LONKING HOLDINGS LIMITED

中國龍工控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3339

2017

Interim Report

* For Identification Purpose Only

CONTENTS

FINANCIAL HIGHLIGHTS

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

	Six months ended 30 June 2017	Six months ended 30 June 2016	Change (+/–)
Current period	*RMB'000*	*RMB'000*	
Turnover	4,532,888	2,615,197	+73.33%
Operating profits	585,340	229,431	+155.13%
EBITDA	833,319	502,577	+65.81%
Profit attributable to equity parent	497,812	199,667	+149.32%
Per share data		*RMB*	
Basic earnings per share[(1)#]	0.12	0.05	+140.00%
Net assets per share[(2)#]	1.66	1.55	+6.88%
Key performance indicators			
Profitability			
Overall gross margin	27.25%	23.62%	+3.62%
Net profit margin	10.99%	7.64%	+3.35%
EBITDA margin[(3)]:	18.38%	19.22%	-0.84%
Return on equity[(4)]	7.01%	3.01%	+4.00%
Liquidity and solvency			
Current ratio[(5)]	2.35	2.49	-5.62%
Interest coverage ratio[(6)]:	29.82	4.88	+511.07%
Gross debt-to-equity ratio[(7)]	70.58	86.15	-15.57%
Management efficiency			
Inventory turnover days[(8)]	77	120	-43 days
Trade and bills payables turnover days[(9)]	94	85	+9 days
Trade and bills receivable turnover days[(10)]	72	127	-55 days

[#] calculated based on the 4,280,100,000 weighted average number of outstanding shares (WANOS) for the period ended 30 June 2017 (30 June 2016: 4,280,100,000).

[1] Net profit attributable to equity holders of the parent for each period divided by the weighted average number of outstanding shares (WANOS) as at the end of each period.

[2] Shareholders' equity divided by the WANOS as at the end of each period.

[3] Earnings before interest, tax, depreciation and amortisation ("EBITDA") divided by turnover for each period.

[4] Net profit attributable to equity holders of the parent for each period divided by equity attributable to equity shareholders of the parent as at the end of each period.

[5] Current assets divided by current liabilities as at the end of each period.

[6] Earnings before interest and income tax expenses ("EBIT") divided by interest expenses.

[7] Total liabilities divided by the total equity as at the end of each period.

[8] Average inventories divided by cost of sales and multiplied by 183 days when turnover days are calculated for half-year periods.

[9] Average trade and bills payables divided by cost of sales and multiplied by 183 days when turnover days are calculated for half-year periods.

[10] Average trade and bills receivables divided by turnover and multiplied by 183 days when turnover days are calculated for half-year periods.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 4 to 35, which comprise the interim condensed consolidated statement of financial position of Lonking Holdings Limited (the "Company") and its subsidiaries (the "Group") as at 30 June 2017 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed consolidated financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower,
1 Tim Mei Avenue, Central,
Hong Kong
29 August 2017

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

	Notes	For the six months ended 30 June 2017 Unaudited *RMB'000*	2016 Unaudited *RMB'000*
Revenue	3	4,532,888	2,615,197
Cost of sales		(3,297,792)	(1,997,380)
Gross profit		1,235,096	617,817
Other income	4	13,201	17,735
Other gains and losses	4	(105,136)	(26,621)
Selling and distribution costs		(263,610)	(171,576)
Administrative expenses		(119,222)	(115,192)
Research and development costs		(163,921)	(91,565)
Other expenses		(11,068)	(1,167)
Operating profit		585,340	229,431
Finance income		65,262	79,334
Finance costs		(21,814)	(63,312)
Profit before tax	5	628,788	245,453
Income tax expense	6	(130,767)	(45,718)
Profit for the period		498,021	199,735
Attributable to:			
Owners of the parent		497,812	199,667
Non-controlling interests		209	68
		498,021	199,735
Earnings per share			
Basic, profit for the period attributable to ordinary equity holders of the parent (RMB)		0.12	0.05

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017 Unaudited *RMB'000*	2016 Unaudited *RMB'000*
Profit for the period	498,021	199,735
Other comprehensive income/(loss)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	9,416	(19,364)
Income tax effect	(1,412)	2,904
	8,004	(16,460)
Exchange differences on translation of foreign operations	110,952	(101,894)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	118,956	(118,354)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	–	–
Other comprehensive income/(loss) for the period, net of tax	118,956	(118,354)
Total comprehensive income for the period, net of tax	616,977	81,381
Attributable to:		
Owners of the parent	616,760	81,464
Non-controlling interests	217	(83)
	616,977	81,381

