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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 2020

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2020

	NOTES	**2020** *RMB'000*	2019 *RMB'000*
REVENUE	*3*	**12,880,448**	11,743,824
Cost of sales		**(9,870,405)**	(8,932,960)
Gross profit		**3,010,043**	2,810,864
Other income	*4*	**110,622**	102,134
Other gains and losses	*4*	**538,767**	364,276
Selling and distribution expenses		**(672,750)**	(623,564)
Administrative expenses		**(240,999)**	(238,213)
Impairment losses on financial assets, net		**10,440**	(14,068)
Research and development costs		**(578,946)**	(550,074)
Other expenses		**(390)**	(11,068)
Finance income	*4*	**148,127**	165,193
Finance costs	*5*	**(17,282)**	(40,112)

* *For identification purpose only*

	NOTES	**2020** **RMB'000**	2019 RMB'000
PROFIT BEFORE TAX	6	**2,307,632**	1,965,368
Income tax expense	7	**(347,883)**	(321,429)
PROFIT FOR THE YEAR		**1,959,749**	1,643,939
Attributable to:			
Owners of the parent		**1,959,235**	1,643,405
Non-controlling interests		**514**	534
		1,959,749	1,643,939
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted:			
– For profit for the year	9	**RMB0.46**	RMB0.38

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2020

	NOTES	**2020** **RMB'000**	2019 RMB'000
PROFIT FOR THE YEAR		**1,959,749**	1,643,939
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		**33,623**	(44,899)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**33,623**	(42,387)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**33,623**	(42,387)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,993,372**	1,601,552
Attributable to:			
Owners of the parent		**1,992,858**	1,601,015
Non-controlling interests		**514**	537
		1,993,372	1,601,552

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2020

	NOTES	**2020** **RMB'000**	2019 RMB'000
Non-current assets			
Property, plant and equipment	*10*	**2,026,269**	2,080,946
Right-of-use assets		**169,431**	175,398
Finance lease receivables	*11*	**56**	531
Prepayments for property, plant and equipment		**19,108**	20,643
Long-term receivables	*12*	**603,090**	248,615
Equity investments at fair value through other comprehensive income	*17*	**1,450**	1,450
Financial assets at fair value through profit or loss	*18*	**808,560**	500,000
Deferred tax assets		**442,915**	404,124
Pledged deposits	*19*	**–**	356,000
Total non-current assets		**4,070,879**	3,787,707
Current assets			
Inventories	*13*	**3,753,892**	3,005,756
Finance lease receivables	*11*	**4,085**	10,048
Trade and bills receivables	*14*	**3,187,122**	2,245,022
Due from related parties		**13,197**	4,801
Prepayments, other receivables and other assets	*15*	**877,498**	633,786
Financial assets at fair value through other comprehensive income	*16*	**211,428**	209,259
Financial assets at fair value through profit or loss	*18*	**1,538,021**	1,836,767
Derivative financial instruments		**–**	65,530
Pledged deposits	*19*	**837,547**	317,191
Cash and cash equivalents	*19*	**2,780,567**	2,501,836
Total current assets		**13,203,357**	10,829,996
Current liabilities			
Trade and bills payables	*20*	**4,900,158**	3,650,308
Other payables and accruals	*21*	**1,058,823**	785,997
Interest-bearing bank borrowings	*22*	**663,452**	–
Due to related parties		**18,454**	8,252
Tax payable		**298,083**	162,684
Provisions		**153,029**	131,918
Deferred income		**3,284**	2,138
Total current liabilities		**7,095,283**	4,741,297

	NOTES	**2020**	2019
		RMB'000	*RMB'000*
Net current assets		**6,108,074**	6,088,699
Total assets less current liabilities		**10,178,953**	9,876,406
Non-current liabilities			
Deposits for finance leases	*11*	**31**	951
Interest-bearing bank borrowings	*22*	**–**	709,340
Deferred tax liabilities		**60,283**	66,138
Provisions		**12,292**	11,933
Deferred income		**12,072**	11,079
Total non-current liabilities		**84,678**	799,441
Net assets		**10,094,275**	9,076,965
Equity			
Equity attributable to owners of the parent			
Issued capital		**444,116**	444,116
Share premium and reserves		**9,647,678**	8,630,330
		10,091,794	9,074,446
Non-controlling interests		**2,481**	2,519
Total equity		**10,094,275**	9,076,965

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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 in 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 2020. 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 *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

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 the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) 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 did not have any impact on the financial position and performance of the Group.

