LONKING HOLDINGS LIMITED
中國龍工控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3339

2018
Interim Report

* For Identification Purpose Only

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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").

Current period	Six months ended 30 June 2018 *RMB'000*	Six months ended 30 June 2017 *RMB'000*	Change (+/–)
Turnover	6,648,134	4,532,888	+46.66%
Operating profits	776,918	585,340	+32.73%
EBITDA	1,018,138	833,319	+22.18%
Profit attributable to equity parent	703,884	497,812	+41.40%
Per share data			
Basic earnings per share(1)#	0.16	0.12	+33.33%
Net assets per share(2)#	1.83	1.66	+10.24%
Key performance indicators			
Profitability			
Overall gross margin	23.20%	27.25%	-4.05%
Net profit margin	10.59%	10.99%	-0.40%
EBITDA margin(3):	15.31%	18.38%	-3.07%
Return on equity(4)	8.97%	7.01%	+27.96%
Liquidity and solvency			
Current ratio(5)	2.08	2.35	-11.49%
Interest coverage ratio(6):	45.10	29.82	+51.24%
Gross debt-to-equity ratio(7)	84.03	70.58	+13.45%
Management efficiency			
Inventory turnover days(8)	87	77	+10 days
Trade and bills payables turnover days(9)	121	94	+27 days
Trade and bills receivable turnover days(10)	63	72	-9 days

calculated based on the 4,280,100,000 weighted average number of outstanding shares (WANOS) for the period ended 30 June 2018 (30 June 2017: 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 5 to 37, 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 2018 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
28 August 2018

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June 2018 Unaudited RMB'000	2017 Unaudited RMB'000
Revenue	3	6,648,134	4,532,888
Cost of sales		(5,105,831)	(3,297,792)
Gross profit		1,542,303	1,235,096
Other income	5	12,319	13,201
Other gains and losses	5	(45,309)	(105,136)
Selling and distribution expenses		(341,731)	(263,610)
Administrative expenses		(124,983)	(119,222)
Research and development costs		(264,839)	(163,921)
Other expenses		(842)	(11,068)
Operating profit		776,918	585,340
Finance income		66,469	65,262
Finance costs		(18,699)	(21,814)
Profit before tax	6	824,688	628,788
Income tax expense	7	(120,728)	(130,767)
Profit for the period		703,960	498,021
Attributable to:			
Owners of the parent		703,884	497,812
Non-controlling interests		76	209
		703,960	498,021
Earnings per share			
Basic, profit for the period attributable to ordinary equity holders of the parent (RMB)		0.16	0.12

Details of the dividends declared and paid are disclosed in note 8 to the financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018 Unaudited *RMB'000*	2017 Unaudited *RMB'000*
Profit for the period	703,960	498,021
Other comprehensive (loss)/income		
Other comprehensive(loss)/income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	–	9,416
Income tax effect	–	(1,412)
	–	8,004
Exchange differences:		
Exchange differences on translation of foreign operations	(40,444)	110,952
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods	(40,444)	118,956
Other comprehensive (loss)/income for the period, net of tax	(40,444)	118,956
Total comprehensive income for the period, net of tax	663,516	616,977
Attributable to:		
Owners of the parent	663,440	616,760
Non-controlling interests	76	217
	663,516	616,977

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	30 June 2018 Unaudited *RMB'000*	31 December 2017 Audited *RMB'000*
Assets			
Non-current assets			
Property, plant and equipment	9	2,204,208	2,278,567
Prepaid land lease payments		178,764	179,537
Finance lease receivables		1,256	1,307
Prepayments for property, plant and equipment		37,830	33,428
Long-term receivables	10	175,822	157,821
Available-for-sale investments		–	1,625
Equity investments at fair value through other comprehensive income		1,220	–
Deferred tax assets	3	329,178	351,718
Pledged deposits	16	656,000	–
		3,584,278	3,004,003
Current assets			
Prepaid land lease payments		5,323	5,276
Inventories	11	2,410,166	2,445,637
Finance lease receivables		31,915	37,177
Trade and bills receivables	12	2,609,630	1,969,611
Due from related parties	22	14,810	9,967
Prepayments, deposits and other receivables	13	765,698	748,630
Other current assets		–	221,891
Available-for-sale investments		–	2,077,518
Equity investments at fair value through profit or loss	14	1,604,169	94,258
Derivative financial instruments		116,643	105,742
Pledged deposits	16	1,306,283	1,465,470
Cash and cash equivalents	16	1,988,883	1,633,686
		10,853,520	10,814,863
Current liabilities			
Trade and bills payables	17	3,426,631	3,331,044
Other payables and accruals	18	672,101	825,708
Interest-bearing bank borrowings	19	281,206	1,502,866
Due to related parties	21	21,773	21,659
Provisions		120,512	94,020
Deferred income		1,894	400
Tax payable		126,016	210,978
Dividends due to shareholders	8	577,368	–
		5,227,501	5,986,675
Net current assets		5,626,019	4,828,188
Total assets less current liabilities		9,210,297	7,832,191

