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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)

**CONTINUING CONNECTED TRANSACTIONS
WITH LONYAN CITY JINLONG MACHINERY COMPANY LIMITED**

References is made to the announcements of the Company dated 30 June 2017 in relation to the continuing connected transactions.

In view of the expiration of the Master Purchase Agreement (the “**Expired Master Purchase Agreement**”), on 30 December 2019 (after trading hours), the Company and Jinlong entered into a Renewed Master Purchase Agreement for a term commenced from 1 January 2020 and ending on 31 December 2022.

As at the date of this announcement, Jinlong is owned as to 82.67% by Mr. Ngai. Mr. Ngai is the brother of Ms. Ngai Ngan Ying, the deputy chairman and a non-executive director of the Company, and thus is an associate of Ms. Ngai Ngan Ying. Accordingly, Jinlong is a connected person of the Company under 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.

References is made to the announcements of the Company dated 30 June 2017 (the “**Announcements**”) in relation to the continuing connected transactions contemplated under the Expired Master Purchase Agreement. Capitalized terms used in this announcement shall have the same meanings as those defined in the Announcements unless the context otherwise requires.

* For identification purposes only

BACKGROUND

On 30 June 2017, the Company and Jinlong entered into the Expired Master Purchase Agreement, pursuant to which the Company agreed to purchase the Parts from Jinlong from time to time during the term of the Expired Master Purchase Agreement. The Expired Master Purchase Agreement expired on 31 December 2019.

On 30 December 2019 (after trading hours), the Company and Jinlong entered into a Master Purchase Agreement, Pursuant to which the Company agreed to purchase or would procure its subsidiaries to purchase the Parts from Jinlong from time to time during the term of the Master Purchase Agreement.

RENEWED MASTER PURCHASE AGREEMENTS

The Renewed Master Purchase Agreement

Date	:	30 December 2019
Parties	:	(1) the Company, as purchaser (2) Jinlong, as the supplier
Subject	:	Pursuant to the Master Purchase Agreement, the Company agreed to purchase or would procure its subsidiaries to purchase the Parts from Jinlong from time to time during the term of the Master Purchase Agreement.
Term	:	The Master Purchase Agreement will take effect from 1 January 2020 and expire on 31 December 2022.

Pricing policies : The Parts will be sold to the Group by Jinlong at a purchase price to be determined based on the estimated cost incurred by Jinlong in providing the Parts plus a profit which is agreed between Jinlong and the Company as being no more than 20% of the actual cost incurred by Jinlong. Such profit margin was determined after arm's length negotiation between the Company and Jinlong with reference to the average of gross profit margins from at least three or more selected rims parts manufacturers listed on the Shanghai and Shenzhen stock exchanges market who are the independent third parties ("**Independent Manufacturers**") collected by procurement departments of members of the Group. The purchase price of the Parts to be sold to the Group by Jinlong is determined based on arm's length negotiation between the Group and Jinlong and compares favourably with (i) the terms offered by Jinlong to independent third-party customers, and (ii) the terms offered to the Company by independent third-party suppliers.

Internal Control

The Company adopts the following internal control procedures:

- 1) The finance department of the Company, will be responsible for computing the average of market average gross profit and listing the market reference purchase price based on the information collected by procurement departments of members of the Group, which shall be updated on a monthly basis;
- 2) 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.
- 3) 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 (including the independent non-executive Directors) are satisfied that there are adequate internal control measures to ensure the purchase price are fair and reasonable and on normal commercial terms.

Historical transaction records

For the three years ended on 31 December 2018 and the eleven months ended on 30 November 2019, the aggregate purchase amount (including value added tax) paid by the Group to Jinlong for the purchase of the Parts amounted to approximately RMB14 million, RMB29 million, RMB39 million and RMB43 million (equivalent to approximately HK\$16 million, HK\$32 million, HK\$43 million and HK\$48 million), respectively.

Proposed annual caps

The Directors estimate that the aggregate purchase amount of the Parts to be paid by the Group to Jinlong pursuant to the transactions under the Master Purchase Agreement for each of the three years ending 31 December 2020 will not exceed RMB60 million (including value added tax), RMB65 million (including value added tax) and RMB70 million (including value added tax) (equivalent to approximately HK\$67 million, HK\$72 million and HK\$78 million), respectively. The proposed annual caps were determined with reference to (i) the historical values of such transactions (ii) the purchase price shall remain roughly unchanged (iii) and the estimated increase in the growth of the Group's business and thus the Group's demand for the Parts.

