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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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The board of directors (the "Board") of Lonking Holdings Limited (the "Company") is pleased to announce the consolidated financial results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2019 (the "Period"), together with the comparative figures for the corresponding period in 2018 as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2019

	NOTES	**2019** *RMB'000*	2018 *RMB'000*
REVENUE	*3*	**11,743,824**	11,868,316
Cost of sales		**(8,932,960)**	(9,143,780)
Gross profit		**2,810,864**	2,724,536
Other income	*4*	**102,134**	82,997
Other gains and losses	*4*	**364,276**	(201,751)
Selling and distribution expenses		**(623,564)**	(639,569)
Administrative expenses		**(238,213)**	(233,484)
Impairment losses on financial assets, net		**(14,068)**	42,627
Research and development costs		**(550,074)**	(544,503)
Other expenses		**(11,068)**	(641)
Finance income	*4*	**165,193**	135,711
Finance costs	*5*	**(40,112)**	(46,700)

* *For identification purpose only*

	NOTES	2019 RMB'000	2018 RMB'000
PROFIT BEFORE TAX	6	**1,965,368**	1,319,223
Income tax expense	7	**(321,429)**	(175,260)
PROFIT FOR THE YEAR		**1,643,939**	1,143,963
Attributable to:			
Owners of the parent		**1,643,405**	1,143,867
Non-controlling interests		**534**	96
		1,643,939	1,143,963
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted:			
- For profit for the year	9	**0.38**	0.27

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2019

	NOTES	**2019** **RMB'000**	2018 *RMB'000*
PROFIT FOR THE YEAR		**1,643,939**	1,143,963
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		**2,955**	–
Income tax effect		**(443)**	–
		2,512	–
Exchange differences:			
Exchange differences on translation of foreign operations		**(44,899)**	(110,181)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**(42,387)**	(110,181)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(42,387)**	(110,181)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,601,552**	1,033,782
Attributable to:			
Owners of the parent		**1,601,015**	1,033,686
Non-controlling interests		**537**	96
		1,601,552	1,033,782

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2019

	NOTES	**2019** **RMB'000**	2018 RMB'000
Non-current assets			
Property, plant and equipment	*10*	**2,080,946**	2,189,216
Right-of-use assets		**175,398**	–
Prepaid land lease payments		**–**	175,831
Finance lease receivables	*11*	**531**	726
Prepayments for property, plant and equipment		**20,643**	65,406
Long-term receivables	*12*	**248,615**	160,382
Equity investments at fair value through other comprehensive income		**1,450**	1,220
Financial assets at fair value through profit or loss		**500,000**	87,277
Derivative financial instrument		**–**	112,723
Deferred tax assets		**404,124**	383,592
Pledged deposits	*17*	**356,000**	656,000
Total non-current assets		**3,787,707**	3,832,373
Current assets			
Prepaid land lease payments		**–**	5,324
Inventories	*13*	**3,005,756**	2,857,771
Finance lease receivables	*11*	**10,048**	20,938
Trade and bills receivables	*14*	**2,245,022**	2,529,327
Due from related parties		**4,801**	5,317
Prepayments, deposits and other receivables	*15*	**633,786**	508,109
Financial assets at fair value through other comprehensive income	*16*	**209,259**	–
Financial assets at fair value through profit or loss		**1,836,767**	1,336,739
Derivative financial instrument		**65,530**	–
Pledged deposits		**317,191**	411,431
Cash and cash equivalents	*17*	**2,501,836**	2,565,018
Total current assets		**10,829,996**	10,239,974
Current liabilities			
Trade and bills payables	*18*	**3,650,308**	3,507,260
Other payables and accruals	*19*	**785,997**	712,564
Due to related parties		**8,252**	19,928
Tax payable		**162,684**	123,740
Provisions		**131,918**	112,920
Deferred income		**2,138**	2,138
Total current liabilities		**4,741,297**	4,478,550

	NOTES	2019 RMB'000	2018 RMB'000
Net current assets		**6,088,699**	5,761,424
Total assets less current liabilities		**9,876,406**	9,593,797
Non-current liabilities			
Deposits for finance leases	*11*	**951**	11,469
Interest-bearing bank borrowings	*20*	**709,340**	1,286,850
Deferred tax liabilities		**66,138**	63,111
Provisions		**11,933**	11,967
Deferred income		**11,079**	13,217
Total non-current liabilities		**799,441**	1,386,614
Net assets		**9,076,965**	8,207,183
Equity			
Equity attributable to owners of the parent			
Issued capital		**444,116**	444,116
Share premium and reserves		**8,630,330**	7,760,527
		9,074,446	8,204,643
Non-controlling interests		**2,519**	2,540
Total equity		**9,076,965**	8,207,183

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

1. CORPORATE AND GROUP INFORMATION

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 are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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 addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company's subsidiaries, except for China Dragon Development Ltd. and China Dragon Investment Ltd. The functional currency of the Company, China Dragon Development Ltd. and China Dragon Investment Ltd. is the Hong Kong dollar ("HK$").

