

LONKING 龙工

LONKING HOLDINGS LIMITED

中國龍工控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3339



2020 INTERIM REPORT



CONTENTS

Financial Highlights	2
Report on Review of Interim Condensed Consolidated Financial Information	4
Interim Condensed Consolidated Statement of Profit or Loss	6
Interim Condensed Consolidated Statement of Comprehensive Income	7
Interim Condensed Consolidated Statement of Financial Position	8
Interim Condensed Consolidated Statement of Changes in Equity	11
Interim Condensed Consolidated Statement of Cash Flows	13
Notes to the Interim Condensed Consolidated Financial Information	15
Management Discussion and Analysis	38
Corporate Governance	44
Investor Relations Management	47
Disclosure of Interests	48
Other Information	50
Corporate Information	51

FINANCIAL HIGHLIGHTS

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

Current period	Six months ended	Six months ended	Change (+/-)
	30 June 2020	30 June 2019	
	RMB'000	RMB'000	
Turnover	6,513,807	6,759,674	-3.64%
Operating profits	1,064,603	987,780	+7.78%
EBITDA	1,291,572	1,250,180	+3.31%
Profit attributable to equity parent	943,836	886,621	+6.45%
Per share data			
Basic earnings per share ^{(1)#}	0.22	0.21	+4.76%
Net assets per share ^{(2)#}	2.11	1.95	+8.21%
Key performance indicators			
<i>Profitability</i>			
Overall gross margin	22.89%	23.24%	-0.35%
Net profit margin	14.49%	13.15%	+1.34%
EBITDA margin ^{(3):}	19.83%	18.49%	+1.34%
Return on equity ⁽⁴⁾	10.44%	10.65%	-0.21%
<i>Liquidity and solvency</i>			
Current ratio ⁽⁵⁾	1.80	2.19	-0.39%
Interest coverage ratio ^{(6):}	84.70	42.86	+97.62%
Gross debt-to-equity ratio ⁽⁷⁾	77.65	75.15	+2.50%
<i>Management efficiency</i>			
Inventory turnover days ⁽⁸⁾	107	90	+17 days
Trade and bills payables turnover days ⁽⁹⁾	140	120	+20 days
Trade and bills receivable turnover days ⁽¹⁰⁾	73	72	+1 days

- # calculated based on the 4,280,100,000 weighted average number of outstanding shares (WANOS) for the period ended 30 June 2020 (30 June 2019: 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 INFORMATION

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 information set out on pages 6 to 37, which comprises the interim condensed consolidated statement of financial position of Lonking Holdings Limited (the "Company") and its subsidiaries (the "Group") as at 30 June 2020 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 information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Certified Public Accountants
Hong Kong
26 August 2020



INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

	Notes	For the six months ended 30 June	
		2020 Unaudited RMB'000	2019 Unaudited RMB'000
REVENUE	4	6,513,807	6,759,674
Cost of sales		(5,023,023)	(5,188,495)
Gross profit		1,490,784	1,571,179
Other income	5	38,614	28,656
Other gains and losses	5	247,327	158,151
Selling and distribution expenses		(322,723)	(336,837)
Administrative expenses		(119,589)	(121,573)
Impairment losses on financial assets, net		110	(13,370)
Research and development costs		(269,895)	(288,283)
Other expenses		(25)	(10,143)
Finance income		73,893	85,487
Finance costs		(13,441)	(25,040)
PROFIT BEFORE TAX	6	1,125,055	1,048,227
Income tax expense	7	(181,219)	(159,348)
PROFIT FOR THE PERIOD		943,836	888,879
Attributable to:			
Owners of the parent		943,608	888,621
Non-controlling interests		228	258
		943,836	888,879
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted:			
– For profit for the period		0.22	0.21

