

# 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

## 2021 INTERIM REPORT



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## FINANCIAL HIGHLIGHTS

The table below sets forth the consolidated financial summary of Lonking Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred as to the "Group").

Current period	Six months ended	Six months ended	Change (+/-)
	30 June 2021	30 June 2020	
	RMB'000	RMB'000	
Turnover	8,191,260	6,513,807	+25.75%
Operating profits	1,028,647	1,064,603	-3.38%
EBITDA	1,284,374	1,291,572	-0.56%
Profit attributable to equity parent	944,563	943,608	+0.10%
<b>Per share data</b>			
Basic earnings per share <sup>(1)#</sup>	0.22	0.22	+0.00%
Net assets per share <sup>(2)#</sup>	2.30	2.11	+9.00%
<b>Key performance indicators</b>			
<i>Profitability</i>			
Overall gross margin	18.69%	22.89%	-4.20%
Net profit margin	11.53%	14.49%	-2.96%
EBITDA margin <sup>(3)</sup> :	15.68%	19.83%	-4.15%
Return on equity <sup>(4)</sup>	9.58%	10.44%	-0.86%
<i>Liquidity and solvency</i>			
Current ratio <sup>(5)</sup>	1.77	1.80	-0.03%
Interest coverage ratio <sup>(6)</sup> :	70.40	84.70	-14.30%
Gross debt-to-equity ratio <sup>(7)</sup>	87.94	77.65	10.29%
<i>Management efficiency</i>			
Inventory turnover days <sup>(8)</sup>	102	107	-5 days
Trade and bills payables turnover days <sup>(9)</sup>	140	140	+0 days
Trade receivable turnover days <sup>(10)</sup>	93	83	+10 days

- # calculated based on the 4,280,100,000 weighted average number of outstanding shares (WANOS) for the period ended 30 June 2021 (30 June 2020: 4,280,100,000).
- <sup>1</sup> Net profit attributable to equity holders of the parent for each period divided by the weighted average number of outstanding shares (WANOS) as at the end of each period.
- <sup>2</sup> Shareholders' equity divided by the WANOS as at the end of each period.
- <sup>3</sup> Earnings before interest, tax, depreciation and amortisation ("EBITDA") divided by turnover for each period.
- <sup>4</sup> Net profit attributable to equity holders of the parent for each period divided by equity attributable to equity shareholders of the parent as at the end of each period.
- <sup>5</sup> Current assets divided by current liabilities as at the end of each period.
- <sup>6</sup> Earnings before interest and income tax expenses ("EBIT") divided by interest expenses.
- <sup>7</sup> Total liabilities divided by the total equity as at the end of each period.
- <sup>8</sup> Average inventories divided by cost of sales and multiplied by 183 days when turnover days are calculated for half-year periods.
- <sup>9</sup> Average trade and bills payables divided by cost of sales and multiplied by 183 days when turnover days are calculated for half-year periods.
- <sup>10</sup> Average trade receivables divided by turnover and multiplied by 183 days when turnover days are calculated for half-year periods.



## REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

**To the board of directors of Lonking Holdings Limited**

*(Incorporated in the Cayman Islands with limited liability)*

### INTRODUCTION

We have reviewed the accompanying interim condensed consolidated financial information set out on pages 6 to 38, which comprises the interim condensed consolidated statement of financial position of Lonking Holdings Limited (the “Company”) and its subsidiaries (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, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed consolidated financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants.

The directors of the Company are responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants. A review of interim condensed consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young  
*Certified Public Accountants*  
Hong Kong  
26 August 2021



## INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021

		For the six months ended 30 June	
	Notes	2021 Unaudited RMB'000	2020 Unaudited RMB'000
<b>REVENUE</b>	4	8,191,260	6,513,807
Cost of sales		(6,660,466)	(5,023,023)
<b>Gross profit</b>		1,530,794	1,490,784
Other income	5	38,692	38,614
Other gains and losses	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)
<b>PROFIT BEFORE TAX</b>	6	1,101,954	1,125,055
Income tax expense	7	(157,367)	(181,219)
<b>PROFIT FOR THE PERIOD</b>		944,587	943,836
Attributable to:			
Owners of the parent		944,563	943,608
Non-controlling interests		24	228
		944,587	943,836
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
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 Unaudited RMB'000	2020 Unaudited RMB'000
<b>PROFIT FOR THE PERIOD</b>	944,587	943,836
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>		
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)
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX</b>	12,661	(3,239)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	957,248	940,597
Attributable to:		
Owners of the parent	957,224	940,368
Non-controlling interests	24	229
	957,248	940,597

