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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

The board of directors (the “Board”) of Lonking Holdings Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2022 (the “Period”) together with the comparative figures for the corresponding period in 2021. The Group’s interim results for the Period is unaudited, but have been reviewed by the Company’s auditor, Ernst & Young Certified Public Accountant (“Ernst & Young”) and approved by the audit committee of the Company.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022

| | Notes | For the six months ended 30 June | |
|--|-------|---|--------------------|
| | | 2022 | 2021 |
| | | Unaudited | Unaudited |
| | | RMB’000 | RMB’000 |
| REVENUE | 4 | 6,007,274 | 8,191,260 |
| Cost of sales | | <u>(5,124,483)</u> | <u>(6,660,466)</u> |
| Gross profit | | 882,791 | 1,530,794 |
| Other income | 5 | 26,680 | 38,692 |
| Other gains and losses | 5 | (162,049) | 324,108 |
| Selling and distribution expenses | | (298,918) | (407,340) |
| Administrative expenses | | (112,699) | (136,764) |
| Impairment losses on financial assets, net | | 768 | (1,400) |
| Research and development costs | | (228,592) | (319,415) |
| Other expenses | | (51) | (28) |
| Finance income | | 63,452 | 89,186 |
| Finance costs | | <u>(7,895)</u> | <u>(15,879)</u> |

* For identification purpose only

| | | For the six months ended 30 June | |
|--|--------------|---|------------------|
| | <i>Notes</i> | 2022 | 2021 |
| | | Unaudited | Unaudited |
| | | RMB'000 | RMB'000 |
| PROFIT BEFORE TAX | 6 | 163,487 | 1,101,954 |
| Income tax expense | 7 | <u>(15,648)</u> | <u>(157,367)</u> |
| PROFIT FOR THE PERIOD | | <u>147,839</u> | <u>944,587</u> |
| Attributable to: | | | |
| Owners of the parent | | 147,937 | 944,563 |
| Non-controlling interests | | <u>(98)</u> | <u>24</u> |
| | | <u>147,839</u> | <u>944,587</u> |
| | | | |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| Basic and diluted: | | | |
| – For profit for the period (RMB) | | <u>0.03</u> | <u>0.22</u> |

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

For the six months ended 30 June

| | 2022 | 2021 |
|--|------------------------|-----------------------|
| | Unaudited | Unaudited |
| | RMB'000 | RMB'000 |
| PROFIT FOR THE PERIOD | <u>147,839</u> | <u>944,587</u> |
| OTHER COMPREHENSIVE (LOSS)/INCOME | | |
| Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods: | | |
| Financial assets at fair value through other comprehensive income: | | |
| Changes in fair value | – | (2,955) |
| Income tax effect | <u>–</u> | <u>446</u> |
| | – | (2,509) |
| Exchange differences: | | |
| Exchange differences on translation of foreign operations | <u>(62,757)</u> | <u>15,170</u> |
| Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods | <u>(62,757)</u> | <u>12,661</u> |
| OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX | <u>(62,757)</u> | <u>12,661</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | <u>85,082</u> | <u>957,248</u> |
| Attributable to: | | |
| Owners of the parent | 85,180 | 957,224 |
| Non-controlling interests | <u>(98)</u> | <u>24</u> |
| | <u>85,082</u> | <u>957,248</u> |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

| | <i>Notes</i> | 30 June 2022 Unaudited RMB'000 | 31 December 2021 Audited RMB'000 |
|---|--------------|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 9 | 2,080,129 | 2,063,046 |
| Right-of-use assets | | 132,681 | 135,142 |
| Finance lease receivables | | – | 40 |
| Prepayments for property, plant and equipment | | 71,071 | 45,552 |
| Long-term receivables | 11 | 316,314 | 478,057 |
| Equity investments at fair value through other comprehensive income | | 1,000 | 1,450 |
| Financial assets at fair value through profit or loss | | 608,579 | 640,370 |
| Deferred tax assets | | 394,988 | 414,433 |
| Pledged deposits | 13 | 356,212 | 356,212 |
| Total non-current assets | | 3,960,974 | 4,134,302 |
| CURRENT ASSETS | | | |
| Inventories | 10 | 3,180,597 | 4,061,078 |
| Finance lease receivables | | 154 | 726 |
| Trade receivables | 11 | 3,122,985 | 3,255,311 |
| Due from related parties | | 11,375 | 6,040 |
| Prepayments, deposits and other receivables | 12 | 510,647 | 643,965 |
| Financial assets at fair value through other comprehensive income | | 479,003 | 201,951 |
| Financial assets at fair value through profit or loss | | 1,679,351 | 1,845,817 |
| Derivative financial instruments | | 15,471 | – |
| Pledged deposits | 13 | 332,124 | 428,022 |
| Cash and cash equivalents | 13 | 2,527,699 | 2,025,005 |
| Total current assets | | 11,859,406 | 12,467,915 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 14 | 3,500,397 | 4,301,695 |
| Other payables and accruals | 15 | 1,005,367 | 1,060,381 |
| Due to related parties | | 20,331 | 16,727 |
| Provisions | | 136,285 | 151,195 |
| Deferred income | | 3,634 | 2,859 |
| Tax payable | | 88,260 | 126,321 |
| Dividends due to shareholders | 8 | 805,266 | – |
| Total current liabilities | | 5,559,540 | 5,659,178 |
| NET CURRENT ASSETS | | 6,299,866 | 6,808,737 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 10,260,840 | 10,943,039 |

