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 2020

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 2020 (the "Period") together with the comparative figures for the corresponding period in 2019. 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 2020

		For the six months ended 30 June	
		2020	2019
		Unaudited	Unaudited
	Notes	***RMB'000***	*RMB'000*
REVENUE	*4*	**6,513,807**	6,759,674
Cost of sales		**(5,023,023)**	(5,188,495)
Gross profit		**1,490,784**	1,571,179
Other income	*5*	**38,614**	28,656
Other gains and losses	*5*	**247,327**	158,151
Selling and distribution expenses		**(322,723)**	(336,837)
Administrative expenses		**(119,589)**	(121,573)
Impairment losses on financial assets, net		**110**	(13,370)
Research and development costs		**(269,895)**	(288,283)
Other expenses		**(25)**	(10,143)
Finance income		**73,893**	85,487
Finance costs		**(13,441)**	(25,040)

* *For identification purpose only*

	Notes	For the six months ended 30 June **2020** **Unaudited** ***RMB'000***	2019 Unaudited *RMB'000*
Profit before tax	*6*	**1,125,055**	1,048,227
Income tax expense	*7*	**(181,219)**	(159,348)
Profit for the period		**943,836**	888,879
Attributable to:			
Owners of the parent		**943,608**	888,621
Non-controlling interests		**228**	258
		943,836	888,879
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted:			
– For profit for the period		**0.22**	0.21

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Profit for the period	**943,836**	888,879
Other comprehensive loss		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Financial assets at fair value through other comprehensive income:		
Changes in fair value	**792**	–
Income tax effect	**(119)**	–
	673	–
Exchange differences:		
Exchange differences on translation of foreign operations	**(3,912)**	(23,354)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(3,239)**	(23,354)
Other comprehensive loss for the period, net of tax	**(3,239)**	(23,354)
Total comprehensive income for the period	**940,597**	865,525
Attributable to:		
Owners of the parent	**940,368**	865,267
Non-controlling interests	**229**	258
	940,597	865,525

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

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

	Notes	30 June 2020 Unaudited *RMB'000*	31 December 2019 Audited *RMB'000*
Current liabilities			
Trade and bills payables	*15*	**4,048,382**	3,650,308
Other payables and accruals	*16*	**845,428**	785,997
Interest-bearing bank borrowings	*17*	**719,844**	–
Derivative financial instruments		**2,405**	–
Due to related parties		**10,095**	8,252
Provisions		**148,582**	131,918
Deferred income		**2,464**	2,138
Tax payable		**168,477**	162,684
Dividends due to shareholders	*8*	**967,945**	–
Total current liabilities		**6,913,622**	4,741,297
Net current assets		**5,544,192**	6,088,699
Total assets less current liabilities		**9,148,192**	9,876,406
Non-current liabilities			
Deposits for finance leases		**61**	951
Interest-bearing bank borrowings	*17*	**–**	709,340
Deferred tax liabilities		**82,750**	66,138
Provisions		**13,544**	11,933
Deferred income		**10,337**	11,079
Total non-current liabilities		**106,692**	799,441
Net assets		**9,041,500**	9,076,965
Equity			
Equity attributable to owners of the parent			
Issued capital		**444,116**	444,116
Share premium and reserves		**8,595,188**	8,630,330
		9,039,304	9,074,446
Non-controlling interests		**2,196**	2,519
Total equity		**9,041,500**	9,076,965

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

1. CORPORATE INFORMATION

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

Lonking Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2000 Revision) Chapter 22 of the Cayman Islands on 11 May 2004 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 17 November 2005. In October 2018, the shares of the Company held through China Longgong Group Holdings Limited, a company owned by Mr. Li San Yim and Ms. Ngai Ngan Ying as to 55% and 45%, respectively, have been transferred to Ms. Ngai Ngan Ying. Therefore, Ms. Ngai Ngan Ying is the ultimate controller of the Company. Mr. Li and Ms. Ngai are husband and wife and deemed to be interested in the same block of shares.

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

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

2.1 Basis of preparation

The interim condensed consolidated financial information, which comprise the interim condensed consolidated information of financial position of the Group as at 30 June 2020 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, has been prepared in accordance with HKAS 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2019.

2.2 Changes in accounting policies and disclosures

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

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

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

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

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

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

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

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

4. OPERATING SEGMENT INFORMATION

Operating segments

The following tables present revenue and profit information for the Group's operating segments for the six months ended 30 June 2020 and 2019:

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

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

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

Inter-segment revenues are eliminated on consolidation.

The following table presents segment assets and liabilities of the Group's operating segments as at 30 June 2020 and 31 December 2019:

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
Segment assets:	**15,927,724**	14,461,972
Sale of construction machinery	**13,271,561**	12,047,551
Finance leases of construction machinery	**11,151**	12,124
Financial investments	**2,645,012**	2,402,297
Corporate and other unallocated assets	**134,090**	155,731
Consolidated assets	**16,061,814**	14,617,703

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
Segment liabilities:	**5,305,780**	4,786,105
Sale of construction machinery	**5,291,533**	4,772,125
Finance leases of construction machinery	**11,842**	13,980
Financial investments	**2,405**	–
Corporate and other unallocated liabilities	**1,714,534**	754,633
Consolidated liabilities	**7,020,314**	5,540,738

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

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

Seasonality of operations

The Group's operations are not subject to seasonality.