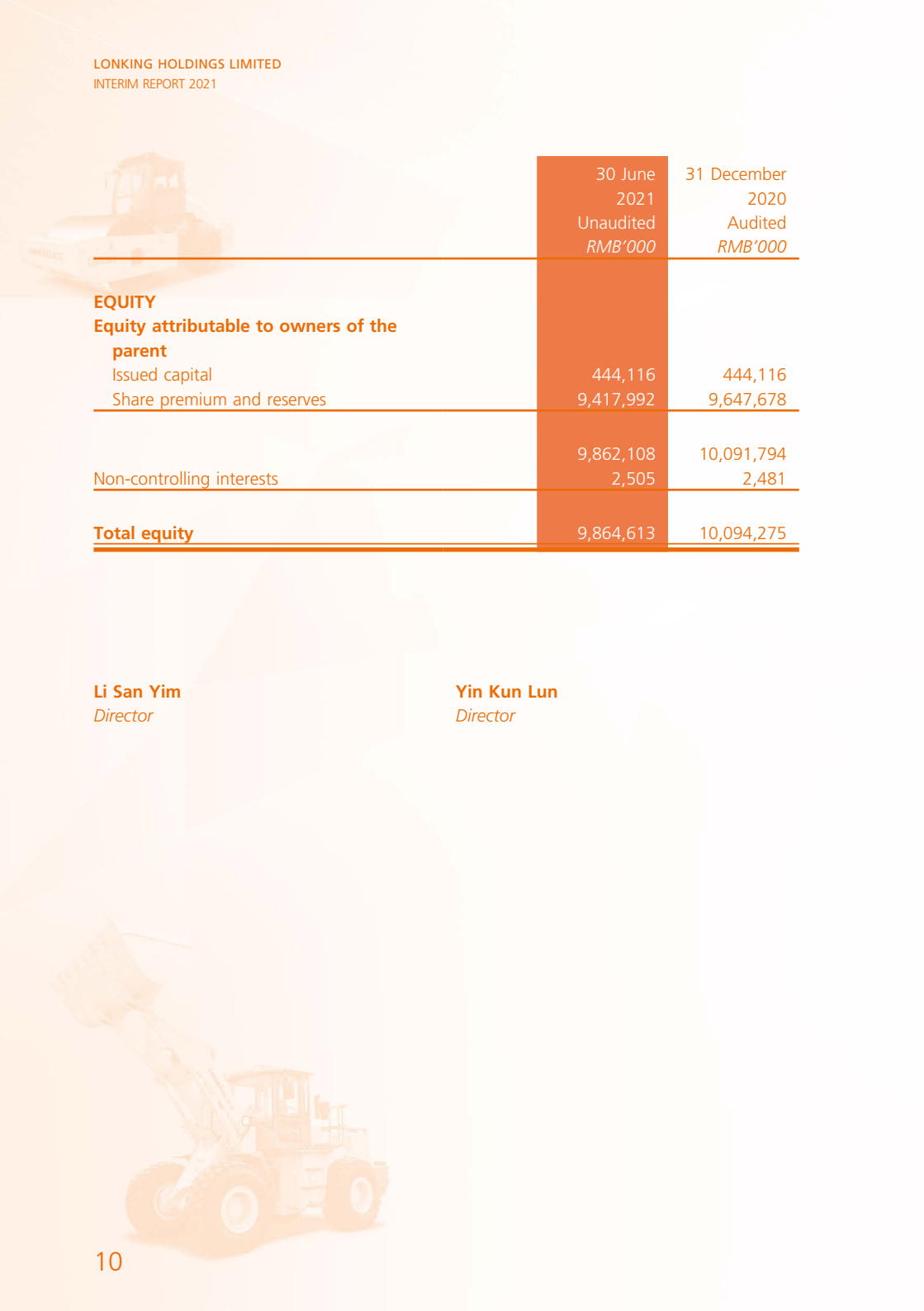


## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	30 June 2021 Unaudited RMB'000	31 December 2020 Audited RMB'000
<b>NON-CURRENT ASSETS</b>			
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	14	1,450	1,450
Financial assets at fair value through profit or loss	15	837,378	808,560
Deferred tax assets		429,340	442,915
Pledged deposits	16	356,000	–
<b>Total non-current assets</b>		<b>4,471,104</b>	<b>4,070,879</b>
<b>CURRENT ASSETS</b>			
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	22	2,129	13,197
Prepayments, deposits and other receivables	12	686,882	877,498
Financial assets at fair value through other comprehensive income	13	326,521	211,428
Financial assets at fair value through profit or loss	15	1,605,664	1,538,021
Pledged deposits	16	585,997	837,547
Cash and cash equivalents	16	3,241,892	2,780,567
<b>Total current assets</b>		<b>14,068,366</b>	<b>13,203,357</b>

	Notes	30 June 2021 Unaudited RMB'000	31 December 2020 Audited RMB'000
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	17	5,303,825	4,900,158
Other payables and accruals	18	1,100,465	1,058,823
Interest-bearing bank borrowings	19	–	663,452
Due to related parties	22	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	–
<b>Total current liabilities</b>		<b>7,939,337</b>	<b>7,095,283</b>
<b>NET CURRENT ASSETS</b>		<b>6,129,029</b>	<b>6,108,074</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>10,600,133</b>	<b>10,178,953</b>
<b>NON-CURRENT LIABILITIES</b>			
Deposits for finance leases		–	31
Interest-bearing bank borrowings	19	656,863	–
Deferred tax liabilities		54,900	60,283
Provisions		10,980	12,292
