

LONKING 龙工

LONKING HOLDINGS LIMITED

中國龍工控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3339

2023 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 2023	30 June 2022	
	RMB'000	RMB'000	
Turnover	5,726,128	6,007,274	-4.68%
Operating profits	399,834	107,930	+270.46%
EBITDA	533,956	308,643	+73.00%
Profit attributable to equity parent	307,399	147,937	+107.79%
Per share data			
Basic earnings per share ^{(1)#}	0.07	0.03	+133.33%
Net assets per share ^{(2)#}	2.25	2.23	+0.90%
Key performance indicators			
<i>Profitability</i>			
Overall gross margin	16.49%	14.70%	+1.79%
Net profit margin	5.37%	2.46%	+2.91%
EBITDA margin ⁽³⁾ :	9.32%	5.14%	+4.18%
Return on equity ⁽⁴⁾	3.19%	1.55%	+1.64%
<i>Liquidity and solvency</i>			
Current ratio ⁽⁵⁾	2.18	2.13	+2.34%
Interest coverage ratio ⁽⁶⁾ :	20	22	-9.09%
Gross debt-to-equity ratio ⁽⁷⁾	56.88%	66.10%	-9.22%
<i>Management efficiency</i>			
Inventory turnover days ⁽⁸⁾	121	129	-8 days
Trade and bills payables turnover days ⁽⁹⁾	134	139	-5 days
Trade receivable turnover days ⁽¹⁰⁾	80	97	-17 days

- # calculated based on the 4,280,100,000 weighted average number of outstanding shares (WANOS) for the period ended 30 June 2023 (30 June 2022: 4,280,100,000).
- ¹ 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.
- ² Shareholders' equity divided by the WANOS as at the end of each period.
- ³ Earnings before interest, tax, depreciation and amortisation ("EBITDA") divided by turnover for each period.
- ⁴ 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.
- ⁵ Current assets divided by current liabilities as at the end of each period.
- ⁶ Earnings before interest and income tax expenses ("EBIT") divided by interest expenses.
- ⁷ Total liabilities divided by the total equity as at the end of each period.
- ⁸ Average inventories divided by cost of sales and multiplied by 183 days when turnover days are calculated for half-year periods.
- ⁹ Average trade and bills payables divided by cost of sales and multiplied by 183 days when turnover days are calculated for half-year periods.
- ¹⁰ Average trade receivables divided by turnover and multiplied by 183 days when turnover days are calculated for half-year periods.



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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 4 to 40, 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 2023 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed consolidated financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 Interim Financial Reporting ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young
Certified Public Accountants
Hong Kong
29 August 2023



INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023

	Notes	For the six months ended 30 June	
		2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
REVENUE	3 and 4	5,726,128	6,007,274
Cost of sales		(4,781,676)	(5,124,483)
Gross profit		944,452	882,791
Other income	5	23,612	26,680
Other gains and losses	5	13,697	(162,049)
Selling and distribution expenses		(251,718)	(298,918)
Administrative expenses		(122,831)	(112,699)
Impairment losses on financial assets, net		(39,572)	768
Research and development costs		(230,747)	(228,592)
Other expenses		(42)	(51)
Finance income		62,983	63,452
Finance costs		(20,164)	(7,895)
PROFIT BEFORE TAX	6	379,670	163,487
Income tax expense	7	(72,266)	(15,648)
PROFIT FOR THE PERIOD		307,404	147,839
Attributable to:			
Owners of the parent		307,399	147,937
Non-controlling interests		5	(98)
		307,404	147,839
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted:			
– For profit for the period (RMB)	8	0.07	0.03

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 2023

	For the six months ended 30 June	
	2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
PROFIT FOR THE PERIOD	307,404	147,839
OTHER COMPREHENSIVE LOSS		
Exchange differences:		
Exchange differences on translation of foreign operations	(39,605)	(62,757)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(39,605)	(62,757)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	(39,605)	(62,757)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	267,799	85,082
Attributable to:		
Owners of the parent	267,794	85,180
Non-controlling interests	5	(98)
	267,799	85,082

