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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 2021 (the "Period") together with the comparative figures for the corresponding period in 2020. 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 2021

		For the six months ended 30 June	
		2021	2020
		Unaudited	Unaudited
	Notes	***RMB'000***	*RMB'000*
REVENUE	*4*	**8,191,260**	6,513,807
Cost of sales		**(6,660,466)**	(5,023,023)
Gross profit		**1,530,794**	1,490,784
Other income	*5*	**38,692**	38,614
Other gains and losses田	*5*	**324,108**	247,327
Selling and distribution expenses		**(407,340)**	(322,723)
Administrative expenses		**(136,764)**	(119,589)
Impairment losses on financial assets, net		**(1,400)**	110
Research and development costs		**(319,415)**	(269,895)
Other expenses		**(28)**	(25)
Finance income		**89,186**	73,893
Finance costs		**(15,879)**	(13,441)

* *For identification purpose only*

	Notes	For the six months ended 30 June **2021** **Unaudited** ***RMB'000***	2020 Unaudited *RMB'000*
PROFIT BEFORE TAX	*6*	**1,101,954**	1,125,055
Income tax expense	*7*	**(157,367)**	(181,219)
PROFIT FOR THE PERIOD		**944,587**	943,836
Attributable to:			
Owners of the parent		**944,563**	943,608
Non-controlling interests		**24**	228
		944,587	943,836
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted:			
– For profit for the period (RMB)		**0.22**	0.22

Details of the dividends declared and paid are disclosed in note 8 to the interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
	RMB'000	*RMB'000*
PROFIT FOR THE PERIOD	**944,587**	943,836
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive (loss)/income 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)**	792
Income tax effect	**446**	(119)
	(2,509)	673
Exchange differences:		
Exchange differences on translation of foreign operations	**15,170**	(3,912)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**12,661**	(3,239)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**12,661**	(3,239)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**957,248**	940,597
Attributable to:		
Owners of the parent	**957,224**	940,368
Non-controlling interests	**24**	229
	957,248	940,597

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	**30 June 2021 Unaudited *RMB'000***	31 December 2020 Audited *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	**1,985,782**	2,026,269
Right-of-use assets		**137,675**	169,431
Finance lease receivables		**–**	56
Prepayments for property, plant and equipment		**57,140**	19,108
Trade receivables	*11*	**666,339**	603,090
Equity investments at fair value through other comprehensive income		**1,450**	1,450
Financial assets at fair value through profit or loss		**837,378**	808,560
Deferred tax assets		**429,340**	442,915
Pledged deposits	*13*	**356,000**	–
Total non-current assets		**4,471,104**	4,070,879
CURRENT ASSETS			
Inventories	*10*	**3,713,262**	3,753,892
Finance lease receivables		**1,674**	4,085
Trade receivables	*11*	**3,904,345**	3,187,122
Due from related parties		**2,129**	13,197
Prepayments, deposits and other receivables	*12*	**686,882**	877,498
Financial assets at fair value through other comprehensive income		**326,521**	211,428
Financial assets at fair value through profit or loss		**1,605,664**	1,538,021
Pledged deposits	*13*	**585,997**	837,547
Cash and cash equivalents	*13*	**3,241,892**	2,780,567
Total current assets		**14,068,366**	13,203,357
CURRENT LIABILITIES			
Trade and bills payables	*14*	**5,303,825**	4,900,158
Other payables and accruals	*15*	**1,100,465**	1,058,823
Interest-bearing bank borrowings	*16*	**–**	663,452
Due to related parties		**14,042**	18,454
Provisions		**153,484**	153,029
Deferred income		**3,086**	3,284
Tax payable		**182,370**	298,083
Dividends due to shareholders	*8*	**1,182,065**	–

	Notes	30 June 2021 Unaudited *RMB'000*	31 December 2020 Audited *RMB'000*
Total current liabilities		**7,939,337**	7,095,283
NET CURRENT ASSETS		**6,129,029**	6,108,074
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,600,133**	10,178,953
NON-CURRENT LIABILITIES			
Deposits for finance leases		**–**	31
Interest-bearing bank borrowings	*16*	**656,863**	–
Deferred tax liabilities		**54,900**	60,283
Provisions		**10,980**	12,292
Deferred income		**12,777**	12,072
Total non-current liabilities		**735,520**	84,678
Net assets		**9,864,613**	10,094,275
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**444,116**	444,116
Share premium and reserves		**9,417,992**	9,647,678
		9,862,108	10,091,794
Non-controlling interests		**2,505**	2,481
Total equity		**9,864,613**	10,094,275

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2021

1. CORPORATE INFORMATION

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2021 was authorised for issue in accordance with a resolution of the directors on 26 August 2021.

