

LONGKING 龙工

LONGKING HOLDINGS LIMITED

中國龍工控股有限公司*

(Formerly known as “China Infrastructure Machinery Holdings Limited”)

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3339)

PRELIMINARY ANNOUNCEMENT OF INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

The board of directors (the “Board”) of Lonking Holdings Limited (the “Company” or “China Longgong”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2008 (the “Period”) together with the comparative figures for the corresponding period in 2007. The Group’s interim results for the Period is unaudited, but have been reviewed by the Company’s auditor, Deloitte Touche Tohmatsu and approved by the audit committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

		Six months ended	
		30.6.2008	30.6.2007
	<i>NOTES</i>	RMB’000	RMB’000
		(Unaudited)	(Unaudited)
Turnover	3	3,990,856	2,830,788
Cost of sales		(3,146,348)	(2,139,013)
Gross profit		844,508	691,775
Interest income		32,327	18,327
Other income		17,362	7,991
Other gains and losses	4	193,342	(108,289)
Administrative expenses		(90,006)	(66,388)
Selling and distribution costs		(250,341)	(178,764)
Other expenses		(6,108)	(1,391)
Finance costs	5	(71,482)	(36,683)
Discount on acquisition of a subsidiary		–	5,833
Profit before tax		669,602	332,411
Income tax expense	6	(65,791)	(49,839)
Profit for the period	7	<u>603,811</u>	<u>282,572</u>
Attributable to:			
Equity holders of the parent		603,679	282,598
Minority interest		132	(26)
		<u>603,811</u>	<u>282,572</u>
Dividends paid	8	<u>116,156</u>	<u>223,200</u>
Earnings per share – basic (<i>RMB</i>)	9	<u>0.56</u>	<u>0.27</u>
Earnings per share – diluted (<i>RMB</i>)	9	<u>0.39</u>	<u>0.27</u>

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2008

	<i>NOTES</i>	30.6.2008 RMB'000 (Unaudited)	31.12.2007 <i>RMB'000</i> (Unaudited)
Non-current assets			
Property, plant and equipment		1,346,364	1,116,542
Lease premium for land – Non current portion		205,934	202,616
Finance lease receivables		74,012	35,120
Deposit paid for acquisition of property, plant and equipment		340,415	–
Deferred tax assets		91,341	65,791
		2,058,066	1,420,069
Current assets			
Lease premium for land – Current portion		4,510	4,402
Inventories		1,741,517	1,491,346
Finance lease receivables		664,915	303,679
Trade receivables	<i>10</i>	713,637	350,171
Bill receivables		211,397	522,362
Other receivables and prepayments	<i>10</i>	648,236	391,240
Other financial assets		653,160	1,450,000
Pledged bank deposits		159,810	109,053
Bank balances and cash		299,703	478,064
		5,096,885	5,100,317
Current liabilities			
Trade payables	<i>11</i>	635,495	697,510
Bill payables		594,639	387,925
Other payables and accruals		335,812	259,140
Provision		166,993	128,296
Amounts due to related parties		10,631	12,875
Tax payable		63,736	45,585
Derivative financial instruments	<i>12</i>	218,821	305,461
		2,026,127	1,836,792
Net current assets		3,070,758	3,263,525
		5,128,824	4,683,594
Capital and reserves			
Share capital		112,619	113,009
Reserves		3,167,190	2,703,478
Equity attributable to equity holders of the parent		3,279,809	2,816,487
Minority interests		1,085	953
Total equity		3,280,894	2,817,440
Non-current liabilities			
Long term payables		29,164	16,563
Convertible loan notes	<i>12</i>	1,797,109	1,843,920
Deferred tax liabilities		21,657	5,671
		1,847,930	1,866,154
		5,128,824	4,683,594