	Notes	30 June 2018 Unaudited *RMB'000*	31 December 2017 Audited *RMB'000*
Non-current liabilities			
Deposits for finance leases		18,351	18,261
Interest-bearing bank borrowings	19	1,240,613	–
Deferred tax liabilities		76,461	71,833
Provisions		14,815	4,494
Deferred income		14,530	7,397
Total non-current liabilities		1,364,770	101,985
Net assets		7,845,527	7,730,206
Equity			
Issued capital		444,116	444,116
Share premium and reserves		7,398,891	7,283,646
Equity attributable to owners of the parent		7,843,007	7,727,762
Non-controlling interests		2,520	2,444
Total equity		7,845,527	7,730,206

Li San Yim
Director

Yin Kun Lun
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

2018	Attributable to owners of the parent								Non-controlling interests	Total equity
	Issued capital	Share premium	Special reserve	Non-distributable reserve	Available-for-sale reserve	Retained profits	Exchange fluctuation reserve	Total		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018	444,116	854,922	389,249	1,591,048	63,215	4,665,058	(279,846)	7,727,762	2,444	7,730,206
Transfer from other comprehensive income of available-for-sale investments to retained profits	–	–	–	–	(63,215)	63,215	–	–	–	–
At 1 January 2018 (restated)	444,116	854,922	389,249	1,591,048	–	4,728,273	(279,846)	7,727,762	2,444	7,730,206
Profit for the period	–	–	–	–	–	703,884	–	703,884	76	703,960
Other comprehensive income for the period:										
Exchange differences related to foreign operations	–	–	–	–	–	–	(40,444)	(40,444)	–	(40,444)
Total comprehensive income for the period	–	–	–	–	–	703,884	(40,444)	663,440	76	663,516
Final 2017 dividend declared	–	–	–	–	–	(548,195)	–	(548,195)	–	(548,195)
Transfer from retained profits	–	–	3,149	–	–	(3,149)	–	–	–	–
At 30 June 2018	444,116	854,922	392,398	1,591,048	–	4,880,813	(320,290)	7,843,007	2,520	7,845,527

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 on disposal, net of tax	–	–	–	–	(53,684)	–	–	(53,684)	(59)	(53,743)
Exchange differences related to 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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Operating cash flows before movements in working capital:	1,008,902	803,810
Decrease in inventories	35,046	55,528
Increase in trade and bills receivables	(650,679)	(601,476)
Increase in prepayments, deposits and other receivables	(8,664)	(35,015)
Decrease in finance lease receivables	5,313	1,798
Increase in trade, bills and other payables	39,614	815,355
Increase in provisions	36,813	36,878
Increase in amounts due from related parties	(4,843)	(4,895)
Increase in amounts due to related parties	114	2,426
Decrease in deposits for finance leases	(5,218)	(10,800)
Income tax paid	(267,295)	(168,784)
Interest received	40,458	23,038
Net cash flows from operating activities	229,561	917,863
Cash flows from/(used in) investing activities		
Proceeds from financial investments	720,000	30,000
Interests received from financial investments	15,511	63,227
Proceeds from disposal of items of property, plant and equipment	12,649	14,354
Increase in deferred income	9,452	4,628
Proceeds from derivative financial instruments	6,604	6,585
Interest received from other current assets	6,307	6,246
Payment for lease premium for land	(2,203)	–
Purchase of items of property, plant and equipment	(121,230)	(24,766)
Purchase of available-for-sale investments	–	(1,630,000)
Net cash flows from/(used in) investing activities	647,090	(1,529,726)

	Notes	For the six months ended 30 June 2018 Unaudited *RMB'000*	2017 Unaudited *RMB'000*
Cash flows (used in)/from financing activities			
(Increase)/decrease in pledged deposits		(496,813)	1,085,991
Dividends paid		(832)	(265)
Interest paid		(33,462)	(23,399)
Bank charges for extension of bank loan		(10,096)	–
Interest from pledged deposits received		19,460	127,517
Repayment of borrowings		–	(445,621)
Net cash flows (used in)/from financing activities		(521,743)	744,223
Net increase in cash and cash equivalents		354,908	132,360
Net foreign exchange difference		289	(2,574)
Cash and cash equivalents at 1 January		1,633,686	1,130,534
Cash and cash equivalents at 30 June	16	1,988,883	1,260,320

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. Corporate information

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 were authorised for issue in accordance with a resolution of the directors on 28 August 2018.