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	30 June 2017 Unaudited *RMB'000*	31 December 2016 Audited *RMB'000*
Assets			
Non-current assets			
Property, plant and equipment	8	2,307,275	2,464,960
Prepaid land lease payments		182,461	185,421
Finance lease receivables		3,217	2,605
Prepayments for property, plant and equipment		26,053	31,731
Deferred tax assets		279,421	255,972
Available-for-sale investments	13	1,625	1,625
Derivative financial instruments	15	81,478	91,807
Long-term receivables	9	128,440	100,968
Pledged bank deposits	16	1,119,478	1,262,438
		4,129,448	4,397,527
Current assets			
Prepaid land lease payments		5,276	5,276
Inventories	10	1,450,795	1,507,843
Finance lease receivables		49,274	51,684
Trade and bills receivables	11	1,851,597	1,365,336
Due from related parties	21	10,081	5,186
Prepayments, deposits and other receivables	12	629,306	692,925
Other current assets		311,864	211,045
Available-for-sale investments	13	2,035,271	525,855
Equity investments at fair value through profit or loss	14	118,522	108,193
Pledged bank deposits	16	262,316	1,205,347
Cash and cash equivalents	16	1,260,320	1,130,534
		7,984,622	6,809,224
Current liabilities			
Trade and bills payables	17	2,218,414	1,525,934
Other payables and accruals	18	587,508	518,661
Interest-bearing bank borrowings	19	101,616	–
Provisions		89,098	54,536
Due to related parties	21	10,091	7,665
Deferred income		400	546
Income tax payable		159,303	131,612
Dividends due to shareholders	7	230,311	–
		3,396,741	2,238,954
Net current assets		4,587,881	4,570,270
Total assets less current liabilities		8,717,329	8,967,797

	Notes	30 June 2017 Unaudited *RMB'000*	31 December 2016 Audited *RMB'000*
Non-current liabilities			
Deposits for finance leases		25,555	31,749
Interest-bearing bank borrowings	19	1,558,112	2,150,450
Deferred tax liabilities		18,543	59,390
Provisions		6,015	3,699
Deferred income		7,571	2,797
Total non-current liabilities		1,615,796	2,248,085
Net assets		7,101,533	6,719,712
Equity			
Issued capital		444,116	444,116
Share premium and reserves		6,654,481	6,272,703
Equity attributable to owners of the parent		7,098,597	6,716,819
Non-controlling interests		2,936	2,893
Total equity		7,101,533	6,719,712

Li San Yim
Director

Yin Kun Lun
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

2017	Attributable to owners of the parent									
	Issued capital *RMB'000*	Share premium *RMB'000*	Special reserve *RMB'000*	Non-distributable reserve *RMB'000*	Available-for-sale reserve *RMB'000*	Retained profits *RMB'000*	Exchange fluctuation reserve *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2017	444,116	854,922	386,810	1,525,536	21,953	3,922,356	(438,874)	6,716,819	2,893	6,719,712
Profit for the period	–	–	–	–	–	497,812	–	497,812	209	498,021
Other comprehensive income for the period:										
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	61,680	–	–	61,680	67	61,747
Reclassification adjustments for gains included in the consolidated statement of profit or loss – gain on disposal, net of tax	–	–	–	–	(53,684)	–	–	(53,684)	(59)	(53,743)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	110,952	110,952	–	110,952
Total comprehensive income for the period	–	–	–	–	7,996	497,812	110,952	616,760	217	616,977
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(174)	(174)
Final 2016 dividend declared	–	–	–	–	–	(234,982)	–	(234,982)	–	(234,982)
Transfer from retained profits	–	–	2,316	–	–	(2,316)	–	–	–	–
At 30 June 2017	444,116	854,922	389,126	1,525,536	29,949	4,182,870	(327,922)	7,098,597	2,936	7,101,533

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017 Unaudited *RMB'000*	2016 Unaudited *RMB'000*
Operating cash flows before movements in working capital:	803,810	478,347
Decrease/(increase) in inventories	55,528	(43,086)
(Increase)/decrease in trade and bills receivables	(601,476)	179,799
(Increase)/decrease in prepayments, deposits and other receivables	(35,015)	52,808
Decrease in finance lease receivables	1,798	4,424
Increase in trade, bills and other payables	815,355	418,522
Increase in provisions	36,878	4,592
(Increase)/decrease in amounts due from related parties	(4,895)	2,749
Increase in amounts due to related parties	2,426	337
Decrease in deposits for finance leases	(10,800)	(489)
Income tax paid	(168,784)	(73,076)
Interest received	23,038	26,604
Net cash flows from operating activities	917,863	1,051,531
Cash flows (used in)/from investing activities		
Purchase of items of property, plant and equipment	(24,766)	(11,503)
Interest received from other current assets	6,246	21,475
Interests received from available-for-sale investments	63,227	–
Increase/(decrease) in deferred income	4,628	(3,518)
Proceeds from derivative financial instruments received	6,585	6,751
Purchase of available-for-sale investments	(1,630,000)	(120,000)
Proceeds from an available-for-sale investment	30,000	300,000
Proceeds from disposal of interests in associates	–	8,402
Proceeds from disposal of items of property, plant and equipment	14,354	5,388
Net cash flows (used in)/from investing activities	(1,529,726)	206,995

	Notes	For the six months ended 30 June 2017 Unaudited *RMB'000*	2016 Unaudited *RMB'000*
Cash flows from/(used in) financing activities			
Repayment of borrowings		(445,621)	(703,817)
Non-derecognised payables		–	(6,353)
Decrease in pledged bank deposits		1,085,991	50,513
Dividends paid		(265)	–
Interest paid		(23,399)	(64,404)
Interest from pledged deposits received		127,517	3,845
Net cash flows from/(used in) financing activities		744,223	(720,216)
Net increase in cash and cash equivalents		132,360	538,310
Net foreign exchange difference		(2,574)	(20,166)
Cash and cash equivalents at 1 January		1,130,534	1,146,340
Cash and cash equivalents at 30 June	16	1,260,320	1,664,484

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. Corporate information

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2017 were authorised for issue in accordance with a resolution of the directors on 29 August 2017.

