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LONKING 龍工
LONKING HOLDINGS LIMITED
中國龍工控股有限公司*

(Incorporated in the Cayman Islands with Limited Liability)

(Stock code: 3339)

**RENEWAL OF
CONTINUING CONNECTED TRANSACTIONS
WITH HERKULES (SHANGHAI) AUTOMATION EQUIPMENT CO. LTD.**

Reference is made to the Announcement of the Company dated 19 January 2018.

In view of the expiration of the Expired Master Purchase Agreement, on 29 December 2020 (after trading hours), the Company and Herkules entered into the Renewed Master Purchase Agreement to renew the Expired Master Purchase Agreement for a term commenced from 1 January 2021 and ending on 31 December 2023.

As at the date of this announcement, Herkules is a company wholly owned by the son-in-law of Mr. Li San Yim, an executive Director, the chairman and the controlling shareholder of the Company, it is an associate of Mr. Li San Yim. Thus, Herkules is a connected person of the Company under the Listing Rules. Accordingly, the entering into of the Renewed Master Purchase Agreement by and between the Company and Herkules constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios (other than the profits ratio) in respect of the transactions contemplated under the Renewed Master Purchase Agreement is on an annual basis expected to be more than 0.1% but less than 5%, such transactions constitute continuing connected transactions under Rule 14A.76(2) of the Listing Rules and are thus subject to the reporting, annual review and announcement requirements, but are exempt from the circular and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Reference is made to the announcement of the Company dated 19 January 2018 (the “**Announcement**”) in relation to the entering into of the Expired Master Purchase Agreement, pursuant to which, the Group agreed to or would procure its subsidiaries to purchase the Automation

* *For identification purposes only*

Robot Products from Herkules from time to time during the period from 1 January 2018 to 31 December 2020. Capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement unless the context otherwise requires.

BACKGROUND

The Expired Master Purchase Agreement will be expired on 31 December 2020.

On 29 December 2020 (after trading hours), the Company and Herkules entered into the Renewed Master Purchase Agreement, pursuant to which the Company agreed to purchase or would procure its subsidiaries to purchase the Automation Robot Products from Herkules from time to time for a term commenced from 1 January 2021 and ending on 31 December 2023.

THE RENEWED MASTER PURCHASE AGREEMENT

The principal terms of the Renewed Master Purchase Agreement are set out below:

Date	29 December 2020
Parties	(1) the Company, as purchaser (2) Herkules, as supplier
Subject	Pursuant to the Renewed Master Purchase Agreement, the Company agreed to purchase or would procure its subsidiaries to purchase the Automation Robot Products from Herkules from time to time during the term of the Renewed Master Purchase Agreement.
Term	The Renewed Master Purchase Agreement takes effect from 1 January 2021 and will expire on 31 December 2023.

Pricing policies

For the period commenced from 1 January 2021 and ending on 31 December 2023, the Automation Robot Products are or will be sold to the Group by Herkules at a purchase price (the “**Purchase Price(s)**”) determined or to be determined based on the estimated costs incurred or to be incurred by Herkules in manufacturing the Automation Robot Products plus a profit which is agreed between Herkules and the relevant member of the Group as being no more than 20% of the actual cost incurred by Herkules. Such profit margin was determined after arm’s length negotiation between the Company and Herkules with reference to the average gross profit margin of the industrial robot industry as published in a research report namely "Research Report of Special Survey and Investment Direction on Chinese Robots Market 2017-2023" as published by Beijing Zhi Yan Consulting Company Limited (北京智研科信諮詢有限公司). The Purchase Price quoted for the Automation Robot Products shall be no less favorable than the price quotations obtained by the Group from independent third parties for similar products with comparable specifications.

