

# LONGKING 龙工

LONGKING HOLDINGS LIMITED

中國龍工控股有限公司\*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3339



\* For Identification Purpose Only

2019  
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 2019	30 June 2018	
	RMB'000	RMB'000	
Turnover	6,759,674	6,648,134	+1.68%
Operating profits	987,780	776,918	+27.14%
EBITDA	1,250,180	1,018,138	+22.79%
Profit attributable to equity parent	886,621	703,884	+26.25%
<b>Per share data</b>			
Basic earnings per share <sup>(1)#</sup>	0.21	0.16	+31.25%
Net assets per share <sup>(2)#</sup>	1.95	1.83	+6.56%
<b>Key performance indicators</b>			
<i>Profitability</i>			
Overall gross margin	23.24%	23.20%	+0.04%
Net profit margin	13.15%	10.59%	+2.56%
EBITDA margin <sup>(3)</sup> :	18.49%	15.31%	+3.18%
Return on equity <sup>(4)</sup>	10.65%	8.97%	+1.68%
<i>Liquidity and solvency</i>			
Current ratio <sup>(5)</sup>	2.19	2.08	+5.29%
Interest coverage ratio <sup>(6)</sup> :	42.86	45.10	-4.97%
Gross debt-to-equity ratio <sup>(7)</sup>	75.15	84.03	-8.88%
<i>Management efficiency</i>			
Inventory turnover days <sup>(8)</sup>	90	87	+3 days
Trade and bills payables turnover days <sup>(9)</sup>	120	121	-1 days
Trade and bills receivable turnover days <sup>(10)</sup>	72	63	+9 days

- # calculated based on the 4,280,100,000 weighted average number of outstanding shares (WANOS) for the period ended 30 June 2019 (30 June 2018: 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 and bills 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 41, 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 2019 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 other 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*  
22nd Floor, CITIC Tower,  
1 Tim Mei Avenue, Central,  
Hong Kong  
28 August 2019



## INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

	Notes	For the six months ended 30 June	
		2019 Unaudited RMB'000	2018 Unaudited RMB'000
<b>Revenue</b>	4	6,759,674	6,648,134
Cost of sales		(5,188,495)	(5,105,831)
<b>Gross profit</b>		1,571,179	1,542,303
Other income	5	28,656	12,319
Other gains and losses	5	144,781	(45,309)
Selling and distribution expenses		(336,837)	(341,731)
Administrative expenses		(121,573)	(124,983)
Research and development costs		(288,283)	(264,839)
Other expenses		(10,143)	(842)
<b>Operating profit</b>		987,780	776,918
Finance income		85,487	66,469
Finance costs		(25,040)	(18,699)
<b>Profit before tax</b>	6	1,048,227	824,688
Income tax expense	7	(159,348)	(120,728)
<b>Profit for the period</b>		888,879	703,960
Attributable to:			
Owners of the parent		888,621	703,884
Non-controlling interests		258	76
		888,879	703,960
Earnings per share			
Basic, profit for the period attributable to ordinary equity holders of the parent (RMB)		0.21	0.16

Details of the dividends declared and paid are disclosed in note 8 to the financial statements.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

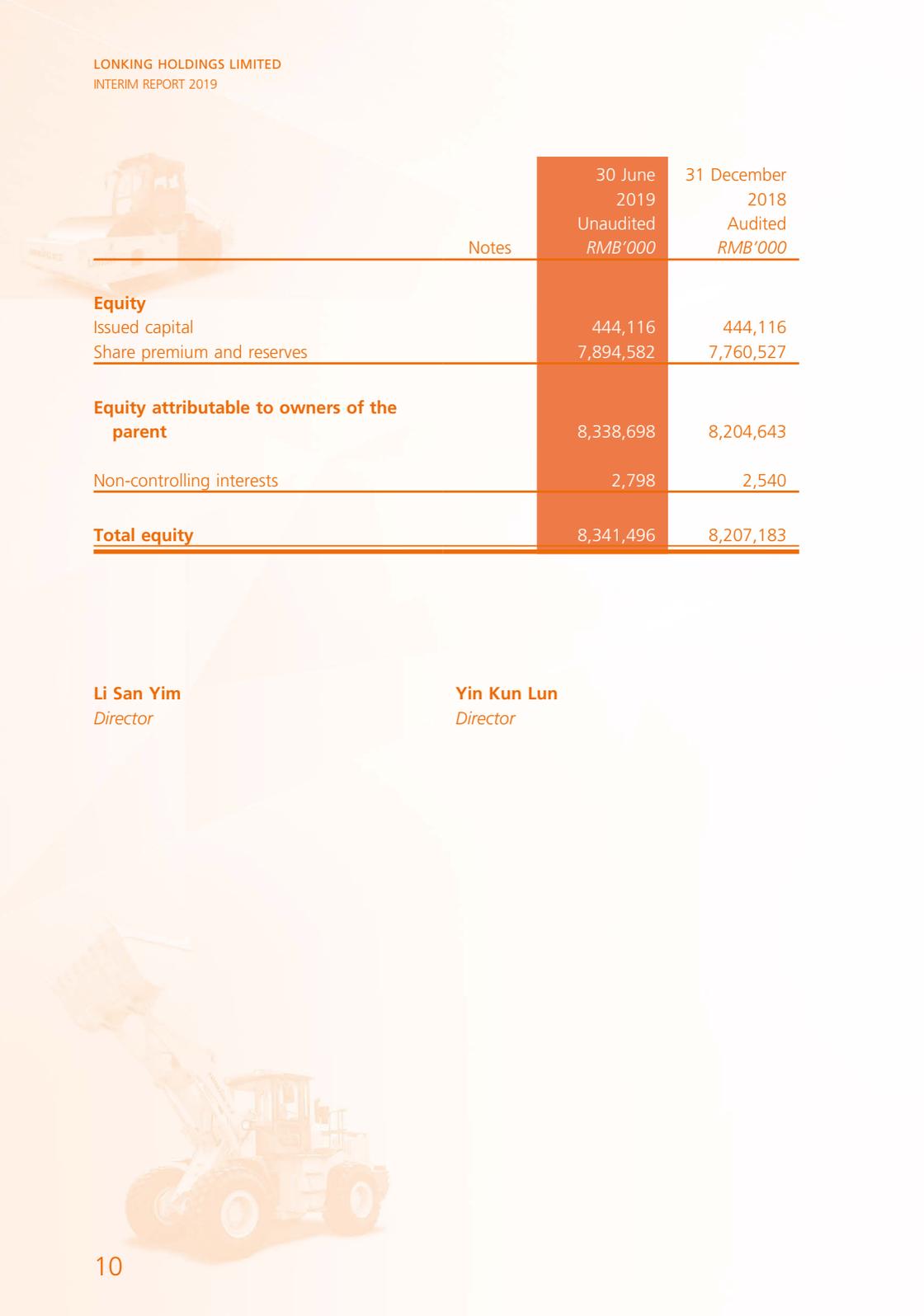
	For the six months ended 30 June	
	2019 Unaudited RMB'000	2018 Unaudited RMB'000
<b>Profit for the period</b>	888,879	703,960
<b>Other comprehensive loss that may be reclassified to profit or loss in subsequent periods</b>		
Exchange differences on translation of foreign operations	(23,354)	(40,444)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(23,354)	(40,444)
Other comprehensive loss for the period, net of tax	(23,354)	(40,444)
<b>Total comprehensive income for the period, net of tax</b>	865,525	663,516
Attributable to:		
Owners of the parent	865,267	663,440
Non-controlling interests	258	76
	865,525	663,516