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 2020

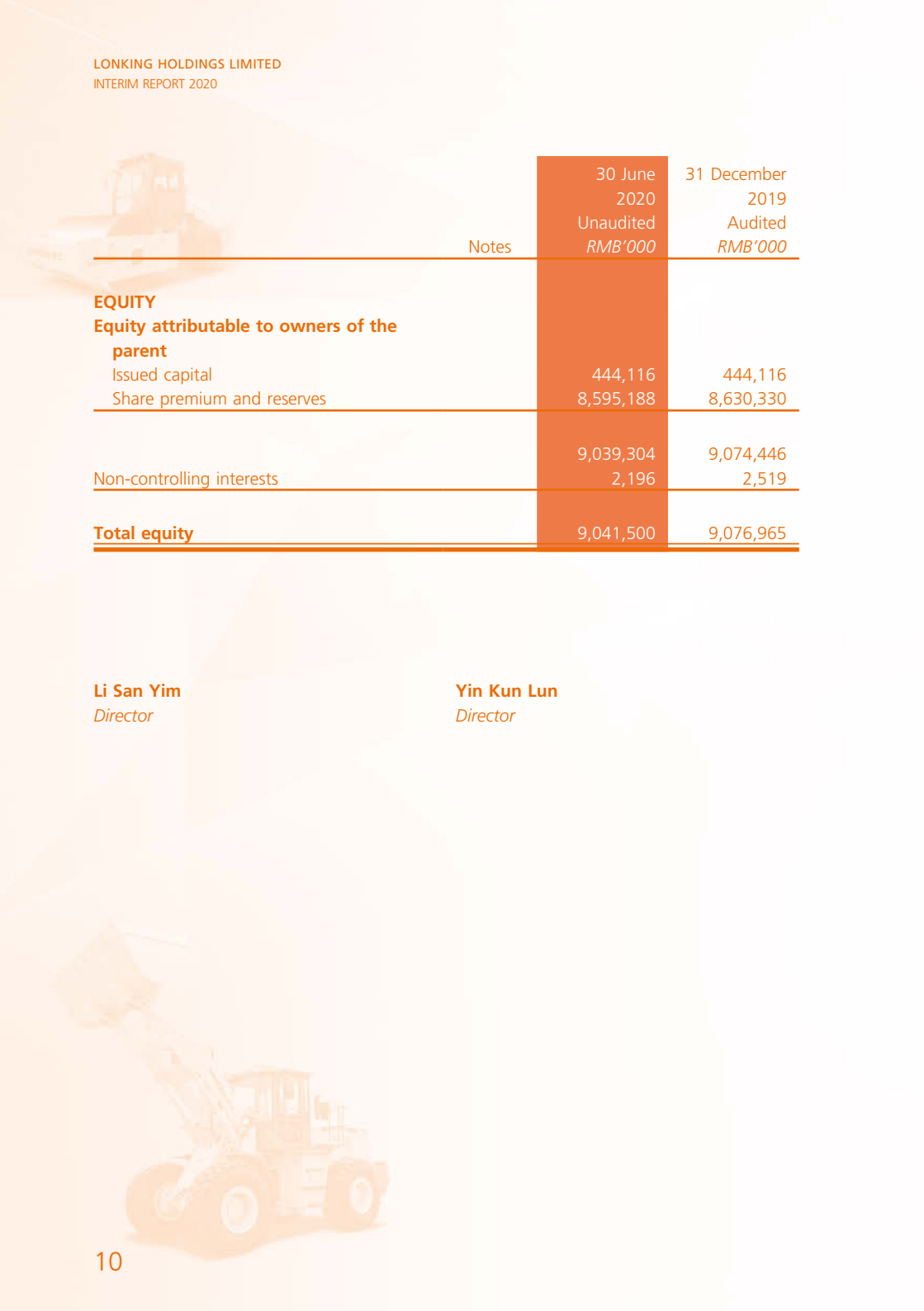
	For the six months ended 30 June	
	2020 Unaudited RMB'000	2019 Unaudited RMB'000
PROFIT FOR THE PERIOD	943,836	888,879
OTHER COMPREHENSIVE LOSS		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Financial assets at fair value through other comprehensive income:		
Changes in fair value	792	—
Income tax effect	(119)	—
	673	—
Exchange differences:		
Exchange differences on translation of foreign operations	(3,912)	(23,354)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	(3,239)	(23,354)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	(3,239)	(23,354)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	940,597	865,525
Attributable to:		
Owners of the parent	940,368	865,267
Non-controlling interests	229	258
	940,597	865,525

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	2,011,596	2,080,946
Right-of-use assets		172,470	175,398
Finance lease receivables		592	531
Prepayments for property, plant and equipment		57,677	20,643
Long-term receivables	10	459,525	248,615
Equity investments at fair value through other comprehensive income	15	1,450	1,450
Financial assets at fair value through profit or loss	16	500,000	500,000
Deferred tax assets		400,690	404,124
Pledged deposits	18	–	356,000
Total non-current assets		3,604,000	3,787,707
CURRENT ASSETS			
Inventories	11	2,879,041	3,005,756
Finance lease receivables		8,494	10,048
Trade receivables	12	2,972,534	2,245,022
Due from related parties		13,510	4,801
Prepayments, deposits and other receivables	13	650,688	633,786
Financial assets at fair value through other comprehensive income	14	329,548	209,259
Financial assets at fair value through profit or loss	16	2,145,012	1,836,767
Derivative financial instruments	17	–	65,530
Pledged deposits	18	725,978	317,191
Cash and cash equivalents	18	2,733,009	2,501,836
Total current assets		12,457,814	10,829,996

	Notes	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
CURRENT LIABILITIES			
Trade and bills payables	19	4,048,382	3,650,308
Other payables and accruals	20	845,428	785,997
Interest-bearing bank borrowings	21	719,844	–
Derivative financial instruments	17	2,405	–
Due to related parties		10,095	8,252
Provisions		148,582	131,918
Deferred income		2,464	2,138
Tax payable		168,477	162,684
Dividends due to shareholders	8	967,945	–
Total current liabilities		6,913,622	4,741,297
NET CURRENT ASSETS		5,544,192	6,088,699
TOTAL ASSETS LESS CURRENT LIABILITIES		9,148,192	9,876,406
NON-CURRENT LIABILITIES			
Deposits for finance leases		61	951
Interest-bearing bank borrowings	21	–	709,340
Deferred tax liabilities		82,750	66,138
Provisions		13,544	11,933
Deferred income		10,337	11,079
Total non-current liabilities		106,692	799,441
Net assets		9,041,500	9,076,965



Notes	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
EQUITY		
Equity attributable to owners of the parent		
Issued capital	444,116	444,116
Share premium and reserves	8,595,188	8,630,330
	9,039,304	9,074,446
Non-controlling interests	2,196	2,519
Total equity	9,041,500	9,076,965