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Six months ended	
	30.6.2008	30.6.2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL	570,030	447,054
Increase in inventories	(251,995)	(175,228)
Increase in trade, bill and other receivables	(312,306)	(548,493)
Increase in finance lease receivables	(400,128)	–
Increase in trade, bill and other payables	221,371	520,081
Other working capital items	49,054	42,965
Cash generated from operations	(123,974)	286,379
Income tax paid	(57,204)	(24,235)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(181,178)	262,144
INVESTING ACTIVITIES		
Interest received	31,686	18,327
Deposit period for purchase of property, plant and equipment	(340,415)	–
Purchase of property, plant and equipment	(276,277)	(121,411)
Increase in pledged bank deposits	(50,757)	(121,209)
Settlement of other financial assets	950,000	(300,000)
Purchase of other financial assets	(150,000)	–
Acquisition of a subsidiary	–	(71,515)
Other investing activities	(51)	(2,485)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	164,186	(598,293)
FINANCING ACTIVITIES		
Dividends paid	(116,156)	(223,200)
Shares repurchased and cancelled	(24,201)	–
Interest paid	(3,702)	(12,389)
Repayment of bank borrowings	–	(266,869)
New bank borrowings raised	–	48,718
Proceeds on issue of convertible loan notes	–	2,157,304
Proceeds on issue of new shares	–	759,112
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(144,059)	2,462,676
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(161,051)	2,126,527
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	478,064	129,439
EFFECT ON FOREIGN EXCHANE RATE CHANGES	(17,310)	–
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTING BANK BALANCES AND CASH	299,703	2,255,966

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2007.

In the current interim period, the Group has adopted the accounting policies on repurchase of equity instruments as follows:

Repurchase of equity instruments

Repurchase of the Company’s own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sales, issue, or cancellation of the Company’s own equity instruments.

In the current interim period, the Group has applied, for the first time, the following new interpretations (“new Interpretations”) issued by HKICPA, which are effective for the Group’s financial year beginning on 1 January 2008.

HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK (IFRIC) – Int 13	Customer Loyalty Programmes ³
HK (IFRIC) – Int 15	Agreements for the Construction of Real Estate ¹
HK (IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation ⁴

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 July 2008

⁴ Effective for annual periods beginning on or after 1 October 2008

The adoption of HKFRS 3 (Revised) may affect the accounting treatment for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for change in parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards or interpretation will have no material impact on the results and the financial position of the Group.

3. BUSINESS AND GEOGRAPHICAL SEGMENT

For management purpose, the Group is currently organised into two operating divisions: manufacturing and sales of construction machinery in the People's Republic of China (the "PRC"), and the finance lease of construction machinery in the PRC. These divisions are the basis on which the Group reports its primary segment information. As the Group's principal activities for the corresponding period was solely on the manufacturing and sales of construction machinery in the PRC, no comparative figures of business and geographical segment are presented for the prior period.

Segment information about these businesses is presented below:

	Manufacturing and sales of construction machinery <i>RMB'000</i>	Finance lease of construction machinery <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30th June, 2008			
REVENUE			
Sales of goods	3,978,348	–	3,978,348
Interest income	–	12,508	12,508
	<hr/>	<hr/>	<hr/>
Total	3,978,348	12,508	3,990,856
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
			Six months ended
			30.6.2008
			<i>RMB'000</i>
RESULT			
Segment result			
– Sales of construction machinery			513,815
– Finance lease of construction machinery			18,427
			<hr/>
			532,242
Unallocated corporate income			222,617
Unallocated corporate expenses			(13,775)
Finance costs			(71,482)
			<hr/>
Profit before tax			669,602
Income tax expense			(65,791)
			<hr/>
Profit for the period			603,811
			<hr/> <hr/>

4. OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2008 RMB'000	30.6.2007 RMB'000
Gain (loss) on disposal of property, plant and equipment	386	(1,843)
Exchange realignment from convertible loan notes	114,591	25,196
Foreign exchange losses	(11,435)	(33,175)
Change in fair value of derivative financial instruments	86,640	(98,467)
Change in fair value of other financial assets	3,160	—
	<u>193,342</u>	<u>(108,289)</u>

5. FINANCE COSTS

	Six months ended	
	30.6.2008 RMB'000	30.6.2007 RMB'000
Interest on bank loans, overdraft and other borrowings wholly paid within five years	3,702	12,389
Effective interest expense on convertible loan notes	67,780	24,294
	<u>71,482</u>	<u>36,683</u>

6. INCOME TAX EXPENSE

	Six months ended	
	30.6.2008 RMB'000	30.6.2007 RMB'000
The charge comprises:		
Current tax		
PRC Enterprise Income Tax	75,563	54,384
Over provision in prior year		
PRC Enterprise Income Tax	(208)	(265)
Deferred tax		
Current period	(9,564)	(4,280)
Income tax expense	<u>65,791</u>	<u>49,839</u>