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 2018 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 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

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 2017, 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 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 9 *Financial Instruments* that recognise the cumulative effect of the initial application as an adjustment to the opening balance of equity at 1 January 2018. As required by HKAS 34, the nature and effect of these changes are disclosed below.

Several other standards and amendments were applied for the first time in 2018 by the Group. However, they do not have an impact on the interim condensed consolidated financial statements of the Group.

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

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

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)*

HKFRS 15 Revenue from Contracts with Customers *(Continued)*

The Group adopted HKFRS 15 using the modified retrospective method of adoption. Under this transition method, the Group elects to apply HKFRS 15 retrospectively only to contracts that are not completed contracts at the date of 1 January 2018. There was no cumulative effect on initially applying the new revenue standard as an adjustment to the opening balance of retained earnings.

The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Group do not expect the adoption of HKFRS 15 to have a material impact on the consolidated statement of profit or loss on an ongoing basis.

(a) *Sale of goods*

The Group's contracts with customers for the sale of goods generally include one performance obligation. The Group has concluded that revenue from sale of goods should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition.

(b) *Presentation and disclosure requirements*

As required for the condensed interim financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to Note 3 and Note 4 for the disclosure on disaggregated revenue.

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)*

HKFRS 9 Financial Instruments

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied HKFRS 9 retrospectively, with the initial application date of 1 January 2018. The Group did not restate the comparative information for year ended 2017 for financial instruments in the scope of HKFRS 9.

(a) *Classification and measurement*

Except for certain trade receivables, under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's Trade and other receivables, and Loans included under Other non-current financial assets.

- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Group's quoted debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. Under HKAS 39, the Group's quoted debt instruments were classified as available-for-sale (AFS) financial assets.

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

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

HKFRS 9 Financial Instruments *(Continued)*

(a) *Classification and measurement (Continued)*

Other financial assets are classified and subsequently measured, as follows:

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified some of its equity investments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under HKFRS 9. Under HKAS 39, the Group's unquoted equity instruments were classified as AFS financial assets.

- Financial assets at FVPL comprise derivative instruments and quoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under HKAS 39, the Group's quoted equity securities were classified as AFS financial assets. Upon transition the AFS reserve relating to quoted equity securities, which had been previously recognised under accumulated OCI, was reclassified to Retained earnings.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The opening balance of retained earnings as at 1 January 2018 was adjusted, resulting in a decrease in Other comprehensive income and increase in Retained earnings amounting to RMB63,215,000.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

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)*

HKFRS 9 Financial Instruments *(Continued)*

(b) Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For Trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The adoption of the ECL requirements of HKFRS 9 has no significant impact on the impairment allowances of the Group's debt financial assets.

HKFRIC Interpretation 22 *Foreign Currency Transactions and Advance Considerations*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

3. Revenue from contracts with customers

The type of Group's revenue from contracts with customers is sale of wheel loaders, road rollers, excavators, forklifts and other construction machinery. The revenue is recognised when goods are transferred at a point in time. Refer to Note 4 for the disclosure on disaggregated revenue.

4. 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 2018 and 2017:

	Sale of construction machinery *RMB'000*	Finance lease of construction machinery *RMB'000*	Financial investments *RMB'000*	Total *RMB'000*
Six months ended 30 June 2018				
Segment revenue	6,646,346	1,788	–	6,648,134
Segment results	825,018	(5,252)	(30,080)	789,686
Reconciliation:				
Interest income				66,469
Unallocated other gains and losses				(8,462)
Corporate and other unallocated expenses				(4,306)
Finance costs				(18,699)
Profit before tax				824,688

	Sale of construction machinery *RMB'000*	Finance lease 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 gains and losses				(79,628)
Corporate and other unallocated expenses				(4,344)
Finance costs				(21,814)
Profit before tax				628,788

4. 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 2018 and 31 December 2017:

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Segment assets:	14,329,154	13,714,880
Sale of construction machinery	12,562,573	11,165,605
Finance leases of construction machinery	45,769	49,866
Financial investments	1,720,812	2,499,409
Corporate and other unallocated assets	108,644	103,986
Consolidated assets	14,437,798	13,818,866

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Segment liabilities:	4,424,459	4,533,912
Sale of construction machinery	4,375,950	4,437,375
Finance leases of construction machinery	48,509	96,537
Corporate and other unallocated liabilities	2,167,812	1,554,748
Consolidated liabilities	6,592,271	6,088,660

4. 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			
	2018		2017	
	RMB'000	%	*RMB'000*	%
Sales of construction machinery:				
Wheel loaders	3,336,753	50.2	2,388,132	52.7
Excavators	1,378,730	20.7	675,098	14.9
Forklifts	1,291,697	19.4	959,638	21.2
Road rollers	85,932	1.3	70,754	1.5
Components	553,234	8.3	436,528	9.6
Subtotal	6,646,346	99.9	4,530,150	99.9
Finance lease interest income	1,788	0.1	2,738	0.1
Total	6,648,134	100	4,532,888	100

Seasonality of operations

The Group's operations are not subject to seasonality.