(c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. 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 did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

(d) 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 and shall be applied retrospectively. The amendment did not have any impact on the financial position and performance of the Group as the Group does not have any such lease arrangement.

(e) 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, or both. The amendments did not have any significant impact on the financial position and 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	*Reference to the Conceptual Framework*[2]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKFRS 17	*Insurance Contracts*[3, 6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[3, 5]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[2]
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[2]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after 1 January 2023
4 No mandatory effective date yet determined but available for adoption
5 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion
6 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

Those HKFRSs are expected to be applicable to the Group for annual periods beginning on or after the effective date. These new and amended HKFRSs are not expected to have any significant impact on the Group's financial statements.

3. OPERATING SEGMENT INFORMATION

Year ended 31 December 2020	Sale of construction machinery *RMB'000*	Finance lease of construction machinery *RMB'000*	Financial investment *RMB'000*	Total *RMB'000*
Segment revenue	**12,879,335**	**1,113**	**–**	**12,880,448**
Segment results	**1,647,281**	**149**	**536,255**	**2,183,685**
Reconciliation:				
Interest income				**148,127**
Unallocated other income and gains				**6,491**
Corporate and other unallocated expenses				**(13,389)**
Finance costs				**(17,282)**
Profit before tax				**2,307,632**
Segment assets	**14,748,615**	**6,036**	**2,346,581**	**17,101,232**
Corporate and other unallocated assets				**173,004**
Total assets				**17,274,236**
Segment liabilities	**6,454,366**	**12,023**	**–**	**6,466,389**
Corporate and other unallocated liabilities				**713,572**
Total liabilities				**7,179,961**
OTHER SEGMENT INFORMATION				
Impairment losses recognised in the statement of profit or loss, net	**(8,306)**	**(63)**	**–**	**(8,369)**
Depreciation	**340,556**	**–**	**–**	**340,556**
Capital expenditure*	**301,545**	**–**	**–**	**301,545**

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

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	349,372	–	–	349,372
Capital expenditure*	246,719	–	–	246,719

* 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:

	2020		2019	
	RMB'000	%	*RMB'000*	%
Wheel loaders	**6,284,146**	**48.8**	6,025,944	51.3
Excavators	**2,415,604**	**18.8**	2,121,858	18.1
Road rollers	**88,261**	**0.7**	113,226	1.0
Forklifts	**2,711,193**	**21.0**	2,373,971	20.2
Others	**1,380,131**	**10.7**	1,106,699	9.4
Subtotal	**12,879,335**	**100.0**	11,741,698	100.0
Finance lease interest income	**1,113**	**0.0**	2,126	0.0
Total	**12,880,448**	**100.0**	11,743,824	100.0

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

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

	2020	2019
	RMB'000	*RMB'000*
Finance income		
Bank interest income	**148,127**	165,193
Other income		
Government grants	**89,350**	90,299
Penalty income	**2,701**	570
Others	**18,571**	11,265
	110,622	102,134

	2020	2019
	RMB'000	*RMB'000*
Other gains and losses		
Gain/(loss) on foreign exchange gains	**6,491**	(3,139)
(Loss)/gain on disposal of items of property, plant and equipment	**(1,908)**	6,861
Investment management fee (a)	**(41,191)**	–
Dividend income from financial assets at fair value through profit or loss	**630,715**	–
Gains from derivative financial instruments	**2,447**	9,434
Fair value gains, net:		
Financial assets at fair value through profit or loss – held for trading	**9,814**	412,751
Derivative financial instruments – transactions not qualifying as hedges	**(65,530)**	(47,193)
Loss on derecognition of financial assets measured at amortised cost	**–**	(6,242)
Provision for inventories	**(2,071)**	(8,196)
	538,767	364,276

(a) Investment management fee is related to the listed equity investments at fair value through profit or loss (note 18).