Deferred income		12,777	12,072
<b>Total non-current liabilities</b>		<b>735,520</b>	<b>84,678</b>
<b>Net assets</b>		<b>9,864,613</b>	<b>10,094,275</b>



	30 June 2021 Unaudited RMB'000	31 December 2020 Audited RMB'000
<b>EQUITY</b>		
<b>Equity attributable to owners of the parent</b>		
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
<b>Total equity</b>	<b>9,864,613</b>	<b>10,094,275</b>

**Li San Yim**  
Director

**Yin Kun Lun**  
Director

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	Attributable to owners of the parent									
	Issued capital	Share premium*	Special reserve*	Non-distributable reserve*	Fair value reserve of financial assets at fair value through other comprehensive income*	Retained profits*	Exchange fluctuation reserve*	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021	444,116	854,922	417,398	1,772,804	2,509	7,001,348	(401,303)	10,091,794	2,481	10,094,275
Profit for the period	-	-	-	-	-	944,563	-	944,563	24	944,587
Other comprehensive income for the period:										
Changes in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	(2,509)	-	-	(2,509)	-	(2,509)
Exchange differences related to foreign operations	-	-	-	-	-	-	15,170	15,170	-	15,170
Total comprehensive income for the period	-	-	-	-	(2,509)	944,563	15,170	957,224	24	957,248
Final 2020 dividend declared	-	-	-	-	-	(1,186,910)	-	(1,186,910)	-	(1,186,910)
At 30 June 2021	444,116	854,922	417,398	1,772,804	-	6,759,001	(386,133)	9,862,108	2,505	9,864,613

\* These reserve accounts comprise the consolidated share premium and reserves of RMB9,417,992,000 (2020: RMB9,647,678,000) in the consolidated statement of financial position.