| | <i>Notes</i> | 30 June 2022 Unaudited RMB'000 | 31 December 2021 Audited RMB'000 |
|--|--------------|---|---|
| NON-CURRENT LIABILITIES | | | |
| Deposits for finance leases | | 37 | 37 |
| Interest-bearing bank borrowings | 16 | 682,415 | 648,281 |
| Deferred tax liabilities | | 21,402 | 63,577 |
| Provisions | | 11,514 | 11,075 |
| Deferred income | | 21,036 | 15,280 |
| | | <hr/> | <hr/> |
| Total non-current liabilities | | 736,404 | 738,250 |
| | | <hr/> | <hr/> |
| Net assets | | 9,524,436 | 10,204,789 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Issued capital | | 444,116 | 444,116 |
| Share premium and reserves | | 9,077,894 | 9,758,149 |
| | | <hr/> | <hr/> |
| | | 9,522,010 | 10,202,265 |
| Non-controlling interests | | 2,426 | 2,524 |
| | | <hr/> | <hr/> |
| Total equity | | 9,524,436 | 10,204,789 |
| | | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2022

1. CORPORATE INFORMATION

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2022 was authorised for issue in accordance with a resolution of the directors on 26 August 2022.

Lonking Holdings Limited (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2000 Revision) Chapter 22 of the Cayman Islands on 11 May 2004 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Ms. Ngai Ngan Ying, a non-executive director of the Company, is the ultimate controller of the Company.

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

2. BASIS OF PREPARATION AND CHANGES IN THE GROUP’S ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial information, which comprises the interim condensed consolidated statement of financial position of the Group as at 30 June 2022 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, has been prepared in accordance with HKAS 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2021.

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 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

| | |
|---|---|
| Amendments to HKFRS 3 | <i>Reference to the Conceptual Framework</i> |
| Amendment to HKFRS 16 | <i>Covid-19-Related Rent Concessions beyond 30 June 2021</i> |
| Amendments to HKAS 16 | <i>Property, Plant and Equipment: Proceeds before Intended Use</i> |
| Amendments to HKAS 37 | <i>Onerous Contracts – Cost of Fulfilling a Contract</i> |
| Annual Improvements to HKFRSs 2018-2020 | <i>Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41</i> |

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

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group's revenue from contracts with customers is the sales income of wheel loaders, forklifts, excavators, road rollers and other construction machinery. Refer to Note 4 for the disclosure on disaggregated revenue.

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

Approximately 17% (2021: 9%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, with 100% (2021: 100%) of the costs denominated in the units' functional currencies.

4. OPERATING SEGMENT INFORMATION

The following tables present revenue and profit information for the Group's operating segments for the six months ended 30 June 2022 and 2021:

| Six months ended 30 June 2022 | Sale of construction machinery RMB'000 | Finance leases of construction machinery RMB'000 | Financial investments RMB'000 | Total RMB'000 |
|---|---|---|----------------------------------|------------------|
| Segment revenue | 6,007,203 | 71 | – | 6,007,274 |
| Segment results | 275,619 | 21 | (165,796) | 109,844 |
| <i>Reconciliation:</i> | | | | |
| Finance income | | | | 63,452 |
| Unallocated other income and gains and losses | | | | 3,726 |
| Corporate and other unallocated expenses | | | | (5,640) |
| Finance costs | | | | (7,895) |
| Profit before tax | | | | <u>163,487</u> |
| Six months ended 30 June 2021 | Sale of construction machinery RMB'000 | Finance leases of construction machinery RMB'000 | Financial investments RMB'000 | Total RMB'000 |
| Segment revenue | 8,191,112 | 148 | – | 8,191,260 |
| Segment results | 938,540 | 106 | 101,178 | 1,039,824 |
| <i>Reconciliation:</i> | | | | |
| Finance income | | | | 89,186 |
| Unallocated other income and gains and losses | | | | (5,515) |
| Corporate and other unallocated expenses | | | | (5,662) |
| Finance costs | | | | (15,879) |
| Profit before tax | | | | <u>1,101,954</u> |