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"). Ms. Ngai Ngan Ying, a non-executive Director of the Company is the ultimate controller of the Company.

The principal activities of the Group are the manufacture and distribution of wheel loaders, road rollers, excavators, forklifts and other construction 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 comprises the interim condensed consolidated statement of financial position of the Group as at 30 June 2021 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 2020.

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 2020, 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 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021* (early adopted)

The adoption of these new and amended HKFRs do not have any material impact on how the results and financial position for the current and prior periods have been prepared and presented.

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. Refer to Note 4 for the disclosure on disaggregated revenue.

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

Approximately 9% (2020: 5%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, with 100% (2020: 100%) costs denominated in the units' functional currencies.

4. Operating segment information

The following tables present revenue and profit information for the Group's operating segments for the six months ended 30 June 2021 and 2020:

Six months ended 30 June 2021	**Sale of construction machinery** *RMB'000*	**Finance leases of construction machinery** *RMB'000*	**Financial investments** *RMB'000*	**Total** *RMB'000*
Segment revenue	**8,191,112**	**148**	**–**	**8,191,260**
Segment results	**938,540**	**106**	**101,178**	**1,039,824**
Reconciliation:				
Finance income				**89,186**
Unallocated other income and gains and losses				**(5,515)**
Corporate and other unallocated expenses				**(5,662)**
Finance costs				**(15,879)**
Profit before tax				**1,101,954**

Six months ended 30 June 2020	Sale of construction machinery *RMB'000*	Finance leases 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

Segment results represent 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 2021 and 31 December 2020:

	30 June 2021 *RMB'000*	31 December 2020 *RMB'000*
Segment assets:	**17,809,113**	17,101,232
Sale of construction machinery	**15,362,738**	14,748,615
Finance leases of construction machinery	**3,333**	6,036
Financial investments	**2,443,042**	2,346,581
Corporate and other unallocated assets	**730,357**	173,004
Consolidated assets	**18,539,470**	17,274,236

	30 June 2021 *RMB'000*	31 December 2020 *RMB'000*
Segment liabilities:	**6,798,803**	6,466,389
Sale of construction machinery	**6,787,564**	6,454,366
Finance leases of construction machinery	**11,239**	12,023
Financial investments	**–**	–
Corporate and other unallocated liabilities	**1,876,054**	713,572
Consolidated liabilities	**8,674,857**	7,179,961

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			
	2021		2020	
	RMB'000	*%*	*RMB'000*	*%*
Sales of construction machinery:				
Wheel loaders	**3,897,669**	**47.6**	3,216,119	49.4
Excavators	**1,264,224**	**15.4**	1,282,636	19.7
Forklifts	**2,087,748**	**25.5**	1,348,666	20.7
Components	**888,015**	**10.8**	617,112	9.5
Road rollers	**53,456**	**0.7**	48,524	0.7
Subtotal	**8,191,112**	**100.0**	6,513,057	100.0
Finance lease interest income	**148**	**–**	750	–
Total	**8,191,260**	**100.0**	6,513,807	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	
	2021	2020
	RMB'000	*RMB'000*
Government grants	**35,807**	27,309
Penalty income	**17**	1,905
Others	**2,868**	9,400
	38,692	38,614

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

	For the six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
Loss on disposal of items of property, plant and equipment	**(749)**	(260)
Write-down of inventories to net realisable value	**10,358**	163
Fair value gains, net:		
Financial assets at fair value through profit or loss		
– held for trading	**96,461**	305,616
Derivative instruments		
– transactions not qualifying as hedges	**–**	(67,935)
Gains from derivative instruments	**4,717**	4,717
Gains from notes receivable	**5,306**	–
Gain on disposal of a subsidiary (note 17)	**213,530**	–
Foreign exchange (loss)/gain	**(5,515)**	5,026
	324,108	247,327

