LONKING HOLDINGS LIMITED
中國龍工控股有限公司*

(Incorporated in the Cayman Islands with Limited Liability)

(Stock code: 3339)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board of directors (the "Board") of Lonking Holdings Limited (the "Company") announces the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017 (the "Period") together with the comparative figures for the corresponding period in 2016. The Group's interim results for the Period is unaudited, but have been reviewed by the Company's auditor, Ernst & Young Certified Public Accountant ("Ernst & Young") and approved by the audit committee of the Company.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

		For the six months ended 30 June	
		2017	2016
		Unaudited	Unaudited
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**4,532,888**	2,615,197
Cost of sales		**(3,297,792)**	(1,997,380)
Gross profit		**1,235,096**	617,817
Other income	*4*	**13,201**	17,735
Other gains and losses	*4*	**(105,136)**	(26,621)
Selling and distribution costs		**(263,610)**	(171,576)
Administrative expenses		**(119,222)**	(115,192)
Research and development costs		**(163,921)**	(91,565)
Other expenses		**(11,068)**	(1,167)
Operating profit		**585,340**	229,431

	Notes	For the six months ended 30 June **2017** **Unaudited** ***RMB'000***	2016 Unaudited *RMB'000*
Finance income		**65,262**	79,334
Finance costs		**(21,814)**	(63,312)
Profit before tax	*5*	**628,788**	245,453
Income tax expense	*6*	**(130,767)**	(45,718)
Profit for the period		**498,021**	199,735
Attributable to:			
Owners of the parent		**497,812**	199,667
Non-controlling interests		**209**	68
		498,021	199,735
Earnings per share			
Basic, profit for the period attributable to ordinary equity holders of the parent *(RMB)*		**0.12**	0.05

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	30 June 2017 Unaudited RMB'000	31 December 2016 Audited RMB'000
Assets			
Non-current assets			
Property, plant and equipment	*8*	**2,307,275**	2,464,960
Prepaid land lease payments		**182,461**	185,421
Finance lease receivables		**3,217**	2,605
Prepayments for property, plant and equipment		**26,053**	31,731
Deferred tax assets		**279,421**	255,972
Available-for-sale investments		**1,625**	1,625
Derivative financial instruments		**81,478**	91,807
Long-term receivables	*9*	**128,440**	100,968
Pledged bank deposits	*12*	**1,119,478**	1,262,438
		4,129,448	4,397,527
Current assets			
Prepaid land lease payments		**5,276**	5,276
Inventories	*10*	**1,450,795**	1,507,843
Finance lease receivables		**49,274**	51,684
Trade and bills receivables	*11*	**1,851,597**	1,365,336
Due from related parties		**10,081**	5,186
Prepayments, deposits and other receivables		**629,306**	692,925
Other current assets		**311,864**	211,045
Available-for-sale investments		**2,035,271**	525,855
Equity investments at fair value through profit or loss		**118,522**	108,193
Pledged bank deposits	*12*	**262,316**	1,205,347
Cash and cash equivalents	*12*	**1,260,320**	1,130,534
		7,984,622	6,809,224

	Notes	**30 June 2017 Unaudited** ***RMB'000***	31 December 2016 Audited *RMB'000*
Current liabilities			
Trade and bills payables	*13*	**2,218,414**	1,525,934
Other payables and accruals	*14*	**587,508**	518,661
Interest-bearing bank borrowings	*15*	**101,616**	–
Provisions		**89,098**	54,536
Due to related parties		**10,091**	7,665
Deferred income		**400**	546
Income tax payable		**159,303**	131,612
Dividends due to shareholders	*7*	**230,311**	–
		3,396,741	2,238,954
Net current assets		**4,587,881**	4,570,270
Total assets less current liabilities		**8,717,329**	8,967,797
Non-current liabilities			
Deposits for finance leases		**25,555**	31,749
Interest-bearing bank borrowings	*15*	**1,558,112**	2,150,450
Deferred tax liabilities		**18,543**	59,390
Provisions		**6,015**	3,699
Deferred income		**7,571**	2,797
Total non-current liabilities		**1,615,796**	2,248,085
Net assets		**7,101,533**	6,719,712
Equity			
Issued capital		**444,116**	444,116
Share premium and reserves		**6,654,481**	6,272,703
Equity attributable to owners of the parent		**7,098,597**	6,716,819
Non-controlling interests		**2,936**	2,893
Total equity		**7,101,533**	6,719,712