Segment results represent the profit or loss earned or incurred by each segment without allocation of interest income, unallocated other income and gains and losses, central administration cost, and finance costs. This is the measure reported to the chief executive officer for the purpose of resource allocation and performance assessment.

Inter-segment revenues are eliminated on consolidation.

The following table presents segment assets and liabilities of the Group's operating segments as at 30 June 2022 and 31 December 2021:

| | 30 June 2022 RMB'000 | 31 December 2021 RMB'000 |
|---|-------------------------------------|--------------------------------|
| Segment assets: | 14,905,385 | 16,462,728 |
| Sale of construction machinery | 12,600,226 | 13,889,076 |
| Finance leases of construction machinery | 1,758 | 87,465 |
| Financial investments | 2,303,401 | 2,486,187 |
| Corporate and other unallocated assets | 914,995 | 139,489 |
| | <u>15,820,380</u> | <u>16,602,217</u> |
| Consolidated assets | | |
| | 30 June 2022 RMB'000 | 31 December 2021 RMB'000 |
| Segment liabilities: | 4,800,555 | 5,711,035 |
| Sale of construction machinery | 4,744,593 | 5,622,826 |
| Finance leases of construction machinery | 11,013 | 11,619 |
| Financial investments | 44,949 | 76,590 |
| Corporate and other unallocated liabilities | 1,495,389 | 686,393 |
| | <u>6,295,944</u> | <u>6,397,428</u> |
| Consolidated liabilities | | |

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

| | For the six months ended 30 June | | | |
|----------------------------------|---|--------------|------------------|--------------|
| | 2022 | | 2021 | |
| | <i>RMB'000</i> | <i>%</i> | <i>RMB'000</i> | <i>%</i> |
| Sales of construction machinery: | | | | |
| Wheel loaders | 2,847,877 | 47.4 | 3,897,669 | 47.6 |
| Forklifts | 1,947,952 | 32.4 | 2,087,748 | 25.5 |
| Components | 626,114 | 10.4 | 888,015 | 10.8 |
| Excavators | 550,056 | 9.2 | 1,264,224 | 15.4 |
| Road rollers | 35,204 | 0.6 | 53,456 | 0.7 |
| Subtotal | 6,007,203 | 100.0 | 8,191,112 | 100.0 |
| Finance lease interest income | 71 | - | 148 | - |
| Total | <u>6,007,274</u> | <u>100.0</u> | <u>8,191,260</u> | <u>100.0</u> |

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 | |
|-------------------|---|----------------|
| | 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Government grants | 22,257 | 35,807 |
| Penalty income | 249 | 17 |
| Others | 4,174 | 2,868 |
| | <u>26,680</u> | <u>38,692</u> |

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

| | For the six months ended 30 June | |
|---|---|----------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Loss on disposal of items of property, plant and equipment | (112) | (749) |
| Reversal of write-down of inventories to net realisable value | 133 | 10,358 |
| Fair value gains, net: | | |
| Financial assets at fair value through profit or loss | | |
| – held for trading | (192,801) | 96,461 |
| Derivative instruments | | |
| – transactions not qualifying as hedges | 15,471 | – |
| Gains from derivative instruments | 4,437 | 4,717 |
| Dividend income from financial assets at fair value | | |
| through profit or loss | 6,817 | – |
| Gains from notes receivable | – | 5,306 |
| Gain on disposal of a subsidiary | – | 213,530 |
| Foreign exchange gain/(loss) | 4,006 | (5,515) |
| | <u>(162,049)</u> | <u>324,108</u> |