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Notes	30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	2,030,137	2,097,096
Right-of-use assets		127,776	130,228
Prepayments for property, plant and equipment		29,083	25,013
Long-term receivables	11	92,625	160,908
Equity investments at fair value through other comprehensive income	14	1,000	1,000
Financial assets at fair value through profit or loss	15	637,941	618,437
Derivative financial instruments	16	–	40,548
Deferred tax assets		372,628	375,809
Pledged deposits	17	–	356,000
Total non-current assets		3,291,190	3,805,039
CURRENT ASSETS			
Inventories	10	2,745,318	3,591,273
Finance lease receivables		55	254
Trade receivables	11	2,527,004	2,453,314
Due from related parties	22	4,604	2,134
Prepayments, deposits and other receivables	12	332,889	531,650
Financial assets at fair value through other comprehensive income	13	329,500	161,289
Derivative financial instruments	16	31,192	–
Financial assets at fair value through profit or loss	15	1,481,950	1,513,749
Pledged deposits	17	711,188	1,300,255
Cash and cash equivalents	17	3,675,115	2,031,973
Total current assets		11,838,815	11,585,891

	Notes	30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
CURRENT LIABILITIES			
Trade and bills payables	18	3,195,401	3,793,466
Other payables and accruals	19	895,826	864,512
Interest-bearing bank borrowings	20	734,719	–
Due to related parties	22	5,445	10,585
Provisions		101,807	111,564
Deferred income		4,396	4,100
Tax payable		94,991	80,774
Dividends due to shareholders	8	394,617	–
Total current liabilities		5,427,202	4,865,001
NET CURRENT ASSETS		6,411,613	6,720,890
TOTAL ASSETS LESS CURRENT LIABILITIES		9,702,803	10,525,929
NON-CURRENT LIABILITIES			
Deposits for finance leases		37	35
Interest-bearing bank borrowings	20	–	708,161
Deferred tax liabilities		30,881	38,954
Provisions		5,595	5,919
Deferred income		22,187	21,705
Total non-current liabilities		58,700	774,774
Net assets		9,644,103	9,751,155

Notes	30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
EQUITY		
Equity attributable to owners of the parent		
Issued capital	444,116	444,116
Share premium and reserves	9,197,572	9,304,629
Non-controlling interests	9,641,688 2,415	9,748,745 2,410
Total equity	9,644,103	9,751,155

Li San Yim
Director

Yin Kun lun
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	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 2023	444,116	854,922	428,890	1,853,508	6,632,644	(465,335)	9,748,745	2,410	9,751,155
Profit for the period									
Other comprehensive income for the period:									
Exchange differences related to foreign operations	-	-	-	-	307,399	-	307,399	5	307,404
	-	-	-	-	-	(39,605)	(39,605)	-	(39,605)
Total comprehensive income for the period	-	-	-	-	307,399	(39,605)	267,794	5	267,799
Final 2022 dividend declared	-	-	-	-	(374,851)	-	(374,851)	-	(374,851)
Transfer from retained profits	-	-	(1,321)	-	1,321	-	-	-	-
At 30 June 2023	444,116	854,922	427,569	1,853,508	6,566,513	(504,940)	9,641,688	2,415	9,644,103

* These reserve accounts comprise the consolidated share premium and reserves of RMB9,197,572,000 (2022: RMB9,304,629,000) in the consolidated statement of financial position.

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 2022	444,116	854,922	419,905	1,811,646	7,048,472	(376,796)	10,202,265	2,524	10,204,789
Profit for the period									
Other comprehensive income for the period:	-	-	-	-	147,937	-	147,937	(98)	147,839
Exchange differences related to foreign operations	-	-	-	-	-	(62,757)	(62,757)	-	(62,757)
Total comprehensive income for the period	-	-	-	-	147,937	(62,757)	85,180	(98)	85,082
Final 2021 dividend declared	-	-	-	-	(765,435)	-	(765,435)	-	(765,435)
Transfer from retained profits	-	-	2,787	-	(2,787)	-	-	-	-
At 30 June 2022	444,116	854,922	422,692	1,811,646	6,428,187	(439,553)	9,522,010	2,426	9,524,436