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	2,122,601	2,189,216
Right-of-use assets		178,348	–
Prepaid land lease payments		–	175,831
Finance lease receivables		1,097	726
Prepayments for property, plant and equipment		25,436	65,406
Long-term receivables	10	249,152	160,382
Equity investments at fair value through other comprehensive income	15	950	1,220
Financial assets at fair value through profit or loss	14	118,622	87,277
Derivative financial instruments	16	81,378	112,723
Deferred tax assets		361,456	383,592
Pledged deposits	17	656,000	656,000
		<b>3,795,040</b>	<b>3,832,373</b>
<b>Current assets</b>			
Prepaid land lease payments		–	5,324
Inventories	11	2,266,164	2,857,771
Finance lease receivables		12,807	20,938
Trade and bills receivables	12	2,823,850	2,529,327
Due from related parties		2,651	5,317
Prepayments, deposits and other receivables	13	476,118	508,109
Financial assets at fair value through profit or loss	14	1,496,039	1,336,739
Pledged deposits	17	313,393	411,431
Cash and cash equivalents	17	3,424,131	2,565,018
		<b>10,815,153</b>	<b>10,239,974</b>

	Notes	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and bills payables	18	3,289,603	3,507,260
Other payables and accruals	19	616,820	712,564
Due to related parties		9,761	19,928
Provisions		128,152	112,920
Deferred income		2,138	2,138
Tax payable		130,937	123,740
Dividends due to shareholders	8	753,007	–
		4,930,418	4,478,550
<b>Net current assets</b>		5,884,735	5,761,424
<b>Total assets less current liabilities</b>		9,679,775	9,593,797
<b>Non-current liabilities</b>			
Deposits for finance leases		9,827	11,469
Interest-bearing bank borrowings	20	1,289,006	1,286,850
Deferred tax liabilities		13,170	63,111
Provisions		14,127	11,967
Deferred income		12,149	13,217
<b>Total non-current liabilities</b>		1,338,279	1,386,614
<b>Net assets</b>		8,341,496	8,207,183



Notes	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
<b>Equity</b>		
Issued capital	444,116	444,116
Share premium and reserves	7,894,582	7,760,527
<b>Equity attributable to owners of the parent</b>	<b>8,338,698</b>	<b>8,204,643</b>
Non-controlling interests	2,798	2,540
<b>Total equity</b>	<b>8,341,496</b>	<b>8,207,183</b>

**Li San Yim**  
 Director

**Yin Kun Lun**  
 Director

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

2019	Attributable to owners of the parent								
	Issued capital	Share premium	Special reserve	Non-distributable reserve	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
At 1 January 2019	444,116	854,922	394,872	1,632,361	5,268,399	(390,027)	8,204,643	2,540	8,207,183
Profit for the period	-	-	-	-	888,621	-	888,621	258	888,879
Other comprehensive loss for the period:									
Exchange differences on translation of foreign operations	-	-	-	-	-	(23,354)	(23,354)	-	(23,354)
Total comprehensive income for the period	-	-	-	-	888,621	(23,354)	865,267	258	865,525
Final 2018 dividend declared	-	-	-	-	(731,212)	-	(731,212)	-	(731,212)
Transfer from retained profits	-	-	4,212	-	(4,212)	-	-	-	-
At 30 June 2019	444,116	854,922	399,084	1,632,361	5,421,596	(413,381)	8,338,698	2,798	8,341,496

2018

Attributable to owners of the parent

	Issued capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Non- distributable reserve RMB'000	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
At 1 January 2018	444,116	854,922	389,249	1,591,048	4,728,273	(279,846)	7,727,762	2,444	7,730,206
Profit for the period	-	-	-	-	703,884	-	703,884	76	703,960
Other comprehensive loss for the period:									
Exchange differences on translation of foreign operations	-	-	-	-	-	(40,444)	(40,444)	-	(40,444)
Total comprehensive income for the period	-	-	-	-	703,884	(40,444)	663,440	76	663,516
Final 2017 dividend declared	-	-	-	-	(548,195)	-	(548,195)	-	(548,195)
Transfer from retained profits	-	-	3,149	-	(3,149)	-	-	-	-
At 30 June 2018	444,116	854,922	392,398	1,591,048	4,880,813	(320,290)	7,843,007	2,520	7,845,527