Payment terms

The Purchase Price shall be settled in cash or bank acceptance bills, and payable by the Company in four instalments in the following manner:

- (i) 30% of the Purchase Price shall be paid within seven business days after signing the purchase contract;
- (ii) 30% of the Purchase Price shall be paid within seven business days after receiving a written notice of delivery from Herkules, which shall arrange for delivery of the Automation Robot Products on the seventh business day upon receipt of such amount;
- (iii) subject to (a) completion of installation and commissioning of the Automation Robot Products and; (b) acceptance and confirmation by each of the Company and Herkules, 35% of the Purchase Price shall be paid upon presentation of the 17% full VAT invoice to the Company; and
- (iv) the remaining 5% shall be paid within seven business days after the expiration of the one-year guarantee period of the Automation Robot Products.

Internal Control

In order to ensure that the Purchase Prices of the Automation Robot Products are fair and reasonable and on normal commercial terms, the procurement and supply department of the Company and its designated persons will obtain quotations from at least two independent third parties via emails, fax or phone to determine the prevailing price being charged by independent third parties under ordinary course of business for the sales of the same type of products in the PRC (the “**Market Price**”). The finance department of the Company will also monitor and conduct evaluation on the reasonableness and fairness of the transactions under the master purchase agreement. The internal audit department of the Company will review from time-to-time to ensure the pricing policy of the Company has been complied with. Having considered the aforementioned procedures, the Directors are satisfied that there are adequate internal control measures to ensure the Purchase Prices are fair and reasonable and on normal commercial terms.

Historical figures

For the two years ended on 31 December 2019 and the eleven months ended on 30 November 2020, the aggregate purchase amount (including value added tax) paid by the Group to Herkules for the purchase of the Parts amounted to approximately RMB74 million, RMB38 million and RMB40 million (equivalent to approximately HK\$88 million, HK\$45 million and HK\$47 million), respectively.

Proposed annual caps

The proposed annual caps in respect of the aggregate amounts (including value added tax) for purchases of the Automation Robot Products by the Group from Herkules pursuant to the Renewed Master Purchase Agreement for the three years ending 31 December 2023 are set out as follows:

Relevant period	Proposed annual caps
1 January 2021 to 31 December 2021	RMB60 million (equivalent to approximately HK\$71 million)
1 January 2022 to 31 December 2022	RMB60 million (equivalent to approximately HK\$71 million)
1 January 2023 to 31 December 2023	RMB60 million (equivalent to approximately HK\$71 million)

The proposed annual caps for the three years ending 31 December 2023 have been determined by the Company with reference to the following factors: (i) the historical aggregate amount paid by the Group to Herkules for purchases of the Automation Robot Products from Herkules during the two years ending 31 December 2019 and the eleven months ended on 30 November 2020; (ii) the Group is expected to purchase the Automation Robot Products from Herkules with an increase of 46% in the

annual trading amount over the basis of 2020. Such increase is mainly due to the recovery of the infrastructure machinery industry over the basis of 2020, thereby for the future three years the management of the Company expects that the diversification of actual demands for the Automation Robot Products will lead to an increased demand; and (iii) it is expected that the actual demands for the Automation Robot Products during the future three years will remain broadly stable on the basis of 2021.

Labor costs are the main component of product manufacturing costs in the Group. Against the background of increasing labor costs and continuous lack of labor force, the Company intends to purchase more Automation Robot Products to replace its part of high labor costs. In addition to reducing labor costs, the Automation Robot Products also boast advantages in assisting to guarantee the stability in quality of the Group's products as well as production safety.

In view of the above, the Directors (including the independent non-executive Directors) are of the view that the proposed annual caps of the transactions contemplated under the Renewed Master Purchase Agreement are fair and reasonable, and in the interests of the Company and its shareholders as a whole.

REASONS FOR AND BENEFITS OF ENTERING INTO THE RENEWED MASTER PURCHASE AGREEMENT

Since 1 January 2012, the Group has been sourcing various products from Herkules. Herkules could provide the Group with high-quality products which satisfy the requirements and standard of the Group, convenient after-sale services and relevant personnel training. In addition, the purchase price of the products is no less favorable than the price quotations obtained by the Group from independent third parties for similar products with comparable specifications. The Directors consider that the procurement of the Automation Robot Products from Herkules will improve and optimise the operational efficiency of our manufacturing process of the Group, and thereby enhancing the Group's competitive advantages within the industry.