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. CORPORATE INFORMATION

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

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

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

2. BASIS OF PREPARATION AND CHANGES IN THE GROUP'S ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

2.2 New standards, interpretations and amendments adopted by the Group

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

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

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

Amendments to HKAS 7 Statement of Cash Flows:

Disclosure Initiative

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

Amendments to HKAS 12 Income Taxes:

Recognition of Deferred Tax Assets for Unrecognised Losses

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

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

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

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

Disclosure of Interests in Other Entities:

Clarification of the scope of disclosure requirements in HKFRS 12

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

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

2.3 Seasonality of operations

The Group's operations are not subject to seasonality.

3. OPERATING SEGMENT INFORMATION

Operating segments

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

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

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

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

Inter-segment revenues are eliminated on consolidation.

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

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

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

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

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

4. OTHER INCOME AND OTHER GAINS AND LOSSES

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

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

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

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

5. PROFIT BEFORE TAX

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

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

6. INCOME TAX

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

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

7. DIVIDENDS DUE TO SHAREHOLDERS

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

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

8. PROPERTY, PLANT AND EQUIPMENT

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

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

9. LONG-TERM RECEIVABLES

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

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

10. INVENTORIES

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

11. TRADE AND BILLS RECEIVABLES

The Group allows credit periods from 6 months up to 12 months to its trade customers.

Longer credit terms may be offered to some customers with good credit history and relationships.

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

The aged analysis of trade receivables is as follows:

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

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

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

12. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

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

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

13. TRADE AND BILLS PAYABLES

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

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

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

14. OTHER PAYABLES AND ACCRUALS

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

15. INTEREST-BEARING BANK BORROWINGS

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

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

Certain of the Group and the Company's bank loans are secured by (note 12):

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT AND BUSINESS REVIEW

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

GEOGRAPHICAL RESULTS

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

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

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

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

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

PRODUCTS ANALYSIS

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

Wheel Loaders

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

Excavator

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

Fork Lifts and Road Rollers

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

Components

The sales generated from components amounted to approximately RMB375 million for the Period, representing approximately 8.3% of our total turnover.

Finance Lease Interest Income

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

FINANCIAL REVIEW

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

Cash and Bank Balance

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

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

Liquidity and Financial Resources

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

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

Capital Structure

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

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

Capital Expenditure

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

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

Other Gains and Losses

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

Selling and Distribution Costs

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

Research and Development Costs

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

Trade and Bills Receivables

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

Trade and Bills Payables

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

Pledged Bank Deposits

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

Exposure in Exchange Rate Fluctuation

The Group adopts a prudent treasury and hedging policy consistently.

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

Capital Commitment

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

PROSPECT

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

CORPORATE GOVERNANCE

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

Code Provision A.1.8

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

Code Provision A.6.7

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

Code Provision A.4.3

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

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

Code Provision A.2.1

As stipulated in the Code Provision A.2.1 of CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Li San Yim ("Mr. Li"), an executive director of the Company and the chairman of the Board has been appointed by the Board to act as the chief executive officer concurrently with effect from 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.

Review of the Interim Results

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

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

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

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

INTERIM DIVIDEND

The Directors do not recommend any interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: HK$0 cents per share).

PUBLICATION OF FINANCIAL INFORMATION

The Company's 2017 interim report for the six months ended 30 June 2017 will be despatched to the shareholders at the appropriate time and will at the same time be published on the Stock Exchange's website (www.hkex.com.hk).

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

Hong Kong, 29 August 2017

* *For identification purpose only*

As at the date of this announcement, Mr. Li San Yim, Mr. Chen Chao, Mr. Luo Jianru, Mr. Zheng Kewen and Mr. Yin Kun Lun are the executive Directors; Ms. Ngai Ngan Ying is the non-executive Director; and Dr. Qian Shizheng, Mr. Wu Jian Ming and Mr. Chen Zhen are the independent non-executive Directors.