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019 Unaudited RMB'000	2018 Unaudited RMB'000
<b>Operating cash flows before movements in working capital:</b>	1,016,985	1,008,902
Decrease in inventories	589,672	35,046
Increase in trade and bills receivables	(391,930)	(650,679)
Decrease/(increase) in prepayments, deposits and other receivables	40,839	(8,664)
Decrease in finance lease receivables	7,760	5,313
(Decrease)/increase in trade, bills and other payables	(310,287)	39,614
Increase in provisions	17,392	36,813
Decrease/(increase) in amounts due from related parties	2,666	(4,843)
(Decrease)/increase in amounts due to related parties	(10,167)	114
Decrease in deposits for finance leases	(3,013)	(5,218)
Income tax paid	(179,956)	(267,295)
Interest received	70,185	40,458
<b>Net cash flows from operating activities</b>	<b>850,146</b>	<b>229,561</b>

For the six months ended  
30 June

	Note	2019 Unaudited RMB'000	2018 Unaudited RMB'000
<b>Cash flows from investing activities</b>			
Purchase of items of property, plant and equipment		(85,431)	(121,230)
Proceeds from disposal of financial investments		270	–
Interest received from other current assets		–	6,307
Interest received from financial investments		–	15,511
Increase in deferred income		–	9,452
Payment for lease premium for land		(94)	(2,203)
Proceeds from derivative financial instruments received		–	6,604
Proceeds from financial investments		–	720,000
Proceeds from disposal of items of property, plant and equipment		14,789	12,649
<b>Net cash flows (used in)/from investing activities</b>		<b>(70,466)</b>	<b>647,090</b>
<b>Cash flows from financing activities</b>			
Dividends paid		–	(832)
Interest paid		(24,963)	(33,462)
Decrease/(increase) in pledged deposits		98,038	(496,813)
Bank charges for extension of bank loan		–	(10,096)
Interest from pledged deposits received		6,358	19,460
<b>Net cash flows from/(used in) financing activities</b>		<b>79,433</b>	<b>(521,743)</b>
Net increase in cash and cash equivalents		859,113	354,908
Net foreign exchange difference		–	289
Cash and cash equivalents at 1 January		2,565,018	1,633,686
<b>Cash and cash equivalents at 30 June</b>	17	<b>3,424,131</b>	<b>1,988,883</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2019

## 1. Corporate information

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2019 were authorised for issue in accordance with a resolution of the directors on 28 August 2019.

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

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

## 2. Basis of preparation and changes in the Group's accounting policies

### 2.1 Basis of preparation

The interim condensed consolidated financial information, which comprise the interim condensed consolidated information of financial position of the Group as at 30 June 2019 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, have 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 2018.

## 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 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 January 2019.

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

Other than as explained below regarding the impact of HKFRS 16 *Leases* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

#### **(a) Adoption of HKFRS 16**

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

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

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

### 2.2 Changes in accounting policies and disclosures *(continued)*

#### **(a) Adoption of HKFRS 16** *(continued)*

##### *New definition of a lease*

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

##### *Impacts on transition*

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

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

### 2.2 Changes in accounting policies and disclosures *(continued)*

#### (a) Adoption of HKFRS 16 *(continued)*

*New definition of a lease (continued)*

*Impacts on transition (continued)*

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

	<b>Increase/(decrease)</b>
	<i>RMB'000</i>
	(Unaudited)
<b>Assets</b>	
Increase in right-of-use assets	181,155
Decrease in prepaid land lease payments	(181,155)
Increase in total assets	—

#### *Summary of new accounting policies*

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

#### *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

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

### 2.2 Changes in accounting policies and disclosures *(continued)*

#### (a) *Adoption of HKFRS 16 (continued)*

##### *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss.

The carrying amounts of the Group's right-of-use assets and the movement during the period are as follow:

	<b>Right-of-use assets</b>
	<i>RMB'000</i>
<b>As at 1 January 2019</b>	181,155
Additions	94
Depreciation charge	(2,901)
<b>As at 30 June 2019</b>	<b>178,348</b>

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

### 2.2 Changes in accounting policies and disclosures *(Continued)*

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

## 3. Revenue from contracts with customers

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

## 4. Operating segment information

### Operating segments

The following tables present revenue and profit information for the Group's operating segments for the six months ended 30 June 2019 and 2018:

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

Six months ended 30 June 2018	Sale of construction machinery RMB'000	Finance lease of construction machinery RMB'000	Financial investments RMB'000	Total RMB'000
<b>Segment revenue</b>	6,646,346	1,788	–	6,648,134
<b>Segment results</b>	825,018	(5,252)	(30,080)	789,686
Reconciliation:				
Interest income				66,469
Unallocated other income and gains				(8,462)
Corporate and other unallocated expenses				(4,306)
Finance costs				(18,699)
<b>Profit before tax</b>				<b>824,688</b>

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

### Operating segments *(Continued)*

Segment result represents the profit or loss earned or incurred by each segment without allocation of interest income, other income, gains and losses, central administration cost, directors' salaries, 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 2019 and 31 December 2018:

	30 June 2019 <i>RMB'000</i>	31 December 2018 <i>RMB'000</i>
Segment assets:	13,724,026	13,958,302
Sale of construction machinery	12,007,260	12,396,462
Finance leases of construction machinery	14,777	23,881
Financial investments	1,701,989	1,537,959
Corporate and other unallocated assets	886,167	114,045
<b>Consolidated assets</b>	<b>14,610,193</b>	<b>14,072,347</b>

	30 June 2019 <i>RMB'000</i>	31 December 2018 <i>RMB'000</i>
Segment liabilities:	4,210,891	4,512,118
Sale of construction machinery	4,194,499	4,488,198
Finance leases of construction machinery	16,392	23,920
Corporate and other unallocated liabilities	2,057,806	1,353,046
<b>Consolidated liabilities</b>	<b>6,268,697</b>	<b>5,865,164</b>