Li San Yim
 Director

Yin Kun Lun
 Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the parent									
	Issued capital	Share premium*	Special reserve*	Non-distributable reserve*	Fair value reserve of financial assets at fair value through other comprehensive income*	Retained profits*	Exchange fluctuation reserve*	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	444,116	854,922	404,173	1,703,876	2,509	6,099,776	(434,926)	9,074,446	2,519	9,076,965
Profit for the period	-	-	-	-	-	943,608	-	943,608	228	943,836
Other comprehensive income for the period:										
Changes in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	672	-	-	672	1	673
Exchange differences related to foreign operations	-	-	-	-	-	-	(3,912)	(3,912)	-	(3,912)
Total comprehensive income for the period	-	-	-	-	672	943,608	(3,912)	940,368	229	940,597
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	(552)	(552)
Final 2019 dividend declared	-	-	-	-	-	(975,510)	-	(975,510)	-	(975,510)
Transfer from retained profits	-	-	7,120	-	-	(7,120)	-	-	-	-
At 30 June 2020	444,116	854,922	411,293	1,703,876	3,181	6,060,754	(438,838)	9,039,304	2,196	9,041,500

* These reserve accounts comprise the consolidated share premium and reserves of RMB8,595,188,000 (2019: RMB8,630,330,000) in the consolidated statement of financial position.

Attributable to owners of the parent

	Issued capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Non- distributable reserve RMB'000	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Total	Non- controlling interests RMB'000	Total equity RMB'000
At 1 January 2019	444,116	854,922	394,872	1,632,361	5,268,399	(390,027)	8,204,643	2,540	8,207,183
Profit for the period	-	-	-	-	888,621	-	888,621	258	888,879
Other comprehensive income for the period:									
Exchange differences related to foreign operations	-	-	-	-	-	(23,354)	(23,354)	-	(23,354)
Total comprehensive income for the period	-	-	-	-	888,621	(23,354)	865,267	258	865,525
Final 2018 dividend declared	-	-	-	-	(731,212)	-	(731,212)	-	(731,212)
Transfer from retained profits	-	-	4,212	-	(4,212)	-	-	-	-
At 30 June 2019	444,116	854,922	399,084	1,632,361	5,421,596	(413,381)	8,338,698	2,798	8,341,496

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020 Unaudited RMB'000	2019 Unaudited RMB'000
OPERATING CASH FLOWS MOVEMENTS		
IN WORKING CAPITAL:	971,947	1,016,985
Decrease in inventories	126,878	589,672
Increase in trade receivables	(1,062,706)	(391,930)
(Increase)/decrease in prepayments, deposits and other receivables	(2,825)	40,839
Decrease in finance lease receivables	1,508	7,760
Increase/(decrease) in trade, bills and other payables	457,250	(310,287)
Increase in provisions	18,275	17,392
(Increase)/decrease in amounts due from related parties	(8,709)	2,666
Increase/(decrease) in amounts due to related parties	1,843	(10,167)
Decrease in deposits for finance leases	(607)	(3,013)
Deferred income received	1,630	–
Income tax paid	(155,499)	(179,956)
Interest received	57,684	70,185
Net cash flows from operating activities	406,669	850,146

		For the six months ended 30 June	
		2020 Unaudited RMB'000	2019 Unaudited RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		(135,150)	(85,431)
Proceeds from disposal of financial instruments		–	270
Payment for lease premium for land		–	(94)
Proceeds from derivative financial instruments received		4,717	–
Proceeds from disposal of items of property, plant and equipment		16,822	14,789
Net cash flows used in investing activities		(113,611)	(70,466)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(13,441)	(24,963)
(Increase)/decrease in pledged deposits		(52,787)	98,038
Interest from pledged deposits received		4,385	6,358
Net cash flows (used in)/from financing activities		(61,843)	79,433
NET INCREASE IN CASH AND CASH EQUIVALENTS		231,215	859,113
Net foreign exchange difference		(42)	–
Cash and cash equivalents at beginning of period		2,501,836	2,565,018
CASH AND CASH EQUIVALENTS AT END OF PERIOD	18	2,733,009	3,424,131

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

1. Corporate information

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2020 was authorised for issue in accordance with a resolution of the directors on 26 August 2020.

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. In October 2018, the shares of the Company held through China Longgong Group Holdings Limited, a company owned by Mr. Li San Yim and Ms. Ngai Ngan Ying as to 55% and 45%, respectively, have been transferred to Ms. Ngai Ngan Ying. Therefore, Ms. Ngai Ngan Ying is the ultimate controller of the Company. Mr. Li and Ms. Ngai are husband and wife and deemed to be interested in the same block of shares.

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 information, which comprise the interim condensed consolidated information of financial position of the Group as at 30 June 2020 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, has 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 information does 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 2019.

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

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments do not have any impact on the financial position and performance of the Group.

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

2.2 Changes in accounting policies and disclosures *(Continued)*

- (b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments do not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

- (c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendment does not have any impact on the Group's interim condensed consolidated financial information as the Group does not have any such lease arrangement.

- (d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments do not have any impact on the Group's interim condensed consolidated financial information.