For the six month ended 30 June 2020

	Attributable to owners of the parent									
	Issued capital	Share premium*	Special reserve*	Non-distributable reserve*	Fair value reserve of financial assets at fair value through other comprehensive income*	Retained profits*	Exchange fluctuation reserve*	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	444,116	854,922	404,173	1,703,876	2,509	6,099,776	(434,926)	9,074,446	2,519	9,076,965
Profit for the period	-	-	-	-	-	943,608	-	943,608	228	943,836
Other comprehensive income for the period:										
Changes in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	672	-	-	672	1	673
Exchange differences related to foreign operations	-	-	-	-	-	-	(3,912)	(3,912)	-	(3,912)
Total comprehensive income for the period	-	-	-	-	672	943,608	(3,912)	940,368	229	940,597
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	(552)	(552)
Final 2019 dividend declared	-	-	-	-	-	(975,510)	-	(975,510)	-	(975,510)
Transfer from retained profits	-	-	7,120	-	-	(7,120)	-	-	-	-
At 30 June 2020	444,116	854,922	411,293	1,703,876	3,181	6,060,754	(438,838)	9,039,304	2,196	9,041,500

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	For the six months ended 30 June	
	2021 Unaudited RMB'000	2020 Unaudited RMB'000
<b>OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL</b>	866,016	971,947
Decrease in inventories	50,822	126,878
Increase in trade and bills receivables	(887,104)	(1,062,706)
Decrease/(increase) in prepayments, deposits and other receivables	150,421	(2,825)
Decrease in finance lease receivables	2,492	1,508
Increase in trade, bills and other payables	447,585	457,250
(Decrease)/increase in provisions	(857)	18,275
Decrease/(increase) in amounts due from related parties	11,068	(8,709)
(Decrease)/increase in amounts due to related parties	(4,412)	1,843
Decrease in deposits for finance leases	(369)	(607)
Deferred income received	2,000	1,630
Income tax paid	(265,383)	(155,499)
Interest received	74,662	57,684
<b>Net cash flows from operating activities</b>	<b>446,941</b>	<b>406,669</b>

For the six months  
ended 30 June

Note	2021 Unaudited RMB'000	2020 Unaudited RMB'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of items of property, plant and equipment	(183,039)	(135,150)
Disposal of a subsidiary	240,818	–
Proceeds from derivative financial instruments received	–	4,717
Proceeds from disposal of items of property, plant and equipment	11	16,822
<b>Net cash flows from/(used in) investing activities</b>	<b>57,790</b>	<b>(113,611)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Interest paid	(15,879)	(13,441)
Increase in pledged deposits	(104,450)	(52,787)
Interest from pledged deposits received	73,549	4,385
<b>Net cash flows used in financing activities</b>	<b>(46,780)</b>	<b>(61,843)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		
Net foreign exchange differences	457,951	231,215
Cash and cash equivalents at beginning of period	3,374	(42)
	2,780,567	2,501,836
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>3,241,892</b>	<b>2,733,009</b>

## 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. Basis of preparation and changes in the Group's accounting policies *(Continued)*

### 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	<i>Interest Rate Benchmark Reform – Phase 2</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i>

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
<b>Segment revenue</b>	8,191,112	148	–	8,191,260
<b>Segment results</b>	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)
<b>Profit before tax</b>				<b>1,101,954</b>

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
<b>Segment revenue</b>	6,513,057	750	–	6,513,807
<b>Segment results</b>	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)
<b>Profit before tax</b>				<b>1,125,055</b>

#### 4. Operating segment information *(Continued)*

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 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>
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
<b>Consolidated assets</b>	<b>18,539,470</b>	<b>17,274,236</b>

	30 June 2021 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>
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
<b>Consolidated liabilities</b>	<b>8,674,857</b>	<b>7,179,961</b>

#### 4. Operating segment information *(Continued)*

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 RMB'000	2020 RMB'000
Government grants	35,807	27,309
Penalty income	17	1,905
Others	2,868	9,400
	<b>38,692</b>	<b>38,614</b>

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

	For the six months ended 30 June	
	2021 RMB'000	2020 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 21)	213,530	–
Foreign exchange (loss)/gain	(5,515)	5,026
	<b>324,108</b>	<b>247,327</b>

## 6. Profit before tax

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

	For the six months ended 30 June	
	2021 RMB'000	2020 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 RMB'000	2020 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 21 to the interim condensed consolidated financial information.