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
Cost of inventories recognised as expenses (note a)	**6,660,466**	5,023,023
Depreciation of property, plant and equipment	**164,078**	150,140
Depreciation of right-of-use assets	**2,463**	2,936
Staff costs, including directors' remuneration	**389,691**	318,134
Contribution to a retirement benefit scheme	**26,801**	6,617
Foreign exchange differences, net	**5,515**	(5,026)
Impairment losses on financial assets, net	**1,400**	(110)
Product warranty provision	**143,985**	111,739
Gain on disposal of a subsidiary	**(213,530)**	–
Fair value gains	**(96,461)**	(305,616)
Write-down of inventories to net realisable value	**(10,358)**	(163)
Interest income	**(89,186)**	(73,893)
Income-related government grants	**(35,807)**	(27,309)

Note a: Cost of inventories recognised as expenses included RMB475,508,000 (six months ended 30 June 2020: RMB393,711,000) 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	
	2021	2020
	RMB'000	*RMB'000*
Current income tax expense	**149,670**	161,292
Deferred income tax expense relating to origination and reversal of temporary differences	**7,697**	19,927
Income tax expense recognised in the consolidated statement of profit or loss	**157,367**	181,219

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 2021 (six months ended 30 June 2020: Nil).

The proposed final dividend of HK$0.33 per ordinary share for the year ended 31 December 2020 was declared payable and approved by the shareholders at the annual general meeting of the Company on 26 May 2021 and was paid on 23 July 2021.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, the Group acquired assets at a cost of RMB148,415,000 (six months ended 30 June 2020: RMB97,528,000), including property, plant and machinery in the People's Republic of China (the "PRC").

Assets with a net book value of RMB760,000 were disposed of by the Group during the six months ended 30 June 2021 (six months ended 30 June 2020: RMB17,082,000), resulting in a net loss on disposal of RMB749,000 (net loss in the six months ended 30 June 2020: RMB260,000), excluding property, plant and equipment disposed through the disposal of subsidiaries disclosed in note 17 to the interim condensed consolidated financial information.

10. INVENTORIES

	30 June 2021	31 December 2020
	RMB'000	*RMB'000*
Raw materials	**1,305,379**	1,190,225
Work in progress	**232,217**	198,312
Finished goods	**2,175,666**	2,365,355
	3,713,262	3,753,892

11. 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 2021 *RMB'000*	31 December 2020 *RMB'000*
Trade receivables	**4,964,208**	4,189,390
Impairment	**(393,524)**	(399,178)
	4,570,684	3,790,212
Less: Non-current portion	**(666,339)**	(603,090)
	3,904,345	3,187,122

The non-current portion of trade receivables are the receivables with maturity within 2 years but greater than 12 months according to the credit terms.

The ageing analysis of trade receivables is as follows:

	30 June 2021 *RMB'000*	31 December 2020 *RMB'000*
0 to 90 days	**2,454,603**	2,083,775
91 to 180 days	**1,168,054**	835,302
181 to 360 days	**773,862**	740,618
Over 1 year	**174,165**	130,517
	4,570,684	3,790,212

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2021 *RMB'000*	31 December 2020 *RMB'000*
Prepayments	**481,979**	623,774
Deductible value-added tax	**67,061**	93,516
Receivable for the consideration of disposal of a subsidiary (note 17)	**27,639**	–
Deposits	**2,590**	3,147
Total	**579,269**	720,437
Other receivables:		
Loan receivables	**452,458**	462,844
Less: Impairment	**(412,370)**	(405,776)
Net loan receivables	**40,088**	57,068
Other miscellaneous receivables	**68,223**	100,691
Less: Impairment	**(698)**	(698)
Net other miscellaneous receivables	**67,525**	99,993
Total other receivables	**107,613**	157,061
Grand total	**686,882**	877,498

The carrying amounts of financial assets included in deposits and other receivables approximate to their fair values. None of the deposits with suppliers and receivable for the consideration of disposal of a subsidiary are 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 by repurchasing the machines and repaying 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 3% to 8% per annum and would mainly be repaid within 18 to 24 months.

13. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	30 June 2021 *RMB'000*	31 December 2020 *RMB'000*
Cash and bank balances	**3,241,892**	2,480,567
Time deposits	**941,997**	1,137,547
	4,183,889	3,618,114
Less: Pledged for long-term bank loans	**(356,000)**	–
Pledged for short-term bank loans	**–**	(356,000)
Pledged for bank acceptance bills	**(493,922)**	(441,251)
Pledged for others	**(92,075)**	(40,296)
Cash and cash equivalents	**3,241,892**	2,780,567

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.

14. TRADE AND BILLS PAYABLES

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

	30 June 2021 *RMB'000*	31 December 2020 *RMB'000*
0 to 180 days	**5,238,278**	4,812,807
181 days to 1 year	**13,070**	28,308
1 to 2 years	**8,899**	32,771
2 to 3 years	**19,018**	9,497
Over 3 years	**24,560**	16,775
	5,303,825	4,900,158

The bills payables are aged within six months at the end of each reporting period and secured by pledged bank deposits amounting to RMB493,922,000 (31 December 2020: RMB441,251,000) (note 13).

15. OTHER PAYABLES AND ACCRUALS

	30 June 2021 *RMB'000*	31 December 2020 *RMB'000*
Accrued sales rebate	**659,499**	582,684
Other payables	**89,921**	81,514
Salary and wages payable	**114,316**	161,226
Contract liabilities	**68,500**	77,422
Payable for acquisition of property, plant and equipment	**31,895**	28,473
Other taxes payable	**9,341**	10,489
Deposit for finance leases	**7,762**	8,100
Investment management fee	**38,662**	43,662
Other accrued expenses	**80,569**	65,253
	1,100,465	1,058,823

16. INTEREST-BEARING BANK BORROWINGS

	30 June 2021			31 December 2020		
	Effective annual interest rate (%)	**Maturity**	***RMB'000***	Effective annual interest rate (%)	Maturity	*RMB'000*
Current						
Bank loans – secured			**–**	1.33-2.93	2021	663,452
Non-current						
Bank loans – secured	**1.30-1.35**	**2024**	**656,863**			–
			656,863			663,452

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 (31 December 2020: RMB356,000,000) (note 13).

17. DISPOSAL OF A SUBSIDIARY

On 21 January 2021, the Group entered into a sale and purchase agreement with an independent third party to dispose of the 100% equity interests in Henan Lonking Machinery Co., Ltd. for a cash consideration of RMB745,000,000.

	30 June 2021 *RMB'000*
Net assets disposed of:	
Property, plant and equipment	**23,883**
Right-of-use assets	**29,305**
Inventories	**166**
Prepayments, deposits and other receivables	**2,215**
Cash and cash equivalents	**476,543**
Other payables and accruals	**(642)**
	531,470
Gain on disposal of a subsidiary (note 5)	**213,530**
	745,000
Satisfied by:	
Cash	**745,000**

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	30 June 2021 *RMB'000*
Cash consideration	**745,000**
Cash and bank balances disposed of	**(476,543)**
Cash consideration unreceived as at 30 June 2021 (note 12)	**(27,639)**
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	**240,818**