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

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

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

2.1 Basis of preparation

The interim condensed consolidated financial statements, which comprise the interim condensed consolidated statement of financial position of the Group as at 30 June 2017 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, have been prepared in accordance with HKAS 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

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

2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) effective as of 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Several new standards and amendments were applied for the first time in 2017 by the Group. However, they do not have a material impact on the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

The nature and the impact of the amendments are described below:

Amendments to HKAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its interim consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the year ending 31 December 2017.

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

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

Amendments to HKAS 12 Income Taxes:

Recognition of Deferred Tax Assets for Unrecognised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

The Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Amendments to HKFRS 12 included in Annual Improvements Cycle – 2014-2016

Disclosure of Interests in Other Entities:

Clarification of the scope of disclosure requirements in HKFRS 12

The amendments clarify that the disclosure requirements in HKFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The amendments are retrospectively effective for annual periods beginning on or after 1 January 2017. The amendment do not have any impact on the Group as the Group does not have any interests in a subsidiary, a joint venture or an associate.

2.3 Seasonality of operations

The Group's operations are not subject to seasonality.

3. Operating segment information

Operating segments

The following tables present revenue and profit information for the Group's operating segments for the six months ended 30 June 2017 and 2016:

	Sale of construction machinery *RMB'000*	Finance leases of construction machinery *RMB'000*	Financial investments *RMB'000*	Total *RMB'000*
Six months ended 30 June 2017				
Segment revenue	4,530,150	2,738	–	4,532,888
Segment results	595,804	(3,369)	76,877	669,312
Reconciliation:				
Interest income				65,262
Unallocated other income and gains				(79,628)
Corporate and other unallocated expenses				(4,344)
Finance costs				(21,814)
Profit before tax				628,788

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

3. Operating segment information *(Continued)*

Operating segments *(Continued)*

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

Inter-segment revenues are eliminated on consolidation.

The following table presents segment assets and liabilities of the Group's operating segments as at 30 June 2017 and 31 December 2016:

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Segment assets:	11,673,842	10,568,905
Sale of construction machinery	9,057,048	9,550,454
Finance leases of construction machinery	69,659	81,551
Financial investments	2,547,135	936,900
Corporate and other unallocated assets	440,228	637,846
Consolidated assets	12,114,070	11,206,751

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Segment liabilities:	3,342,531	2,287,696
Sale of construction machinery	3,298,147	2,233,697
Finance leases of construction machinery	44,384	53,999
Corporate and other unallocated liabilities	1,670,006	2,199,343
Consolidated liabilities	5,012,537	4,487,039

3. Operating segment information *(Continued)*

Operating segments *(Continued)*

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

	For the six months ended 30 June			
	2017		2016	
	RMB'000	%	*RMB'000*	%
Sales of construction machinery:				
Wheel loaders	2,388,132	52.7	1,306,836	50.0
Excavators	675,098	14.9	323,720	12.4
Road rollers	70,754	1.5	36,438	1.4
Forklifts	959,638	21.2	620,557	23.7
Components	436,528	9.6	322,974	12.3
Subtotal	4,530,150	99.9	2,610,525	99.8
Finance lease interest income	2,738	0.1	4,672	0.2
Total	4,532,888	100.0	2,615,197	100.0

4. Other income and other gains and losses

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

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Government grants	6,098	7,888
Penalty income	2,845	2,530
Reversal of inventory provision	–	5,775
Others	4,258	1,542
	13,201	17,735

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

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

	For the six months ended 30 June	
	2017 *RMB'000*	2016 *RMB'000*
Gain/(loss) on disposal of items of property, plant and equipment	4,742	(2,484)
Allowance for bad and doubtful debts	(100,867)	(89,375)
Provision for inventories	(1,520)	–
Fair value gains, net:		
Equity investments at fair value through profit or loss		
– held for trading	10,329	(32,487)
Derivative instruments		
– transactions not qualifying as hedges	(10,329)	32,487
Gains from derivative instruments	6,585	6,751
Interests received from available-for-sale investments	63,227	–
Investment income	7,065	27,360
Foreign exchange (loss)/gain	(84,368)	31,127
	(105,136)	(26,621)

5. Profit before tax

Profit before tax has been arrived at after charging/(crediting):

	For the six months ended 30 June 2017 RMB'000	2016 RMB'000
Cost of inventories recognised as expenses	3,297,792	1,997,380
Depreciation of property, plant and equipment	179,757	190,888
Amortisation of lease payments for land	2,960	2,960
Staff costs, including directors' remuneration	218,205	180,107
Contribution to a retirement benefit scheme	17,756	14,429
Foreign exchange differences, net	84,368	(31,127)
Bad debt provision	100,867	89,375
Product warranty provision	80,827	48,805
Provision for/(write-down of) inventories to net realisable value	1,520	(5,775)
Interest income on bank deposits	(65,262)	(79,334)
Income-related government grants	(6,098)	(7,888)

6. Income tax

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

	For the six months ended 30 June 2017 RMB'000	2016 RMB'000
Current income tax expense	136,655	47,844
Deferred income tax expense relating to origination and reversal of temporary differences	(5,888)	(2,126)
Income tax expense recognised in the consolidated statement of profit or loss	130,767	45,718

7. Dividends due to shareholders

The directors did not recommend the payment of an interim dividend in respect of the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

The proposed final dividend of HK$0.062 per ordinary share for the year ended 31 December 2016 was declared payable and approved by the shareholders at the annual general meeting of the Company on 26 May 2017 and was paid on 26 July 2017.