3. Revenue from contracts with customers

The type of the Group's revenue from contracts with customers is the 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 2020 and 2019:

Six months ended 30 June 2020	Sale of construction machinery RMB'000	Finance lease of construction machinery RMB'000	Financial investment RMB'000	Total RMB'000
Segment revenue	6,513,057	750	–	6,513,807
Segment results	823,957	262	242,398	1,066,617
Reconciliation:				
Finance income				73,893
Unallocated other income and gains and losses				4,766
Corporate and other unallocated expenses				(6,780)
Finance costs				(13,441)
Profit before tax				1,125,055

Six months ended 30 June 2019	Sale of construction machinery RMB'000	Finance lease of construction machinery RMB'000	Financial investment RMB'000	Total RMB'000
Segment revenue	6,758,479	1,195	–	6,759,674
Segment results	835,517	(1,208)	164,017	998,326
Reconciliation:				
Finance income				85,487
Unallocated other income and gains and losses				(3,930)
Corporate and other unallocated expenses				(6,616)
Finance costs				(25,040)
Profit before tax				1,048,227

4. Operating segment information *(Continued)*

Operating segments *(Continued)*

Segment result represents the profit or loss earned or incurred by each segment without allocation of interest income, unallocated other income and gains and losses, central administration cost, 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 2020 and 31 December 2019:

	30 June 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
Segment assets:	15,927,724	14,461,972
Sale of construction machinery	13,271,561	12,047,551
Finance leases of construction machinery	11,151	12,124
Financial investments	2,645,012	2,402,297
Corporate and other unallocated assets	134,090	155,731
Consolidated assets	16,061,814	14,617,703
	30 June 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
Segment liabilities:	5,305,780	4,786,105
Sale of construction machinery	5,291,533	4,772,125
Finance leases of construction machinery	11,842	13,980
Financial investments	2,405	–
Corporate and other unallocated liabilities	1,714,534	754,633
Consolidated liabilities	7,020,314	5,540,738

4. Operating segment information *(Continued)*

Operating segments *(Continued)*

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

	For the six months ended 30 June			
	2020		2019	
	RMB'000	%	RMB'000	%
Sales of construction machinery:				
Wheel loaders	3,216,119	49.4	3,337,392	49.4
Excavators	1,282,636	19.7	1,407,549	20.8
Forklifts	1,348,666	20.7	1,351,356	20.0
Components	617,112	9.5	589,750	8.7
Road rollers	48,524	0.7	72,432	1.0
Subtotal	6,513,057	100.0	6,758,479	99.9
Finance lease interest income	750	—	1,195	0.1
Total	6,513,807	100.0	6,759,674	100.0

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	
	2020 RMB'000	2019 RMB'000
Government grants	27,309	18,712
Penalty income	1,905	529
Others	9,400	9,415
	38,614	28,656

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

	For the six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Loss on disposal of items of property, plant and equipment	(260)	(1,465)
Write-down of inventories to net realisable value	163	(1,935)
Fair value gains, net:		
Financial assets at fair value through profit or loss		
– held for trading	305,616	190,645
Derivative instruments		
– transactions not qualifying as hedges	(67,935)	(31,345)
Gains from derivative instruments	4,717	4,717
Foreign exchange gain/(loss)	5,026	(2,466)
	247,327	158,151

6. Profit before tax

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

	For the six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Cost of inventories recognised as expenses (note a)	5,023,023	5,188,495
Depreciation of property, plant and equipment	150,140	174,012
Depreciation of right-of-use assets	2,936	2,901
Staff costs, including directors' remuneration	318,134	305,974
Contribution to a retirement benefit scheme	6,617	28,249
Foreign exchange differences, net	(5,026)	2,466
Impairment losses on financial assets, net	(110)	13,370
Product warranty provision	111,739	121,197
Write-down of inventories to net realisable value	(163)	1,935
Interest income	(73,893)	(85,487)
Income-related government grants	(27,309)	(18,712)

Note a: Cost of inventories recognised as expenses included RMB393,711,000 (six months ended 30 June 2019: RMB408,997,000) relating to staff costs and depreciation, whose amounts were also included in the respective total amounts disclosed separately for each of these types of expenses.

7. Income tax expense

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	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current income tax expense	161,292	187,153
Deferred income tax expense relating to origination and reversal of temporary differences	19,927	(27,805)
Income tax expense recognised in the consolidated statement of profit or loss	<u>181,219</u>	<u>159,348</u>

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 2020 (six months ended 30 June 2019: Nil).

The proposed final dividend of HK\$0.25 per ordinary share for the year ended 31 December 2019 was declared payable and approved by the shareholders at the annual general meeting of the Company on 28 May 2020 and was paid on 20 July 2020.

9. Property, plant and equipment

During the six months ended 30 June 2020, the Group acquired assets with a cost of RMB97,528,000 (six months ended 30 June 2019: RMB123,581,000), including property, plant and machinery in the People's Republic of China (the "PRC").

Assets with a net book value of RMB17,082,000 were disposed of by the Group during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB16,254,000), resulting in a net loss on disposal of RMB260,000 (net loss in the six months ended 30 June 2019: RMB1,465,000).

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 item:

	30 June 2020 RMB'000	31 December 2019 RMB'000
Trade receivables (note 12)	459,525	248,615

11. Inventories

	30 June 2020 RMB'000	31 December 2019 RMB'000
Raw materials	963,783	852,843
Work in progress	157,914	188,511
Finished goods	1,757,344	1,964,402
	2,879,041	3,005,756

12. Trade receivables

The Group allows credit periods from 6 months up to 24 months to its trade customers. Longer credit terms may be offered to some customers with good credit history and relationships.