The principal activities of the Company and its subsidiaries (the "Group") are the manufacture and distribution of wheel loaders, road rollers, excavators, forklifts and other construction machinery and the provision of finance leases for construction machinery.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, wealth management products and equity investments which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9, HKAS 19 and HKAS 28, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Impacts on transition

The right-of-use assets were recognised based on the carrying amount as if the standard had always been applied at the date of initial application. The Group elected to present the right-of-use assets separately in the statement of financial position.

Financial impact at 1 January 2019

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) *RMB'000*
Assets	
Increase in right-of-use assets	**181,155**
Decrease in prepaid land lease payments	**(181,155)**
Increase in total assets	**–**

(b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

3. OPERATING SEGMENT INFORMATION

Year ended 31 December 2019	**Sale of construction machinery** *RMB'000*	**Finance lease of construction machinery** *RMB'000*	**Financial investment** *RMB'000*	**Total** *RMB'000*
Segment revenue	**11,741,698**	**2,126**	**–**	**11,743,824**
Segment results	**1,483,071**	**(1,201)**	**374,992**	**1,856,862**
Reconciliation:				
Interest income				**165,193**
Unallocated other income and gains				**(3,139)**
Corporate and other unallocated expenses				**(13,436)**
Finance costs				**(40,112)**
Profit before tax				**1,965,368**
Segment assets	**12,047,551**	**12,124**	**2,402,297**	**14,461,972**
Corporate and other unallocated assets				**155,731**
Total assets				**14,617,703**
Segment liabilities	**4,772,125**	**13,980**	**–**	**4,786,105**
Corporate and other unallocated liabilities				**754,633**
Total liabilities				**5,540,738**
OTHER SEGMENT INFORMATION				
Impairment losses recognised in the statement of profit or loss, net	**21,680**	**584**	**–**	**22,264**
Depreciation and amortisation	**349,372**	**–**	**–**	**349,372**
Capital expenditure*	**246,719**	**–**	**–**	**246,719**

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

Year ended 31 December 2018	Sale of construction machinery *RMB'000*	Finance lease of construction machinery *RMB'000*	Financial investment *RMB'000*	Total *RMB'000*
Segment revenue	11,864,956	3,360	–	11,868,316
Segment results	1,431,098	4,398	(207,549)	1,227,947
Reconciliation:				
Interest income				135,711
Unallocated other income and gains				14,586
Corporate and other unallocated expenses				(12,321)
Finance costs				(46,700)
Profit before tax				1,319,223
Segment assets	12,396,462	23,881	1,537,959	13,958,302
Corporate and other unallocated assets				114,045
Total assets				14,072,347
Segment liabilities	4,488,198	23,920	–	4,512,118
Corporate and other unallocated liabilities				1,353,046
Total liabilities				5,865,164
OTHER SEGMENT INFORMATION				
Impairment losses recognised in the statement of profit or loss	35,070	–	–	35,070
Impairment losses reversed in the statement of profit or loss	(69,992)	(7,989)	–	(77,981)
Depreciation and amortisation	352,933	1	–	352,934
Capital expenditure*	297,092	–	–	297,092

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

Revenue derived from major products and services

The following is an analysis of the Group's revenue derived from its major products and services:

	2019		2018	
	RMB'000	***%***	*RMB'000*	*%*
Wheel loaders	**6,025,944**	**51.3**	6,154,086	51.9
Excavators	**2,121,858**	**18.1**	2,111,480	17.8
Road rollers	**113,226**	**1.0**	158,802	1.3
Forklifts	**2,373,971**	**20.2**	2,308,392	19.5
Others	**1,106,699**	**9.4**	1,132,196	9.5
Subtotal	**11,741,698**	**100.0**	11,864,956	100.0
Finance lease interest income	**2,126**	**0.0**	3,360	0.0
Total	**11,743,824**	**100.0**	11,868,316	100.0

There was no single customer from whom the revenue derived accounted for 10% or more of the total revenue of the Group for the year.

The revenue is recognised when goods are transferred at a point in time.

Geographical information

The Group's operations are substantially located in Mainland China and substantially all non-current assets of the Group are located in Mainland China. Therefore, no further analysis of geographical information is presented.