The consideration under the Master Purchase Agreement will be satisfied by internal funds of the Company. The Company will pay the relevant purchase amounts of the Parts to Jinlong in full by way of remittance or bank's acceptance bill within 60 days of the day when the Company recognises the purchase from Jinlong in its financial accounts, which shall be the 15th and 25th day of each month immediately after the Company receives the value-added tax invoices issued by Jinlong.

The Directors (including the independent non-executive Directors) are of the view that the proposed annual caps of the transactions contemplated under the 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

The Group has been sourcing the Parts from Jinlong since November 2004. Given that both Longgong Fujian (being a member of the Group) and Jinlong are located in Longyan City in the Fujian Province and are located in close proximity to each other, the transactions contemplated under the Renewed Master Purchase Agreement will allow speedy transportation of the Parts from Jinlong to the Group. Besides, the price of the Parts offered by Jinlong to the Group is determined based on the cost of production plus an agreed range of margin based on arm's length negotiation between Jinlong and the Group. In view of the foregoing, the Directors therefore are of the view that the entering into of the Renewed Master Purchase Agreement will benefit the Company and its shareholders as a whole and allow the Group to enhance its operational efficiency.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Jinlong is owned as to 82.67% by Mr. Ngai. Mr. Ngai is the brother of Ms. Ngai Ngan Ying, the deputy chairman and a non-executive director of the Company, and thus is an associate of Ms. Ngai Ngan Ying. Accordingly, Jinlong is a connected person of the Company under the Listing Rules.

As each of the applicable percentage ratios (other than the profits ratio) in respect of the continuing connected transactions contemplated under the 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.

The Directors (including the independent non-executive Directors) consider that the transactions under the Renewed Master Purchase Agreement are entered into in the usual and ordinary course of business of the Group and the terms of the transactions have been negotiated and will be conducted on an arm's length basis and on normal commercial terms between the Company and Jinlong. The Directors (including the independent non-executive Directors) are of the view that as far as the Company and the Shareholders are concerned, the transactions under the Renewed Master Purchase Agreement and the terms thereof are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Save for Ms. Ngai Ngan Ying, who is the sister of Mr. Ngai, and Mr. Li San Yim, who is the brother-in-law of Mr. Ngai, are considered to have a material interest in the transactions contemplated under the Renewed Master Purchase Agreement and have abstained from voting on the relevant board resolutions approving the same, the other Directors do not have any material interest in the transactions contemplated under the Renewed Master Purchase Agreement.

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. Jinlong is currently engaged in the business of manufacture and sale of the Parts.

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
“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 30 June 2017 entered into between the Company and Jinlong, pursuant to which the Group agreed to purchase the Parts from Jinlong from time to time for a period from 1 January 2017 to 31 December 2019
“Group”	the Company and its subsidiaries
“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
“Independent Manufacturers”	person(s) who or company(ies) together with its/their ultimate beneficial owner(s) which, has/have the capacity to manufacture the Parts, and to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, is/are third party(ies) independent of the Company and its connected person(s)
“Jinlong”	龍岩市金隆機械有限公司 (Lonyan City Jinlong Machinery Company Limited), a company established in the PRC with limited liability and owned as to approximately 82.67% by Mr. Ngai as at the date of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Renewed Master Purchase Agreement”	the master purchase agreement dated 30 December 2019 entered into between the Company and Jinlong, pursuant to which the Group agreed to purchase the Parts from Jinlong from time to time for a term commencing from 1 January 2020 and ending 31 December 2022
“Mr. Ngai”	Mr. Ngai Ngan Gin, is the brother of Ms. Ngai Ngan Ying, the deputy chairman and a non-executive director of the Company, and thus an associate of Ms. Ngai Ngan Ying
“Parts”	rims, which are familiarly called steel rims, and are equipped with tyres and bridges to form a part of a powertrain
“PRC”	the People’s Republic of China, excluding, for the purposes of this announcement, Hong Kong, Taiwan and the Macau Special Administrative Region
“RMB”	Renminbi, the lawful currency of the PRC

“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

This announcement contains translations between Renminbi and Hong Kong dollars amounts at RMB1.00=HK\$1.11, being the exchange rate prevailing as at the date of this announcement. These translations shall 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, 30 December 2019

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