5. FINANCE COSTS

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

	2020	2019
	RMB'000	*RMB'000*
Interest on bank loans	**17,282**	40,112
Total interest expense on financial liabilities not at fair value through profit or loss	**17,282**	40,112

6. PROFIT BEFORE TAX

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

	2020	2019
	RMB'000	*RMB'000*
Cost of inventories sold	**9,870,405**	8,932,960
Depreciation of property, plant and equipment *(note 10)*	**334,782**	343,615
Depreciation of right-of-use assets	**5,774**	5,757
Research and development costs	**578,946**	550,074
Auditor's remuneration	**2,760**	2,665
Employee benefit expense		
(excluding directors' remuneration):		
Wages and salaries	**733,597**	652,630
Contributions to a pension scheme	**14,583**	51,975
Foreign exchange differences, net	**(6,491)**	3,139
Impairment of financial assets, net		
– trade receivables *(note 14)*	**(7,208)**	10,441
– other receivables *(note 15)*	**(3,169)**	3,043
– financial lease receivables *(note 11)*	**(63)**	584
	(10,440)	14,068
Write-down of inventories to net realisable value	**2,071**	8,196
Product warranty provision:		
Additional provision	**234,000**	245,961
Bank interest income	**(148,127)**	(165,193)
Loss/(gain) on disposal of items of property, plant and equipment	**1,908**	(6,861)
Fair value (gains)/losses, net:		
Financial assets at fair value through profit or loss		
– held for trading	**(9,814)**	(412,751)
Derivative instruments		
– transactions not qualifying as hedges	**65,530**	47,193
Loss on derecognition of financial assets measured at amortised cost	**–**	6,242
Investment management fee	**41,191**	–
Dividend income from financial assets at fair value through profit or loss	**(630,715)**	–

7. INCOME TAX

	2020	2019
	RMB'000	*RMB'000*
Current tax		
Charged for the year	**341,009**	239,545
Overprovision in prior years	**(1,515)**	(10,106)
Withholding tax paid	**53,035**	109,938
	392,529	339,377
Deferred tax	**(44,646)**	(17,948)
Total tax charge for the year	**347,883**	321,429

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:

	2020		2019	
	RMB'000	*%*	*RMB'000*	*%*
Profit before tax	**2,307,632**		1,965,368	
Tax at the statutory tax rate of 25% (2019: 25%)	**576,908**	**25.0**	491,342	25.0
Expenses not deductible for tax (i)	**8,699**	**0.4**	23,712	1.2
Adjustments in respect of current tax of previous periods	**(1,515)**	**(0.1)**	(10,106)	(0.5)
Tax losses utilised from previous periods	**(1,310)**	**(0.1)**	(1,263)	(0.1)
Tax incentives on eligible R&D expenditures	**(65,131)**	**(2.8)**	(61,884)	(3.1)
Effect of withholding tax	**58,194**	**2.5**	91,215	4.6
Effect of the preferential tax rate of 15%	**(227,962)**	**(9.9)**	(211,587)	(10.8)
Tax charge and effective tax rate for the year	**347,883**	**15.0**	321,429	16.3

(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

	2020 *RMB'000*	2019 *RMB'000*
Proposed final – HK\$0.33 (2019: HK\$0.25) per ordinary share	**1,186,910**	975,510

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 (2019: 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 2020 and 2019.