4. OTHER INCOME, FINANCE INCOME AND OTHER GAINS AND LOSSES

	2019	2018
	RMB'000	*RMB'000*
Finance income		
Bank interest income	**165,193**	135,711
Other income		
Government grants	**90,299**	65,603
Penalty income	**570**	4,165
Others	**11,265**	13,229
	102,134	82,997

	2019	2018
	RMB'000	*RMB'000*
Other gains and losses		
(Loss)/gain on Foreign exchange gains	**(3,139)**	14,586
Gain/(loss) on disposal of items of property, plant and equipment	**6,861**	(9,072)
Gains from financial instruments	**–**	16,948
Gains from derivative instruments	**9,434**	13,208
Fair value gains, net:		
Financial assets at fair value through profit or loss		
– held for trading	**412,751**	(244,686)
Derivative instruments		
– transactions not qualifying as hedges	**(47,193)**	6,981
Loss on derecognition of financial assets measured at amortised cost	**(6,242)**	–
Provision for inventories	**(8,196)**	284
	364,276	(201,751)

5. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2019	2018
	RMB'000	*RMB'000*
Interest on bank loans	**40,112**	46,700
Total interest expense on financial liabilities not at fair value through profit or loss	**40,112**	46,700

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2019	2018
	RMB'000	*RMB'000*
Cost of inventories sold	**8,932,960**	9,143,780
Depreciation of property, plant and equipment *(note 10)*	**343,615**	347,055
Depreciation of right-of-use assets (2018: amortisation of land lease payments)	**5,757**	5,879
Research and development costs	**550,074**	544,503
Auditor's remuneration	**2,665**	2,520
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	**652,630**	699,987
Contributions to a pension scheme	**51,975**	55,871
Foreign exchange differences, net	**(3,139)**	14,586
Impairment of financial assets		
– trade receivables *(note 14)*	**10,441**	(50,256)
– other receivables *(note 15)*	**3,043**	7,629
– financial lease receivables *(note 11)*	**584**	–
	14,068	(42,627)
Write-down of inventories to net realisable value	**8,196**	(284)
Product warranty provision:		
Additional provision	**245,961**	197,870
Bank interest income	**(165,193)**	(135,711)
(Gain)/loss on disposal of items of property, plant and equipment	**(6,861)**	9,072
Fair value (gains)/losses, net:		
Financial assets at fair value through profit or loss		
– held for trading	**(412,751)**	244,686
Derivative instruments		
– transactions not qualifying as hedges	**47,193**	(6,981)
Loss on derecognition of financial assets measured at amortised cost	**6,242**	–

7. INCOME TAX

	2019	2018
	RMB'000	*RMB'000*
Current tax		
Charged for the year	**239,545**	215,993
Overprovision in prior years	**(10,106)**	(21,126)
Withholding tax paid	**109,938**	18,828
	339,377	213,695
Deferred tax	**(17,948)**	(38,435)
Total tax charge for the year	**321,429**	175,260

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2019		2018	
	RMB'000	*%*	*RMB'000*	*%*
Profit before tax	**1,965,368**		1,319,223	
Tax at the statutory tax rate of 25% (2018: 25%)	**491,342**	**25.0**	329,806	25.0
Expenses not deductible for tax (i)	**23,712**	**1.2**	12,563	1.0
Effect on opening deferred tax balance due to increase in rates	**–**	**–**	680	0.1
Adjustments in respect of current tax of previous periods	**(10,106)**	**(0.5)**	(21,126)	(1.6)
Tax losses utilised from previous periods	**(1,263)**	**(0.1)**	(655)	(0.1)
Tax incentives on eligible R&D expenditures	**(61,884)**	**(3.1)**	(57,727)	(4.4)
Effect of withholding tax	**91,215**	**4.6**	32,873	2.5
Effect of the preferential tax rate of 15%	**(211,587)**	**(10.8)**	(121,154)	(9.2)
Tax charge and effective tax rate for the year	**321,429**	**16.3**	175,260	13.3

(i) Expenses not deductible for tax purposes generally refer to expenses without proper tax deductible documents and other miscellaneous expenses which are in excess of the allowable tax deduction limit, such as entertainment expenses.

8. DIVIDENDS

	2019 *RMB'000*	2018 *RMB'000*
Proposed final – HK$0.25 (2018: HK$0.2) per ordinary share	**975,510**	731,212

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 4,280,100,000 (2018: 4,280,100,000) in issue during the year. The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	**Plant and machinery** *RMB'000*	**Motor vehicles** *RMB'000*	**Furniture and fixtures** *RMB'000*	**Construction in progress** *RMB'000*	**Total** *RMB'000*
Cost						
At 1 January 2019	**1,621,396**	**3,333,406**	**55,697**	**146,613**	**78,271**	**5,235,383**
Additions	**22,074**	**44,760**	**1,013**	**4,315**	**174,557**	**246,719**
Transfers	**3,800**	**150,227**	**191**	**6,128**	**(160,346)**	**–**
Disposals	**(5,560)**	**(37,605)**	**(5,284)**	**(2,632)**	**(2,758)**	**(53,839)**
Exchange realignment	**459**	**–**	**–**	**8**	**–**	**467**
At 31 December 2019	**1,642,169**	**3,490,788**	**51,617**	**154,432**	**89,724**	**5,428,730**
Accumulated depreciation and impairment						
At 1 January 2019	**660,913**	**2,224,744**	**46,486**	**114,024**	**–**	**3,046,167**
Charge for the year	**72,959**	**261,015**	**1,613**	**8,028**	**–**	**343,615**
Disposals	**(3,549)**	**(30,978)**	**(5,063)**	**(2,495)**	**–**	**(42,085)**
Exchange realignment	**78**	**–**	**–**	**9**	**–**	**87**
At 31 December 2019	**730,401**	**2,454,781**	**43,036**	**119,566**	**–**	**3,347,784**
Carrying amount						
At 31 December 2019	**911,768**	**1,036,007**	**8,581**	**34,866**	**89,724**	**2,080,946**