8. Property, plant and equipment

During the six months ended 30 June 2017, the Group acquired assets with a cost of RMB32,064,000 (six months ended 30 June 2016: RMB11,402,000), including property, plant and machinery in the People's Republic of China (the "PRC").

Assets with a net book value of RMB9,480,000 were disposed of by the Group during the six months ended 30 June 2017 (six months ended 30 June 2016: RMB7,740,000), resulting in a net gain on disposal of RMB4,742,000 (net loss in the six months ended 30 June 2016: RMB2,484,000).

9. Long-term receivables

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

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Trade receivables (note 11)	128,440	100,968

10. Inventories

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Raw materials	507,213	534,782
Work in progress	126,209	148,076
Finished goods	817,373	824,985
	1,450,795	1,507,843

11. Trade and bills receivables

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

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Trade receivables	2,270,749	1,755,310
Impairment	(460,909)	(401,069)
Less: Non-current portion (note 9)	(128,440)	(100,968)
	1,681,400	1,253,273
Bills receivable	170,197	112,063
	1,851,597	1,365,336

The aged analysis of trade receivables is as follows:

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
0-90 days	1,234,984	841,074
91-180 days	243,074	147,029
181-360 days	96,882	108,286
Over 1 year	106,460	156,884
	1,681,400	1,253,273

Bills receivable are aged within six months at the end of each reporting period. The Group had no bills receivable pledged to banks to get short-term credit facilities (31 December 2016: Nil).

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

12. Prepayments, deposits and other receivables

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Prepayments	244,497	155,033
Deductible value-added tax	44,376	59,019
Deposits	4,236	4,661
Total	293,109	218,713
Other receivables:		
Loan receivables	584,099	636,762
Less: Impairment	(415,305)	(406,480)
Net loan receivables	168,794	230,282
Other miscellaneous receivables	171,400	244,628
Less: Impairment	(3,997)	(698)
Net other miscellaneous receivables	167,403	243,930
Total other receivables	336,197	474,212
Grand total	629,306	692,925

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

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

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

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

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

13. Available-for-sale investments

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Unlisted equity investments, at cost	1,625	1,625
Unlisted equity investments, at fair value	1,033,561	525,855
Unlisted debt investments, at fair value	1,001,710	–
	2,036,896	527,480

During the six-month period ended 30 June 2017, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB72,643,000 (2016: gross loss RMB19,364,000), of which RMB63,227,000 (2016: Nil) was recycled from other comprehensive income to the consolidated statement of profit or loss for the year on the date of interest received.

The underlying trading portfolio of unlisted equity and debt investments included equity securities, shares, bonds and trust funds. The estimated yield rate of unlisted debt investments is 5.2%. The unlisted equity and debt investments have fixed maturity dates and floating coupon rates.

14. Equity investments at fair value through profit or loss

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Listed equity investments, at fair value	118,522	108,193

The above equity investments at 30 June 2017 were classified as held for trading upon initial recognition.

15. Derivative financial instruments

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Compensation terms for investment	81,478	91,807

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

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

16. Cash and cash equivalents and pledged bank deposits

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Cash and bank balances	1,260,320	1,130,534
Time deposits	1,381,794	2,467,785
Less: Pledged for long-term bank loans	(1,114,618)	(1,261,938)
Pledged for bank acceptance bills	(147,320)	(241,964)
Pledged for short-term bank loans	(97,110)	(954,000)
Pledged for others	(22,746)	(9,883)
	1,260,320	1,130,534

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

17. Trade and bills payables

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

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
0-180 days	2,158,069	1,465,266
181 days-1 year	11,757	23,210
1-2 years	26,165	7,978
2-3 years	8,621	6,371
Over 3 years	13,802	23,109
	2,218,414	1,525,934

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

18. Other payables and accruals

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Accrued sales rebate	284,249	225,133
Salary and wages payable	64,796	73,546
Advances from customers	52,019	38,339
Payable for acquisition of property, plant and equipment	5,306	3,686
Deposit for finance leases	7,150	11,756
Other taxes payable	45,127	38,632
Other payables to non-controlling interests	89,731	90,070
Dividend payable	–	91
Other accrued expenses	39,130	37,408
	587,508	518,661

19. Interest-bearing bank borrowings

During the six-month period ended 30 June 2017, the Group repaid current portion of long-term bank loans of US$65,000,000 (equivalent to RMB445,621,000).

The bank loans bear interest at rates ranging from 2.130% to 3.179% per annum.

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

i) the pledge of certain of the Group's short-term time deposits amounting to RMB97,110,000 for short-term loans (31 December 2016: RMB954,000,000);

ii) the pledge of certain of the Group's long-term time deposits amounting to RMB1,114,618,000 for long-term loans (31 December 2016: RMB1,261,938,000).