5. OTHER INCOME AND OTHER GAINS AND LOSSES

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

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Government grants	**27,309**	18,712
Penalty income	**1,905**	529
Others	**9,400**	9,415
	38,614	28,656

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

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

6. PROFIT BEFORE TAX

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

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

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

7. INCOME TAX EXPENSE

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

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Current income tax expense	**161,292**	187,153
Deferred income tax expense relating to origination and reversal of temporary differences	**19,927**	(27,805)
Income tax expense recognised in the consolidated statement of profit or loss	**181,219**	159,348

8. DIVIDENDS DUE TO SHAREHOLDERS

The directors did not recommend the payment of an interim dividend in respect of the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

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

9. PROPERTY, PLANT AND EQUIPMENT

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

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

10. LONG-TERM RECEIVABLES

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

11. INVENTORIES

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

12. TRADE RECEIVABLES

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

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

The ageing analysis of trade receivables is as follows:

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

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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

A large portion of other receivables is comprised of the loan receivables from sales agencies for their repurchase of machines. The collection of receivables of sales financed by leasing was not favourable due to the deterioration of external operating environment in the past few years. According to the finance lease agreements, the sales agencies were required to fulfil the obligation to repurchase the machines and repay the outstanding lease amount to the leasing companies once the account is overdue for more than three months. Accordingly, the Group would extend loans to the sales agencies to help them with the settlement of repurchase. The sales agencies were required to repay within three months as it would normally take three months for the resale of the machines. The Group would enter into instalment agreements with sales agencies if the repurchased machines had been resold. The instalments would be paid at interest rates ranging from 4% to 8% per annum and would mainly be repaid within 18 to 24 months.

14. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

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

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

15. TRADE AND BILLS PAYABLES

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

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

The bills payables are aged within six months at the end of each reporting period, secured by pledged bank deposits amounting to RMB337,150,000 (2019: RMB290,467,000) (note 14).

16. OTHER PAYABLES AND ACCRUALS

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

17. INTEREST-BEARING BANK BORROWINGS

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

Certain of the Group's bank loans are secured by the pledge of certain of the Group's time deposits amounting to RMB356,000,000 (2019: RMB356,000,000) (note 14).

RESULT AND BUSINESS REVIEW

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

GEOGRAPHICAL RESULTS

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

PRODUCTS ANALYSIS

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

Wheel loader

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

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

Excavator

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

Forklifts and Road Rollers

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

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

Components

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

FINANCIAL REVIEW

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

Cash and Bank Balance

As at 30 June 2020, the Group had bank balances and cash of approximately RMB2,733 million (31 December 2019: approximately RMB2,502 million) and pledged bank deposit of approximately RMB726 million (31 December 2019: approximately RMB673 million). Compared with last year, the cash and bank balance increased about RMB231 million, which was as a result of net cash inflow of RMB407 million from operating activities, net cash outflow of RMB114 million from investing activities and net cash outflow of RMB62 million from financing activities.

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

Liquidity and Financial Resources

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

The current ratio of the Group at 30 June 2020 was 1.80 (31 December 2019: 2.28). The Directors believed that the Group has sufficient resources to support its working capital requirement and meet its foreseeable capital expenditure.

Capital Structure

During the period ended on 30 June 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares and any other listed securities.

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

Capital Expenditure

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

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

Revenue

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

Other gains and losses

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

Impairment losses on financial assets

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

Long-term receivables

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

Financial assets at fair value through profit or loss

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

Capital Commitment

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

PROSPECT

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

CORPORATE GOVERNANCE

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

Code Provision A.1.8

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

Code Provision A.6.7

As stipulated in the Code provision A.6.7 of CG Code, independent non-executive directors and other non-executive directors shall attend general meetings. Three independent non-executive directors were unable to attend annual general meeting of the Company held on 28 May 2020 (the "2020 AGM") due to other important engagement.

Code Provision A.4.3

Mr. Qian Shi Zheng ("Mr. Qian") has been appointed as an independent non-executive Director for more than nine years since February 2005. Pursuant to Code A.4.3 of the CG Code, (a) having served the Company for more than nine years could be relevant to the determination of an independent non–executive director's independence and (b) if an independent non-executive director has served more than nine years, his further appointment should be subject to a separate resolution to be approved by shareholders. Mr. Qian has extensive experience in the finance and accounting fields. He provides a wide range of expertise and experience which can meet the requirement of Group's business and his participant in the Board brings independent judgment on issues relating to the Group's strategy, performance, conflicts of interest and management process to ensure that the interest of the shareholders have been duly considered. The Company has received from Mr. Qian a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Mr. Qian has not engaged in any executive management of the Group. Taking into consideration of his independent scope of works in the past years, the Directors consider Mr. Qian to be independent under the Listing Rules despite the fact that he has served the Company for more than nine years. Accordingly, Mr. Qian shall be subject to retirement rotation and re-election by way of a separate resolution approved by the Shareholders at the annual general meeting. At the Annual General Meeting of the Company held on 28 May 2020, a separate resolution to re-elect Mr. Qian, a retiring Director, as an independent non-executive Director was passed by the Shareholders by way of poll.

Code Provision A.2.1

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

Notwithstanding the above, the Board is of the view that this management structure is effective for the Group's operations and sufficient checks and balances are in place.

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

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

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 2020 have been reviewed by the external auditors of the Company. The figures in respect of this announcement of the Group's results for the six months ended 30 June 2020 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 period.

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

During the six months ended on 30 June 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares and any other listed securities.

INTERIM DIVIDEND

The Directors do not recommend any interim dividend for the six months ended 30 June 2020 (for the six months ended 30 June 2019: HK$0 cents per share).

PUBLICATION OF FINANCIAL INFORMATION

The Company's 2020 interim report for the six months ended 30 June 2020 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, 26 August 2020

* *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.