	Buildings	Plant and machinery	Motor vehicles	Furniture and fixtures	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At 1 January 2018	1,599,987	3,114,934	51,624	141,830	115,092	5,023,467
Additions	11,061	69,787	1,217	6,150	206,656	294,871
Transfers	10,849	211,064	3,313	1,930	(227,156)	–
Disposals	(1,444)	(62,379)	(457)	(3,314)	(16,321)	(83,915)
Exchange realignment	943	–	–	17	–	960
At 31 December 2018	1,621,396	3,333,406	55,697	146,613	78,271	5,235,383
Accumulated depreciation and impairment						
At 1 January 2018	587,828	2,001,839	44,454	110,779	–	2,744,900
Charge for the year	72,955	265,279	2,438	6,383	–	347,055
Disposals	(31)	(42,374)	(406)	(3,155)	–	(45,966)
Exchange realignment	161	–	–	17	–	178
At 31 December 2018	660,913	2,224,744	46,486	114,024	–	3,046,167
Carrying amount						
At 31 December 2018	960,483	1,108,662	9,211	32,589	78,271	2,189,216

11. FINANCE LEASE RECEIVABLES

	Minimum lease payments		Present value of minimum lease payments	
	2019	**2018**	2019	2018
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Finance lease receivables comprise:				
Within one year	**10,566**	**21,871**	10,149	20,938
One to five years	**1,056**	**758**	1,014	726
	11,622	**22,629**	11,163	21,664
Less: Unearned finance income	**459**	**965**	–	–
Less: Provision for impairment	**584**	**–**	584	–
Present value of minimum lease payment receivables	**10,579**	**21,664**	10,579	21,664
Analysed as:				
Current			10,048	20,938
Non-current			531	726
			10,579	21,664

The movement of the provision for impairment of finance lease receivables is as follows:

	2019	2018
	RMB'000	*RMB'000*
At 1 January	**–**	–
Impairment losses recognised *(note 6)*	**584**	–
At 31 December	**584**	–

The effective interest rates of the above finance leases range from 6% to 9.5% (2018: 6% to 9.5%) per annum.

Finance lease receivables are secured over the leased construction machinery. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessees.

As at 31 December 2019, the Group's refundable finance lease deposits are as follows:

	2019	2018
	RMB'000	*RMB'000*
Current *(note 19)*	**8,471**	2,120
Non-current	**951**	11,469
	9,422	13,589

The finance lease deposits are non-interest-bearing and are settled on terms according to the lease agreements.

12. LONG-TERM RECEIVABLES

Long-term receivables are the receivables due after one year according to the credit terms, and include the following items:

	2019	2018
	RMB'000	*RMB'000*
Trade receivables *(note 14)*	**248,615**	160,382

The long-term trade receivables bear interest at approximately 4% to 8% per annum.

13. INVENTORIES

	2019	2018
	RMB'000	*RMB'000*
Raw materials	**852,843**	717,568
Work in progress	**188,511**	115,577
Finished goods	**1,964,402**	2,024,626
	3,005,756	2,857,771

14. TRADE AND BILLS RECEIVABLES

	2019 *RMB'000*	2018 *RMB'000*
Trade receivables	**2,908,701**	2,870,255
Impairment	**(415,064)**	(412,984)
Less: Non-current portion *(note 12)*	**(248,615)**	(160,382)
	2,245,022	2,296,889
Bills receivable	**–**	232,438
	2,245,022	2,529,327

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally six to twelve months, extending up to eighteen to twenty-four months for some customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables due within one year are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019 *RMB'000*	2018 *RMB'000*
Within 3 months	**1,395,345**	1,741,904
3 to 6 months	**421,823**	279,139
6 months to 1 year	**363,494**	220,969
More than 1 year	**64,360**	54,877
	2,245,022	2,296,889

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019 *RMB'000*	2018 *RMB'000*
At beginning of year	**412,984**	469,562
Impairment losses, net *(note 6)*	**10,441**	(50,256)
Written off as uncollectible	**(8,361)**	(6,322)
At end of year	**415,064**	412,984

An impairment analysis is performed at each reporting date. The Group identifies the receivables that are credit-impaired (but that are not purchased or originated credit-impaired) from total receivables, considering the observable information, such as the debtors being in major financial difficulties, in breach of the contract stipulations or in bankruptcy. The ECLs are based on all the cash flows that the Group expects to receive, discounted at an effective interest rate. As at 31 December 2019, the Group has accrued ECLs of RMB400,003,000 for credit impaired trade receivables with a gross carrying amount of RMB460,093,000.