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT AND BUSINESS REVIEW

In the first half of the year, despite the complex and uncertain domestic and foreign environment, the domestic economy continued to recover steadily, production demand continued to pick up, and economic development showed a steady and positive trend. Benefited from the effective control over the domestic epidemic and the continuous release of macro policies, and driven by the flattening of the growth rate of overall infrastructure, the steady development of real estate and the continuous construction of new rural areas in cities and towns, the market demand for construction machinery gradually recovered in the first half of the year. In the context of economic recovery in the post-epidemic era, the demand for construction machinery from overseas economies is gradually recovering, and the export of the industry maintains a high growth trend, which brings more opportunities and challenges to the export of China's construction machinery products. Under such a tough circumstance, the Group explored and seized the opportunity through laying out the two major battlefields of "market" and "product". On the premise of ensuring that marketing risks are controllable and asset quality is improved, the Group further standardizes and optimizes various control measures by applying scientific management concepts, so as to enhance its operating efficiency and further consolidate its market position. During the reporting period, the Group's total operating revenue increased by RMB1,677 million to RMB8,191 million from RMB6,514 million in the same period of 2020, representing a year-on-year increase of 25.75%. In the first half of this year, the Group actively explored the international market, and the proportion of export sales in the total sales increased to 8.8% from 4.8% in the same period last year, and the proportion of sales increased by 4.0%. In the first half of the year, the Group's product structure maintained similar as it in the same period of 2020, while loader was still the Group's most competitive product and the main source of profit with biggest market share as compared with other products. The proportion of the sales of loader to total sales of the Group slightly dropped by 1.8% to 47.6% as compared with corresponding period of 2020. In terms of the excavator, due to the slight decrease in growth of infrastructure investment in the first half of this year, the high base in the previous period and the intensified competition among leading companies in the industry, the proportion of its sales dropped by 4.3% to 15.4% as compared with corresponding period of 2020. The downstream of forklift industry are relatively fragmented. With the increase in industry demand, the Group had increased its investment therein. The proportion of the sales of forklift to total sales of the Group increased by 4.8% to 25.5%. During the reporting period, the consolidated gross profit margin decreased by 4.20 percentage points from 22.89% in the same period of 2020 to 18.69% in 2021. The Group recorded a net profit of approximately RMB945 million for the first half of 2021, representing a slight increase as compared with RMB944 million in the same period last year. Facing the fierce market competition in the first half of this year, the Group concentrated its efforts and took initiatives to seize both the domestic and international markets, hence, the market position of its leading products has been further improved and operating revenue has realized a substantial increase, among which, the exports business increased by 128.5% year-on-year. Meanwhile, the Group overcame adversities such as costs increase resulted from continuous increase in price of main raw materials and labor costs and others, thus ensuring the comprehensive benefits of the Group.

GEOGRAPHICAL RESULTS

In the first half of 2021, the Company's sales were generally good. Compared with the same period last year, sales in all regions except the southwestern and central regions increased significantly. Sales in the Northeast region increased by 39.7% to RMB313 million (For six months ended June 30, 2020: RMB224 million); sales in the eastern and southern regions increased by 32.9% to RMB1,613 million, and 35.9% to RMB933 million, respectively. Sales in the northern and northwestern regions increased by 25.8% to RMB2,035 million and 21.7% to RMB831 million, respectively. Our export business also experienced substantial growth in the first half of this year. Sales from overseas increased by 128.5% to approximately RMB717 million.

PRODUCTS ANALYSIS

Wheel loader

In the first half of 2021, the Group's sales of various products had increased significantly, and the proportion of sales had remained roughly the same as that of the same period last year. The sales of wheel loaders in the first half of 2021 increased by 21.2% from the same period last year to RMB3,898 million.

Among them, the ZL50 loaders were the main models, an increase of 19.0% from the same period last year to RMB3,121 million. Affected by favorable factors such as the national infrastructure investment and environmental protection policies, the sales of small and medium-sized loaders increased rapidly, of which the ZL30 loaders increased by 44.8% to RMB378 million; ZL 40 loaders and the mini loaders increased by 75% to RMB14 million and 34.3% to RMB133 million, respectively, since these type of products has a relatively small customer base and are specially customized, and based on customer's special needs. The ZL60 loaders increased by 11.3% during the period to RMB252 million.

Excavator

Sales of excavator products decreased by 1.4% from the same period last year to RMB1,264 million. The proportion of excavator sales in the Group's sales revenue decreased by approximately 4% to 15%.

Fork Lifts and Road Rollers

Forklift products are currently the second major product of the Group. During the period, it increased by 54.8% to RMB2,088 million, which was mainly due to the extensive use of the product in the logistics and warehousing industry and the substantial increase in market demand.

Sales of road rollers accounted for only 1% of the Group's total sales, which increased by 10.2% to RMB53 million during the period.

Components

During the period, the demand for components increased significantly with the considerable growth of Group's other products, and the sales of components increased by 43.9% to RMB888 million accordingly.

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 2021, the Group had bank balances and cash of approximately RMB3,242 million (31 December 2020: approximately RMB2,781 million) and pledged bank deposit of approximately RMB942 million (31 December 2020: approximately RMB838 million). Compared with last year, the cash and bank balance increased about RMB461 million, which was as a result of net cash inflow of RMB447 million from operating activities, net cash inflow of RMB58 million from investing activities and net cash outflow of RMB47 million from financing activities.

The pledged deposit balance at 30 June 2021 increase approximately RMB104 million. Details of pledged Bank deposit for the period ended 30 June 2021 are set out in Note 13 to the interim results.