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 2020	1,642,169	3,490,788	51,617	154,432	89,724	5,428,730
Additions	30,104	36,870	1,372	4,553	228,646	301,545
Transfers	45,943	95,005	756	12,565	(154,269)	–
Disposals	(31,215)	(27,703)	(2,958)	(16,930)	(673)	(79,479)
Exchange realignment	(1,266)	–	–	(23)	–	(1,289)
At 31 December 2020	1,685,735	3,594,960	50,787	154,597	163,428	5,649,507
Accumulated depreciation and impairment						
At 1 January 2020	730,401	2,454,781	43,036	119,566	–	3,347,784
Charge for the year	94,513	230,001	1,599	8,669	–	334,782
Disposals	(15,244)	(25,110)	(2,391)	(16,341)	–	(59,086)
Exchange realignment	(217)	–	–	(25)	–	(242)
At 31 December 2020	809,453	2,659,672	42,244	111,869	–	3,623,238
Carrying amount						
At 31 December 2020	876,282	935,288	8,543	42,728	163,428	2,026,269

	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

11. FINANCE LEASE RECEIVABLES

	Minimum lease payments		Present value of minimum lease payments	
	2020	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Finance lease receivables comprise:				
Within one year	**4,256**	10,566	**4,127**	10,149
One to five years	**551**	1,056	**535**	1,014
	4,807	11,622	**4,662**	11,163
Less: Unearned finance income	**145**	459	**–**	–
Less: Provision for impairment	**521**	584	**521**	584
Present value of minimum lease payment receivables	**4,141**	10,579	**4,141**	10,579
Analysed into:				
Current			**4,085**	10,048
Non-current			**56**	531
			4,141	10,579

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

	2020	2019
	RMB'000	*RMB'000*
At 1 January	**584**	–
Impairment losses recognised *(note 6)*	**(63)**	584
At 31 December	**521**	584

The effective interest rates of the above finance leases range from 6% to 9.5% (2019: 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 2020, the Group's refundable finance lease deposits are as follows:

	2020	2019
	RMB'000	*RMB'000*
Current *(note 21)*	**8,100**	8,471
Non-current	**31**	951
	8,131	9,422

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 item:

	2020	2019
	RMB'000	*RMB'000*
Trade receivables *(note 14)*	**603,090**	248,615

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

13. INVENTORIES

	2020	2019
	RMB'000	*RMB'000*
Raw materials	**1,190,225**	852,843
Work in progress	**198,312**	188,511
Finished goods	**2,365,355**	1,964,402
	3,753,892	3,005,756

14. TRADE AND BILLS RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**4,189,390**	2,908,701
Impairment	**(399,178)**	(415,064)
	3,790,212	2,493,637
Less: Non-current portion *(note 12)*	**(603,090)**	(248,615)
	3,187,122	2,245,022

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:

	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**2,083,775**	1,485,585
3 to 6 months	**835,302**	472,736
6 months to 1 year	**740,618**	453,924
More than 1 year	**130,517**	81,392
	3,790,212	2,493,637

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

	2020	2019
	RMB'000	*RMB'000*
At beginning of year	**415,064**	412,984
Impairment losses, net *(note 6)*	**(7,208)**	10,441
Written off as uncollectible	**(8,678)**	(8,361)
At end of year	**399,178**	415,064

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) among the 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 2020, the Group has accrued ECLs of RMB387,424,000 for credit impaired trade receivables with a gross carrying amount of RMB477,336,000.

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 2020

		Past due				
	Current	**Less than 6 months**	**6 months-12 months**	**1 year-2 years**	**Over 2 years**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Expected credit loss rate	**0.20%**	**0.39%**	**2.83%**	**8.63%**	**18.51%**	**0.41%**
Gross carrying amount (RMB'000)	**2,902,558**	**744,936**	**48,978**	**12,086**	**3,496**	**3,712,054**
Expected credit losses (RMB'000)	**5,759**	**2,919**	**1,385**	**1,043**	**648**	**11,754**

As at 31 December 2019

		Past due				
	Current	Less than 6 months	6 months-12 months	1 year-2 years	Over 2 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Expected credit loss rate	0.43%	0.47%	3.36%	8.76%	18.00%	0.62%
Gross carrying amount (RMB'000)	1,874,228	475,738	80,793	12,689	5,160	2,448,608
Expected credit losses (RMB'000)	8,066	2,239	2,716	1,111	929	15,061

15. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2020	2019
	RMB'000	*RMB'000*
Prepayments	**623,774**	409,882
Deductible value-added tax	**93,516**	72,069
Deposits	**3,147**	3,182
Total	**720,437**	485,133
Other receivables:		
Loan receivables	**462,844**	478,767
Less: Impairment	**(405,776)**	(409,133)
Net loan receivables	**57,068**	69,634
Other miscellaneous receivables	**100,691**	80,418
Less: Impairment	**(698)**	(1,399)
Net other miscellaneous receivables	**99,993**	79,019
Total other receivables	**157,061**	148,653
Grand total	**877,498**	633,786

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

	2020	2019
	RMB'000	*RMB'000*
At 1 January	**410,532**	410,624
Impairment losses recognised *(note 6)*	**(3,169)**	3,043
Amount written off as uncollectible	**(889)**	(3,135)
At 31 December	**406,474**	410,532

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 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 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.

The Group has considered the financial assets described above credit-impaired (but that are not purchased or originated credit-impaired), for which the loss allowance is measured at an amount equal to lifetime ECLs. An impairment analysis is performed at each reporting date by considering the probability of default, the ageing, existence of disputes, likelihood of collection, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the effective interest rate. The expected cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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:

	2020	2019
	RMB'000	*RMB'000*
More than 1 year	**57,068**	69,634

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020	2019
	RMB'000	*RMB'000*
Trade and bills receivables, at fair value	**211,428**	209,259

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

17. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020	2019
	RMB'000	*RMB'000*
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value	**1,450**	1,450

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

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020	2019
	RMB'000	*RMB'000*
Listed equity investments, at fair value – current	**–**	134,470
Listed equity investments, at fair value – non-current	**289,730**	–
Unlisted equity investments, at fair value – current	**1,538,021**	1,702,297
Unlisted equity investments, at fair value – non-current	**518,830**	500,000
	2,346,581	2,336,767

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

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

19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2020	2019
	RMB'000	*RMB'000*
Cash and bank balances	**2,480,567**	2,201,836
Time deposits	**1,137,547**	973,191
	3,618,114	3,175,027
Less: Pledged cash and bank balances and time deposits:		
Pledged for long-term bank loans *(note 22)*	**–**	(356,000)
Pledged for short-term bank loans *(note 22)*	**(356,000)**	–
Pledged for bank acceptance bills *(note 20)*	**(441,251)**	(290,467)
Pledged for others	**(40,296)**	(26,724)
Cash and cash equivalents	**2,780,567**	2,501,836

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 cash and bank balances that are denominated in currencies other than the functional currencies of the respective group entities are as follows:

	US$	**HK$**
	RMB'000	*RMB'000*
As at 31 December 2020	**3,303**	**39,127**
As at 31 December 2019	19,409	16,914

20. TRADE AND BILLS PAYABLES

	2020	2019
	RMB'000	*RMB'000*
Trade payables	**1,915,150**	1,376,819
Bills payable	**2,985,008**	2,273,489
	4,900,158	3,650,308

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:

	2020	2019
	RMB'000	*RMB'000*
Within 6 months	**4,812,807**	3,584,881
6 months to 1 year	**28,308**	33,554
1 to 2 years	**32,771**	13,696
2 to 3 years	**9,497**	8,311
Over 3 years	**16,775**	9,866
	4,900,158	3,650,308

Bills payable were aged within 12 months at the end of the reporting period, and were secured by pledged bank deposits amounting to RMB441,251,000 (2019: RMB290,467,000) (note 19).

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

21. OTHER PAYABLES AND ACCRUALS

	2020	2019
	RMB'000	*RMB'000*
Accrued sales rebate	**582,684**	436,036
Other payables	**81,514**	78,292
Salaries and wages payable	**161,226**	126,778
Contract liabilities	**77,422**	56,248
Other taxes payable	**10,489**	12,693
Other accrued expenses	**65,253**	49,448
Deposit for finance leases *(note 11)*	**8,100**	8,471
Payable for acquisition of property, plant and equipment	**28,473**	18,031
Investment management fee	**43,662**	–
	1,058,823	785,997

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 was included in the contract liabilities at the beginning of the reporting period amounted to RMB49,777,000. The contract liabilities as of 31 December 2020 are expected to be recognised as revenue within one year.