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Note	For the six months ended 30 June	
		2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL		499,531	417,176
Decrease in inventories		853,136	880,614
(Increase)/decrease in trade and bills receivables		(205,506)	18,460
Decrease in prepayments, deposits and other receivables		197,433	139,856
Decrease in finance lease receivables		199	618
Decrease in trade, bills and other payables		(511,503)	(855,197)
Decrease in provisions		(10,081)	(14,471)
Increase in amounts due from related parties		(2,470)	(5,335)
(Decrease)/increase in amounts due to related parties		(5,140)	3,604
Decrease in deposits for finance leases		(498)	(500)
Deferred income received		2,951	8,305
Income tax paid		(62,941)	(76,439)
Decrease in pledged deposits		145,386	–
Interest received		18,317	55,262
Net cash flows from operating activities		918,814	571,953

For the six months
ended 30 June

	Note	2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		(135,013)	(177,741)
Proceeds from disposal of interests in associates		–	450
Return of financial asset investment		89	5,456
Dividend income from financial assets at fair value through profit or loss		19,100	6,817
Gains/(losses) from derivative financial instruments		15,069	(280)
Interest received		38,310	–
Proceeds from disposal of items of property, plant and equipment		5,021	4,331
Decrease in pledged for purchasing financial assets at fair value through profit or loss		800,000	–
Net cash flows from/(used in) investing activities		742,576	(160,967)
CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES			
Interest paid		(18,996)	(7,895)
(Increase)/decrease in pledged deposits		(319)	95,898
Interest from pledged deposits received		–	1,835
Net cash flows (used in)/from financing activities		(19,315)	89,838
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Net foreign exchange differences		1,642,075	500,824
Cash and cash equivalents at beginning of period		1,067	1,870
		2,031,973	2,025,005
CASH AND CASH EQUIVALENTS AT END OF PERIOD	17	3,675,115	2,527,699

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2023

1. Corporate information

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2023 was authorised for issue in accordance with a resolution of the directors on 29 August 2023.

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 2023 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 2022.

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 2022, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

HKFRS 17	<i>Insurance Contracts</i>
Amendments to HKFRS 17	<i>Insurance Contracts</i>
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information</i>
Amendments to HKAS 1	<i>Disclosure of Accounting Policies</i>
and	
HKFRS Practice Statement 2	
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

The adoption of these new and revised 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 26% (2022: 17%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sales, with 100% (2022: 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 2023 and 2022:

Six months ended 30 June 2023 (unaudited)	Sale of construction machinery RMB'000	Finance leases of construction machinery RMB'000	Financial investments RMB'000	Total RMB'000
Segment revenue				
Revenue from external customers	5,726,124	4	–	5,726,128
Segment results	329,145	(1)	14,097	343,241
<i>Reconciliation:</i>				
Finance income				62,983
Unallocated other income and gains and losses				(229)
Corporate and other unallocated expenses				(6,161)
Finance costs				(20,164)
Profit before tax				379,670

Six months ended 30 June 2022 (unaudited)	Sale of construction machinery RMB'000	Finance leases of construction machinery RMB'000	Financial investments RMB'000	Total RMB'000
Segment revenue				
Revenue from external customers	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				163,487

4. Operating segment information *(Continued)*

Segment results represent the profits or losses earned or incurred by segments 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.

Geographical information

	30 June 2023 <i>RMB'000</i> (unaudited)	30 June 2022 <i>RMB'000</i> (unaudited)
Revenue from external customers:		
Mainland China	4,234,347	5,007,361
Outside Mainland China	1,491,781	999,913
Total revenue	5,726,128	6,007,274

The following table presents segment assets and liabilities of the Group's operating segments as at 30 June 2023 and 31 December 2022:

	30 June 2023 <i>RMB'000</i> (unaudited)	31 December 2022 <i>RMB'000</i> (audited)
Segment assets:	15,043,554	15,254,815
Sale of construction machinery	12,858,113	13,009,171
Finance leases of construction machinery	1,652	41,853
Financial investments	2,183,789	2,203,791
Corporate and other unallocated assets	86,451	136,115
Consolidated assets	15,130,005	15,390,930