20. Commitments and contingencies

Certain sales of the Group were funded by finance leases entered into by the end-user customers and PRC domestic banks or other finance lease providers. Under the guarantee agreement entered into between the Group and the PRC domestic banks, where the end-user customers and their guarantors fail to perform their payment obligations, the Group will repurchase the equipment from the banks or other finance lease providers to settle the outstanding amounts and the related interest. As at 30 June 2017, the Group had no contingent liabilities for such repurchase obligations (31 December 2016: RMB1,087,000) (before deduction of the security deposits paid by the end-user customers and the interest on undue rent).

Capital commitments

At 30 June 2017, the Group had capital commitments of RMB40,281,000 (31 December 2016: RMB12,418,000) principally relating to the acquisition of property, plant and equipment located in Shanghai and Fujian, the PRC.

21. Related party transactions

The following table provides the total amounts of transactions which have been entered into with related parties during the six-month periods ended 30 June 2017 and 30 June 2016 as well as balances with related parties as at 30 June 2017 and 31 December 2016:

		Sales to related parties	Purchase from related parties	Amounts due from related parties	Amounts due to related parties
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Related parties:					
Longyan City Jinlong Machinery Company Limited (note a)	2017	–	9,117	–	9,854
	2016	–	4,936	–	7,323
Herkules (Shanghai) Automation Equipment Co. Ltd. (note b)	2017	–	9,026	8,885	234
	2016	–	2,159	3,718	288
Shanghai Refined Machinery Co., Ltd. (note c)	2017	–	5,832	1,182	–
	2016	–	5,669	1,461	–
Shanghai Longtui Machinery Co., Ltd. (note d)	2017	–	103	14	3
	2016	–	1,525	7	54

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, who is a controlling shareholder of the Company, an executive director and the chairman of the Group.

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

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

21. Related party transactions *(Continued)*

Compensation of key management personnel of the Group:

	For the six months ended 30 June 2017 RMB'000	2016 RMB'000
Short-term employee benefits	4,345	4,479
Pension scheme contributions	42	19
Total compensation paid to key management personnel	4,387	4,498

22. Financial instruments by category

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

30 June 2017

Financial assets

	Financial assets at fair value through profit or loss held for trading *RMB'000*	Available-for-sale financial assets *RMB'000*	Loans and receivables *RMB'000*	Total *RMB'000*
Trade and bills receivables	–	–	1,851,597	1,851,597
Long-term receivables	–	–	128,440	128,440
Due from related parties	–	–	10,081	10,081
Financial assets included in prepayments, deposits and other receivables	–	–	305,180	305,180
Finance lease receivables	–	–	52,491	52,491
Other current assets	–	311,864	–	311,864
Available-for-sale investments	–	2,035,271	–	2,035,271
Equity investments at fair value through profit or loss	118,522	–	–	118,522
Derivative financial instruments	81,478	–	–	81,478
Pledged deposits	–	–	1,381,794	1,381,794
Cash and cash equivalents	–	–	1,260,320	1,260,320
	200,000	2,347,135	4,989,903	7,537,038

22. Financial instruments by category *(Continued)*

30 June 2017

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade and bills payables	2,218,414
Financial liabilities included in other payables and accruals	95,307
Deposits for finance leases	32,705
Interest-bearing bank borrowings	1,659,728
Due to related parties	10,091
	4,016,245

31 December 2016

	Financial assets at fair value through profit or loss held for trading *RMB'000*	Available-for-sale financial assets *RMB'000*	Loans and receivables *RMB'000*	Total *RMB'000*
Trade and bills receivables	–	–	1,365,336	1,365,336
Long-term receivables	–	–	100,968	100,968
Due from related parties	–	–	5,186	5,186
Financial assets included in prepayments, deposits and other receivables	–	–	459,173	459,173
Finance lease receivables	–	–	54,289	54,289
Other current assets	–	211,045	–	211,045
Available-for-sale investments	–	525,855	–	525,855
Equity investments at fair value through profit or loss	108,193	–	–	108,193
Derivative financial instruments	91,807	–	–	91,807
Pledged deposits	–	–	2,467,785	2,467,785
Cash and cash equivalents	–	–	1,130,534	1,130,534
	200,000	736,900	5,583,271	6,520,171

22. Financial instruments by category *(Continued)*

31 December 2016

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade and bills payables	1,525,934
Financial liabilities included in other payables and accruals	93,847
Deposits for finance leases	43,505
Interest-bearing bank borrowings	2,150,450
Due to related parties	7,665
	3,821,401

23. Fair value and fair value hierarchy

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

	Carrying amounts		**Fair values**	
	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Financial assets:				
Finance lease receivables, non-current portion	3,217	2,605	3,170	2,431
Financial liabilities:				
Interest-bearing bank borrowings	1,558,112	2,150,450	1,521,250	2,104,436

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

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

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

The fair values of the non-current portion of pledged deposits, non-current portion of finance lease receivables, long-term receivables, interest-bearing bank borrowings and the non-current portion of deposits for finance leases have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for deposits for finance leases and interest-bearing bank borrowings as at 30 June 2017 was assessed to be insignificant.