The tax charge for each of the six months ended 30 June 2008 and 2007 can be reconciled to the profit before tax in the condensed consolidated income statement as follows:

	Six months ended			
	30.6.2008		30.6.2007	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Profit before tax	<u>669,602</u>		<u>332,411</u>	
Tax at the domestic tax rate of 25% (2007: 33%)	167,400	25.00	109,696	33.00
Effect of tax exemptions granted to PRC subsidiaries	(92,620)	(13.83)	(95,046)	(28.59)
Tax effect of expenses not deductible for tax purposes	333	0.05	32,579	9.80
Tax effect of income not taxable for tax purposes	(21,660)	(3.24)	–	–
Over provision in prior year	(208)	(0.03)	(265)	(0.08)
Tax effect of deferred tax assets not recognised	946	0.14	–	–
Tax effect of tax losses not recognised	706	0.11	2,875	0.86
Recognition of deferred tax assets on tax losses previously not recognized	(4,584)	(0.69)	–	–
Utilisation of tax losses previously not recognised	(508)	(0.07)	–	–
Effect of withholding tax	15,986	2.39	–	–
Tax charge and effective tax rate for the period	<u>65,791</u>	<u>9.83</u>	<u>49,839</u>	<u>14.99</u>

On 16 March 2007, the People's Republic of China (the "PRC") promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. The New Law and the Implementation Regulation have changed the tax rate from 33% to 25% for the Group's subsidiaries from 1 January 2008.

The New Law also imposes a withholding tax on dividend distributed from the Group's subsidiaries in the PRC to the holding companies located off-shore. The management anticipated that 30% of the Group's PRC subsidiaries' profit will be distributed while the remaining 70% will be retained to finance the operation of these PRC subsidiaries. Accordingly, withholding taxes are accrued on 30% of the PRC subsidiaries profit at a rate of 10%.

7. PROFIT FOR THE PERIOD

	Six months ended	
	30.6.2008	30.6.2007
	RMB'000	RMB'000
Profit for the period has been arrived at after charging:		
Staff costs, including directors' remuneration salaries and allowances	142,461	98,249
Contributions to retirement benefit scheme	5,195	5,361
Total staff costs	<u>147,656</u>	<u>103,610</u>
Allowance for bad and doubtful debts	3,449	2,631
Allowance for inventories	1,824	20
Amortisation of lease land premium	2,115	1,684
Cost of inventories recognised as expenses	3,146,348	2,139,013
Depreciation of property, plant and equipment	41,352	28,342
Loss on disposal of property, plant and equipment	–	1,843
Research and development expenditures	8,420	4,105
and after crediting:		
Interest income on bank deposit	4,011	3,100
Interest income on loan receivable from financial institutions	28,316	15,227
Government subsidy	1,600	3,336
Discount on acquisition	–	5,833
Gain on disposal of property, plant and equipment	<u>386</u>	<u>–</u>

8. DIVIDENDS PAID

During the six month ended 30 June 2008, the Company declared and paid final dividends of RMB116,156,000 representing HK\$0.12 per ordinary share for the year of 2007. The board of directors has proposed an interim dividend of HK\$0.13 per ordinary share for the six months ended 30 June 2008.

9. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2008	30.6.2007
	RMB'000	RMB'000
Earnings		
Earnings for the purposes of basic earnings per share	603,679	282,598
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	67,780	24,294
Exchange realignment	(114,591)	(25,196)
Change in fair value of derivative financial instruments	(86,640)	98,467
Earnings for the purposes of diluted earnings per share	<u>470,228</u>	<u>380,163</u>

	Six months ended	
	30.6.2008	30.6.2007
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,087,099	1,056,299
Effect of dilutive potential ordinary shares:		
Convertible loan notes	<u>110,272</u>	<u>36,970</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>1,197,372</u>	<u>1,093,269</u>

The convertible loan notes were anti-dilutive for the six months period ended 30th June, 2007.

10. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

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

The aged analysis of trade receivables is as follows:

	30.6.2008	31.12.2007
	RMB'000	RMB'000
0 – 90 days	682,493	302,626
91 – 180 days	25,162	39,263
181 – 270 days	5,982	2,565
271 days to 1 year	<u>–</u>	<u>5,717</u>
	<u>713,637</u>	<u>350,171</u>

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

	30.6.2008	31.12.2007
	RMB'000	RMB'000
Deposits for purchase of supplies and raw materials	518,410	314,573
Value-added tax recoverable	119,261	54,035
Interest receivable from financial institutions	641	16,268
Others	<u>9,924</u>	<u>6,364</u>
	<u>648,236</u>	<u>391,240</u>

11. TRADE PAYABLES AND BILL PAYABLES

The aged analysis of trade payables is as follows:

	30.6.2008 <i>RMB'000</i>	31.12.2007 <i>RMB'000</i>
0 – 180 days	508,800	650,895
181 days – 1 year	118,785	41,678
1 to 2 years	7,770	4,845
2 to 3 years	140	92
	635,495	697,510

The bill payables are aged within six months from the respective balance sheet dates.

12. CONVERTIBLE LOAN NOTES AND DERIVATIVE FINANCIAL INSTRUMENTS

Convertible loan notes of US\$287 million were issued by the Company on 30 April 2007 at an issue price of US\$10,000 per Convertible Loan Note of US\$10,000. The Convertible Loan Notes are listed on the Singapore Exchange Securities Trading Limited. Each Convertible Loan Note entitles the holder to convert to one ordinary share of the Company of HK\$0.10 each at the conversion price of HK\$20.4525 (the “Conversion Price”), but will be subject to anti-dilutive adjustment as stated in the offering circular dated 27 April 2007 (“Offering Circular”).

In accordance with terms and conditions of the convertible loan notes, the Conversion Price has been adjusted from HK\$20.4525 to HK\$19.9845 with effect from 15 May 2008 as a result of the payment of the Dividend by the Company.

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

	Liability component <i>RMB'000</i>	Derivative component <i>RMB'000</i>	Total <i>RMB'000</i>
Convertible Loan Notes:			
At date of issue on 30 April 2007 net proceeds	1,846,790	310,514	2,157,304
Exchange realignment	(98,642)	–	(98,642)
Effective interest expense charged during the period	95,772	–	95,772
Changes in fair value	–	(5,053)	(5,053)
On 31 December 2007	1,843,920	305,461	2,149,381
Exchange realignment	(114,591)	–	(114,591)
Effective interest expense charged during the period	67,780	–	67,780
Changes in fair value	–	(86,640)	(86,640)
At 30 June 2008	1,797,109	218,821	2,015,930

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND BUSINESS REVIEW

For the six months ended 30 June 2008, the Group recorded revenue of RMB3,991 million, representing a substantial increase of 40.98% as compared to approximately RMB2,831 million over the same period of 2007. Profit attributable to equity shareholders for the period was approximately RMB604 million, representing a significant increase of 113.43% as compared to the same period in 2007 Six months ended 30 June 2007: approximately RMB283 million. Return on equity has increased to 18.41% accordingly (Six months ended 30 June 2007: 10.89%). The increase in shareholders' return was mainly attributed to (i) there was a dramatic increase in turnover for the six months ended 30 June 2008; (ii) the Group increased the product unit price this year for its principal product series ZL50 and ZL30 for nearly 4.93% and 5.60% respectively, which had a positive and significant effect on overall gross profit margin; (iii) though the Group's gross profit for the period has been adversely affected by the continuous increase in steel cost, the exporting revenue have increased to approximately RMB250 million, representing a sharp increase of 71.23% as compared to the corresponding period last year (six months ended 30 June 2007: RMB146 million) which contributed a higher gross margin as compared to domestic sales; (iv) Improvement in product quality resulted in lower repairing cost; (v) the change in fair value of derivative component of the convertible loan notes resulting in other gains of approximately RMB87 million; (vi) The continuous appreciation of Renminbi Exchange Rate resulted in other gains of RMB47 million (net of exchange gains against effective interest expense on CB) for the convertible loan notes (the "CB") of US\$287 million issued by the Company on 30 April 2007.

Geographical Analysis

Northern region of the PRC again remained as the Company's principal marketing area for the period ended on 30 June 2008. The turnover of this region accounted for more than 30% of the Group's total turnover. The turnover of Northern and Northern Eastern showed an obvious increase of 65% and 88% respectively. We attributed such increase to the PRC government's encouraging policy to the infrastructure and mining industry which resulted in a strong demand in these areas. The turnover of Middle and Southern China increased nearly 48% due to china snowstorm earlier this year and earthquake in May this year which resulted in an increasing demand of construction and mining machinery in these regions.