5. 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	
	2018	2017
	RMB'000	*RMB'000*
Government grants	6,298	6,098
Penalty income	497	2,845
Others	5,524	4,258
	12,319	13,201

5. 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	
	2018 *RMB'000*	2017 *RMB'000*
(Loss)/Gain on disposal of items of property, plant and equipment	(2,768)	4,742
Allowance for bad and doubtful debts	(6,342)	(100,867)
Provision for inventories	(425)	(1,520)
Fair value (losses)/gains, net:		
Equity investments at fair value through profit or loss		
– held for trading	(10,901)	10,329
– unlisted equity investments	(53,632)	–
Derivative instruments		
– transactions not qualifying as hedges	10,901	(10,329)
Gains from derivative instruments	6,604	6,585
Interests received from available-for-sale investments	–	63,227
Investment income	16,948	7,065
Foreign exchange loss	(5,694)	(84,368)
	(45,309)	(105,136)

6. Profit before tax

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

	For the six months ended 30 June	
	2018 *RMB'000*	2017 *RMB'000*
Cost of inventories recognised as expenses (note a)	5,105,831	3,297,792
Depreciation of property, plant and equipment	171,822	179,757
Amortisation of lease payments for land	2,929	2,960
Staff costs, including directors' remuneration	325,970	218,205
Contribution to a retirement benefit scheme	26,458	17,756
Foreign exchange differences, net	5,694	84,368
Bad debt provision	6,342	100,867
Product warranty provision	102,984	80,827
Provision for inventories to net realisable value	425	1,520
Interest income on bank deposits	(66,469)	(65,262)
Income-related government grants	(6,298)	(6,098)

Note a: Cost of inventories recognised as expenses included RMB435,444,000 (six months ended 30 June 2017: RMB323,680,000) relating to staff costs and depreciation, which amounts were also included in the respective total amounts disclosed separately for each of these types of expenses.

7. Income tax

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

	For the six months ended 30 June	
	2018 *RMB'000*	2017 *RMB'000*
Current income tax expense	93,560	136,655
Deferred income tax expense relating to origination and reversal of temporary differences	27,168	(5,888)
Income tax expense recognised in the consolidated statement of profit or loss	120,728	130,767

8. Dividends due to shareholders

The directors did not recommend the payment of an interim dividend in respect of the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

The proposed final dividend of HK$0.16 per ordinary share for the year ended 31 December 2017 was declared payable and approved by the shareholders at the annual general meeting of the Company on 29 May 2018 and was paid on 24 July 2018.

9. Property, plant and equipment

During the six months ended 30 June 2018, the Group acquired assets with a cost of RMB113,834,000 (six months ended 30 June 2017: RMB32,064,000), including property, plant and machinery in the People's Republic of China (the "PRC").

Assets with a net book value of RMB15,417,000 were disposed of by the Group during the six months ended 30 June 2018 (six months ended 30 June 2017: RMB9,480,000), resulting in a net loss on disposal of RMB2,768,000 (net gain in the six months ended 30 June 2017: RMB4,742,000).

10. 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 2018 *RMB'000*	31 December 2017 *RMB'000*
Trade receivables (note 12)	175,822	157,821

11. Inventories

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Raw materials	885,259	841,263
Work in progress	206,823	228,340
Finished goods	1,318,084	1,376,034
	2,410,166	2,445,637

12. 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 2018 *RMB'000*	31 December 2017 *RMB'000*
Trade receivables	3,013,536	2,389,558
Impairment	(466,270)	(458,791)
Less: Non-current portion (note 10)	(175,822)	(157,821)
	2,371,444	1,772,946
Bills receivable	238,186	196,665
	2,609,630	1,969,611

The ageing analysis of trade receivables is as follows:

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
0 – 90 days	1,722,360	1,273,565
91 – 180 days	376,685	267,311
181 – 360 days	219,413	188,452
Over 1 year	52,986	43,618
	2,371,444	1,772,946

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 credit facilities (31 December 2017: Nil).

13. Prepayments, deposits and other receivables

	30 June 2018 RMB'000	31 December 2017 RMB'000
Prepayments	397,126	370,970
Deductible value-added tax	54,153	59,643
Deposits	7,896	8,989
Total	459,175	439,602
Other receivables:		
Loan receivables	524,525	547,911
Less: impairment	(399,832)	(403,697)
Net loan receivables	124,693	144,214
Other miscellaneous receivables	189,661	173,425
Less: impairment	(7,831)	(8,611)
Net other miscellaneous receivables	181,830	164,814
Total other receivables	306,523	309,028
Grand total	765,698	748,630

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

A large portion of other receivables includes the loan receivables from 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 in the past few years. 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 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.