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

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

Fair value hierarchy

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

Assets measured at fair value:

As at 30 June 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other current assets	–	–	311,864	311,864
Available-for-sale investments	–	1,033,561	1,001,710	2,035,271
Equity investments at fair value through profit or loss	118,522	–	–	118,522
Derivative financial instruments	–	81,478	–	81,478
	118,522	1,115,039	1,313,574	2,547,135

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other current assets	–	–	211,045	211,045
Available-for-sale investments	–	525,855	–	525,855
Equity investments at fair value through profit or loss	68,097	40,096	–	108,193
Derivative financial instruments	–	91,807	–	91,807
	68,097	657,758	211,045	936,900

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

Fair value hierarchy *(Continued)*

Assets for which fair values are disclosed:

As at 30 June 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Finance lease receivables, non-current portion	–	3,170	–	3,170

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Finance lease receivables, non-current portion	–	2,431	–	2,431

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

Fair value hierarchy *(Continued)*

Liabilities for which fair values are disclosed:

As at 30 June 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	–	1,521,250	–	1,521,250

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	–	2,104,436	–	2,104,436

24. Approval of the interim condensed consolidated financial statements

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 29 August 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT AND BUSINESS REVIEW

Each of the domestic and international economy has seen a stable recovery since the second half of 2016. In particular, the economy of China has maintained a stable, healthy and sustainable development. Driven by infrastructure investments and rising demand for replacement of construction machineries, the overall domestic market demand has showed stable and positive signs and sales of the construction machinery industry has ushered in a new stage of recovery and growth. Ridding on the momentum, the Company has played to its full potential through various proactive efforts in marketing to expand its market shares while ensuring risks under control. During the reporting period, the Group achieved total revenue of RMB4,533 million, representing an increase of RMB1,918 million or 73.33% as compared to RMB2,615 million in the same period of 2016. During the reporting period, the consolidated gross profit margin of the Group increased from 24.22% to 27.25%, up by 3.03 percentage points. The significant growth in overall consolidated gross profit margin was mainly due to increased product settlement price after the implementation of the National III Emission Standard and the Group's continuous efforts in optimizing procurement and transportation resources, strengthening overall procurement bargaining power, improving capacity utilization rate, playing its vertical integrative advantages, application and improvement of advanced scientific manufacturing process and improving human resources allocation and internal management. The Group achieved net profit of approximately RMB498 million in the first half of 2017, representing an increase of 149.34% as compared with the same period last year. The change in net profit was mainly due to the substantial increase in sales and growth in consolidated gross profit margin, as well as effective control of costs and fees.

GEOGRAPHICAL RESULTS

As the international and domestic economic environment was improving in this year, the construction machinery industry saw an overall recovery. The sales of the Company nationwide recorded a significant increase.

In northern region of PRC, the company's principal marketing area, for the period ended on 30 June 2017, sales increased by 107.5% to RMB1,120 million (Six months ended 30 June 2016: RMB540 million), which was accounted for 24.7% of the Group's total turnover as compared to 20.7% over the same period of 2016.

Sales from central region and eastern region represented approximately 14.9% and 17.5% of our total turnover respectively as compared to 16.4% and 17.9% of our total turnover respectively over the same period of 2016. Sales from central region increased by 57.9% to RMB676 million and sales from eastern region increased by 69.7% to RMB793 million.

Sales from northeastern region increased by 28.5% to RMB141 million and sales from northwestern region increased by 80.5% to RMB405 million. Sales from northeastern and northwestern region represented approximately 3.1% and 8.9% of our total turnover respectively. In southwestern region of PRC, sales increased significantly from the previous fiscal year over the same corresponding period to RMB621 million (Six months ended 30 June 2016: RMB357 million).

During the period under review, the Group realized revenue of approximately RMB334 million in the overseas market as compared to RMB186 million over the same period of 2016. This was mainly attributable to the fact that the Group work to further improve and strengthen distributorships in the overseas market. Sales from overseas represented approximately 7.4% of our total turnover as compared to 7.1% of our total turnover over the same period of 2016.

PRODUCTS ANALYSIS

For the period ended 30 June 2017, the sales of the Company's series products in each type recorded a significant increase.

Wheel Loaders

Sales from wheel loaders series, our major products for the six months under review increased 82.7% to RMB2,388 million (six months ended 30 June 2016: RMB1,307 million) due to a strong market recovery. Among which, revenue generated from ZL50 and ZL30 showed an increase of 90.1% and 41.7% respectively, representing 44.7% and 4.1% of total revenue respectively. Revenue from ZL40 series increased 71.2% to approximately RMB22.3 million (six months ended 30 June 2016: RMB13 million). Wheel loader remained as the Company's main revenue driver.

Excavator

For the six months ended 30 June 2017, sales from excavator series amounted to RMB675 million, representing an increase of 108.3% as compared to the same period in 2016 (six months ended 30 June 2016: RMB324 million).

Fork Lifts and Road Rollers

Sales from fork lifts series increased 54.6% to RMB960 million for the Period (six months ended 30 June 2016: RMB621 million). Revenue generated from fork lifts series represented approximately 21.2% of our total turnover. Sales from our road rollers amounted to RMB71 million, representing an increase of 97.2% as compared to the same period in 2016 (six months ended 30 June 2016: RMB36 million).

Components

The sales generated from components, including the skid loader amounted to approximately RMB437 million for the Period, representing approximately 9.6% of our total turnover.

Finance Lease Interest Income

Turnover from finance lease interest decreased 41.4% to approximately RMB2.7 million for the Period, representing only 0.1% of our total turnover because the finance lease business was gradually reduced by the Group since 2011 (six months ended 30 June 2016: approximately RMB4.7 million) and the Group has no longer provided finance lease business.