The exporting sales represent approximately 6.72% of our total turnover as compared to only 5.16% in the corresponding period last year, the directors' believe that our overseas market will continuously develop and expand in the coming years.

Segment Information

Wheel Loaders

The revenue attributed to three principal series of wheel loaders, the ZL30, ZL40 and ZL50 series, amounted to RMB3,445 million (for the six months ended on 30 June 2007: RMB2,644 million), or 86.59% of the Group's revenue. Among which, revenue generated from ZL50 and ZL30 showed a stable increase of 33.31% and 14.86 respectively, or 76.14% and 10.03% of total revenue respectively. The Group committed to deepen the research and development ("R&D") facility of these series to insure the competitive edge in the same industry. The revenue generated from ZL40 represented only 0.42% of total Group's revenue, decreasing 32.11% as compared with the corresponding period of last year. The directors expected a limited demand of this series in both overseas and domestic market and have reduced production of this series.

Excavators

The company recorded 359 units sales in excavator series, amounting to approximately RMB108 million (1.1.2007 to 30.6.2007: 1 unit and RMB0.26 million). Excavators series was launched in 2007 for the first time, and then saw a very optimistic increase in 2008 sales. It is expected a continuous and strong increase in sales of this series as a result of economic scale of production and sales.

Other Construction Machineries and Components

The other major products include fork lifts, harvester, mini wheel loader, road rollers and so on. Among which, fork lifts and harvester showed a massive increase of 321.62% and 301.13% respectively in sales; mini wheel loaders and road rollers also recorded 112.56% and 101.26% respectively increase in revenue.

The sales generated from components amounted to approximately RMB127 million for the period, representing 3.19% of our total turnover for the period, among which, Fujian Longyan Longgog Machinery Coponents Co., Ltd contributed nearly 98% in approximately RMB124 million.

FINANCIAL REVIEW

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

Capital Structure

During the period, the company repurchased and cancelled 4,314,000 shares under the general mandate granted to the Directors at the annual general meeting granted to the Directors at the annual general meeting of the Company held on 26 April 2007, of HK\$0.10 for a consideration of approximately HK\$27 million (Equivalent to approximately RMB24 million).

In view of the conditions of stock market, the Directors believe that it was in the best interest of the company and the shareholders for the Directors to had a general authority from the shareholders to enable the company to repurchase shares in the market. The Directors consider that the exercise of the Repurchase Mandate did not have a material adverse impact on the working capital or gearing level of the company.

As at 30 June 2008, the Gross Debt to Equity ratio, defined as total Non-current liabilities (excluding deferred tax liability) over total equity was approximately 55.66% (as at 30 June 2007: 73.11%).

Capital Expenditure

The Group acquired property, plant and equipment approximately 61 million (1.1.07-30.6.2007: RMB39 million) and invested approximately RMB215 million (1.1.07-30.06.2007: RMB82 million) in acquisition of its new equipment and addition to manufacturing plant in the PRC, in order to upgrade its manufacturing capability. The general increase in capital expenditure was in line with the Group's strategy of expansion. These capital expenditures were fully financed by the convertible loan notes, share placing and internal resources of the Group.

Liquidity and Financial Resources

As at 30 June 2008, the Group had bank balances and cash of approximately RMB300 million (31 December 2007: approximately RMB478 million) and pledged bank deposit of approximately RMB160 million. (31 December 2007: approximately RMB109 million). Compared with last year, the cash and bank balance decreased about RMB178 million, which was generated as a result of net cash outflow of around RMB181 million from operating activities, net cash inflow of RMB164 million from investing activities, net cash outflow of RMB144 million from financing activities and RMB17 million loss of foreign exchange rate changes.

The pledged deposit balance at 30 June 2008 increased approximately RMB51 million was mainly due to the Group used Banker's Bill widely and popularly for payment as a result of increase of raw materials and importing equipment purchase.

The current ratio of the Group at 30 June 2007 was 2.52 (30.6.2007: 2.81). The inventory turnover increased to 94 days (30.6.2007: 90 days) as the Group increased the raw materials closing balance to set off the future loss of increasing steel cost. The trade and bill receivable turnover and trade and bill payables turnover reduced to 41 days and 67 days respectively (30.6.2007: 62 days and 70 days respectively) because the company speeded up collection of receivables by effective policy and also payment of payables to keep a long term and trusted relationship with the suppliers.