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

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

14. Equity investments at fair value through profit or loss

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Listed equity investments, at fair value	83,357	94,258
Unlisted equity investments, at fair value	1,520,812	–
	1,604,169	94,258

The unlisted equity investments at fair value are classified as equity investments at fair value through profit or loss upon the adoption of HKFRS 9, which were classified as available-for-sale investments under HKAS 39.

The underlying trading portfolio of unlisted equity investments included equity securities, shares, bonds and trust funds. The unlisted equity investments have fixed maturity dates and floating return rates.

The listed equity investments at fair value at 30 June 2018 were classified as equity investments at fair value through profit or loss upon initial recognition.

15. Derivative financial instruments

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Compensation terms for investment	116,643	105,742

The compensation terms for investment is related to the listed 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% per annum 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% per annum after the compensation.

16. Cash and cash equivalents and pledged bank deposits

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Cash and bank balances	1,988,883	1,633,686
Time deposits	1,962,283	1,465,470
Less: Pledged for long-term bank loans (note 19)	(656,000)	–
Pledged for short-term bank loans (note 19)	(1,114,618)	(1,261,938)
Pledged for bank acceptance bills	(188,885)	(202,344)
Pledged for others	(2,780)	(1,188)
Cash and cash equivalents	1,988,883	1,633,686

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 ageing analysis of trade and bills payables is as follows:

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
0-180 days	3,334,237	3,234,919
181 days-1 year	50,654	65,143
1-2 years	14,034	19,035
2-3 years	18,596	5,170
Over 3 years	9,110	6,777
	3,426,631	3,331,044

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

18. Other payables and accruals

	30 June 2018 RMB'000	31 December 2017 RMB'000
Accrued sales rebate	324,192	360,208
Other payables	91,020	88,522
Salary and wages payable	83,126	115,034
Advances from customers	54,561	45,926
Payable for acquisition of property, plant and equipment	32,663	35,657
Other taxes payable	32,019	142,746
Refundable finance lease deposits	2,415	7,723
Dividend payable	–	832
Other accrued expenses	52,105	29,060
	672,101	825,708

19. Interest-bearing bank borrowings

During the six-month period ended 30 June 2018, the Group extended the current portion of long-term bank loans of US$187,500,000 (equivalent to RMB1,240,613,000).

The bank loans bear interest at rates ranging from 3.208% to 3.257% per annum.

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

i) the pledge of certain of the Group's short-term time deposits amounting to RMB1,114,618,000 for short-term loans (31 December 2017: RMB1,261,938,000);

ii) the pledge of certain of the Group's long-term time deposits amounting to RMB656,000,000 for long-term loans (31 December 2017: Nil).

20. Commitments

At 30 June 2018, the Group had capital commitments of RMB18,912,000 (31 December 2017: RMB22,488,000) 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 2018 and 30 June 2017 as well as balances with related parties as at 30 June 2018 and 31 December 2017:

		Sales to related parties *RMB'000*	Purchase from related parties *RMB'000*	Amounts owed by related parties *RMB'000*	Amounts owed to related parties *RMB'000*
Related parties:					
Longyan City Jinlong					
Machinery Company	2018	–	26,635	–	7,899
Limited (note a)	2017	–	9,117	–	6,133
Herkules (Shanghai)					
Automation Equipment	2018	–	38,258	14,638	13,839
Co. Ltd. (note b)	2017	–	9,026	9,663	15,479
Shanghai Refined Machinery	2018	–	–	136	–
Co. Ltd. (note c)	2017	–	5,832	304	–
Shanghai Longtui Machinery					
Environmental Technology	2018	–	345	36	35
Co. Ltd. (note c)	2017	–	103	–	47

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 Environmental Technology 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	
	2018 *RMB'000*	2017 *RMB'000*
Short-term employee benefits	8,115	4,345
Pension scheme contributions	74	42
Total compensation paid to key management personnel	8,189	4,387

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 2018

Financial assets

	Financial assets at fair value through profit or loss			
	Listed equity investments *RMB'000*	Unlisted equity investments *RMB'000*	Debt instruments at amortised cost *RMB'000*	Total *RMB'000*
Trade and bills receivables	–	–	2,609,630	2,609,630
Long-term receivables	–	–	175,822	175,822
Due from related parties	–	–	14,810	14,810
Financial assets included in prepayments, deposits and other receivables	–	–	290,093	290,093
Finance lease receivables	–	–	33,171	33,171
Equity investments at fair value through profit or loss	83,357	1,520,812	–	1,604,169
Derivative financial instruments	116,643	–	–	116,643
Pledged deposits	–	–	1,962,283	1,962,283
Cash and cash equivalents	–	–	1,988,883	1,988,883
	200,000	1,520,812	7,074,692	8,795,504