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

##### Operating segments *(Continued)*

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

	For the six months ended 30 June			
	2019		2018	
	RMB'000	%	RMB'000	%
Sales of construction machinery:				
Wheel loaders	3,337,392	49.4	3,336,753	50.2
Excavators	1,407,549	20.8	1,378,730	20.7
Forklifts	1,351,356	20.0	1,291,697	19.4
Components	589,750	8.7	553,234	8.3
Road rollers	72,432	1.0	85,932	1.3
Subtotal	6,758,479	99.9	6,646,346	99.9
Finance lease interest income	1,195	0.1	1,788	0.1
<b>Total</b>	<b>6,759,674</b>	<b>100.0</b>	<b>6,648,134</b>	<b>100.0</b>

##### 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	
	2019 RMB'000	2018 RMB'000
Government grants	18,712	6,298
Penalty income	529	497
Others	9,415	5,524
	<b>28,656</b>	<b>12,319</b>

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

	For the six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Loss on disposal of items of property, plant and equipment	(1,465)	(2,768)
Allowance for bad and doubtful debts	(13,370)	(6,342)
Provision for inventories	(1,935)	(425)
Fair value gains, net:		
Equity investments at fair value through profit or loss		
– held for trading	190,645	(64,533)
Derivative instruments		
– transactions not qualifying as hedges	(31,345)	10,901
Gains from derivative instruments	4,717	6,604
Investment income	–	16,948
Foreign exchange loss	(2,466)	(5,694)
	<b>144,781</b>	<b>(45,309)</b>

## 6. Profit before tax

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

	For the six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Cost of inventories recognised as expenses (note a)	5,188,495	5,105,831
Depreciation of property, plant and equipment	174,012	171,822
Amortisation of lease payments for land	2,901	2,929
Staff costs, including directors' remuneration	305,974	325,970
Contribution to a retirement benefit scheme	28,249	26,458
Foreign exchange differences, net	2,466	5,694
Bad debt provision	13,370	6,342
Product warranty provision	121,197	102,984
Provision for inventories to net realisable value	1,935	425
Interest income on bank deposits	(85,487)	(66,469)
Income-related government grants	(18,712)	(6,298)

Note a: Cost of inventories recognised as expenses included RMB408,997,000 (six months ended 30 June 2018: RMB435,444,000) relating to staff costs and depreciation, which amounts were also included in the respective total amounts disclosed separately for each of these types of expenses.

## 7. Income tax

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	
	2019 RMB'000	2018 RMB'000
Current income tax expense	187,153	93,560
Deferred income tax expense relating to origination and reversal of temporary differences	(27,805)	27,168
Income tax expense recognised in the consolidated statement of profit or loss	159,348	120,728

## 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 2019 (six months ended 30 June 2018: Nil).

The proposed final dividend of HK\$0.20 per ordinary share for the year ended 31 December 2018 was declared payable and approved by the shareholders at the annual general meeting of the Company on 28 May 2019 and was paid on 26 July 2019.

## 9. Property, plant and equipment

During the six months ended 30 June 2019, the Group acquired assets with a cost of RMB123,581,000 (six months ended 30 June 2018: RMB113,834,000), including property, plant and machinery in the People's Republic of China (the "PRC").

Assets with a net book value of RMB16,254,000 were disposed of by the Group during the six months ended 30 June 2019 (six months ended 30 June 2018: RMB15,417,000), resulting in a net loss on disposal of RMB1,465,000 (net loss in the six months ended 30 June 2018: RMB2,768,000).

## 10. Long-term receivables

Long-term receivables are the receivables with maturity within 2 years but greater than 12 months according to the credit terms, and included the following items:

	30 June 2019 <i>RMB'000</i>	31 December 2018 <i>RMB'000</i>
Trade receivables (note 12)	249,152	160,382

## 11. Inventories

	30 June 2019 <i>RMB'000</i>	31 December 2018 <i>RMB'000</i>
Raw materials	677,950	717,568
Work in progress	129,673	115,577
Finished goods	1,458,541	2,024,626
	2,266,164	2,857,771

## 12. Trade and bills 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 2019 <i>RMB'000</i>	31 December 2018 <i>RMB'000</i>
Trade receivables	3,253,444	2,870,255
Impairment	(420,429)	(412,984)
Less: Non-current portion (note 10)	(249,152)	(160,382)
	2,583,863	2,296,889
Bills receivable	239,987	232,438
	2,823,850	2,529,327

The ageing analysis of trade receivables is as follows:

	30 June 2019 <i>RMB'000</i>	31 December 2018 <i>RMB'000</i>
0 to 90 days	1,568,087	1,741,904
91 to 180 days	545,102	279,139
181 to 360 days	400,314	220,969
Over 1 year	70,360	54,877
	2,583,863	2,296,889

Bills receivable are aged within three months at the end of each reporting period. The Group had no bills receivable pledged to banks for getting credit facilities (31 December 2018: Nil).

### 13. Prepayments, deposits and other receivables

	30 June 2019 RMB'000	31 December 2018 RMB'000
Prepayments	267,974	329,396
Deductible value-added tax	60,371	40,626
Deposits	7,025	7,470
<b>Total</b>	<b>335,370</b>	<b>377,492</b>
Other receivables:		
Loan receivables	489,489	497,176
Less: impairment	(413,698)	(409,225)
<b>Net loan receivables</b>	<b>75,791</b>	<b>87,951</b>
Other miscellaneous receivables	66,356	44,065
Less: impairment	(1,399)	(1,399)
<b>Net other miscellaneous receivables</b>	<b>64,957</b>	<b>42,666</b>
<b>Total other receivables</b>	<b>140,748</b>	<b>130,617</b>
<b>Grand total</b>	<b>476,118</b>	<b>508,109</b>

The carrying amounts of financial assets included in deposits and other receivables approximate to their fair values.