## 10. Inventories

	30 June 2021 RMB'000	31 December 2020 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
	<b>3,713,262</b>	<b>3,753,892</b>

## 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)
	<b>4,570,684</b>	<b>3,790,212</b>
Less: Non-current portion	(666,339)	(603,090)
	<b>3,904,345</b>	<b>3,187,122</b>

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
	<b>4,570,684</b>	<b>3,790,212</b>



## 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 21)	27,639	–
Deposits	2,590	3,147
<b>Total</b>	<b>579,269</b>	<b>720,437</b>
Other receivables:		
Loan receivables	452,458	462,844
Less: Impairment	(412,370)	(405,776)
<b>Net loan receivables</b>	<b>40,088</b>	<b>57,068</b>
Other miscellaneous receivables	68,223	100,691
Less: Impairment	(698)	(698)
<b>Net other miscellaneous receivables</b>	<b>67,525</b>	<b>99,993</b>
<b>Total other receivables</b>	<b>107,613</b>	<b>157,061</b>
<b>Grand total</b>	<b>686,882</b>	<b>877,498</b>

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. Financial assets at fair value through other comprehensive income

	30 June 2021 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>
Bills receivable, at fair value	326,521	211,428

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.

### 14. Equity investments at fair value through other comprehensive income

	30 June 2021 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>
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.

## 15. Financial assets at fair value through profit or loss

	30 June 2021 RMB'000	31 December 2020 RMB'000
Listed equity investments, at fair value		
–non-current	270,414	289,730
Unlisted equity investments, at fair value		
–current	1,605,664	1,538,021
Unlisted equity investments, at fair value		
–non-current	566,964	518,830
<b>Total</b>	<b>2,443,042</b>	<b>2,346,581</b>

The above listed equity investments at 30 June 2021 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 and fund investments products issued by financial institutions and investment company 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.

## 16. 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)
<b>Cash and cash equivalents</b>	<b>3,241,892</b>	<b>2,780,567</b>

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.

## 17. Trade and bills payables

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

	30 June 2021 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>
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
	<b>5,303,825</b>	<b>4,900,158</b>

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 16).

## 18. Other payables and accruals

	30 June 2021 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>
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
	<b>1,100,465</b>	<b>1,058,823</b>

## 19. 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 16).

## 20. Commitments

At 30 June 2021, the Group had capital commitments of RMB43,929,410 (31 December 2020: RMB36,876,253) principally relating to the acquisition of property, plant and equipment located in Shanghai, Fujian and Jiangxi, the PRC.

## 21. 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 <i>RMB'000</i>
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 <i>RMB'000</i>
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

## 22. Related party transactions

The following table sets out the total amounts of transactions which have been entered into with related parties during the six-month periods ended 30 June 2021 and 30 June 2020 as well as balances with related parties as at 30 June 2021 and 31 December 2020:

		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
		RMB'000	RMB'000	RMB'000	RMB'000
<b>Related parties:</b>					
Longyan City Jinlong Machinery Company Limited (note a)					
	2021	-	38,649	-	6,882
	2020	-	26,900	-	10,138
Herkules (Shanghai) Automation Equipment Co., Ltd. (note b)					
	2021	-	27,033	1,863	6,913
	2020	-	15,117	12,935	7,852
Shanghai Refined Machinery Co., Ltd. (note c)					
	2021	4	-	256	56
	2020	4	-	252	56
Shanghai Longtui Environmental Machinery Co., Ltd. (note d)					
	2021	-	362	10	191
	2020	346	222	10	408

## 22. Related party transactions *(Continued)*

Note a: Mr. Ngai Ngan Gin, brother of Ms. Ngai Ngan Ying (ultimate controller of the Company), holds a controlling interest in this entity.

Note b: Herkules (Shanghai) Automation Equipment Co., Ltd. is wholly owned by Mr. Chen Jie, son-in-law of Mr. Li San Yim (executive director and chairman of the Group). The Group prepaid RMB1,863,000 for the purchase of equipment from Herkules (Shanghai) Automation Equipment Co Ltd. at 30 June 2021.

Note c: Shanghai Refined Machinery Co., Ltd. is wholly owned by Refined Holdings, which is in turn wholly owned by Mr. Li Bin, son of Mr. Li San Yim, executive director and chairman of the Group.

Note d: Shanghai Longtui Machinery Environmental Technology Co Ltd. is wholly owned by Mr. Li Bin, son of Mr. Li San Yim, executive director and chairman of the Group.