22. Financial instruments by category *(Continued)*

30 June 2018

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade and bills payables	3,426,631
Financial liabilities included in other payables and accruals	123,683
Deposit for finance leases	20,766
Interest-bearing bank borrowings	1,521,819
Due to related parties	21,773
	5,114,672

31 December 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	–	–	1,969,611	1,969,611
Long-term receivables	–	–	157,821	157,821
Due from related parties	–	–	9,967	9,967
Financial assets included in prepayments, deposits and other receivables	–	–	303,908	303,908
Finance lease receivables	–	–	38,484	38,484
Other current assets	–	221,891	–	221,891
Available-for-sale investments	–	2,077,518	–	2,077,518
Equity investments at fair value through profit or loss	94,258	–	–	94,258
Derivative financial instruments	105,742	–	–	105,742
Pledged deposits	–	–	1,465,470	1,465,470
Cash and cash equivalents	–	–	1,633,686	1,633,686
	200,000	2,299,409	5,578,947	8,078,356

22. Financial instruments by category *(Continued)*

31 December 2017

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade and bills payables	3,331,044
Financial liabilities included in other payables and accruals	124,179
Deposit for finance leases	25,984
Interest-bearing bank borrowings	1,502,866
Due to related parties	21,659
	5,005,732

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 2018 *RMB'000*	31 December 2017 *RMB'000*	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Financial assets:				
Finance lease receivables, non-current portion	1,256	1,307	1,148	1,195
Financial liabilities:				
Interest-bearing bank borrowings non-current portion	1,240,613	–	1,240,613	–

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, 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 2018 was assessed to be insignificant.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future dividends and proceeds on subsequent disposal of the shares. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss, 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 2018

	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***
Equity investments at fair value through profit or loss	83,357	1,520,812	–	1,604,169
Derivative financial instruments	–	116,643	–	116,643
	83,357	1,637,455	–	1,720,812

As at 31 December 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	–	–	221,891	221,891
Available-for-sale investments	–	2,077,518	–	2,077,518
Equity investments at fair value through profit or loss	94,258	–	–	94,258
Derivative financial instruments	–	105,742	–	105,742
	94,258	2,183,260	221,891	2,499,409

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

Fair value hierarchy *(Continued)*

Assets for which fair values are disclosed:

As at 30 June 2018

	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	–	1,148	–	1,148

As at 31 December 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	–	1,195	–	1,195

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

Fair value hierarchy *(Continued)*

Liabilities for which fair values are disclosed:

As at 30 June 2018

	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	–	1,451,554	–	1,451,554

As at 31 December 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	–	1,502,866	–	1,502,866

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 28 August 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT AND BUSINESS REVIEW

Following the overall pick-up and explosive growth last year, the construction machinery industry continued to grow in a rapid manner in the first half of 2018. During the reporting period, both the sales volume and revenue of almost all products of the Group recorded varying increases. Total revenue of the Group increased by RMB2,115 million to RMB6,648 million from RMB4,533 million for the same period of 2017, representing a year-on-year growth of 46.66%. During the reporting period, due to further increase in manufacturing cost resulted from the rising price of raw materials, including steel and casting, and increasing purchase cost of parts and components arising from product upgrade to improve quality, overall gross profit margin of the Group for the reporting period decreased by 4.05 percentage points from 27.25% for the same period of 2017 to 23.20% for 2018. During the first half of 2018, the Group had net profit of RMB704 million, increasing by 41.35% as compared with RMB498 million for the same period last year. The significant increase in net profit was mainly attributable to the substantial increase in revenue and the effective control over operating costs, administrative expenses and finance costs.

GEOGRAPHICAL RESULTS

During the period ended 30 June 2018, sales revenue in various regions in the PRC showed a sign of dramatic increase, the ratio of turnover in each region in the PRC over total turnover respectively is insignificantly different, reflecting that the demand in each region is relatively mild and tends to be stable.

Northern region of PRC is the Company's principal market area, which accounted for 27.0% of the Group's total turnover. Sales from northern region in the PRC increased 60.4% to RMB1,797 million as compared to the same period of last year (for the six months ended 30 June 2017: RMB1,120 million).

Sales from eastern region and northeastern region represented approximately 16.5% and 2.8% respectively. Sales from eastern region of PRC increased by 38.2% to RMB1,096 million and sales from northeastern region increased by 30.5% to RMB184 million.

Sales from southern region in the PRC increased 45.8% from the previous fiscal year over the same corresponding period to RMB640 million (Six months ended 30 June 2017: RMB439 million) while sales from northwestern region in the PRC increased by 50.4% to RMB609 million (Six months ended 30 June 2017: RMB405 million).

Sales from southwestern region and central region represented approximately 13.3% and 16.5% respectively. Sales from southwestern region increased by 42.8% to RMB887 million and sales from central region increased by 62.7% to RMB1,100 million.