	30 June 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
Trade receivables	3,848,026	2,908,701
Impairment	(415,967)	(415,064)
Less: Non-current portion (note 10)	(459,525)	(248,615)
	2,972,534	2,245,022

The ageing analysis of trade receivables is as follows:

	30 June 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
0 to 90 days	2,095,697	1,395,345
91 to 180 days	417,991	421,823
181 to 360 days	375,237	363,494
Over 1 year	83,609	64,360
	2,972,534	2,245,022

13. Prepayments, deposits and other receivables

	30 June 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
Prepayments	446,488	409,882
Deductible value-added tax	39,370	72,069
Deposits	3,743	3,182
Total	489,601	485,133
Other receivables:		
Loan receivables	472,294	478,767
Less: Impairment	(407,582)	(409,133)
Net loan receivables	64,712	69,634
Other miscellaneous receivables	97,073	80,418
Less: Impairment	(698)	(1,399)
Net other miscellaneous receivables	96,375	79,019
Total other receivables	161,087	148,653
Grand total	650,688	633,786

The carrying amounts of financial assets included in deposits and other receivables approximate to their fair values. None of the deposits with suppliers is either past due or impaired, for which there was no recent history of default.

A large portion of other receivables is comprised of 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 three 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 three months as it would normally take three months for the resale of the machines. The Group would enter into instalment agreements with sales agencies if the repurchased machines had been resold. The instalments would be paid at interest rates ranging from 4% to 8% per annum and would mainly be repaid within 18 to 24 months.

14. Financial assets at fair value through other comprehensive income

	30 June 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
Bills receivable, at fair value	329,548	209,259

The Group has classified bills receivable that are held both to collect cash flows and to sell to financial assets at fair value through other comprehensive income under HKFRS 9.

15. Equity investments at fair value through other comprehensive income

	30 June 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
Equity investments designated at fair value through other comprehensive income – unlisted equity investments, at fair value	1,450	1,450

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

16. Financial assets at fair value through profit or loss

	30 June 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
Listed equity investments, at fair value	202,405	134,470
Unlisted equity investments, at fair value – current	1,942,607	1,702,297
Unlisted equity investments, at fair value – non-current	500,000	500,000
Total	2,645,012	2,336,767

The above listed equity investments at 30 June 2020 were classified as financial assets at fair value through profit or loss as they were held for trading.

The above unlisted equity investments were wealth management and fund investments products issued by financial institutions and investment company in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

17. Derivative financial instruments

	30 June 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
Compensation terms for investment	–	65,530
Compensation terms for return delivery	(2,405)	–
	(2,405)	65,530

The compensation terms for investment are related to the listed equity investments at fair value through profit or loss (note 16).

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 5% (2019: 5%) 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 5% (2019: 5%) per annum after the compensation. When the investment return is between 5% and 10% per annum of the nominal amount, the return ranging from 5% and 10% will be paid to the asset management company as management fee. The Group had recognised derivative financial liabilities of RMB2,405,000 as obligation of management fee.

18. Cash and cash equivalents and pledged bank deposits

	30 June 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
Cash and bank balances	2,429,835	2,201,836
Time deposits	1,029,152	973,191
	3,458,987	3,175,027
Less: Pledged for short-term bank loans	(356,000)	(356,000)
Pledged for bank acceptance bills	(337,150)	(290,467)
Pledged for others	(32,828)	(26,724)
Cash and cash equivalents	2,733,009	2,501,836

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.

19. Trade and bills payables

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

	30 June 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
0 to 180 days	3,962,196	3,584,881
181 days to 1 year	43,124	33,554
1 to 2 years	22,686	13,696
2 to 3 years	8,347	8,311
Over 3 years	12,029	9,866
	4,048,382	3,650,308

The bills payables are aged within six months at the end of each reporting period, secured by pledged bank deposits amounting to RMB337,150,000 (2019: RMB290,467,000) (note 18).

20. Other payables and accruals

	30 June 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
Accrued sales rebate	463,908	436,036
Other payables	82,137	78,292
Salary and wages payable	119,922	126,778
Contract liabilities	78,123	56,248
Payable for acquisition of property, plant and equipment	17,451	18,031
Other taxes payable	9,971	12,693
Deposit for finance leases	8,754	8,471
Dividend payable to non-controlling shareholders	552	–
Other accrued expenses	64,610	49,448
	845,428	785,997

21. Interest-bearing bank borrowings

	30 June 2020			31 December 2019		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	1.42-2.93	2021	719,844	–	–	–
Non-current						
Bank loans – secured	–	–	–	2.96-3.72	2021	709,340
			719,844			709,340

Certain of the Group's bank loans are secured by the pledge of certain of the Group's time deposits amounting to RMB356,000,000 (2019: RMB356,000,000) (note 18).

22. Commitments

At 30 June 2020, the Group had capital commitments of RMB24,505,000 (31 December 2019: RMB22,009,000) principally relating to the acquisition of property, plant and equipment located in Shanghai, Fujian and Jiangxi, the PRC.

23. 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 2020 and 30 June 2019 as well as balances with related parties as at 30 June 2020 and 31 December 2019:

		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	2020	-	26,900	-	7,168
Limited (note a)	2019	-	22,930	-	6,148
Herkules (Shanghai)					
Automation Equipment	2020	-	15,117	12,974	2,796
Co., Ltd. (note b)	2019	257	27,015	4,613	2,054
Shanghai Refined Machinery					
Co., Ltd. (note c)	2020	4	-	192	-
	2019	390	-	188	-
Shanghai Longtui Machinery					
Co., Ltd. (note d)	2020	346	222	344	131
	2019	270	324	-	50

23. Related party transactions *(Continued)*

Note a: Mr. Ngai Ngan Gin, brother of Ms. Ngai Ngan Ying (ultimate controller of the Company), holds a controlling interest in this entity.

