and international distribution networks while maintaining our leading position in loader industry.

## CORPORATE GOVERNANCE REPORT

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

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

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

## Compliance with the Code on Corporate Governance Practices (the “Code”)

The Company is committed to maintenance of high standard corporate governance for the benefits of its shareholders.

The Company has adopted and complied with the principles and applicable code provisions of Code on Corporate Governance and Corporate Governance Report (“New CG Code”) (formerly known as Code on Corporate Governance Practices (“Old 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 New 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 New CG Code, independent non-executive directors and other non-executive directors shall attend general meetings. Three independent non-executive directors were unable to attend annual general meeting of the Company held on 25 May 2012 (the “2012 AGM”) due to other important engagement.

## **Compliance with the Model Code for Securities Transactions by Directors of the Company**

The Company has adopted the Model Code of Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) as the code of conduct regarding directors’ securities transactions. Specific enquiry has been made to all directors, who have confirmed that they had complied with the required standard set out in the Model code for the six months ended 30 June 2012.

## **Improvements in Internal Control Systems**

Additional measures and improvements for the internal control systems of the Company during the six months ended 30 June 2012.

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 2012, the Company maintained its good relationship with the international capital markets through the announcement of annual results, participation in global or international investors' forums, non-deal roadshows and reverse roadshows.

### Other Stakeholders' interests

While dedicated to maximizing shareholders' value, the Company is also committed to its customers, in terms of provision of quality products and services, and to the staff, by making available opportunities to them for career development. The Company had a strong commitment to shareholders, investors, staff, customers, suppliers and the community at large and always acting in good faith and with integrity. The Company believed that the sustainable development of a company cannot be achieved in isolation from a healthy environment. The Company pledges to contribute to the community while pursuing profit growth, by managing the business within the bounds of relevant laws and environmental regulations, improving standard of corporate governance and enhancing corporate transparency and actively participating in social charities and contribute to the local social development.

### Contact

Investor Relations

**Ms. Jenny Lv**

Tel: 86-21-3760 2000 ext. 8331

E-mail address: Lzz@lonking.cn

## DISCLOSURE OF INTERESTS

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

As at 30 June 2012, 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*

<b>Name of directors</b>	<b>Capacity</b>	<b>Number of shares held</b>	<b>Percentage of issued share capital as at 30 June 2012</b>
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	1,071,467,760	25.03%
Qiu Debo	beneficial owner	3,404,000	0.08%
Luo Jianru	beneficial owner	1,460,000	0.03%
Chen Chao	beneficial owner	1,344,000	0.03%
Lin Zhongming	beneficial owner	372,000	0.01%
Zheng Ke Wen	beneficial owner	429,900	0.01%
		<b>2,390,536,420</b>	<b>55.85%</b>

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*

<b>Name of directors</b>	<b>Capacity</b>	<b>Registered share capital</b>	<b>Percentage of issued share capital as at 30 June 2012</b>
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 2012, 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 2012, 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 2012
China Longgong Group Holdings Ltd (Note 1)	beneficial owner	1,312,058,760	30.65%
Government of Singapore Investment Corporation pte Ltd	beneficial owner	257,795,842	6.02%

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 2012, 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 2012 (six months ended 30 June 2011: HK\$6 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 2012, the Group employed approximately 10,033 employees.

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

During the period ended on 30 June 2012, the Company has not redeemed any of its shares.

During the period ended on 30 June 2012, the Company has received the notice from the bondholders to require the Company to redeem all of the outstanding convertible bonds on 30 April 2012, the maturity date for redemption.

After the market closed on the maturity date, the Company has redeemed on aggregate principal amount of US\$3,340,000 of convertible bonds in the aggregate amount of US\$4,046,577 (Equitable to HK\$31 million). Upon the maturity date for redemption and as the date of this announcement, the Company has no outstanding issued 2007 convertible bonds.

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

### **Review of accounts by audit committee**

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

The interim results for the six months ended 30 June 2012 have been reviewed by the audit committee of the Company.

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

Hong Kong, 28 September 2012

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive directors

Mr. Li San Yim (*Chairman*)  
Mr. Qiu Debo (*Chief Executive Officer*)  
Mr. Luo Jianru  
Mr. Chen Chao  
Mr. Lin Zhong Ming  
Mr. Zheng Ke Wen  
Mr. Yin Kun Lun

#### Non-executive directors

Ms. Ngai Ngan Ying

#### Independent non-executive directors

Mr. Pan Longqing  
Dr. Qian Shizheng  
Mr. Han Xue Song  
Mr. Jin Zhiguo

### AUDIT COMMITTEE

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

### REMUNERATION COMMITTEE

Mr. Han Xue Song (*Chairman*)  
Dr. Qian Shizheng  
Ms. Ngai Ngan Ying

### NOMINATION COMMITTEE

Mr. Pan Long Qing (*Chairman*)  
Mr. Han Xue Song  
Ms. Ngai Ngan Ying

### EXECUTIVE COMMITTEE

Mr. Qiu Debo (*Chairman*)  
Mr. Li San Yim  
Mr. Luo Jianru  
Mr. Chen Chao  
Mr. Lin Zhong Ming  
Mr. Zheng Ke Wen  
Mr. Yin Kun Lun

### COMPANY SECRETARY

Mr. Chu Shun

### HEAD OFFICE

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

### REGISTERED OFFICE

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

### INVESTOR RELATIONS

Ms. Jenny Lv  
Lzz@lonking.cn  
Tel: 86-21-3760 2000 ext. 8331

## **PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

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Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

## **WEBSITE**

<http://www.lonking.cn>

## **STOCK CODE**

3339

## **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

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

## **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

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

## **SOLICITORS**

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

## **AUDITORS**

Ernst & Young  
Certified Public Accountants  
22/F, CITIC Tower,  
1 Tim Mei Avenue,  
Central,  
Hong Kong

## **PRINCIPAL BANKERS**

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

China Construction Bank  
Shanghai Songjiang Branch  
No. 89 Zhongshan Zhong P.O. Road  
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Shanghai, PRC