Compensation of key management personnel of the Group:

	<b>For the six months ended 30 June</b>	
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Short-term employee benefits	12,249	12,000
Pension scheme contributions	79	41
<b>Total compensation paid to key management personnel</b>	<b>12,328</b>	<b>12,041</b>



## 23. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at 30 June 2021 and 31 December 2020 are as follows:

### 30 June 2021

#### Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income		Total RMB'000
	Mandatorily designated as such RMB'000	Equity instruments RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Financial assets at amortised cost RMB'000	
Trade receivables	-	-	-	4,570,684	4,570,684
Financial assets at fair value through other comprehensive income	-	-	326,521	-	326,521
Due from related parties	-	-	-	2,129	2,129
Financial assets included in prepayments, deposits and other receivables	-	-	-	88,435	88,435
Finance lease receivables	-	-	-	1,674	1,674
Financial assets at fair value through profit or loss	2,443,042	-	-	-	2,443,042
Equity investments at fair value through other comprehensive income	-	1,450	-	-	1,450
Pledged deposits	-	-	-	941,997	941,997
Cash and cash equivalents	-	-	-	3,241,892	3,241,892
	2,443,042	1,450	326,521	8,846,811	11,617,824

## 23. Financial instruments by category *(Continued)*

### Financial liabilities

	Financial liabilities at amortised cost <i>RMB'000</i>
Trade and bills payables	5,303,825
Financial liabilities included in other payables and accruals	160,478
Deposit for finance leases	7,762
Interest-bearing bank borrowings	656,863
Due to related parties	14,042
	<b>6,142,970</b>

## 23. Financial instruments by category (Continued)

31 December 2020

### Financial assets

	Financial assets at	Financial assets at fair value through			Total
	fair value through	other comprehensive income			
	profit or loss				
	Mandatorily	Equity	Financial assets	Financial assets at	
	designated as	instruments	at fair value	amortised cost	
	such		through other		
	RMB'000	RMB'000	comprehensive	RMB'000	RMB'000
			income		
Trade receivables	-	-	-	3,790,212	3,790,212
Financial assets at fair value through					
other comprehensive income	-	-	211,428	-	211,428
Due from related parties	-	-	-	13,197	13,197
Financial assets included in					
prepayments, other receivables and					
other assets	-	-	-	138,948	138,948
Finance lease receivables	-	-	-	4,141	4,141
Financial assets at fair value through					
profit or loss	2,346,581	-	-	-	2,346,581
Equity investments at fair value through					
other comprehensive income	-	1,450	-	-	1,450
Pledged deposits	-	-	-	837,547	837,547
Cash and cash equivalents	-	-	-	2,780,567	2,780,567
	2,346,581	1,450	211,428	7,564,612	10,124,071

## 23. Financial instruments by category *(Continued)*

Financial liabilities

	Financial liabilities at amortised cost <i>RMB'000</i>
Trade and bills payables	4,900,158
Financial liabilities included in other payables and accruals	153,649
Deposit for finance leases	8,131
Interest-bearing bank borrowings	663,452
Due to related parties	18,454
	5,743,844

## 24. Fair value and fair value hierarchy of financial instruments

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged bank deposits, the current portion of trade receivables, financial assets included in prepayments, other receivables and other assets, trade and bills payables, financial liabilities included in other payables and accruals, deposits for finance leases and amounts due from/to related parties approximate to their carrying amounts largely due to the short-term maturities of these instruments. The fair values of financial lease receivables carried at amortised cost are based on current interest rates offered for similar financial instruments appropriate for the remaining term to maturity. The carrying amounts of such financial instruments are not materially different from their fair values.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

## 24. Fair value and fair value hierarchy of financial instruments

*(Continued)*

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of trade receivables, interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank borrowings as at 30 June 2021 were assessed to be insignificant. The fair values of the non-current portion of pledged bank deposits were assessed and approximated to their carrying amounts.

The fair values of listed equity investments are based on quoted market prices.

The Group invests in unlisted investments, which represent wealth management products issued by financial institutions in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

Bills receivable held both to collect cash flows and to sell in financial assets at fair value through other comprehensive income are measured using the discounted cash flow method.