Note b: Herkules (Shanghai) Automation Equipment Co., Ltd. is wholly-owned by Mr. Chen Jie, son-in-law of Mr. Li San Yim (executive director and chairman of the Group). The Group prepaid RMB12,974,000 for the purchase of equipment from Herkules (Shanghai) Automation Equipment Co Ltd. at 30 June 2020.

Note c: Shanghai Refined Machinery Co., Ltd. is wholly-owned by Refined Holdings, which is in turn wholly-owned by Mr. Li Bin, son of Mr. Li San Yim, executive director and chairman of the Group.

Note d: Shanghai Longtui Machinery Environmental Technology Co Ltd. is wholly-owned by Mr. Li Bin, son of Mr. Li San Yim, executive director and chairman of the Group.

Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Short-term employee benefits	12,000	10,750
Pension scheme contributions	41	76
Total compensation paid to key management personnel	12,041	10,826

24. 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 2020

Financial assets

	Financial assets		Financial assets		Total
	at fair value through profit or loss	at fair value through other comprehensive income	at fair value through other comprehensive income	at amortised cost	
	Mandatorily designated as such	Equity instruments	at fair value through other comprehensive income	at amortised cost	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	–	–	–	2,972,534	2,972,534
Financial assets at fair value through other comprehensive income	–	–	329,548	–	329,548
Long-term receivables	–	–	–	459,525	459,525
Due from related parties	–	–	–	13,510	13,510
Financial assets included in prepayments, deposits and other receivables	–	–	–	134,561	134,561
Finance lease receivables	–	–	–	9,086	9,086
Financial assets at fair value through profit or loss	2,645,012	–	–	–	2,645,012
Equity investments at fair value through other comprehensive income	–	1,450	–	–	1,450
Pledged deposits	–	–	–	725,978	725,978
Cash and cash equivalents	–	–	–	2,733,009	2,733,009
	2,645,012	1,450	329,548	7,048,203	10,024,213

24. Financial instruments by category (Continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss		Total RMB'000
	Designated as such upon initial recognition RMB'000	Financial assets at amortised cost RMB'000	
Trade and bills payables	–	4,048,382	4,048,382
Financial liabilities included in other payables and accruals	–	99,588	99,588
Derivative financial instruments	2,405	–	2,405
Deposit for finance leases	–	8,815	8,815
Interest-bearing bank borrowings	–	719,844	719,844
Due to related parties	–	10,095	10,095
	2,405	4,886,724	4,889,129

24. Financial instruments by category (Continued)

31 December 2019

Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income			
	Designated as such upon initial recognition RMB'000	Mandatorily designated as such RMB'000	Equity instruments RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	-	-	-	-	2,245,022	2,245,022
Financial assets at fair value through other comprehensive income	-	-	-	209,259	-	209,259
Long-term receivables	-	-	-	-	248,615	248,615
Due from related parties	-	-	-	-	4,801	4,801
Financial assets included in prepayments, deposits and other receivables	-	-	-	-	126,971	126,971
Finance lease receivables	-	-	-	-	10,579	10,579
Financial assets at fair value through profit or loss	-	2,336,767	-	-	-	2,336,767
Financial investments at fair value through other comprehensive income	-	-	1,450	-	-	1,450
Derivative financial instruments	65,530	-	-	-	-	65,530
Pledged deposits	-	-	-	-	673,191	673,191
Cash and cash equivalents	-	-	-	-	2,501,836	2,501,836
	65,530	2,336,767	1,450	209,259	5,811,015	8,424,021

24. Financial instruments by category (Continued)

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	3,650,308
Financial liabilities included in other payables and accruals	96,323
Deposit for finance leases	9,422
Interest-bearing bank borrowings	709,340
Due to related parties	8,252
	4,473,645

25. Fair value and fair value hierarchy of financial instruments

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 2020

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through other comprehensive income	–	–	329,548	329,548
Equity investments designated at fair value through other comprehensive income	–	–	1,450	1,450
Financial assets at fair value through profit or loss	202,405	2,442,607	–	2,645,012
	202,405	2,442,607	330,998	2,976,010

25. Fair value and fair value hierarchy of financial instruments

(Continued)

As at 31 December 2019

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through other comprehensive income	-	-	209,259	209,259
Equity investments designated at fair value through other comprehensive income	-	-	1,450	1,450
Financial assets at fair value through profit or loss	134,470	2,202,297	-	2,336,767
Derivative financial instruments	-	65,530	-	65,530
	134,470	2,267,827	210,709	2,613,006

Liabilities measured at fair value:

As at 30 June 2020

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instruments	-	2,405	-	2,405

The Group did not have any financial liabilities measured at fair value as at 31 December 2019.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial liabilities (2019: Nil).

26. Approval of the interim condensed consolidated financial information

The interim condensed consolidated financial information was approved and authorised for issue by the board of directors on 26 August 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT AND BUSINESS REVIEW

Since the beginning of 2020, the COVID-19 epidemic has significant impact on China's economy and society, and also unprecedentedly hit the construction machinery industry. At the critical moment of scientific prevention and control and resumption of work and production, the Group has devoted all efforts to overcome difficulties and unfavorable factors including the interrupted supply chain, tight transportation capacity and personnel travel limitation. Also, the Group has taken the initiative, proactively responded to and explored and pursued opportunities under such a tough circumstance. The major economic indicators, although declined during the epidemic, began to recover and stabilize in the mid-March, and maintained a steady trend of growth since March and during the second quarter. The decrease of the economic indicators has narrowed month by month and the sale volume of several segments realized positive growth year-on-year as of the end of June. During the reporting period, the Group's total operating revenue decreased by RMB246 million to RMB6,514 million from RMB6,760 million in the same period of 2019, representing a year-on-year decrease of 3.64%. During the reporting period, the consolidated gross profit margin decreased by 0.35 percentage points from 23.24% for the same period of 2019 to 22.89% of 2020. During the first half of 2020, the Group had net profit of RMB944 million, increased by 6.18% as compared with RMB889 million for the same period last year. The increase in net profit was mainly due to that the Group has fully taken advantages of vertical and integrated quality warranty and cost control of the Group and further regularized and optimized the monitor and control measures with scientific management concept, thereby enhanced the Group's operating efficiency and better controlled the cost of manufacturing and expenses for the period. Additionally, the financial investments of the Group continued to record relative stable investment income during the reporting period.