There were no significant changes in the revenue generated from overseas market as compared with the corresponding period last year. Revenue generated from overseas market was amounted to approximately RMB333 million (for the six months ended 30 June 2017: RMB334 million), accounting for 5.0% of the total sales revenue of the Group. We will work to further improve and strengthen distributorships in the overseas market.

PRODUCTS ANALYSIS

Wheel Loaders

Wheel loader again remained as the Company's main revenue driver and achieved a turnover of approximately RMB3,337 million, which accounted for approximately 50.2% of the Company's turnover for the period. ZL50 series achieved a turnover of approximately RMB2,878 million for the period, representing an increase of 41.9% when compared with the corresponding period in 2017. ZL30 is the second largest revenue contributor and has achieved a turnover of approximately RMB236 million, representing an increase of 28.6% when compared to the corresponding period of last year. Turnover from mini loader series increased only 5.4% to approximately RMB116 million, representing about 1.7% of the Group's total turnover. The revenue generated from ZL40 decreased 12.5% to approximately RMB19 million due to a weak demand of ZL40 series.

Overall, demand of wheel loader remained strong as impacted by overall rapid recovery of the market.

Fork Lifts and Road Rollers

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

The turnover from fork lifts amounted to approximately RMB1,292 million (six months ended 30 June 2017: RMB960 million), representing an significant increase of 34.6% compared to the corresponding period of last year.

The operating revenue from road rollers amounted to RMB86 million, representing an increase of 21.5% compared to the corresponding period of last year.

Excavator

Sales from excavators series recorded a rapid increase of 104.2% to approximately RMB1,379 million (for the six months ended 30 June 2017: RMB675 million) and we see the demand for the excavator series remained strong as a result of the recovery of macro economy and fixed assets investment.

Components

The sales generated from components, including the skid loader amounted to approximately RMB553 million for the period, representing an increase of 26.7% as compared to the same period in 2017.

Finance Lease Interest Income

Turnover from finance lease interest amounted to only approximately RMB1.8 million (for the six months ended 30 June 2017: RMB2.7 million) because the finance lease model was no longer adopted basically.

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 2018, the Group had bank balances and cash of approximately RMB1,989 million (31 December 2017: approximately RMB1,634 million) and pledged bank deposit of approximately RMB1,962 million (31 December 2017: approximately RMB1,465 million). Compared with last year, the cash and bank balance increased about RMB355 million, which was as a result of net cash inflow of RMB230 million from operating activities, net cash inflow of RMB647 million from investing activities and net cash outflow of RMB522 million from financing activities and effect of foreign exchange rate changes of RMB0.3 million.

The pledged deposit balance at 30 June 2018 increased approximately RMB497 million. Details of pledged Bank deposit for the period ended 30 June 2018 are set out in Note 14 to the interim results.

Liquidity and Financial Resources

We are committed to build a sound finance position. Total shareholders fund as at 30 June 2018 was approximately RMB7,846 million, an 1.5% increase from approximately RMB7,730 million as at 31 December 2017.

The current ratio of the Group at 30 June 2018 was 2.08 (31 December 2017: 1.81). The Directors believed that the Group has sufficient resources to support its working capital requirement and meet its foreseeable capital expenditure.

Capital Structure

During the period ended on 30 June 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares and any other listed securities.

As at 30 June 2018, the gross gearing ratio (defined as total liabilities over total assets) was approximately 45.66% (as at 31 December 2017: 44.06%).

Capital Expenditure

During the period, the Group acquired property, plant and equipment of approximately RMB114 million (six months ended 30 June 2017: approximately RMB32 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 period, other gains and losses was approximately RMB45 million, decreasing by approximately RMB60 million as compared with the corresponding period last year (for the six months ended 30 June 2017: approximately RMB105 million). It was mainly due to: 1) the decrease in bad debts provision of approximately RMB95 million due to lower bad debts risk for overall good market condition in the period as compared with the same period last year, 2) the loss on fair value changes of approximately RMB54 million recognized in respect of unlisted equity investments at fair value in the period as required by the revised accounting standard, and 3) the significant decrease in investment gains of approximately RMB63 million due to the absence of interest from financial products for a worse investment environment as compared with the corresponding period last year.

Selling and Distribution Costs

During the period, selling costs increased by approximately RMB78 million as compared with the corresponding period last year (for the six months ended 30 June 2017: approximately RMB264 million), which was mainly due to the significant increase in transportation expenses, assembly service expenses and parts warranty fee in line with the increase in revenue.

Research and Development Costs

During the period, the research and development costs increase by 62% to approximately RMB265 million as compared with the corresponding period last year (for the six months ended 30 June 2017: approximately RMB164 million). Due to satisfactory sales condition, the Group continued to increase its investment in research and development accordingly to make product upgrades meed the rising demand of clients.