A large portion of other receivables includes the loan receivables from sales agencies for their repurchase of machines. The collection of receivables of sales financed by leasing was not favourable due to the deterioration of external operating environment in the past few years. According to the finance lease agreements, the sales agencies were required to fulfil the obligation to repurchase the machines and repay the outstanding lease amount to the leasing companies once the account is overdue for more than 3 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 3 months as it would normally take 3 months for the resale of the machines. The Group would enter into instalment agreements with sales agencies if the repurchased machines had been sold again. The instalments would be arranged at interest rates ranging from 4% to 7% per annum and would mainly be repaid within 18 to 24 months.

Other receivables also include miscellaneous borrowings for sales agencies' daily operational needs. None of the deposits with suppliers is either past due or impaired, for which there was no recent history of default.

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

	30 June 2019 RMB'000	31 December 2018 RMB'000
Listed equity investments, at fair value non-current	118,622	87,277
Unlisted equity investments, at fair value current	1,496,039	1,336,739
	1,614,661	1,424,016

The above listed equity investments at 30 June 2019 were classified as financial assets at fair value through profit or loss as they were held for trading.

The above unlisted equity investments at 30 June 2019 were wealth management products issued by financial institutions in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

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

	30 June 2019 RMB'000	31 December 2018 RMB'000
Equity investments at fair value through other comprehensive income	950	1,220

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.

## 16. Derivative financial instruments

	30 June 2019 RMB'000	31 December 2018 RMB'000
Compensation terms for investment	81,378	112,723

The compensation terms for investment are related to the listed equity investments at fair value through profit or loss (note 14).

The Group entered into an agreement with an asset management company with a nominal amount of RMB200,000,000. When the investment return is below 5% (2018: 7%) per annum of the nominal amount, the Group will receive a compensation from the asset management company and the total return will be no less than 5% (2018: 7%) per annum after the compensation.

## 17. Cash and cash equivalents and pledged bank deposits

	30 June 2019 RMB'000	31 December 2018 RMB'000
Cash and bank balances	3,424,131	2,565,018
Time deposits	969,393	1,067,431
Less: Pledged for long-term bank loans	(656,000)	(656,000)
Pledged for bank acceptance bills	(291,735)	(403,923)
Pledged for others	(21,658)	(7,508)
Cash and cash equivalents	3,424,131	2,565,018

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.

## 18. Trade and bills payables

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

	30 June 2019 <i>RMB'000</i>	31 December 2018 <i>RMB'000</i>
0 to 180 days	3,244,837	3,443,703
181 days to 1 year	17,909	11,864
1 to 2 years	5,203	27,108
2 to 3 years	11,375	14,623
Over 3 years	10,279	9,962
	<b>3,289,603</b>	<b>3,507,260</b>

The bills payables are aged within six months at the end of each reporting period.

## 19. Other payables and accruals

	30 June 2019 <i>RMB'000</i>	31 December 2018 <i>RMB'000</i>
Accrued sales rebate	329,253	374,154
Other payables	89,151	77,565
Salaries and wages payables	83,662	132,471
Contract liabilities	42,186	48,599
Payable for acquisition of property, plant and equipment	11,700	13,520
Other taxes payable	9,077	21,866
Deposit for finance leases	749	2,120
Other accrued expenses	51,042	42,269
	<b>616,820</b>	<b>712,564</b>

## 20. Interest-bearing bank borrowings

	30 June 2019			31 December 2018		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
<b>Non-current</b>						
Bank loans – secured	3.58-3.72	2021	1,289,006	2.22-2.93	2020	1,286,850

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

On 22 August 2019, with the consent of Bank of China limited, Tokyo branch, the Group repaid the loan US\$85.82 million ahead of schedule.

## 21. Commitments

At 30 June 2019, the Group had capital commitments of RMB23,652,000 (31 December 2018: RMB40,248,000) principally relating to the acquisition of property, plant and equipment located in Shanghai, Fujian and Jiangxi the PRC.

## 22. Related party transactions

The following table provides the total amounts of transactions which have been entered into with related parties during the six-month periods ended 30 June 2019 and 30 June 2018 as well as balances with related parties as at 30 June 2019 and 31 December 2018:

		Sales to related parties RMB'000	Purchase from related parties RMB'000	Amounts owed by related parties RMB'000	Amounts owed to related parties RMB'000
<b>Related parties:</b>					
Longyan City Jinlong Machinery Company Limited (note a)	2019	–	22,930	–	6,225
	2018	–	26,635	–	11,073
Herkules (Shanghai) Automation Equipment Co. Ltd. (note b)	2019	257	27,015	2,174	3,487
	2018	–	38,258	5,228	8,847
Shanghai Refined Machinery Co. Ltd. (note c)	2019	390	–	474	–
	2018	–	–	84	–
Shanghai Longtui Machinery Co. Ltd. (note d)	2019	270	324	3	49
	2018	–	345	5	8

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

note a: Mr. Ngai Ngan Gin, the brother of Madam Ngai Ngan Ying (a director 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, the son-in-law of Mr. Li San Yim, who is a person acting in concert of the Company, an executive director and the chairman of the Group.

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

note d: Shanghai Longtui Machinery Environmental Technology Co. Ltd. is wholly owned by Mr. Li Bin, the son of Mr. Li San Yim, who is a controlling shareholder of the Company, an executive director and the chairman of the Group.