Liquidity and Financial Resources

We are committed to build a sound finance position. Total shareholders fund as at 30 June 2021 was approximately RMB9,865 million, a 2.3% decrease from approximately RMB10,094 million as at 31 December 2020.

The current ratio of the Group at 30 June 2021 was 1.77 (31 December 2020: 1.86). 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 2021, 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 2021, the gross gearing ratio (defined as total liabilities over total assets) was approximately 46.79% (as at 31 December 2020: 41.56%).

Capital Expenditure

During the period, the Group acquired property, plant and equipment of approximately RMB148 million (six months ended 30 June 2020: approximately RMB98 million) in line with a series of strategic transformation and production transformation by the Group.

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

Revenue

In the first half of 2021, compared with the same period last year, the Group's sales increased significantly. This is mainly due to the fact that the Coronavirus epidemic is under control in China, the economy is recovering well, and the infrastructure machinery industry is in strong demand under the government's policy of stabilizing the domestic demand market and expanding infrastructure. On the other hand, due to factors such as global economic recovery after the epidemic, sales from the international market have also increased substantially.

Disposal of a subsidiary

On 21 January 2021, the Group entered into a sale and purchase agreement with an independent third party to dispose of the 100% equity interests in Henan Lonking Machinery Co., Ltd. for a cash consideration of RMB745,000,000. The Group recognised a gain from the disposal of the subsidiary for approximately RMB214 million.

Other gains and losses

In the first half of the year, other gains and losses increased by approximately RMB77 million compared with the same period last year. This was mainly due to the recognized gain of approximately RMB214 million from the disposal of the aforementioned Henan subsidiary. In addition, the change in the fair value of wealth management investment products recognized in the current period was approximately RMB96 million, a decrease of approximately RMB141 million compared with the same period last year.

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB85 million compared with the same period last year, which was mainly due to the increase in transportation expenses due to the substantial increase in sales during the period. At the same time, the Group is committed to improving the competitiveness of its products in the market and increasing sales. The corresponding increase in services provisions has led to a substantial increase in service costs.

Research and development costs

During the period, research and development expenses increased significantly by 18.3% to approximately RMB319 million. The growth rate of research and development expenses was basically in line with the growth rate of the Group's sales. The Group attaches great importance to the competitiveness of products and the impact of research and development on the long-term development of the Group. Therefore, we continues to invest in research and development activities. The increase in research and development expenses is mainly caused by the direct material input for research and development activities and the higher human costs.

Trade receivables

Trade receivables as of end of the current period increased by approximately RMB780 million compared with the end of 2020, an increase of 20.6%. This was mainly due to the increase in domestic and overseas sales during the period, which led to an increase in trade receivables at the end of the period compared to the end of last year.

Prepayment, deposits and other receivables

The prepayments, deposits and other receivables at the end of the period decreased by approximately RMB191 million compared to the end of last year. This is mainly due to the cyclical impact of the industry, the group expects to adjust the raw material inventory due to the reduction in market demand and operating rate in the second half of the year. In addition, the Group received interest on fixed deposits which was due during the period, which led to a decrease in interest receivable compared with the end of last year.

Capital Commitment

As at 30 June 2021, the Group had contracted but not included in the financial statements in respect of acquisition of property, plant and equipment amounting to approximately RMB44 million (31 December 2020: approximately RMB37 million).