6. PROFIT BEFORE TAX

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

| | For the six months ended 30 June | |
|---|---|-----------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Cost of inventories recognised as expenses | 5,044,160 | 6,180,471 |
| Depreciation of property, plant and equipment | 134,798 | 164,078 |
| Depreciation of right-of-use assets | 2,463 | 2,463 |
| Staff costs, including directors' remuneration | 324,793 | 389,691 |
| Contribution to a retirement benefit scheme | 30,488 | 26,801 |
| Foreign exchange differences, net | (4,006) | 5,515 |
| Impairment losses on financial assets, net | (768) | 1,400 |
| Product warranty provision | 74,854 | 143,985 |
| Gain on disposal of a subsidiary | – | (213,530) |
| Fair value gains, net: | | |
| Financial assets at fair value through profit or loss | | |
| – held for trading | 192,801 | (96,461) |
| Derivative instruments | | |
| – transactions not qualifying as hedges | (15,471) | – |
| Reversal of write-down of inventories to net realisable value | (133) | (10,358) |
| Interest income | (63,452) | (89,186) |
| Income-related government grants | (22,257) | (35,807) |
| | <u>(22,257)</u> | <u>(35,807)</u> |

7. INCOME TAX EXPENSE

The Group calculates the income tax expense for the current period using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the interim condensed consolidated statement of profit or loss are:

| | For the six months ended 30 June | |
|---|----------------------------------|-----------------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Current income tax expense | 38,378 | 149,670 |
| Deferred income tax expense relating to origination and reversal of temporary differences | <u>(22,730)</u> | <u>7,697</u> |
| Income tax expense recognised in the consolidated statement of profit or loss | <u><u>15,648</u></u> | <u><u>157,367</u></u> |

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 2022 (six months ended 30 June 2021: Nil).

The proposed final dividend of HK\$0.22 per ordinary share for the year ended 31 December 2021 was declared payable and approved by the shareholders in the annual general meeting of the Company on 26 May 2022 and was paid on 4 July 2022.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2022, the Group acquired assets at a cost of RMB156,324,000 (six months ended 30 June 2021: RMB148,415,000), including property, plant and machinery in the People's Republic of China (the "PRC").

Assets with a net book value of RMB4,443,000 were disposed of by the Group during the six months ended 30 June 2022 (six months ended 30 June 2021: RMB760,000), resulting in a net loss on disposal of RMB112,000 (net loss in the six months ended 30 June 2021: RMB749,000).

10. INVENTORIES

| | 30 June | 31 December |
|------------------|-------------------------|-------------------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Raw materials | 1,105,737 | 1,233,721 |
| Work in progress | 141,154 | 141,132 |
| Finished goods | <u>1,933,706</u> | <u>2,686,225</u> |
| | <u><u>3,180,597</u></u> | <u><u>4,061,078</u></u> |

11. TRADE RECEIVABLES

The Group allows credit periods from 6 months up to 36 months to its trade customers. Longer credit terms may be offered to some customers with good credit history and relationships.

| | 30 June 2022 | 31 December 2021 |
|---------------------------|-------------------------|---------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade receivables | 3,833,096 | 4,128,161 |
| Impairment | (393,797) | (394,793) |
| | <u>3,439,299</u> | <u>3,733,368</u> |
| Less: Non-current portion | (316,314) | (478,057) |
| | <u>3,122,985</u> | <u>3,255,311</u> |

The non-current portion of trade receivables is the receivables with maturity within 3 years but greater than 12 months according to the credit terms.

The ageing analysis of trade receivables is as follows:

| | 30 June 2022 | 31 December 2021 |
|-----------------|-------------------------|---------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| 0 to 90 days | 1,507,638 | 1,450,788 |
| 91 to 180 days | 567,395 | 600,122 |
| 181 to 360 days | 551,728 | 1,049,972 |
| Over 1 year | 812,538 | 632,486 |
| | <u>3,439,299</u> | <u>3,733,368</u> |

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 30 June 2022 RMB'000 | 31 December 2021 RMB'000 |
|-------------------------------------|-------------------------------------|--------------------------------|
| Prepayments | 362,092 | 508,851 |
| Deductible value-added tax | – | 31,777 |
| Deposits | 3,895 | 2,313 |
| | <hr/> | <hr/> |
| Total | 365,987 | 542,941 |
| Other receivables: | | |
| Loan receivables | 445,121 | 449,835 |
| Less: Impairment | (414,131) | (414,314) |
| | <hr/> | <hr/> |
| Net loan receivables | 30,990 | 35,521 |
| Other miscellaneous receivables | 114,368 | 66,201 |
| Less: Impairment | (698) | (698) |
| | <hr/> | <hr/> |
| Net other miscellaneous receivables | 113,670 | 65,503 |
| | <hr/> | <hr/> |
| Total other receivables | 144,660 | 101,024 |
| | <hr/> | <hr/> |
| Grand total | 510,647 | 643,965 |
| | <hr/> <hr/> | <hr/> <hr/> |