GEOGRAPHICAL RESULTS

The Group's various infrastructure machinery products are mainly sold in Mainland China. In the first half of the year, sales across China were affected to varying degrees by the epidemic. Among them, sales in the north and southwest regions fell by 12.0% and 14.6%, reaching approximately RMB1,618 million and RMB714 million, respectively. However, sales in the northeast region increased by 13.5% to approximately RMB224 million. Sales in the east, south and northwest regions increased slightly by 6.5%, 3.2% and 1.2% respectively. Sales in the central region decreased by 7.7% from the same period last year. Export sales accounted for 4.8% of the Group's total sales, an increase of 21.7% compared to the same period last year.

PRODUCTS ANALYSIS

In the first half of the year, despite the impact of the coronavirus pandemic, sales of the Group did not experience a significant decline. The proportion of product sales to the group's total sales did not change significantly, and was roughly the same as in the last year.

Wheel loader

Affected by the coronavirus pandemic, China's infrastructure construction operating rate in the first half of the year was insufficient, and infrastructure industry demand slowed down, which brought a short-term impact on wheel loaders sales. Wheel loader remained as the Company's main revenue driver and achieved a turnover of approximately RMB3,216 million, which accounted for approximately 49.4% of the Company's turnover for the period. The ZL50 loader is the main model of the wheel loader series, ZL50 series achieved a turnover of approximately RMB2,622 million for the period, representing a slight decrease of 8.4% when compared with the corresponding period in 2019. In response to the trend of increasing national environmental standards, the ZL60 loader has a higher working efficiency and has a tendency to gradually replace the ZL50 series. The sales of ZL60 series increased by 58% compared with the same period of last year, reaching RMB227 million (for the six months ended 30 June 2019: RMB143 million).

The customer demand for ZL40 series and mini wheel loaders is relatively small, the sales of these two models dropped by 48.4% and 6.2%, respectively, reaching approximately RMB8 million and RMB99 million, respectively. The ZL30 series is also popular with customers, and its sales increased by 23% during the period, reaching approximately RMB261 million (for the six months ended 30 June 2019: RMB212 million).

Excavator

Excavator sales were short-term affected by the epidemic. But driven by the government's infrastructure investment policy, sales quickly stabilized in the second quarter. In the first half of the year, sales fell by 8.9% to approximately RMB1,283 million (for the six months ended 30 June 2019: RMB1,408 million). The demand for large excavators is expected to increase in the second half of the year.

Forklifts and Road Rollers

Sales of the forklift series were relatively stable, and only dropped by 0.1% during the period, reaching approximately RMB1,349 million (for the six months ended 30 June 2019: RMB1,351 million).

The series of road rollers dropped significantly by 31.9% during the period, reaching approximately RMB49 million (for the six months ended 30 June 2019: RMB72 million).

Components

Sales of components increased by 4.6%, reaching approximately RMB617 million (for the six months ended 30 June 2019: RMB590 million).

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 2020, the Group had bank balances and cash of approximately RMB2,733 million (31 December 2019: approximately RMB2,502 million) and pledged bank deposit of approximately RMB726 million (31 December 2019: approximately RMB673 million). Compared with last year, the cash and bank balance increased about RMB231 million, which was as a result of net cash inflow of RMB407 million from operating activities, net cash outflow of RMB114 million from investing activities and net cash outflow of RMB62 million from financing activities.

The pledged deposit balance at 30 June 2020 increased approximately RMB53 million. Details of pledged bank deposit for the period ended 30 June 2020 are set out in Note 14 to the interim results.

Liquidity and Financial Resources

The Group are committed to build a sound finance position. Total shareholders fund as at 30 June 2020 was approximately RMB9,042 million, a 0.4% decrease from approximately RMB9,077 million as at 31 December 2019.

The current ratio of the Group at 30 June 2020 was 1.80 (31 December 2019: 2.28). 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 2020, 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 2020, the gross gearing ratio (defined as total liabilities divided by total assets) was approximately 43.71% (as at 31 December 2019: 37.90%).

Capital Expenditure

During the period, the Group acquired property, plant and equipment of approximately RMB98 million (for the six months ended 30 June 2019: approximately RMB124 million) in line with a series of strategic transformation and product transformation of the Group.

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

Revenue

In the first half of the year, the Group's business was affected by the coronavirus pandemic, and sales fell by approximately RMB246 million (for the six months ended 30 June 2019: approximately RMB6,760 million). As the government increased infrastructure investment after the epidemic, the overall sales business quickly stabilized.

Other gains and losses

Compared with the same period last year, changes in the fair value of financial assets increased by approximately RMB89 million, which was mainly due the gains from investment in financial assets, which led to an increase in fair value changes over the same period last year.