Compensation of key management personnel of the Group:

	<b>For the six months ended 30 June</b>	
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Short-term employee benefits	10,750	8,115
Pension scheme contributions	76	74
<b>Total compensation paid to key management personnel</b>	<b>10,826</b>	<b>8,189</b>

### 23. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

**30 June 2019**

#### Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total
	Designated as such upon initial recognition	Held for trading	Equity instruments		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills receivables	-	-	-	2,823,850	2,823,850
Long-term receivables	-	-	-	249,152	249,152
Due from related parties	-	-	-	2,651	2,651
Financial assets included in prepayments, other receivables and other assets	-	-	-	131,771	131,771
Finance lease receivables	-	-	-	13,904	13,904
Financial assets at fair value through profit or loss	-	1,614,661	-	-	1,614,661
Equity investments at fair value through other comprehensive income	-	-	950	-	950
Derivative financial instruments	81,378	-	-	-	81,378
Pledged deposits	-	-	-	969,393	969,393
Cash and cash equivalents	-	-	-	3,424,131	3,424,131
	81,378	1,614,661	950	7,614,852	9,311,841

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

30 June 2019

### Financial liabilities

	<b>Financial liabilities at amortised cost</b> <b>RMB'000</b>
Trade and bills payables	3,289,603
Financial liabilities included in other payables and accruals	100,851
Deposits for finance leases	10,576
Interest-bearing bank borrowings	1,289,006
Due to related parties	9,761
	<b>4,699,797</b>

## 23. Financial instruments by category (Continued)

31 December 2018

### Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total
	Designated as such upon initial recognition RMB'000	Held for trading RMB'000	Equity instruments RMB'000		
Trade and bills receivables	-	-	-	2,529,327	2,529,327
Long-term receivables	-	-	-	160,382	160,382
Due from related parties	-	-	-	5,317	5,317
Financial assets included in prepayments, other receivables and other assets	-	-	-	127,355	127,355
Finance lease receivables	-	-	-	21,664	21,664
Financial assets at fair value through profit or loss	-	1,424,016	-	-	1,424,016
Equity investments at fair value through other comprehensive income	-	-	1,220	-	1,220
Derivative financial instruments	112,723	-	-	-	112,723
Pledged deposits	-	-	-	1,067,431	1,067,431
Cash and cash equivalents	-	-	-	2,565,018	2,565,018
	112,723	1,424,016	1,220	6,476,494	8,014,453

### Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	3,507,260
Financial liabilities included in other payables and accruals	91,085
Deposit for finance leases	13,589
Interest-bearing bank borrowings	1,286,850
Due to related parties	19,928
	4,918,712

## 24. Fair value and fair value hierarchy

The carrying amounts and fair values of the financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2019 Unaudited RMB'000	2018 Audited RMB'000	2019 Unaudited RMB'000	2018 Audited RMB'000
<b>Financial assets:</b>				
Pledged deposits, non-current portion	656,000	656,000	649,215	642,919
Finance lease receivables, non-current portion	1,097	726	1,001	662
	657,097	656,726	650,216	643,581
<b>Financial liabilities:</b>				
Interest-bearing bank borrowings	1,289,006	1,286,850	1,275,675	1,261,190

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.

Except as detailed in the above table, management has assessed and concluded that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, the current portion of finance lease receivables, trade and bills payables, financial liabilities included in other payables and accruals and amounts due from/to related parties approximate to their carrying amounts largely due to the short-term maturities of these instruments.

## 24. Fair value and fair value hierarchy *(Continued)*

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

The fair values of the non-current portion of pledged deposits, non-current portion of finance lease receivables and 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 Group's own non-performance risk for deposits for finance leases and interest-bearing bank borrowings as at 30 June 2019 was assessed to be insignificant. Derivative financial instruments are measured using present value calculations.

### 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 2019**

	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	
Equity investments at fair value through other comprehensive income	–	–	950	950
Equity investments at fair value through profit or loss	118,622	1,496,039	–	1,614,661
Derivative financial instruments	–	81,378	–	81,378
	118,622	1,577,417	950	1,696,989

## 24. Fair value and fair value hierarchy (Continued)

### Fair value hierarchy (Continued)

#### Assets measured at fair value: (Continued)

As at 31 December 2018

	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	
Equity investments at fair value through other comprehensive income	-	-	1,220	1,220
Equity investments at fair value through profit or loss	87,277	1,336,739	-	1,424,016
Derivative financial instruments	-	112,723	-	112,723
	87,277	1,449,462	1,220	1,537,959

## 24. Fair value and fair value hierarchy *(Continued)*

### Fair value hierarchy *(Continued)*

#### Assets for which fair values are disclosed:

As at 30 June 2019

	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	
Finance lease receivables, non-current portion	–	1,001	–	1,001
Pledged deposits, non-current portion	–	649,215	–	649,215
<b>Total</b>	<b>–</b>	<b>650,216</b>	<b>–</b>	<b>650,216</b>

As at 31 December 2018

	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	
Finance lease receivables, non-current portion	–	662	–	662
Pledged deposits, non-current portion	–	642,919	–	642,919
<b>Total</b>	<b>–</b>	<b>643,581</b>	<b>–</b>	<b>643,581</b>

## 24. Fair value and fair value hierarchy (Continued)

### Fair value hierarchy (Continued)

#### Liabilities for which fair values are disclosed:

As at 30 June 2019

	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	
Interest-bearing bank borrowings	–	1,275,675	–	1,275,675

As at 31 December 2018

	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	
Interest-bearing bank borrowings	–	1,261,190	–	1,261,190

## 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 28 August 2019.

## MANAGEMENT DISCUSSION AND ANALYSIS

### RESULT AND BUSINESS REVIEW

In the first half of 2019, the construction machinery industry showed a relatively stable development on the basis of rapid growth in the previous two years. The competitiveness and influence of the Group's four major categories of products in the market were enhanced to varying degrees, and the market position was further consolidated. In view of the relatively stable market demand of the Group's leading products, the Group has continuously improved and upgraded various management tasks, and the quality of development of each business segment has significantly enhanced. During the reporting period, the Group's total operating revenue increased by RMB112 million to RMB6,760 million from RMB6,648 million in the same period of 2018, representing a year-on-year growth of 1.68%. During the reporting period, the consolidated gross profit margin increased by 0.04 percentage points from 23.20% for the same period of 2018 to 23.24% of 2019. During the first half of 2019, the Group had net profit of RMB889 million, increasing by 26.28% as compared with RMB704 million for the same period last year. The increase in net profit was mainly due to the Group's improved management efficiency through scientific management and technology investment, which effectively controlled manufacturing costs and expenses. At the same time, the investment income of the original investment of the Group during the reporting period has been significantly improved.