The Group uses a provision matrix to measure expected credit losses for the remaining receivables. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off that are unlikely to be collected.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019

			Past Due			
	Current	**Less than 6 months**	**6 months to 12 months**	**12 months to 2 years**	**Over 2 years**	**Total**
Expected credit loss rate	**0.25%**	**0.47%**	**1.60%**	**3.41%**	**10.07%**	**0.62%**
Gross carrying amount (RMB'000)	**1,466,108**	**574,781**	**340,091**	**51,950**	**15,678**	**2,448,608**
Expected credit losses (RMB'000)	**3,593**	**2,685**	**5,431**	**1,774**	**1,578**	**15,061**

As at 31 December 2018

			Past Due			
	Current	Less than 6 months	6 months to 12 months	12 months to 2 years	Over 2 years	Total
Expected credit loss rate	0.24%	0.44%	1.75%	2.60%	11.08%	0.75%
Gross carrying amount (RMB'000)	1,231,761	795,829	254,312	36,947	52,612	2,371,461
Expected credit losses (RMB'000)	3,005	3,537	4,444	961	5,829	17,776

15. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019	2018
	RMB'000	*RMB'000*
Prepayments	**409,882**	329,396
Deductible value-added tax	**72,069**	40,626
Deposits	**3,182**	7,470
Total	**485,133**	377,492
Other receivables:		
Loan receivables	**478,767**	497,176
Less: Impairment	**(409,133)**	(409,225)
Net loan receivables	**69,634**	87,951
Other miscellaneous receivables	**80,418**	44,065
Less: Impairment	**(1,399)**	(1,399)
Net other miscellaneous receivables	**79,019**	42,666
Total other receivables	**148,653**	130,617
Grand total	**633,786**	508,109

The movements in the provision for impairment of other receivables are as follows:

	2019	2018
	RMB'000	*RMB'000*
At 1 January	**410,624**	412,308
Impairment losses recognised *(note 6)*	**3,043**	7,629
Written off as uncollectible	**(3,135)**	(9,313)
At 31 December	**410,532**	410,624

The carrying amounts of financial assets included in prepayments, 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 represent the loans receivables to sales agencies for their repurchase of machines. The collection of receivables of sales financed by leasing went worse due to the deterioration of the external operating environment. According to the finance lease agreements, the sales agencies were required to fulfil the obligation to repurchase the machines and pay the outstanding lease amount back to the lease companies once there is a balance overdue for more than three months. The Group provided loans to the sales agencies for the settlement of repurchase. The sales agencies were required to pay off within three months as it normally takes three months to resell the machines. The Group would enter into instalment contracts with the sales agencies if the repurchased machines had been sold again. The instalments would be arranged at interest rates ranging from approximately 4% to 8% per annum and mainly repaid within 18 to 24 months. Other receivables also include miscellaneous borrowings for sales agencies' daily operation needs.

An ageing analysis of the loan receivables as at the end of the reporting period, based on the transaction date and net of provisions, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**–**	3,673
More than 1 year	**69,634**	84,278
	69,634	87,951

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019	2018
	RMB'000	*RMB'000*
Bills receivable, at fair value	**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.

17. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2019	2018
	RMB'000	*RMB'000*
Cash and bank balances	**2,201,836**	2,565,018
Time deposits	**973,191**	1,067,431
	3,175,027	3,632,449
Less: Pledged cash and bank balances and time deposits:		
Pledged for long-term bank loans *(note 20)*	**(356,000)**	(656,000)
Pledged for bank acceptance bills *(note 18)*	**(290,467)**	(403,923)
Pledged for others	**(26,724)**	(7,508)
Cash and cash equivalents	**2,501,836**	2,565,018

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods from one day to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

The Group's pledged bank deposits and certain bank balances and cash that are denominated in currencies other than the functional currencies of the respective group entities are as follows:

Original currency	**US$**	**HK$**
	RMB'000	***RMB'000***
As at 31 December 2019	**19,409**	**16,914**
As at 31 December 2018	7,560	6,307

18. TRADE AND BILLS PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**1,376,819**	1,237,265
Bills payables	**2,273,489**	2,269,995
	3,650,308	3,507,260

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 6 months	**3,584,881**	3,443,703
6 months to 1 year	**33,554**	11,864
1 to 2 years	**13,696**	27,108
2 to 3 years	**8,311**	14,623
Over 3 years	**9,866**	9,962
	3,650,308	3,507,260

Bills payable were aged within 12 months at the end of the reporting period, and were secured by pledged bank deposits amounting to RMB290,467,000 (2018: RMB403,923,000) (note 17).