22. INTEREST-BEARING BANK BORROWINGS

	2020			2019		
	Effective interest rate (%)	**Maturity**	***RMB'000***	Effective interest rate (%)	Maturity	*RMB'000*
Current						
Bank loans – secured	**1.33-2.93**	**2021**	**663,452**			–
Non-current						
Bank loans – secured			**–**	2.92-3.72	2021	709,340
			663,452			709,340

	2020	2019
	RMB'000	*RMB'000*
Analysed into:		
Within one year	**663,452**	–
In the second year	**–**	709,340
	663,452	709,340

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$ equivalent to RMB'000
As at 31 December 2020	663,452
As at 31 December 2019	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 19).

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT AND BUSINESS REVIEW

The past year marks an extraordinary year in the history of new China. In the face of the grim and complex circumstance at home and abroad, China has become the sole major economy in the world to achieve the positive growth. The infrastructure machinery industry in which the Group engages took the initiative to cope with the impact of COVID-19 and to contain the epidemic, and quickly resumed operation and production. The order of production and operation were basically restored in the second quarter, and the production and operation situation of the whole year developed in a good way in defiance against the adversity. With firm confidence, all staff of the Group have overcome difficulties and adhered to the keynote of seeking improvement while maintaining stability, constantly improved and enhanced the management work, further consolidating and enhancing the development quality of the business in all business segments. While ensuring the controllable marketing risks and the improvement of asset quality, the Group has managed "two markets" (domestic and international markets) and "two kinds of resources" in the "Domestic Economic Circulation" and "Dual Economic Circulation", striving for a win-win situation in volume and profit. The four categories of products were improved in competitiveness and influence to different extents in the market, and their market position was further consolidated. During the reporting period, the Group realised a total operating revenue of RMB12,880 million, which increased by 9.68% or RMB1,136 million year on year from RMB11,744 million in 2019. Thanks to the incremental demand brought about by the recovery of downstream infrastructure projects and the stock renewal demand brought by the stricter environmental protection policies, the domestic market demand for construction machinery is booming, the customer satisfaction of the Group's products is further improved and the Group's operating revenue has hit a record high. Loader is still the Group's most competitive products and the main source of profit. Three-ton and three-ton-plus large loaders maintain and consolidate its leading position in domestic market share. Affected by factors such as COVID-19, the proportion of the sales of loader to total sales of the Group dropped by 2.5% as compared with that in 2019 to 48.8%. Compared with 2019, the proportion of excavator sales in the current period increased slightly by 0.7% to 18.8% and that of forklift sales accounted for 21.0% in the current period, with a slight increase of 0.8%. During the reporting period, the Group's consolidated gross profit margin was 23.37%, a decrease of 0.56% from 23.93% in the same period of 2019. Net profit for the whole year was approximately RMB1,960 million, increased by RMB316 million or 19.21% from RMB1,644 million in the same period last year. The increase in net profit was mainly due to the booming production and sales of the Group's products and the better operation efficiency and effect through scientific management and scientific and technological investment by the Group. Moreover, the investment income of financial assets of the Group in the reporting period was significantly improved.

The overall sales in China this year were good, and the proportion of sales from various regions to the Group's total revenue remained roughly the same as last year. Among them, sales revenue from the northeast, east and northwest regions have seen significant growth. Compared with last year, sales revenue from such regions increased by 42%, 16% and 17% to approximately RMB463 million, RMB2,417 million and RMB1,299 million, respectively. Sales revenue from the southern region increased by 9% to approximately RMB1,429 million. In addition, sales revenue from the international market surged by 40% this year to approximately RMB864 million, which was mainly due to the continued rapid growth of markets along the "Belt and Road" and the longer credit period granted by the Company to some new foreign distributors.