Impairment losses on financial assets

Due to changes in the provision for bad debts of accounts receivable, impairment losses on financial assets decreased by approximately RMB13 million compared with the same period last year.

Long-term receivables

Due to the increase in sales of loaders and excavators paid in installments over one year, the long-term receivables for the current period increased by approximately RMB211 million compared to the end of last year.

Financial assets at fair value through profit or loss

During the period, the balance of financial assets measured at fair value increased by approximately RMB308 million. As the fair value of the investment and financial management products subscribed by the Group has increased, the change in fair value is included in the current profit and loss.

Capital Commitment

As at 30 June 2020, the Group had contracted but not included in the financial statements in respect of acquisition of property, plant and equipment amounting to approximately RMB25 million (31 December 2019: approximately RMB40 million).

PROSPECT

The current domestic macro economy is recovering and the market environment is improving. Looking forward to the second half of 2020, the PRC government unveiled its clear objective of implementation of the tasks of “six stables” and “six guarantees”. The relevant governmental authorities have introduced a series of policies and measures to protect and stimulate the vitality of subjects in the market, increase investment in construction and investment in new infrastructures, new urbanizations and transportation, water conservancy and other major construction projects, which will effectively promote the demand for and development of construction machinery. The Group will make full use of the development opportunities of good demand against the trend and the off-season in the construction machinery market, with the spirit of overcoming difficulties, being realistic and pragmatic, striving for survival and change, seizing new opportunities in the crisis, and opening up new grounds in changes. The Group will adopt a new mindset, work hard, as well as initiate to take responsibility to fully focus on the construction machinery industry, and dedicate to develop and expand our four host products (loaders, forklifts, excavators and road machinery) and core components in a high quality and sustainable manner as well as develop the Company’s core competitiveness centred on “products” and “quality”. The Group will always adhere to the marketing principle of agency system, create the Lonking family culture, cooperate with agents towards win-win results and benefit-sharing. It will continuously enhance its advantages of “quality, service and value-for-money” since its establishment, open up the market to tap potential and fully concentrate on the work of market planning, strengthen channel integration, optimize product structure, expand market segments, as well as active market and prevent risks in accordance with the policy of “Back to Basics for Being Resilient”. On the premise of ensuring controllable risks, the Group will open up the domestic and overseas markets, consolidate strong market, and continuously increase the market share of weak market. In terms of the domestic market, the domestic market share of the loaders continued to remain at the top spot of the industry. The Group will improve the quality management system, pay attention to product quality and performance for all employees and full cycle, strengthen product quality supervision of suppliers, improve the quality of internal and external supporting materials, as well as increase the product reserve and market launch of large-tonnage models to improve the level of product serialization. In terms of excavator segment, the Group will take advantage of the favourable opportunities for market growth and potential of industry segments to take multiple measures to increase the market share and brand influence of excavators. In terms of forklifts, the Group will further consolidate its leading position in the industry by improving product structure, enhancing product performance, rationally optimizing resource layout and accelerating the pace of product transformation and upgrading. In terms of road machinery, the Group will also continue to increase its market share by improving technical performance, optimizing product performance and improving product structure. While operating the domestic market, the Group will focus on overseas market, promote international expansion, strengthen the training of international marketing talents, and build a highly qualified international talent team. The Group will improve the marketing network, strengthen channel construction and improve product structure, so as to create a series of products that are marketable in the region, and will innovate marketing ideas, and use the flexible marketing strategy of “one location, one policy” to increase the scale of overseas market. The Group will further adhere to the

goal orientation and project promotion, continue to absorb, introduce and train domestic and international professionals, promote the improvement of the overall level of technical team, continue to increase investment in technology research and development, and accelerate the use of digital technology capabilities and the improvement of intelligent manufacturing level.

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 28 May 2020 (the “2020 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 28 May 2020, 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 2020.

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.

In the first half of 2020, due to the impact of the coronavirus epidemic, the number of visiting investors decreased compared with the past. The company mainly communicated with domestic and foreign investors through conference calls and maintained a good relationship with the international capital market. The Company received communications from a total of 72 domestic and overseas investors throughout the six-month period ended 2020, including over 31 telephone meetings.

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. Lv Zhen Zhen

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DISCLOSURE OF INTERESTS

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

As at 30 June 2020, 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 2020
Li San Yim and Ngai Ngan Ying (Note 1 and 2)	beneficial owner	2,398,273,188	56.03%
Chen Chao	beneficial owner	1,596,000	0.04%
Luo Jianru	beneficial owner	2,302,000	0.05%
Zheng Ke Wen	beneficial owner	429,900	0.01%
		2,402,601,088	56.13%

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 under the name of Ms. Ngai Ngan Ying, who is the spouse of Mr. Li San Yim and a non-executive director of the Company. Mr. Li San Yim and Ms. Ngai Ngan Ying are husband and wife and deemed to be interested in the same block of 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 2020
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 2020, 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

As at 30 June 2020, 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, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company.

Long positions

Ordinary shares of HKD0.10 each of the Company

Name of shareholder	Capacity	Number of ordinary shares interested	Percentage of the issued share capital of the Company
Citigroup Inc.	Investment Manager	214,427,208	5.00%

Saved as disclosed above, as at 30 June 2020, 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 2020 (six months ended 30 June 2019: 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 2020, the Group employed approximately 7,828 employees.

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

During the period ended on 30 June 2020, 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 2020 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 2020

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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STOCK CODE

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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

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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 Road
Songjiang District
Shanghai, PRC