### GEOGRAPHICAL RESULTS

During the period ended June 30, 2019, sales revenue from mainland China increased steadily compared to the same period last year. Among them, sales from the northwestern region increased by 11.0%, reaching RMB676 million (for the six months ended 30 June 2018: RMB609 million); sales from the northeastern region increased by 7.1% to RMB197 million (for the six months ended 30 June 2018: RMB184 million).

Sales from the eastern and southern regions increased by 4.4% and 4.0% respectively to RMB1,144 million and RMB666 million. Sales from the southwestern region were slightly reduced to RMB836 million (for the six months ended 30 June 2018: RMB887 million).

Due to some overseas market economy, political fluctuations and the Company's strict control of overseas market credit risk, the company's overseas sales decreased by 22.5% to RMB258 million in the first half of the year (for the six months ended 30 June 2018: RMB333 million).

## PRODUCTS ANALYSIS

### Wheel Loaders

Wheel Loader products are our main and mature products. Although the sales of loader products still accounted for about 49.4% of the Group's total sales during the period, the proportion of sales of loaders to total sales is 0.8 lower than 50.2% in the same period last year. Among them, the sales of ZL60 series increased by 64.4% compared with the same period of last year, reaching RMB143 million (for the six months ended 30 June 2018: RMB87 million). This was mainly because the market has not had much demand for ZL60 series of products in the past, while the company has increased its marketing efforts in the recent two years. Sales of the mainstream product ZL50 series were slightly reduced to approximately RMB2,861 million (for the six months ended 30 June 2018: RMB2,878 million). The other two products, ZL30 and ZL40 series, decreased by 10.2% and 15.8% to RMB212 million and RMB16 million respectively due to low demand during the period. Overall, wheel loader sales were relatively stable compared to the same period last year.

### Excavator

Excavator products are our second mainstream products. Sales from excavator products accounted for 20.8% of total sales, and slightly increased by 2.1% during the period, reaching RMB1,408 million (for the six months ended 30 June 2018: RMB1,379 million).

### Fork Lifts and Road Rollers

Sales from forklifts accounted for 20.0% of the Group's total sales. Compared with the same period of last year, forklift sales increased by 4.6% to approximately RMB1,351 million (for the six months ended 30 June 2018: RMB1,292 million).

The sales of road rollers accounted for only 1.0% of the Group's total sales. Compared with the same period of last year, road roller sales decreased by 16.3% to reach RMB72 million (for the six months ended 30 June 2018: RMB86 million).

### Components

The Sales generated from components increased by 6.6% and amounted to approximately RMB590 million for the period, representing approximately 8.7% of the Group's total sales.

## 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 2019, the Group had bank balances and cash of approximately RMB3,424 million (31 December 2018: approximately RMB2,565 million) and pledged bank deposit of approximately RMB969 million (31 December 2018: approximately RMB1,067 million). Compared with last year, the cash and bank balance increased about RMB859 million, which was as a result of net cash inflow of RMB850 million from operating activities, net cash outflow of RMB70 million from investing activities and net cash inflow of RMB79 million from financing activities.

The pledged deposit balance at 30 June 2019 decreased approximately RMB98 million. Details of pledged Bank deposit for the period ended 30 June 2019 are set out in Note 17 to the interim results.

## Liquidity and Financial Resources

We are committed to build a sound finance position. Total shareholders fund as at 30 June 2019 was approximately RMB8,341 million, an 1.6% increase from approximately RMB8,207 million as at 31 December 2018.

The current ratio of the Group at 30 June 2019 was 2.19 (31 December 2018: 2.29). 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 2019, 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 2019, the gross gearing ratio (defined as total liabilities over total assets) was approximately 42.91% (as at 31 December 2018: 41.68%).

## Capital Expenditure

During the period, the Group acquired property, plant and equipment of approximately RMB124 million (six months ended 30 June 2018: approximately RMB114 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.

## Other Gains and Losses

As of June 30, 2019, the fair value of the financial assets held by the Group increased significantly compared with the fair value at the end of 2018, resulting in a fair value change of approximately RMB159 million.

## Long-term receivables

As of June 30, 2019, the long-term receivables in the first half of the year increased by approximately RMB89 million from the end of last year, mainly due to the increase in installment sales from excavators, resulting in an increase in long-term receivables with maturity within 2 years but greater than 12 months according to the credit terms.

## Capital Commitment

As at 30 June 2019, the Group had contracted but not included in the financial statements in respect of acquisition of property, plant and equipment amounting to approximately RMB24 million (31 December 2018: approximately RMB40 million).

## PROSPECT

Despite the changes in the international economy and uncertainties such as trade frictions are complicated, China's economy will continue to grow steadily. Stable and steady growth is the general tone of China's macro economy in 2019. Under the background of identifying the relative weaknesses of our infrastructure, strengthening the construction of infrastructure of the airport, railway and urban transportation network by the country as well as tightening the environmental policy, construction machinery industry will continue to grow steadily. The Group will make full use of the development opportunities such as steady macroeconomic growth, renewal and replacement of existing equipment, in order to adopt a new mindset, work hard, as well as initiate to take responsibility to focus fully on the construction machinery industry to turn our four host products (loaders, excavators, fork lifts and road rollers) and core components stronger and excellent. The Group continuously elevated the position in the market, focused on market planning, diversified and improved the market, further opened up the domestic and overseas markets. The market share of the loaders continued to remain at the top spot of the industry. The sales growth of the excavators continued to keep in a relatively large magnitude. The Group strengthened the market share of the excavators and brand influence. The position of forklifts was further reinforced in the industry. The market share of road machinery also continued to grow. Paying attention to product research and development as well as comprehensively improving product quality is the key to ensuring the promotion of market position. The company's core competitiveness is built around "product" and "quality". The Company will introduce more technical experts and technical talents, invest more research and development funds, comprehensively sort out the four major categories of products as well as carry out project establishment, promotion, research and development, trial production and testing for each new generation of products. The Company will strengthen the technical development of key components, put more effort in the research and development