ANALYSIS OF PRODUCTS

Despite the impact of the conronavirus epidemic at the beginning of this year, the infrastructure machinery industry rebounded rapidly after the first quarter. Except for road roller products, the sales of all products of the group have recorded significant increase compared with last year.

Wheel Loaders

Wheel Loaders are still the main product of the Group. However, in recent years, to achieve product diversification, the Group efforts to develop and promote other products. The proportion of wheel loaders' sales to the Group's total sales has fallen slightly. During the year, the total sales from wheel loaders amounted to approximately RMB6,284 million, accounting for 49% of total sales. Among them, the revenue from the ZL30 series and ZL60 series increased by 36% to approximately RMB579 million and 33% to approximately RMB439 million, respectively. Revenue from ZL50 series was approximately RMB5,023 million, which had no significant change compared with last year. Revenue from the mini wheel loader series increased by 8% to approximately RMB219 million.

Excavators

This year, the sales revenue from excavator products increased by 14% to approximately RMB2,416 million (2019: approximately RMB2,122 million). We expect that the market demand for excavator products will continue to grow.

Fork Lifts and Road Rollers

Revenue from forklifts increased by 14% compared to last year, reaching approximately RMB2,711 million (2019: approximately RMB2,374 million). Forklift revenue accounted for approximately 21% of the group's total revenue.

Revenue from road roller decreased by 22% compared to last year, reaching approximately RMB88 million (2019: approximately RMB113 million).

Components

Revenue from components reached RMB1,105 million, representing an increase of 25% compared to last year (2019: approximately RMB885 million).

FINANCIAL REVIEW

The cash position of the Group was strong during the year. As at 31 December 2020, the Group had bank balance and cash of approximately RMB2,781 million (31 December 2019: approximately RMB2,502 million).

Cash and Bank Balance

Compared with last year, cash and bank balances increased by approximately RMB279 million, which is generated as a result of net cash inflow of around RMB1,071 million from operating activities, the net cash inflow of RMB362 million from investing activities and the net cash outflow of RMB1,154 million from financing activities.

Liquidity and Financial Resources

We are committed to build a sound finance position. Total net assets as at 31 December 2020 was approximately RMB10,094 million, a 11% increase from approximately RMB9,077 million as at 31 December 2019. The current ratio of the Group at 31 December 2020 was 1.86 (2019: 2.28).

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 2020, the gross gearing ratio (defined as total liabilities over total assets) was approximately 41.56% (31 December 2019: 37.90%).

Capital Expenditure

During the period, the Group acquired property, plant and equipment of approximately RMB302 million (2019: approximately RMB247 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 2020, the Group had contracted but not included in the financial statements expenditures of approximately RMB37 million in respect of acquisition of property, plant and equipment (31 December 2019: approximately RMB22 million).

Other Gains and Losses

Other gains and losses increased by approximately RMB174 million compared to the previous year. This was mainly due to the investment income of the Group's financial asset management products increased approximately RMB624 million and changes in the fair value of financial asset management products of company decreased approximately RMB415 million during year.

Impairment losses on financial assets, net

As the infrastructure machinery industry rebounded rapidly after the first quarter in 2020, the overall recovery of trade receivables and other receivables were good, resulting in a gain of approximately RMB10 million recognized during the year in the impairment losses of financial assets.

Finance costs

This year's financial costs decreased by approximately RMB23 million compared with the same period last year. This was mainly due to 1) the repayment of a portion of US dollar loans in the second half of 2019 resulted in a significant decrease in the accrued interest during the year; 2) the decrease in the interest rate of US dollar loans in the year of 2020.

Long-term receivables

The long-term receivables increased by approximately RMB354 million compared to the same period last year. This was mainly due to the increase in sales of loaders and excavators paid in installments over one year.

Trade and bills receivables

The trade and bills receivable increased by approximately RMB942 million compared with the same period last year, which was mainly due to increase of Group's revenue and it was also due to longer credit term given to distributor.

Prepayment, other receivables and other assets

Prepayment, other receivables and other assets increased by approximately RMB244 million compared with the same period last year, which was mainly due to the market demand continued to be strong in the second half of the year, and the company's sales orders increased. In order to meet the demand of the next year's peak sales season, the group increased the purchase of raw materials, which resulted in an increase in prepayment.