The Directors (including the independent non-executive Directors) consider that the terms and the transactions contemplated under the Renewed Master Purchase Agreement are in the usual and ordinary course of business of the Group, on an arm's length and under normal commercial terms, to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, as Herkules is a company wholly owned by the son-in-law of Mr. Li San Yim, an executive Director, the chairman and the controlling shareholder of the Company, it is an associate of Mr. Li San Yim. Thus, Herkules is a connected person of the Company under the Listing Rules. Accordingly, the entering into of the Renewed Master Purchase Agreement by and between the Company and Herkules constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios (other than the profits ratio) in respect of the transactions contemplated under the Renewed Master Purchase Agreement is on an annual basis expected to be more than 0.1% but less than 5%, such transactions constitute continuing connected transactions under Rule 14A.76(2) of the Listing Rules and are thus subject to the reporting, annual review and announcement requirements, but are exempt from the circular and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Li San Yim and Ms. Ngai Ngan Ying, the spouse of Mr. Li San Yim, are considered to have a material interest in the transaction contemplated under the Renewed Master Purchase Agreement, and accordingly each of Mr. Li San Yim and Ms. Ngai Ngan Ying had abstained from voting on the resolutions of the Board approving the same.

GENERAL

The Company is principally engaged in the manufacture of wheel loaders and other infrastructure machinery in the PRC. It also manufactures axles and transmission, which are critical components for wheel loaders.

Herkules is principally engaged in the research, development, production, and processing in industrial automation equipment, industrial robot systems (including the Automation Robot Products), and components of the above products, and the sales of self-produced products.

DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

“associate”	has the meaning as given to it in the Listing Rules;
“Automation Robot Products”	non-standardise customarily-made industrial robot welding stations, together with its components, which are mainly used for the automated welding of the structural parts of the engineering machinery products;
“Board”	the board of Directors;
“Company”	Lonking Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange;
“connected person”	has the meaning as given to it under the Listing Rules;
“controlling shareholder”	has the meaning as given to it under the Listing Rules;

“Director(s)”	the director(s) of the Company;
“Expired Master Purchase Agreement”	the master purchase agreement dated 19 January 2018 entered into between the Company and Herkules in relation to the purchase of the Automation Robots Products by the Group from Herkules from time to time for a term from 1 January 2018 to 31 December 2020;
“Group”	the Company and its subsidiaries;
“Herkules”	海克力斯(上海)自動化設備有限公司 (Herkules (Shanghai) Automation Equipment Co. Ltd.*), a company established under the laws of the PRC with limited liability and wholly owned by Mr. Chen Jie, the son-in-law of Mr. Li San Yim, an executive Director, the chairman and the controlling shareholder of the Company as at the date of this announcement;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China, excluding, for the purposes of this announcement, Hong Kong, Taiwan and the Macau Special Administrative Region;
“Renewed Master Purchase Agreement”	the master purchase agreement dated 29 December 2020 entered into between the Company and Herkules in relation to the purchase of the Automation Robots Products by the Group from Herkules from time to time for a term commenced from 1 January 2021 and expire on 31 December 2023;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shareholder(s)”	shareholder(s) of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“%”	per cent.

This announcement contains translations between Renminbi and Hong Kong dollar amounts at RMB1.00 = HK\$1.187, being the exchange rate prevailing as at the date of this announcement. The translations should not be taken as a representation that the Renminbi could actually be converted into Hong Kong dollar at such rates or at all.

By order of the Board
Lonking Holdings Limited
CHEN CHAO
Executive Director

Hong Kong, 29 December 2020

As at the date of this announcement, Mr. Li San Yim, Mr. Chen Chao, Mr. Luo Jian Ru, Mr. Zheng Ke Wen and Mr. Yin Kun Lun are the executive Directors; Ms. Ngai Ngan Ying is the non-executive Director; and Dr. Qian Shi Zheng, Mr. Wu Jian Ming and Mr. Chen Zhen are the independent non-executive Directors.