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

Capital Commitment

As at 30 June 2008, the Group had contracted but not provided in the financial statements in respect of acquisition of property, plant and equipment amounted to approximately RMB527,824,000 (31 December 2007: approximately RMB266,281,000).

Contingent Liability

As at 30 June 2008, the Group had issued corporate guarantees to the extent of approximately RMB509,100,000 (31.12.2007: RMB628,700,000) to the banks to secure certain banking facilities of the Group's sales agents, for their issuance bills solely to the Group. The amount of such facilities being utilized as at 30 June 2008 amounted RMB366,898,000 (31 December 2007: RMB370,290,000).

PROSPECTS

The Group strive to become a leading manufacturer in the global construction machinery industry. Particularly, the Group has been ranked No. 40 of Global Construction Machinery 50 Rank 2007 by China Construction Machinery Association. The Directors recognized globalization as the core strategy in future development. Since 2006, the Group has built up a mature distribution network in more than 47 countries and strengthened its after-sales service. The Group will continue to expand its business in overseas market. The directors expect that after the year 2010, the revenue from overseas market will represent at least 20% of the total revenue.

Looking ahead, the global inflation pressure will continue to affect the business environment. The Group intends to expand its production capacity and benefit from the scale of economic. The Group will also commit to strengthen its production and cost efficiency.

The Group also enhanced the research and development (R&D) competence to maintain its technical competitiveness. The directors are very confident that the cost and quality of in-house produced components will be controlled effectively and efficiently by the continuous efforts made in the R&D field.

The directors believe that diversifying the products lines will effectively reduced the potential marketing risk and also generate a higher profit margin. The company have already developed more than 30 new models of wheel loader and developed diversified models of fork lift, excavator and road roller since 2006. These products showed significant increases since launch. The Group will continuously follow its philosophy of products diversification and generate good returns to the Company's shareholders in the future.

CORPORATE GOVERNANCE

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

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

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

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

Review of the Interim Results

The audit committee, together with the management and the external auditors, has reviewed constantly the accounting principles and practices adopted 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 2008 have been reviewed by the audit committee of the Company.

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

During the six months ended 30 June 2008, the Company repurchased 4,314,000 ordinary shares of the Company in total on the Stock Exchange for a consideration of HK\$26,889,983 (including expenses of HK\$96,192 and equivalent to RMB24,200,984).

Trading Date	Number of ordinary shares repurchased	Repurchase price per ordinary share		Total Paid (Including expenses) HK\$
		Highest (HK\$)	Lowest (HK\$)	
1-Apr-08	1,627,000	5.8	5.73	9,448,289
2-Apr-08	148,000	6	6	891,188
10-Apr-08	936,000	6.5	6.45	6,095,887
15-Apr-08	748,000	6.5	6.48	4,878,451
16-Apr-08	188,000	6.5	6.5	1,226,387
18-Apr-08	667,000	6.5	6.48	4,349,781
Total	<u>4,314,000</u>			<u>26,889,983</u>

These repurchased shares were cancelled during the period and the issued share capital of the Company was reduced by the par value thereof. The above repurchases were effected by the Directors pursuant to the repurchase mandate granted to them the benefit of the Company and the its shareholders as a whole in enhancing the net assets and earnings per share of the Company.

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

INTERIM DIVIDEND

The Board has resolved to recommend payment of an interim dividend of HK\$13 cents (30 June 2007: HK\$12 cents) per share for the six months ended 30 June 2008, which is expected to be payable to shareholders by post on or about 28 November 2008. The dividend will be payable to shareholders whose names appear on the Register of Members of the Company at the close of business on Friday, 26 September 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 24 September 2008 to Friday, 26 September 2008, both days inclusive, during which period no transfers of shares will be effected. To determine entitlement to the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Computershare Hong Kong Investor Services Ltd (at shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong), for registration not later than 4:30 p.m. on Tuesday, 23 September 2008.

PUBLICATION OF FINANCIAL INFORMATION

The Company's 2008 interim report for the six months ended 30 June 2008 will be despatched to the shareholders at the appropriate time and will at the same time be published on the Stock Exchange's website (www.hkex.com.hk).

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

Hong Kong, 8 September 2008

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

* *For identification purposes only*