## 24. Fair value and fair value hierarchy of financial instruments

(Continued)

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

#### Assets measured at fair value:

As at 30 June 2021

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through other comprehensive income			326,521	326,521
Equity investments designated at fair value through other comprehensive income			1,450	1,450
Financial assets at fair value through profit or loss	270,414	2,172,628	–	2,443,042
	270,414	2,172,628	327,971	2,771,013

## 24. Fair value and fair value hierarchy of financial instruments

(Continued)

As at 31 December 2020

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through other comprehensive income	-	-	211,428	211,428
Equity investments designated at fair value through other comprehensive income	-	-	1,450	1,450
Financial assets at fair value through profit or loss	289,730	2,056,851	-	2,346,581
	289,730	2,056,851	212,878	2,559,459

## 25. Approval of the interim condensed consolidated financial information

The interim condensed consolidated financial information was approved and authorised for issue by the board of directors on 26 August 2021.

## 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; ZL40 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.

## Improvements in Internal Control Systems

Additional measures and improvements for the internal control systems of the Company during the six months ended 30 June 2021.

The company focused on the details of its internal control system and made the following enhancements:

1. Improved the Group’s supply chain management in purchasing, supplying, warehousing, manufacturing and sales so as to expand its channels and achieve better coordination, and to enhance the quality and competitive strength of our products.
2. Further optimized the establishment of our control system and information management with check and balance as well as mutual supervision among different departments, achieving systematic, regulated and standardized operation of the Company.
3. Further revised and improved the effectiveness of our decision-making, management and balance of authority mechanisms.
  - (i) Improved the investor relationship system to safeguard the interests and right of information of public shareholders effectively.
  - (ii) Strengthened our financial control and arranged professionals to conduct comprehensive review on the Company for at least every six months, and supervised the execution of duties by the directors and senior management.
  - (iii) Established and further refined the assessment procedures of our management team so as to carry out effective supervision and set up a performance evaluation and assessment mechanism.

## INVESTOR RELATIONS MANAGEMENT

### Information Disclosures

The Company regards effective communication as the core of investor relations, and believes that a high transparent organization and promptly dissemination of information to our investors are important ingredients to the success of a company.

In the first half of 2021, due to the impact of the coronavirus epidemic, the number of visiting investors decreased compared with the past. The company mainly communicated with domestic and foreign investors through conference calls and maintained a good relationship with the international capital market. The Company received communications from a total of 46 domestic and overseas investors throughout the six-month period ended 30 June 2021, including over 25 telephone meetings.

### Other Stakeholders' interests

While dedicated to maximizing shareholders' value, the Company is also committed to its customers, in terms of provision of quality products and services, and to the staff, by making available opportunities to them for career development. The Company had a strong commitment to shareholders, investors, staff, customers, suppliers and the community at large and always acting in good faith and with integrity. The Company believed that the sustainable development of a company cannot be achieved in isolation from a healthy environment. The Company pledges to contribute to the community while pursuing profit growth, by managing the business within the bounds of relevant laws and environmental regulations, improving standard of corporate governance and enhancing corporate transparency and actively participating in social charities and contribute to the local social development.

### Contact

Investor Relations

**Ms. Lv Zhen Zhen**

Tel: 86-21-3760 2000 (5676)

E-mail address: Lzz@Lonking.cn

## DISCLOSURE OF INTERESTS

### Directors' and chief executive's interests in shares and underlying shares

As at 30 June 2021, the interests of the directors and chief executive of the Company in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register to be kept by the Company pursuant to Section 352 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code were as follows:

#### (1) Long positions in shares and underlying shares of the Company

*Ordinary shares of HK\$0.10 each of the Company*

Name of directors	Capacity	Number of shares held	Percentage of issued share capital as at 30 June 2021
Ngai Ngan Ying	beneficial owner	2,398,273,188	56.03%
Chen Chao	beneficial owner	1,596,000	0.04%
Zheng Ke Wen	beneficial owner	429,900	0.01%
		<b>2,400,299,088</b>	<b>56.08%</b>

**(2) Long positions in shares and underlying shares of the associated corporation of the Company, Longgong (Shanghai) Machinery Co., Ltd.**

*Ordinary shares of HK\$0.10 each of the Company*

<b>Name of directors</b>	<b>Capacity</b>	<b>Registered share capital</b>	<b>Percentage of issued share capital as at 30 June 2021</b>
Mr. Li San Yim	corporate (Note 1)	480,000	0.11%
Ms. Ngai Ngan Ying	corporate (Note 1)	480,000	0.11%

Note 1: The 0.11% interest of Longgong (Shanghai) Machinery Co., Ltd, is held by Shanghai Longgong Machinery limited, which is owned by Mr. Li San Yim and Ms. Ngai Ngan Ying as to 39.5% and 60.5% respectively.