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

A large portion of other receivables is comprised of the loan receivables from sales agencies for their repurchase of machines. The collection of receivables of sales financed by leasing was not favourable due to the deterioration of external operating environment in the past few years. According to the finance lease agreements, the sales agencies were required to fulfil the obligation by repurchasing the machines and repaying the outstanding lease amount to the leasing companies once the account is overdue for more than three months. Accordingly, the Group would extend loans to the sales agencies to help them with the settlement of repurchase. The sales agencies were required to repay within three months as it would normally take three months for the resale of the machines. The Group would enter into instalment agreements with sales agencies if the repurchased machines had been resold. The instalments would be paid with interest at interest rates ranging from 3% to 8% per annum and would mainly be repaid within 18 to 24 months.

13. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

| | 30 June 2022 RMB'000 | 31 December 2021 RMB'000 |
|---|-------------------------------------|--------------------------------|
| Cash and bank balances | 2,527,699 | 2,020,005 |
| Time deposits | 688,336 | 789,234 |
| | <u>3,216,035</u> | <u>2,809,239</u> |
| Less: Pledged cash and bank balances and time deposits: | | |
| Pledged for bank loans | (356,000) | (356,000) |
| Pledged for bank acceptance bills | (317,967) | (417,952) |
| Pledged for others | (14,369) | (10,282) |
| Cash and cash equivalents | <u>2,527,699</u> | <u>2,025,005</u> |

Pledged bank deposits represent deposits pledged to banks to secure bank borrowings or facilities, and are therefore classified as current or non-current assets accordingly.

14. TRADE AND BILLS PAYABLES

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

| | 30 June 2022 RMB'000 | 31 December 2021 RMB'000 |
|--------------------|-------------------------------------|--------------------------------|
| 0 to 180 days | 3,404,114 | 4,201,132 |
| 181 days to 1 year | 43,240 | 45,450 |
| 1 to 2 years | 16,912 | 19,707 |
| 2 to 3 years | 9,908 | 10,183 |
| Over 3 years | 26,223 | 25,223 |
| | <u>3,500,397</u> | <u>4,301,695</u> |

The bills payables are aged within six months at the end of each reporting period and secured by pledged bank deposits amounting to RMB317,967,000 (31 December 2021: RMB417,952,000) (note 13).

15. OTHER PAYABLES AND ACCRUALS

| | 30 June 2022 | 31 December 2021 |
|--|-------------------------|---------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Accrued sales rebate | 522,245 | 609,493 |
| Other payables | 95,255 | 90,079 |
| Salary and wages payable | 85,451 | 133,439 |
| Contract liabilities | 79,698 | 92,792 |
| Payable for acquisition of property, plant and equipment | 34,799 | 30,697 |
| VAT and other taxes payable | 65,852 | 14,045 |
| Deposit for finance leases | 7,159 | 7,659 |
| Investment management fee | 28,662 | 33,662 |
| Other accrued expenses | 86,246 | 48,515 |
| | <u>1,005,367</u> | <u>1,060,381</u> |

16. INTEREST-BEARING BANK BORROWINGS

| | 30 June 2022 | | | 31 December 2021 | | |
|----------------------|---|----------|----------------|---|----------|----------------|
| | Effective annual interest rate (%) | Maturity | <i>RMB'000</i> | Effective annual interest rate (%) | Maturity | <i>RMB'000</i> |
| Non-current | | | | | | |
| Bank loans – secured | 1.05-2.15 | 2024 | <u>682,415</u> | 1.03-1.35 | 2024 | <u>648,281</u> |
| | | | <u>682,415</u> | | | <u>648,281</u> |

Certain of the Group's bank loans are secured by the pledge of certain of the Group's time deposits amounting to RMB356,000,000 (31 December 2021: RMB356,000,000) (note 13).