Trade and bills payables

Trade and bills payables increased by approximately RMB1,250 million compared to the same period last year. This was mainly due to the gradual recovery of the infrastructure machinery industry and continued strong market demand for the company's products in the second half of the year. The company increased its purchase of raw materials to meet the needs of the next year, resulting in increase in trade and bills payables balance. Meanwhile, more suppliers agreed and accepted the Company to settle the payable with bank bills. which also led to an increase in the balance of bills payable.

Other payables and accruals

The other payables and accruals increased by approximately RMB273 million compared to the same period last year, which was mainly because that the company provided more favorable policy on sales rebate in order to maintain the competitive advantages in the market, resulting in an increase in the accrued rebate.

Meanwhile, in expectation of peak sales season of excavator product, the Company also recruited more workers, which resulted in an increase in bonus accrual and employee salaries payables.

PROSPECT

The year 2021 is the first year for China to implement its 14th Five-Year Plan and embark on a new journey of building a modern country in all respects. The fundamentals of China's long-term economic growth remain unchanged. China strives for progress while maintaining stability, aims at new development, adheres to policies and measures such as expanding domestic demand and opening to the outside world at a high-level, which will effectively ensure a good start in the 14th Five-Year Plan. During the 14th Five-Year Plan period, the government will increase investment in new infrastructure construction, new urbanization construction, transportation, water conservancy and other major projects, which will effectively promote the demand and development of construction machinery. The Group will seize any possible opportunity of development in the industry, emancipate the mind, focus on the present, be farsighted and pragmatic, take the initiative and dare to take responsibility. Devoted to the infrastructure machinery industry, the Group will and develop and strengthen the four engine products (loaders, excavators, forklifts and road machinery) and core components sustainably and with high quality and build on core competitiveness by focusing on products and quality. The Group will strives to build Lonking family culture, always adhere to the marketing principle of agency system by jointly building and creating a win-win and shared relationship with agents, and sustain and consolidate its three strengths of "quality, service and cost effectiveness" established since its inception. The Group will exploit the market segments by enhancing market planning, channel integration and optimizing product structure. Strictly following the pragmatic and flexible marketing strategy, the Group will vitalize the market and prevent marketing risks, and strive to tap into the domestic and international market demand while ensuring the precondition of controllable risks, continue to consolidate its strong market position and constantly expand and enhance the market share of the products with less shares. While developing the domestic market, the Group will focus on overseas markets, promote internationalization, train high-quality international marketing talents, improve the marketing network, strengthen the channel construction, improve the product structure, create a series of regionally marketable products, innovate marketing ideas, and adopt the flexible marketing strategy of "customizing different policies for different regions" to boost overseas market share. The principle of giving priority to market and quality will be unswervingly upheld. The Group will accelerate the informatization process, vigorously promote the digital and intelligent transformation and application, increase R&D investment, promote the application and development of new products and new technologies, attach importance to the whole cycle R&D of products, strengthen the whole-cycle management and control of the quality of self-made parts and supplied products, value unity and cooperation, and comprehensively improve the quality of all products. The Group will further innovate, establish and improve the management system, achieve "improvement" through "science" and "change", continue to practise and carry forward the core cultural concept of "Lonking family", and work together with all Lonking staff to create a win-win situation.

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 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.

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 2020 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 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 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 HKD0.25 per share as a result of the operation of 2020 amounting to HKD1,070 million (equivalent to RMB976 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 HKD0.33 per share for the year ended 31 December 2020.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Friday, 21 May 2021 to Wednesday, 26 May 2021, 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 Thursday, 20 May 2021 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 Wednesday, 26 May 2021.

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 Thursday, 3 June 2021. To ascertain the shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Tuesday, 1 June 2021 to Thursday, 3 June 2021, 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 Monday, 31 May 2021.

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 Wednesday, 26 May 2021. 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, 25 March 2021

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.