FINANCIAL REVIEW

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

Cash and Bank Balance

As at 30 June 2017, the Group had cash and bank balances of approximately RMB1,260 million (31 December 2016: approximately RMB1,131 million) and pledged bank deposit of approximately RMB1,382 million (31 December 2016: approximately RMB2,468 million). Compared with last year, the cash and bank balances increased by about RMB130 million, which was as a result of net cash inflow of RMB918 million from operating activities, net cash outflow of RMB1,530 million from investing activities, net cash inflow of RMB744 million from financing activities and an affect of foreign exchange rate changes of approximately RMB2 million.

The pledged deposit balance at 30 June 2017 decreased by approximately RMB1,086 million.

Liquidity and Financial Resources

We are committed to build a sound finance position. Total shareholders fund as at 30 June 2017 was approximately RMB7,102 million, an increase of 5.68% from approximately RMB6,720 million as at 31 December 2016.

The current ratio of the Group at 30 June 2017 was 2.35 (31 December 2016: 3.04). The Directors believed that the Group has sufficient resources to support its working capital requirement and meet its foreseeable capital expenditure.

Capital Structure

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares and any other listed securities during the period.

As at 30 June 2017, the gross gearing ratio (defined as total liabilities over total assets) was approximately 41.38% (31 December 2016: 40.04%).

Capital Expenditure

During the Period, the Group acquired property, plant and equipment of approximately RMB32 million (six months ended 30 June 2016: approximately RMB11 million) in line with a series of strategic transformation and production transformation by the Group.

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

Other Gains and Losses

During the current period, other losses was approximately RMB105 million, increased by approximately RMB78,515,000 or 295% as compared to last period. This was mainly attributable to the facts that the Group's foreign exchange loss increased significantly since RMB appreciated against HK$ by 3% and US$ appreciated against HK$ by 0.6% during the period, as well as investment gains of RMB63,227,000 obtained from acquisition of financial assets by the Group during the period.

Selling and Distribution Costs

In the first half of 2017, the selling expenses increased by approximately RMB92,034,000 as compared with the corresponding period of 2016, mainly due to the fact that the significant increase in transportation expenses and assembly service expenses during the current period resulting from the significant increase in sales during the current period.

Research and Development Costs

During the current period, the research and development expenses increased by 79% to approximately RMB164 million as compared with the corresponding period of last year. This was mainly attributable to the significant increase in sales income during the current period and the increase in research and development expenses by the Group to enhance the competitiveness of its products.

Trade and Bills Receivables

During the period ended 30 June 2017, trade and bills receivables as at the end of current period increased by totally approximately RMB486 million or 35.6% as compared to the end of 2016. This was primarily due to the significant increase in sales resulting from recovery of the overall industry in the first half of 2017.

Trade and Bills Payables

During the period ended 30 June 2017, trade and bills payables as at the end of current period increased by totally approximately RMB692 million or 45.4% as compared to the end of 2016. This was mainly attributable to the significant increase in sales and procurement of materials and components resulting from continuous recovery of the market demand for construction machinery in the first half of 2017 and the expected continuous improvement in market in short term. Meanwhile, during the current period, the increase in trade and bills payables was also due to the increase in the price of raw materials.

Pledged Bank Deposits

During the current period, the pledged deposit balance decreased was mainly due to maturity of bank deposits pledged for loan within the period.

Exposure in Exchange Rate Fluctuation

The Group adopts a prudent treasury and hedging policy consistently.

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

Capital Commitment

As at 30 June 2017, the Group had contracted but not included in the financial statements in respect of acquisition of property, plant and equipment amounting to approximately RMB40 million (31 December 2016: approximately RMB12 million).

PROSPECT

The development of the construction machinery industry is highly related to the macro economy and fixed assets investment. An evident trend of gradually but positively stabilized development has been noticed in national economy, ushering in a stable recovery stage for the construction machinery industry in 2017. In the second half of the year, the Company will ride the momentum of continuous recovery of demand in construction machinery market and continue to focus on the industry to further develop its four major products (i.e. loaders, fork lifts, excavators and road rollers) and related core components. Following its mission and vision, the Company will be determined to move forward to optimize its product quality and improve its market presence both domestically and internationally while putting risks under control. With more efforts in market research, market analysis and regional distribution, the Company will explore and develop new promotion and marketing channels to improve the market shares of its products. Leveraging on its existing advantages in brand awareness, service and good value for money, the Company will make further investment in advanced technologies and speed up the transformation of excellent research findings. The research and development costs of the Company will be placed at the first place of its fund arrangement. It will continue to enhance independent technology research and development capabilities, emphasize product quality and be committed to provide products of lower fuel consumption, higher efficiency and being more environmentally friendly to its customers. In addition, the Company will strengthen its internal management and coordination, optimize organizational structure and human resources allocation and fortify cost management and control to achieve balance between costs and economy. It will promote Lonking's culture as a big family to mobilize employee's initiative, stick to its "marketing-oriented" management mechanism and rectify insufficiency and weakness identified in its management. The standard of "Back to Basics for Being Resilient" (按實歸真，收放自如) will continue to be implemented throughout the Company, aiming to return the management work of the Company to the fundamentals so as to keep resilient to market movements. It will capitalize on the competitive edge of its systems and mechanisms and unleash the potential from the vibrant market to seize the opportunities and make further success.