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT AND BUSINESS REVIEW

In the first half of 2022, with extremely unusual economic development amidst the intricate and grave international environment and the frequent and sporadic outbreaks of domestic pandemic, the construction machinery industry in which the Group engages saw a cyclical downturn with a year-on-year decline in the total sales volume of construction machinery products in China. In the face of the complicated and volatile business environment, all staff of the Group earnestly implemented the new development concept, studied the market trend, adjusted market expectations, took the initiative to cope with unfavorable external factors, overcame difficulties, dared to take responsibility, and strived for the best. The Group continued its devotion to the construction machinery industry by intensive engagement in an effort to broaden its cooperation channels and refine and strengthen its product series. The Group accelerated the pace of innovation-driven development, managed “two markets” (domestic and international markets) and “two kinds of resources” in the “Domestic Economic Circulation” and “International Economic Circulation”, constantly improved and enhanced the management work, captured market shares in due course by taking advantage of various marketing models, launching new products and increasing marketing policies, and continued its efforts in complete built-up units, spare parts and other markets. Through these efforts, our international trade sustained a rapid growth. During the reporting period, the Group realized a total operating revenue of RMB6,007 million, which decreased by RMB2,184 million or 26.66% year on year from RMB8,191 million in the same period of 2021. In the first half of 2022, the Group’s product mix is dominated by wheel loader and forklift. Among them, wheel loader is still the Group’s most competitive products and the main source of profit and maintains the leading position in the industry in terms of market share. The proportion of the sales of wheel loader to total sales of the Group was flat with that in the same period of 2021, remaining approximately 47.4%. The forklift products were widely used. With the rising demand in the industry, the Group has been gradually increasing its investment in forklift. The proportion of the sales of forklift accounted for 32.43% in the current period, with an increase of 6.94% as compared with that in the same period of 2021. The proportion of the sales of excavator dropped by 6.27% as compared with that in the same period of 2021 to 9.16%, which was due to the decline in the growth rate of investment spending in the downstream real estate sector and the intensified competition from the top industry players. During the reporting period, the Group’s consolidated gross profit margin was 14.70%, a decrease of 3.99 percentage points from 18.69% in the same period of 2021. Net profit for the reporting period was approximately RMB148 million, down by RMB797 million or 84.35% year on year from RMB945 million in the same period last year. The decrease in net profit was mainly due to the downward adjustment period of the domestic construction machinery industry, the negative impact of the COVID-19 on the production and operations of the Group’s Shanghai base, and the year-on-year decrease in net gains generated from financial assets during the reporting period.

While deeply exploiting the domestic market, the Group actively explored the international market. During the period, the proportion of export sales increased significantly to 16.65% from 8.76% in the same period last year, and the overseas sales revenue increased by 39.40% year on year.

GEOGRAPHICAL RESULTS

In the first half of this year, due to the impact of China's COVID-19 epidemic and the economic downturn, the overall sales of the infrastructure machinery industry declined significantly. Compared with the same period last year, sales across the country fell sharply. Among them, sales from the eastern, southwestern and southern regions decreased by approximately 43.1%, 40.3% and 39% to approximately RMB918 million, 419 million and 569 million, respectively. Sales from the northern, northeastern and central regions decreased by approximately 25.2%, 26.8% and 35.7% to approximately RMB1,521 million, 229 million and 673 million, respectively. Sales in the northwest region decreased by 18.4% to approximately RMB679 million.

In contrast to sales in mainland China, sales from overseas regions increased significantly. In the first half of the year, the sales of the Group's export business increased by 39.4% to approximately RMB1,000 million. The sales growth of export business mainly benefited from the following factors: 1) Due to the impact of the COVID-19 epidemic, the production capacity and supply chain of suppliers in overseas regions were unstable; 2) At the same time, factors such as the epidemic caused serious inflation in foreign countries, and the cost of manufacturing products increased significantly. The relative cost advantage of the our Group's product is obvious.

PRODUCTS ANALYSIS

Wheel loader

The sales revenue of wheel loaders reached RMB2,848 million, a decrease of 26.9% over the same period last year (The first half of 2021: approximately RMB3,898 million). Among them, the sales revenue of ZL50, ZL40 and ZL30 loaders series significantly decreased by 31.1%, 38.0% and 10.1% to RMB2,151 million, RMB8 million and RMB340 million, respectively. The sales revenue of ZL60 loaders and mini loaders decreased by 4.8% and 18.1% to RMB240 million and RMB109 million, respectively. As the Group's main product series, the sales revenue of wheel loaders accounted for 47.4% of the Group's total revenue in the first half of this year.

Forklifts and Road Rollers

Sales revenue of forklift products slightly decreased by 6.7% to RMB1,948 million compared to the same period last year (For the six months ended 30 June 2021: RMB2,088 million).