Trade and Bills Receivables

As of 30 June 2018, trade and bills receivables increased by 32% or RMB640 million from the end of last year, mainly attributable to the significant increase of 47% in revenue of the period as compared with the corresponding period last year as well as improved turnover of trade and bills receivables as compared with the corresponding period last year.

Available-for-sale Investments

As of 30 June 2018, available-for-sale investments decreased by approximately RMB2,078 million from the end of last year, mainly due to the divestment of financial products with principals and interest of approximately RMB516 million (31 December 2017: RMB503 million) and the reclassification of other financial products with closing fair value of approximately RMB1,521 million (31 December 2017: RMB1,575 million) into equity investments at fair value through profit or loss instead of available-for-sale investment in the period as required by the revised accounting standard.

Other Payables and Accruals

As of 30 June 2018, other payable and accruals decreased by approximately RMB154 million from the end of last year, mainly due to the fact that there was RMB109 million outstanding withholding income tax of 5% in relation to the substantial dividend distributed by several subsidiaries to its offshore holding company at the end of 2017 and the minor dividend was distributed by the subsidiaries to its offshore holding company in the period, resulting in only RMB2 million withholding income tax. The amount of rebate and year-end bonus accrued on an annual basis at the end of last year is higher than the amount of rebate and year-end bonus accrued on a half-year basis in 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 2018, the Group had contracted but not included in the financial statements in respect of acquisition of property, plant and equipment amounting to approximately RMB19 million (31 December 2017: approximately RMB22 million).

PROSPECT

In the first half of 2018, amid mixed domestic and overseas condition, the economy of China continued to develop in a stable and positive manner. Against the backdrop of an impressive economic growth following an overall rapid recovery in the market in recent two year, the construction machinery industry will continue to maintain a good momentum of growth. The Group will take the opportunities of macro-economic growth, accelerated investment in infrastructure, demand released from the implementation of National III Emission Standard of the construction machinery industry and demand for existing equipment upgrade, be open-minded, down-to-earth and determined to work hard for a better development. While consolidating its position as an industry-leading company in respect of its primary core products, for instance, the Group will gradually expand its excavator business to improve its share in excavator market and, in view of the buoyant demand for industrial vehicles, increase its efforts in investing and developing forklift project to improve its market sales and presence. Besides, it will always adhere to the agency system in market promoting, create Lonking's culture as a big family, extend and strengthen its three major advantages of "quality, service and value-for-money" since the incorporation of the Company and emphasize market planning and refinement. Under the principle of "Back to Basics for Being Resilient", the Group will endeavor to create a sound and vibrant market environment while preventing risks. While ensuring risks under control, it will further develop the domestic and international market by consolidating its strong business segment and improving the market share of its weak business segment. In addition to market promotion and risk control, it will also increase efforts in technology, improve product quality, intensify investment in advanced technology and promote their transformation, and strictly monitor development process. Recognizing the importance of human resources to process and quality improvement, the Group will introduce technical personnel, care for the working and living environment of employees and strengthen team building to motivate their subjective initiative and creativity, optimize management process and make reasonable allocation of human resources. The Group will fortify its control over manufacturing cost and expense for the period and strive to achieve the balance of cost, efficiency and development. Making full use of its vertical integration advantages in quality control and efficiency overlapping, the Group will explore the potential of management and quality and forge ahead in the new round of industry development cycle to realize its long-term goals.

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 29 May 2018 (the "2018 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 29 May 2018, 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 year.

Improvements in Internal Control Systems

Additional measures and improvements for the internal control systems of the Company during the six months ended 30 June 2018.

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 2018, 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 78 domestic and overseas investors throughout the six-month period ended 30 June 2018, including over 12 on-site meetings and over 28 telephone meetings. During the first half year of 2018, the Company received group visits with 10 to 20 members for 5 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

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DISCLOSURE OF INTERESTS

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

As at 30 June 2018, 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 2018
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	1,202,000	0.03%
Chen Chao	beneficial owner	1,500,000	0.04%
Zheng Ke Wen	beneficial owner	429,900	0.01%
		2,388,448,420	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 2018
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 2018, 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 2018, 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 2018
China Longgong Group Holdings Ltd (Note 1)	beneficial owner	1,312,058,760	30.65%
GIC Private Limited	Investment Manager	212,673,916	4.97%

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 2018, 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 2018 (six months ended 30 June 2017: 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 2018, the Group employed approximately 8,445 employees.

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

During the period ended on 30 June 2018, 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 2018 have been reviewed by the audit committee of the Company.

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

Hong Kong, 28 September 2018

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

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WEBSITE

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STOCK CODE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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SOLICITORS

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8 Finance Street Central, Hong Kong

AUDITORS

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

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