of the products, deepen the reform of internal quality functions, improve the management and control of the products quality of the suppliers as well as manage, control and upgrade the quality of various products comprehensively. While grasping the products and markets, the Company will continue to innovate the management system, establish the comprehensive management system, strengthen risk control and truly achieve the principle of “returning to reality and being free and easy”. The Company will do its utmost to create value for users, bring the best returns to shareholders and fully fulfill corporate social responsibility.

## **CORPORATE GOVERNANCE**

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

### **Code Provision A.1.8**

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

### **Code Provision A.6.7**

As stipulated in the Code provision A.6.7 of CG Code, independent non-executive directors and other non-executive directors shall attend general meetings. Three independent non-executive directors were unable to attend annual general meeting of the Company held on 28 May 2019 (the “2019 AGM”) due to other important engagement.

### **Code Provision A.4.3**

Mr. Qian Shi Zheng (“Mr. Qian”) has been appointed as an independent non-executive Director for more than nine years since February 2005. Pursuant to Code A.4.3 of the CG Code, (a) having served the Company for more than nine years could be relevant to the determination of an independent non-executive director’s independence and (b) if an independent non-executive director has served more than nine years, his further appointment should be subject to a separate resolution to be approved by shareholders. Mr. Qian has extensive experience in the finance and accounting fields. He provides a wide range of expertise and experience which can meet the requirement of Group’s business and his participant in the Board brings independent judgment on issues relating to the Group’s strategy, performance, conflicts of interest and management process to ensure that the interest of the shareholders have been duly considered. The Company

has received from Mr. Qian a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Mr. Qian has not engaged in any executive management of the Group. Taking into consideration of his independent scope of works in the past years, the Directors consider Mr. Qian to be independent under the Listing Rules despite the fact that he has served the Company for more than nine years. Accordingly, Mr. Qian shall be subject to retirement rotation and re-election by way of a separate resolution approved by the Shareholders at the annual general meeting. At the Annual General Meeting of the Company held on 28 May 2019, a separate resolution to re-elect Mr. Qian, a retiring Director, as an independent non-executive Director was passed by the Shareholders by way of poll.

### **Code Provision A.2.1**

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

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

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

## Improvements in Internal Control Systems

Additional measures and improvements for the internal control systems of the Company during the six months ended 30 June 2019.

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.

During the first half year of 2019, the Company maintained its good relationship with the international capital markets through the announcement of annual results, on-site and telephone meetings and group visits.

The Company received communications from a total of 86 domestic and overseas investors throughout the six-month period ended 2019, including over 13 on-site meetings and over 30 telephone meetings. During the first half year of 2019, the Company received group visits with 10 to 20 members for 4 times.

## 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. Yanzhen Wang**

Tel: 86-21-3760 2031

E-mail address: wz@lonking.cn

## DISCLOSURE OF INTERESTS

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

As at 30 June 2019, 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*

<b>Name of directors</b>	<b>Capacity</b>	<b>Number of shares held</b>	<b>Percentage of issued share capital as at 30 June 2019</b>
Li San Yim and Ngai Ngan Ying (Note 1 and 2)	beneficial owner	2,398,273,188	56.03%
Chen Chao	beneficial owner	1,596,000	0.04%
Luo Jianru	beneficial owner	2,302,000	0.05%
Zheng Ke Wen	beneficial owner	429,900	0.01%
		<b>2,402,601,088</b>	<b>56.13%</b>

Note 1: Mr. Li San Yim and Ms. Ngai Ngan Ying are husband and wife to each other and are deemed to be interested in each other's interest.

Note 2: These shares were held under the name of Ms. Ngai Ngan Ying, who is the spouse of Mr. Li San Yim and a nonexecutive director of the Company. Mr. Li San Yim and Ms. Ngai Ngan Ying are husband and wife and deemed to be interested in the same block of Shares.

**(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 2019</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 2019, 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 2019, 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 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 2019 (six months ended 30 June 2018: 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 2019, the Group employed approximately 6,472 employees.

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

During the period ended on 30 June 2019, 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 2019 have been reviewed by the audit committee of the Company.

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

Hong Kong, 27 September 2019

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive directors

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

Mr. Chen Chao

Mr. Luo Jianru

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. Chen Zhen

### AUDIT COMMITTEE

Dr. Qian Shizheng (*Chairman*)

Mr. Chen Zhen

Ms. Ngai Ngan Ying

### REMUNERATION COMMITTEE

Dr. Qian Shizheng (*Chairman*)

Ms. Ngai Ngan Ying

### NOMINATION COMMITTEE

Mr. Chen Zhen (*Chairman*)

Ms. Ngai Ngan Ying

### EXECUTIVE COMMITTEE

Mr. Li San Yim

(*Chairman and Chief Executive Officer*)

Mr. Chen Chao

Mr. Luo Jianru

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

Ms. Yanzhen Wang

wz@lonking.cn

Tel: 86-21-3760 2031

## **PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

Unit 1802, 18th Floor, West Tower  
Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

## **WEBSITE**

<http://www.lonking.cn>

## **STOCK CODE**

3339

## **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

SMP Partners (Cayman) Limited  
3rd Fl., Royal Bank House,  
24 Shedden Road,  
P O Box 1586,  
Grand Cayman, KY1-1110,  
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 P.O. Road  
Songjiang District  
Shanghai, PRC