Sales of forklift products accounted for 32.4% of the Group's total revenue in the first half of the year.

The sales revenue of road roller accounted for only 0.6% of the Group's total revenue, representing a 34.1% decrease to RMB35 million compared with the same period of last year (For the six months ended 30 June 2021: RMB53 million).

Excavator

Affected by the sluggish economic environment, the demand for excavators dropped significantly, and the sales revenue from excavators in the first half year decreased by 56.5% to approximately RMB550 million (For the six months ended 30 June 2021: RMB1,264 million).

Sales of excavator products accounted for 9.2% of the Group's total revenue in the first half of the year. The proportion of sales revenue from excavators to the Group's total revenue has dropped significantly from 15.4% in the same period last year, but excavators are still the third largest finished product line of the Group.

Components

Sales revenue from components decreased by 29.5% to approximately RMB626 million in the first half of this year (For the six months ended 30 June 2021: RMB888 million).

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 2022, the Group had bank balances and cash of approximately RMB2,528 million (31 December 2021: approximately RMB2,025 million) and pledged bank deposit of approximately RMB688 million (31 December 2021: approximately RMB784 million). Compared with last year, the cash and bank balance increased about RMB503 million, which was as a result of net cash inflow of RMB572 million from operating activities, net cash outflow of RMB161 million from investing activities and net cash inflow of RMB90 million from financing activities and effect of foreign exchange rate change at RMB2 million.

The pledged deposit balance at 30 June 2022 decreased approximately RMB96 million. Details of pledged bank deposit for the period ended 30 June 2022 are set out in Note 13 to the interim results.

Liquidity and Financial Resources

The Group are committed to build a sound finance position. Total shareholders fund as at 30 June 2022 was approximately RMB9,524 million, a 6.7% decrease from approximately RMB10,205 million as at 31 December 2021.

The current ratio of the Group at 30 June 2022 was 2.13 (31 December 2021: 2.20). 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 2022, 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 2022, the gross gearing ratio (defined as total liabilities divided by total assets) was approximately 39.80% (as at 31 December 2021: 38.53%).

Capital Expenditure

During the period, the Group acquired property, plant and equipment of approximately RMB156 million (for the six months ended 30 June 2021: approximately RMB148 million) in line with a series of strategic transformation and product transformation of the Group.

PROSPECT

The strong resilience, great potential and sound long-term development fundamentals of Chinese economy remain unchanged. Under the general keynote of pursuing progress while maintaining stability, the national economy has stabilized and rebounded, as the high-quality development trend continues, the overall social situation remains stable, and the economic operation is kept within a reasonable range. Looking forward to the second half of the year, favorable factors for the operation and development of the machinery industry will be released one after another, and relevant policies and measures to help enterprises to stabilize growth and promote development will be further revealed. In order to implement the State Council's package of policies to stabilize the economy, various regions and departments have introduced a number of measures to stabilize economic operation, expand domestic demand, promote consumption, and appropriately advance infrastructure investment. In the meantime, significant strategies, major projects and key constructions clearly defined in the 14th Five-Year Plan have been commenced, providing strong macro and market support for the steady growth of the construction machinery industry. With improving confidence and expectations, the Group will inspire fighting spirit, turn crises into opportunities, meet challenges, focus on the present, be farsighted and pragmatic, and build up strength. The Group will wholeheartedly develop four engine products (including loaders, excavators, forklifts and road machinery) and core components for the product manufacturing chain of extended products sustainably and with high quality. The Group will continue to innovate and optimize its marketing model. It will sustain and consolidate its three strengths of "quality, service and cost effectiveness" established since its inception. Adhering to the marketing principle of agency system, the Group will give full play to the regional and geographical advantages of the agents to achieve resource complementarity and mutual promotion with agents, so as to achieve win-win or multi-win. The Group will carry out in-depth research to understand the market, refine the market demand, optimize product structure, vitalize the market and prevent marketing risks. The Group will strive to explore and develop the market demand under the premise of ensuring that the risks are controllable, create a series of regionally marketable products, and adopt the flexible marketing strategy of "customizing different policies for different regions". And with precise strategies, the Group will increase its efforts in production capacity matching, resource grafting, processing support and after-market marketing strategies to seize the market share of complete built-up units and spare parts. The

Group will continue to innovate its management system, optimize and rebuild the business process and management process, with a view to enhancing and improving its management system. At the same time, the Group will increase R&D investment and strengthen the establishment of technical team, and practice the “dual-carbon” strategy by increasing the application and mass production of new energy technologies in construction machinery products. With a focus on the construction and application of informatization, digitization and intelligent platforms, the Group will comprehensively improve the coverage level of its product serialization and the individual needs of customers. The Group will also constantly improve the quality and reputation of its products, and enhance asset quality and operating efficiency, so as to create value for society and investors.