The trade and bills payables are non-interest-bearing.

19. OTHER PAYABLES AND ACCRUALS

	2019	2018
	RMB'000	*RMB'000*
Accrued sales rebate	**436,036**	374,154
Other payables	**78,292**	77,565
Salaries and wages payable	**126,778**	132,471
Contract liabilities	**56,248**	48,599
Other taxes payable	**12,693**	21,866
Other accrued expenses	**49,448**	42,269
Deposit for finance leases *(note 11)*	**8,471**	2,120
Payable for acquisition of property, plant and equipment	**18,031**	13,520
	785,997	712,564

Other payables are non-interest-bearing and have different credit terms within one year.

Contract liabilities include short-term advances received to deliver industrial products. The revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period amounted to RMB41,896,000. The contract liabilities as of 31 December 2019 are expected to be recognised as revenue within one year.

20. INTEREST-BEARING BANK BORROWINGS

	2019			2018		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Non-current	**2.92-3.72**	**2021**	**709,340**	2.22-2.93	2021	1,286,850
Bank loans – secured			**709,340**			1,286,850

	2019	2018
	RMB'000	*RMB'000*
Analysed into:		
Within one year	**–**	–
In the second year	**709,340**	–
In the third year	**–**	1,286,850
	709,340	1,286,850

The Group's bank borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are as follows:

Original currency	**US$**
	RMB'000
As at 31 December 2019	**709,340**
As at 31 December 2018	1,286,850

Certain of the Group's bank loans are secured by the pledge of certain of the Group's long-term time deposits amounting to RMB356,000,000 (2018: RMB656,000,000) (note 17).

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT AND BUSINESS REVIEW

In 2019, global economic growth has slowed, and China's GDP has increased by 6.1% year-on-year. Although the domestic economy has maintained steady progress, the growth rate was still under greater downward pressure. Based on the rapid growth during the past two years, the construction machinery industry in which the Group operates has experienced a relatively stable development momentum and has entered a relatively stable development stage. In view of more fierce market competition emerging, the Group continued to improve and enhance various management work, and the development quality of each business segment was further developed and improved. Under the premise of ensuring controllable marketing risks and improvement in asset quality, the Group opened up the domestic and overseas markets. The competitiveness and influence of our four major categories of products in the market were enhanced to varying degrees, and the market position was further consolidated. During the reporting period, the Group's total operating revenue decreased by RMB124 million to RMB11,744 million from RMB11,868 million in the same period of 2018, representing a year-on-year decline of 1.05%. The proportion of operating revenue of loader operating income basically remained stable at 51% as compared with the same period last year, while the proportion of operating revenue of excavators and fork lifts slightly increased. The proportion of operating revenue of excavators increased by 0.28% and that of fork lifts increased to 20.21% from 19.45% in 2018. During the reporting period, the consolidated gross profit margin of the Group was 23.93%, increased by 0.97 percentage point from 22.96% in the same period of 2018. The Group had recorded net profit of RMB1,644 million for the year, increased by RMB500 million as compared with RMB1,144 million for the same period last year. The increase in net profit was mainly due to the Group's improved management efficiency through scientific management and technology investment, which effectively controlled manufacturing costs and expenses. At the same time, the investment income of financial assets of the Group during the reporting period has been significantly improved.

The proportion of local sales to the Group's total sales was roughly the same as last year, without major changes. The northern regions of the PRC remained as the Company's principal marketing regions. Revenue from northern regions dropped slightly 4.2% to approximately RMB2,997 million (2018: approximately RMB3,127 million), representing 26% of our total turnover. Revenue from eastern regions of the PRC raised slightly 5.4% to RMB2,091 million (2018: approximately RMB1,984 million), accounting for approximately 18% of our total turnover. Revenue from southwestern region of the PRC decreased 14.8% to RMB1,318 million (2018: approximately RMB1,546 million), accounting for approximately 11% of our total turnover. In respect of our overseas market, during the year, the Group's sales revenue recorded a slight drop of 5.4% to approximately RMB617 million (2018: approximately RMB652 million).

ANALYSIS OF PRODUCTS

Wheel Loaders

The revenue generated from wheel loader amounted to approximately RMB6,026 million, representing approximately 51.3% of total Group's turnover, representing a decrease of 2.1% from last year (2018: RMB6,154 million, approximately 51.9% of total Group's turnover).