PROSPECT

The fundamentals of the Chinese economy remain stable and sound in the long run. Cross-cyclical macro-policy adjustments and continued support for the real economy will continue to inject vitality into the market. As China will continue to firmly concentrate on the strategic focus of expanding domestic demand and accelerate the investment in key areas of major projects, it is expected that the overall investment will maintain a stable growth. Investment in infrastructure and real estate is still resilient and will continue to release domestic demand in the construction machinery industry. In terms of overseas markets, benefiting from the gradual promotion of vaccines and the gradual recovery of the global economy, the export of construction machinery products is expected to be further boosted. In addition, coupled with multiple favorable factors such as equipment replacement, stricter environmental protection policies and accelerated replacement of manpower with machinery continuing, the construction machinery industry will face both opportunities and challenges in the second half of 2021. The Group will well prepare itself, stimulate the morale, consolidate the foundation to head into a storm. With the spirit of overcoming difficulties and seeking truth and pragmatism, the Group strive to survive and seek transformations, cultivate new opportunities in the crisis and make a new game in a changing game. Also, the Group will emancipate the mind, be farsighted and pragmatic, take the initiative and dare to take responsibility. Devoted to the construction machinery industry, the Group continues to focus on high quality, sustainable and healthy development on the four host products (loaders, excavators, forklifts and road machinery), and core components that extended the product manufacturing chain. In terms of marketing, the Group always adhere to the marketing principle of agency system by jointly building and creating a win-win and shared relationship with agents, and sustains and consolidates its three strengths of "quality, service and cost effectiveness" established since its inception. The Group will enhance channel integration and market planning, optimize product portfolio and understand the market through in-depth research and analysis of market demand. Strictly following the pragmatic and flexible marketing strategy, the Group take various measures to the market and prevent marketing risks, and strive to tap into the domestic and international market demand while ensuring the precondition of controllable risks, so as to 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 by leveraging on the opportunity in growing international demands to promote internationalization, strengthen the training of international marketing talents for a high-quality international marketing talent team, improve the international 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. In terms of quality, the Group will continue to improve the quality control system, pay attention to product quality and performance for all employees and full cycle, strengthen product quality control and supervision of suppliers and improve the quality of internal and external supporting materials, working together to improve the quality of all products. In terms of research, development and technology, the Group will further adhere to the goal-oriented, project-driven approach to improve product structure, enhance product performance, rationalize and optimize the distribution of resources and accelerate the pace of product transformation and upgrading, increase R&D investment, promote the application of new products and new technologies, attach importance to the whole cycle R&D of products and strengthen the whole-cycle management and control of the quality of self-made parts and supplied products. At the same time, the Group will strengthen the research, development and market launch of large-tonnage loaders, new energy loaders, new energy forklifts, medium and large excavators and other complete machine products and supporting parts to further improve the level of product serialization. The Group will continue to increase technology R&D investment to continuously absorb, introduce and train domestic and international professionals and promote the overall level of our technical team, so as to build a data-centered digital and intelligent platform to improve management process and informatization and accelerate the use of digital technology capabilities and the improvement of intelligent manufacturing level. All of these will promote our further development amid market competition.

CORPORATE GOVERNANCE

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

Code Provision A.1.8

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

Code Provision A.6.7

As stipulated in the Code provision A.6.7 of CG Code, independent non-executive directors and other non-executive directors shall attend general meetings. Three independent non-executive directors were unable to attend annual general meeting of the Company held on 26 May 2021 (the "2021 AGM") due to other important engagement.

Code Provision A.4.3

Mr. Qian Shi Zheng ("Mr. Qian") has been appointed as an independent non-executive Director for more than nine years since February 2005. Pursuant to Code A.4.3 of the CG Code, (a) having served the Company for more than nine years could be relevant to the determination of an independent non-executive director's independence and (b) if an independent non-executive director has served more than nine years, his further appointment should be subject to a separate resolution to be approved by shareholders. Mr. Qian has extensive experience in the finance and accounting fields. He provides a wide range of expertise and experience which can meet the requirement of Group's business and his participant in the Board brings independent judgment on issues relating to the Group's strategy, performance, conflicts of interest and management process to ensure that the interest of the shareholders have been duly considered. The Company has received from Mr. Qian a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Mr. Qian has not engaged in any executive management of the Group. Taking into consideration of his independent scope of works in the past years, the Directors consider Mr. Qian to be independent under the Listing Rules despite the fact that he has served the Company for more than nine years. Accordingly, Mr. Qian shall be subject to retirement rotation and re-election by way of a separate resolution approved by the Shareholders at the annual general meeting. At the Annual General Meeting of the Company held on 26 May 2021, 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 2021 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 2021 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 unaudited interim condensed consolidated financial information for the period.

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

During the six months ended on 30 June 2021, 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 2021 (six months ended 30 June 2020: HK$0 cents per share).

PUBLICATION OF FINANCIAL INFORMATION

The Company's 2021 interim report for the six months ended 30 June 2021 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 2021

As at the date of this announcement, Mr. Li San Yim, Mr. Chen Chao, 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. Yu Tai Wei are the independent non-executive Directors.