Revenue

In the first half of the year, the Group’s sales were greatly affected by the COVID-19 epidemic in China and the lockdown and control policies. In particular, the production capacity of the Shanghai base, procurement of raw materials, and freight transportation were all significantly affected. As a result, revenue from product sales decreased significantly compared to the same period last year.

Gross Profit and Gross Profit Margin

The Group’s gross profit for the period decreased significantly, mainly due to the significant decrease in sales revenue compared to the same period last year, and the higher cost of sales during the period due to the relatively high cost of finished products and raw materials at the beginning of the period.

Other Gains and Losses

Other losses of the Group during the period increased significantly compared to the same period last year, mainly due to the change in the fair value of wealth management investment products held by the Group during the period. During the period, the fair value of wealth management investment products recognized approximately RMB177 million loss, representing a significant decrease compared with the same period last year (a gain of RMB96 million was recognized for the same period last year).

Long-term receivables

The long-term receivables during the current period decreased by approximately 34% to approximately RMB316 million as compared with the end of last year, mainly due to the decrease in receivables at the end of the period as a result of the sharp decrease in the sales of excavators.

Prepayments, deposits and other receivables

Prepayments and other receivables decreased by 21% to approximately RMB511 million during the period. It mainly due to the Group’s reduced in purchase prepayments during the period by anticipating the economic downturn and reduced product demand.

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 code provisions as set out in the Corporate Governance Code (“CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) throughout the six months ended 30 June 2022, except for certain deviations which are summarized as below.

Code Provision C.1.8

As stipulated in the Code Provision C.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 C.1.6

As stipulated in the Code Provision C.1.6 of CG Code, independent non-executive directors and other non-executive directors shall generally attend general meetings. Three independent non-executive directors and one non-executive director were unable to attend annual general meeting of the Company held on 26 May 2022 (the “2022 AGM”) due to other important engagement.

Code Provision B.2.3 and B.2.4

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 Provision B.2.3 of the CG Code, if an independent non-executive director has served more than nine years, his further appointment should be subject to a separate resolution to be approved by shareholders. Mr. Qian has extensive experience in the finance and accounting fields. He provides a wide range of expertise and experience which can meet the requirement of Group’s business and his participant in the Board brings independent judgment on issues relating to the Group’s strategy, performance, conflicts of interest and management process to ensure that the interest of the shareholders have been duly considered. The Company has received from Mr. Qian a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Mr. Qian has not engaged in any executive management of the Group. Taking into consideration of his independent scope of works in the past years, the Directors consider Mr. Qian to be independent under the Listing Rules despite the fact that he has served the Company for more than nine years. Accordingly, Mr. Qian shall be subject to retirement rotation and re-election by way of a separate resolution approved by the Shareholders at the annual general meeting. At the Annual General Meeting of the Company held on 26 May 2022, 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 C.2.1

As stipulated in the Code Provision C.2.1 of CG Code, the roles of chairman and chief executive 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 C.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 C.2.1 of the CG Code is appropriate in such circumstance. Notwithstanding the above, the Board is of the view that this management structure is effective for the Group’s operations and sufficient checks and balances are in place.

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

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

Review of the Interim Results

The audit committee, together with the management, has reviewed constantly the accounting principles and practices adopted by the Group, discussed review, internal control and financial reporting matters and reviewed the financial results of the Group.

The interim results for the six months ended 30 June 2022 have been reviewed by the external auditors of the Company. The figures in respect of this announcement of the Group’s results for the six months ended 30 June 2022 have been agreed by the Group’s external auditor, Ernst & Young Certified Public Accountants (the “Ernst & Young”), to the amounts set out in the Group’s unaudited interim condensed consolidated financial information for the period.

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

During the six months ended on 30 June 2022, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s shares and any other listed securities.

INTERIM DIVIDEND

The Directors do not recommend any interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

PUBLICATION OF FINANCIAL INFORMATION

The Company's 2022 interim report for the six months ended 30 June 2022 will be despatched to the shareholders at the appropriate time and will at the same time be published on the Stock Exchange's website (www.hkex.com.hk).

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

Hong Kong, 26 August 2022

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