ZL50 series continued to be the main revenue source of the Group with turnover for the year reaching RMB5,039 million, a decrease of 4.6% compared with that of last year. ZL30 series continued to be the second largest revenue source of the Group with turnover reaching RMB425 million, a decrease of approximately 3.0% compared with that of last year. ZL40 series accounted for a small proportion in the overall sales with turnover reaching RMB29 million, representing only approximately 0.5% of the total turnover. ZL60 series recorded approximately RMB330 million in sales, representing 5.5% of the total turnover. The turnover from mini wheel loader amounted to RMB203 million, a decrease of 9.4% compared with that of last year.

Wheel Loaders remain to be the main sales products of the Group and have become increasingly established and take up a higher market share, although the percentage of its sales to total sales shows a sign of decline.

Excavators

The revenue generated from excavators amounted to approximately RMB2,122 million, representing for approximately 18.1% of the Group's total turnover (2018: RMB2,111 million, representing approximately 17.8% of the Group's total turnover. With the overall recovery of the construction machinery industry, the sales of excavator, a cutting-edge product on which the Group has been focused in recent years, are expected to grow at a rate far above that of other products, and show a fast-growing momentum.

Fork Lifts and Road Rollers

Revenue generated from fork lifts represented 20% of our total turnover for the year of 2019 (2018: 19%). During the year, turnover from fork lifts increased by 2.8% to approximately RMB2,374 million (2018: RMB2,308 million). Since fork lifts has become a new source of growth in the Group's profits in recent years, the Group has been committed to the development of various fork lift products, which are well received by customers.

Revenue from road rollers reached RMB113 million, representing a decrease of 28.7% compared with that of last year (2018: approximately RMB159 million).

Components

The sales generated from components amounted to approximately RMB885 million for the year ended 31 December 2019, a decrease of 1.6% compared with the corresponding period last year (2018: RMB899 million), accounting for approximately 8% of the total turnover of the Group.

Finance Lease Interest

Turnover from interest income of finance lease represented approximately only 0.02% of the Group's total turnover in the year of 2019.

FINANCIAL REVIEW

Cash and Bank Balance

The cash position of the Group was strong during the year. As at 31 December 2019, the Group had bank balance and cash of approximately RMB2,502 million (31 December 2018: approximately RMB2,565 million).

Compared with last year, cash and bank balances decreased by approximately RMB63 million, which is generated as a result of net cash inflow of around RMB1,571 million from operating activities, the net cash outflow of RMB670 million from investing activities and the net cash outflow of RMB964 million from financing activities.

Liquidity and Financial Resources

We are committed to build a sound finance position. Total shareholders fund as at 31 December 2019 was approximately RMB9,077 million, a 10.6% increase from approximately RMB8,207 million as at 31 December 2018. The current ratio of the Group at 31 December 2019 was 2.28 (2018: 2.29).

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

Capital Structure

During the year, 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 31 December 2019, the gross gearing ratio (defined as total liabilities over total assets) was approximately 37.90% (31 December 2018: 41.68%).

Capital Expenditure

During the period, the Group acquired property, plant and equipment of approximately RMB247 million (2018: approximately RMB297 million) in line with a series of strategic transformation and production transformation by the Group.

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

Capital Commitment

As at 31 December 2019, the Group had contracted but not included in the financial statements expenditures of approximately RMB22 million in respect of acquisition of property, plant and equipment (31 December 2018: approximately RMB40 million).

Other Gains and Losses

During the year, other gains and losses have increased significantly by approximately RMB566 million compared to the same period last year. This was mainly due to the significant increase in the fair value of financial wealth management products in 2019 compared to the period of 2018, resulting in a significant increase in other gains; And due to the decline in foreign currency liabilities, the foreign exchange gains and losses have decreased significantly compared to last year.

Impairment Losses on financial assets, net

During the year, impairment losses on financial assets increased by approximately RMB57 million compared with the same period last year. It was mainly due to the expected slowdown in the construction machinery industry in the next few years, which will increase the risk of bad debts of accounts receivable and other receivables. The Group's provision for bad debts increased compared with the previous year.

Long-term receivables

As of the end of the year, long-term receivables increased by approximately 88 million yuan compared to the end of last year, which was mainly due to the increase in more-than-one-year installment sales, which resulted in a larger increase in long-term receivables.

Financial assets at fair value through profit or loss

As of the end of the year, the Group increased its subscription investment by approximately RMB500 million. Subscription investments and financial wealth management products are measured at fair value, classified into non-current assets and current assets by their nature, and their fair value changes are included in the current profit and loss.

Inventories

As of the end of the year, the inventory had increased by approximately RMB148 million compared to the end of last year. This is mainly due to the expected increase in sales early next year, the early preparation of raw materials at the end of 2019 and the expansion of production will lead to an increase in work in progress.