Save as disclosed above as at 30 June 2021, none of the directors, chief executives of the Company or any of their associates, had registered any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded and kept in the register by the Company in accordance with the Section 352 of the SFO, or any interests required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## Substantial shareholders

As at 30 June 2021, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of directors, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company.

### Long positions

Ordinary shares of HKD0.10 each of the Company

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Number of ordinary shares interested</b>	<b>Percentage of the issued share capital of the Company</b>
Citigroup Inc.	Investment Manager	213,321,188	4.98%

Saved as disclosed above, as at 30 June 2021, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as recorded and kept under Section 336 of the SFO as having an interest of 5% or more in the issued share capital of the Company.

## OTHER INFORMATION

### 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 shares).

### Employees and emolument policy

The emolument policy of the employees of the Group is set up by the Human Resources Division on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

As at 30 June 2021, the Group employed approximately 8,237 employees.

### Purchase, sale or redemption of the Company's listed securities

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 during the period.

### Review of accounts by audit committee

The audit committee, together with the management and the external auditors, has reviewed constantly the accounting principles and practices by the Group, discussed review, risk management, 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 audit committee of the Company.

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

Hong Kong, 29 September 2021

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive directors

Mr. Li San Yim (*Chairman and  
Chief Executive Officer*)

Mr. Chen Chao  
Mr. Zheng Ke Wen  
Mr. Yin Kun Lun

#### Non-executive directors

Ms. Ngai Ngan Ying

#### Independent non-executive directors

Dr. Qian Shizheng  
Mr. Wu Jian Ming  
Mr. Yu Tai Wei

### AUDIT COMMITTEE

Dr. Qian Shizheng (*Chairman*)  
Mr. Yu Tai Wei  
Ms. Ngai Ngan Ying

### REMUNERATION COMMITTEE

Dr. Qian Shizheng (*Chairman*)  
Ms. Ngai Ngan Ying

### NOMINATION COMMITTEE

Mr. Yu Tai Wei (*Chairman*)  
Ms. Ngai Ngan Ying

### EXECUTIVE COMMITTEE

Mr. Li San Yim  
(*Chairman and Chief Executive Officer*)  
Mr. Chen Chao  
Mr. Zheng Ke Wen  
Mr. Yin Kun Lun

### COMPANY SECRETARY

Mr. Chu Shun

### HEAD OFFICE

No. 26 Mingyi Road, Xinqiao,  
Songjiang Industrial,  
Shanghai (201612), PRC

### REGISTERED OFFICE

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### INVESTOR RELATIONS

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Lzz@Lonking.cn  
Tel: 86-21-3760 2000 (5676)

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## WEBSITE

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## STOCK CODE

3339

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited  
Suite 3204, Unit 2A  
Block 3, Building D, P. O. Box 1586,  
Gardenia Court, Camana Bay  
Grand Cayman, KY1-1100,  
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor  
Services Limited  
Shops 1712-1716, 17/F, Hopewell Centre,  
183 Queen's Road East, Wanchai,  
Hong Kong

## SOLICITORS

Sidley Austin  
39/F, Two International Finance Centre  
8 Finance Street Central, Hong Kong

## AUDITORS

Ernst & Young  
Certified Public Accountants  
22/F, CITIC Tower,  
1 Tim Mei Avenue,  
Central,  
Hong Kong

## PRINCIPAL BANKERS

Bank of China  
Longyan Branch  
Bank of China Tower  
No. 1 Longchuan Bei Road Longyan City  
Fujian, PRC

China Construction Bank  
Shanghai Songjiang Branch  
No. 89 Zhongshan Zhong Road  
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