CORPORATE GOVERNANCE

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

Code Provision A.1.8

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

Code Provision A.6.7

As stipulated in the Code provision A.6.7 of CG Code, independent non-executive directors and other non-executive directors shall attend general meetings. Three independent non-executive directors were unable to attend annual general meeting of the Company held on 26 May 2017 (the "2017 AGM") due to other important engagement.

Code Provision A.4.3

Mr. Qian Shi Zheng ("Mr. Qian") has been appointed as an independent non-executive Director for more than nine years since February 2005. Pursuant to Code A.4.3 of the CG Code, (a) having served the Company for more than nine years could be relevant to the determination of an independent non-executive director's independence and (b) if an independent non-executive director has served more than nine years, his further appointment should be subject to a separate resolution to be approved by shareholders. Mr. Qian has extensive experience in the finance and accounting fields. He provides a wide range of expertise and experience which can meet the requirement of Group's business and his participant in the Board brings independent judgment on issues relating to the Group's strategy, performance, conflicts of interest and management process to ensure that the interest of the shareholders have been duly considered.

The Company has received from Mr. Qian a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Mr. Qian has not engaged in any executive management of the Group. Taking into consideration of his independent scope of works in the past years, the Directors consider Mr. Qian to be independent under the Listing Rules despite the fact that he has served the Company for more than nine years. Accordingly, Mr. Qian shall be subject to retirement rotation and re-election by way of a separate resolution approved by the Shareholders at the annual general meeting. At the Annual General Meeting of the Company held on 26 May 2017, a separate resolution to re-elect Mr. Qian, a retiring Director, as an independent non-executive Director was passed by the Shareholders by way of poll.

Code Provision A.2.1

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

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

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

Improvements in Internal Control Systems

Additional measures and improvements for the internal control systems of the Company during the six months ended 30 June 2017.

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 2017, the Company maintained its good relationship with the international capital markets through the announcement of annual results, on-site and telephone meetings and group visits.

The Company received communications from a total of 86 domestic and overseas investors throughout the six-month period ended 30 June 2017, including over 16 on-site meetings and over 22 telephone meetings. During the first half year of 2017, the Company received group visits with 10 to 20 members for 3 times.

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. Yanzhen Wang

Tel: 86-21-3760 2031
E-mail address: wz@lonking.cn

DISCLOSURE OF INTERESTS

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

As at 30 June 2017, the interests of the directors and chief executive of the Company in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register to be kept by the Company pursuant to Section 352 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code were as follows:

(1) Long positions in shares and underlying shares of the Company

Ordinary shares of HK$0.10 each of the Company

Name of directors	Capacity	Number of shares held	Percentage of issued share capital as at 30 June 2017
Li San Yim and Ngai Ngan Ying (Note 1)	held by controlled corporation (Note 2)	1,312,058,760	30.65%
Li San Yim and Ngai Ngan Ying (Note 1)	beneficial owner	1,073,257,760	25.08%
Luo Jianru	beneficial owner	1,902,000	0.04%
Chen Chao	beneficial owner	1,327,000	0.03%
Zheng Ke Wen	beneficial owner	429,900	0.01%
		2,388,975,420	55.81%

Note 1: Mr. Li San Yim and Ms. Ngai Ngan Ying are husband and wife to each other and are deemed to be interested in each other's interest.

Note 2: These shares were held through China Longgong Group Holdings Limited, a company that was wholly owned by Mr. Li San Yim and Ms. Ngai Ngan Ying as to 55% and 45% respectively, which is the registered shareholder of these 1,312,058,760 shares.

(2) Long positions in shares and underlying shares of the associated corporation of the Company, Longgong (Shanghai) Machinery Co., Ltd.

Ordinary shares of HK$0.10 each of the Company

Name of directors	Capacity	Registered share capital	Percentage of issued share capital as at 30 June 2017
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 2017, 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 2017, 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 2017
China Longgong Group Holdings Ltd (Note 1)	beneficial owner	1,312,058,760	30.65%
GIC Private Limited	Investment Manager	299,277,916	6.99%

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 2017, 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 2017 (six months ended 30 June 2016: HK$0 cents per shares).

Employees and emolument policy

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

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

As at 30 June 2017, the Group employed approximately 6,284 employees.

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

During the period ended on 30 June 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares and any other Listed Securities during the period.

Review of accounts by audit committee

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

The interim results for the six months ended 30 June 2017 have been reviewed by the audit committee of the Company.

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

Hong Kong, 29 September 2017

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

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

Non-executive directors

Ms. Ngai Ngan Ying

Independent non-executive directors

Dr. Qian Shizheng
Mr. Wu Jian Ming
Mr. Chen Zhen

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

EXECUTIVE COMMITTEE

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

COMPANY SECRETARY

Mr. Chu Shun

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. Yanzhen Wang
wz@lonking.cn
Tel: 86-21-3760 2031

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1802, 18th Floor, West Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

WEBSITE

http://www.lonking.cn

STOCK CODE

3339

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
3rd Fl., Royal Bank House,
24 Shedden Road,
P O Box 1586,
Grand Cayman, KY1-1110,
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
Songjiang District
Shanghai, PRC