PROSPECT

The year of 2020 is the decisive year for building a comprehensive well-off society in China as well as the final year of the 13th Five-Year Plan. Despite having been affected by the novel coronavirus epidemic since the beginning of the year which has resulted in the plummeted demand and reduced production of most domestic industries, the negative impact will gradually diminish as the epidemic in China has been preliminarily brought under control. China will fully concentrate on the work in “Six Stables” including maintain stable investment and stable expectations. Recently, large-scale investment plans are being intensively launched in various places. China has adjusted the investment sectors and started new infrastructure construction. On the basis of improving traditional infrastructure of railway, highway and rail transit, China has vigorously developed new infrastructure such as 5G, artificial intelligence, industrial Internet, smart cities, education and medical care. The construction machinery industry will usher in a new wave of development opportunities. The Group will seize a favorable opportunity for industrial development, take a forward-looking view based on a clear picture of the present, adopt a new mindset, work hard, as well as initiate to take responsibility to focus fully on the construction machinery industry and preserve our principal businesses, turning our four host products (loaders, excavators, fork lifts and road rollers) and core components stronger and excellent. We will continue to elevate the position of products in the market, attach importance to market planning, refine market segmentation management, rationally adopt flexible marketing strategies, and open up domestic and international markets. As new products carefully created by the Group are gradually introduced to domestic and overseas markets, the market share of loaders continued to remain at the top spot of the industry. The sales growth of the excavators has been striving to achieve a relatively large magnitude, raising the market share and brand influence of excavators. The position of forklifts was further reinforced in the industry, while the market share of road machinery also continued to grow. The Group will enhance information construction, actively promote digital and intelligent transformation and application, place more empahsis on product development and comprehensively improve product quality, as well as develop the Company’s core competitiveness centred on “products” and “quality”. The Company will introduce more technical experts and technical talents, invest more research and development funds, comprehensively sort out the four major categories of products as well as carry out project establishment, promotion, research and development, trial production and testing for each new generation of products. We will strengthen the technical development of key components, put more effort in the research and development of the products, intensify efforts in promotion of activities for the year of comprehensive quality management, continuously deepen and tap the potential of internal quality control, improve the full-cycle management and control of the products quality of the suppliers as well as upgrade the quality of various products comprehensively. While grasping the products and markets, the Company will continue to innovate the management system, establish the comprehensive management system, apply “science” in practice to achieve “enhancement” through “changes”, and practice and promote our core culture and idea of “Lonking family”, to work side by side with all Lonking members for a win-win sharing situation and build a warm home and entrepreneurial paradise together.

CORPORATE GOVERNANCE

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

The Board is committed to maintaining and ensuring high standards of corporate governance practices.

The Board emphases on maintaining a quality Board with balance of skill set of directors, better transparency and effective accountability system in order to enhance shareholders' value. In the opinion of the directors, the Company 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 2019 (the "2019 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 2019, 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.

Audit Committee

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

REVIEW OF ANNUAL RESULTS

The annual results for the year ended 31 December 2019 have been reviewed by the audit committee of the Company. The figures in respect of this announcement of the Group's results for the year ended 31 December 2019 have been agreed by the Group's external auditor, Ernst & Young Certified Public Accountants (the "Ernst & Young"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this announcement.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares and other Listed Securities.

DIVIDENDS

A final dividend of HKD0.20 per share as a result of the operation of 2018 amounting to HKD856 million (equivalent to RMB731 million) was paid to the shareholders during the year. There were no any interim dividend paid out during the year.

The Directors recommend the payment of a final dividend of HKD0.25 per share for the year ended 31 December 2019.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 25 May 2020 to Thursday, 28 May 2020, both days inclusive, during which period no transfers of shares will be effected. All transfer documents, accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Computershare Hong Kong Investor Services Limited (at Shops 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai Hong Kong), for registration not later than 4:30 p.m. on Friday, 22 May 2020 in order to identify Shareholders who are entitled to attend and vote at the annual general meeting of the Company (the "Entitlement to AGM"). The record date for the Entitlement to AGM will be on 28 May 2020.

Subject to the approval of the shareholders at the forthcoming annual general meeting, the proposed final dividend will be payable to the shareholders whose names appear on the register of members of the Company on Friday, 5 June 2020. To ascertain the shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 3 June 2020 to Friday, 5 June 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, shareholders of the Company must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Tuesday, 2 June 2020.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at held at Meeting Room 508, 5/F., Jucai Office Building, 26 Minyi Road, Xingqiao, Songjiang Industrial, Shanghai 201612, the People's Republic of China on Thursday, 28 May 2020. The notice of annual general meeting will be published and sent to the shareholders of the Company in due course.

PUBLICATION OF FINANCIAL INFORMATION

This preliminary results announcement and the annual report will be dispatched to the shareholders at the appropriate time and will be at the same time be published on the Stock Exchange's website (www.hkex.com.hk) as well as the Company's website (www.lonking.cn).

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

Hong Kong, 26 March 2020

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