4. Operating segment information (Continued)

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Segment liabilities:	4,346,480	4,912,316
Sale of construction machinery	4,270,990	4,833,163
Finance leases of construction machinery	9,936	10,421
Financial investments	65,554	68,732
Corporate and other unallocated liabilities	1,139,422	727,459
Consolidated liabilities	5,485,902	5,639,775

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			
	2023		2022	
	RMB'000	%	RMB'000	%
Sales of construction machinery:				
Wheel loaders	2,420,800	42.3	2,847,877	47.4
Forklifts	1,935,254	33.8	1,947,952	32.4
Excavators	671,827	11.7	550,056	9.2
Components	667,698	11.7	626,114	10.4
Road rollers	30,545	0.5	35,204	0.6
Subtotal	5,726,124	100.0	6,007,203	100.0
Finance lease interest income	4	-	71	-
Total	5,726,128	100.0	6,007,274	100.0

Seasonality of operations

The Group's operations are not subject to seasonality.

5. Other income and other gains and losses

An analysis of the Group's other income is as follows:

	For the six months ended 30 June	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Government grants	16,127	22,257
Income from sales of scraps	5,358	3,196
Penalty income	454	249
Others	1,673	978
	23,612	26,680

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

	For the six months ended 30 June	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Losses on disposal of items of property, plant and equipment	(313)	(112)
Reversal of write-down of inventories to net realisable value	142	133
Fair value gains, net:		
Financial assets at fair value through profit or loss		
– held for trading	(12,206)	(192,801)
Derivative instruments		
– transactions not qualifying as hedges	(9,356)	15,471
Gains from derivative instruments	15,069	4,437
Dividend income from financial assets at fair value through profit or loss	20,590	6,817
Foreign exchange (losses)/gains	(229)	4,006
	13,697	(162,049)

6. Profit before tax

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

	For the six months ended 30 June	
	2023 <i>RMB'000</i> (unaudited)	2022 <i>RMB'000</i> (unaudited)
Cost of inventories sold	4,332,198	5,044,160
Depreciation of property, plant and equipment	131,659	134,798
Depreciation of right-of-use assets	2,463	2,463
Staff costs, including directors' remuneration	305,305	324,793
Contribution to a retirement benefit scheme	31,890	30,488
Foreign exchange differences, net	229	(4,006)
Impairment losses on financial assets, net	39,572	(768)
Product warranty provision	56,248	74,854
Fair value gains, net:		
Financial assets at fair value through profit or loss		
– held for trading	12,206	192,801
Derivative instruments		
– transactions not qualifying as hedges	9,356	(15,471)
Gains from derivative instruments	(15,069)	(4,437)
Dividend income from financial assets at fair value through profit or loss	(20,590)	(6,817)
Reversal of write-down of inventories to net realisable value	(142)	(133)
Interest income	(62,983)	(63,452)
Income-related government grants	(16,127)	(22,257)

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	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Current income tax expense	77,158	38,378
Deferred income tax expense relating to origination and reversal of temporary differences	(4,892)	(22,730)
Income tax expense recognised in the consolidated statement of profit or loss	72,266	15,648

8. Earnings per share and dividends due to shareholders

The calculation of the basic earnings per share amount was based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of RMB4,280,100,000 (six months ended 30 June 2022: RMB4,280,100,000) in issue during the year.

The directors did not recommend the payment of an interim dividend in respect of the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

The proposed final dividend of HK\$0.1 per ordinary share for the year ended 31 December 2022 was declared payable and approved by the shareholders in the annual general meeting of the Company on 28 May 2023 and was paid on 28 July 2023.

9. Property, plant and equipment

During the six months ended 30 June 2023, the Group acquired assets at a cost of RMB76,513,000 (six months ended 30 June 2022: RMB156,324,000), including property, plant and machinery in the People's Republic of China (the "PRC").

Assets with a net book value of RMB12,373,000 were disposed of by the Group during the six months ended 30 June 2023 (six months ended 30 June 2022: RMB4,443,000), resulting in a net loss on disposal of RMB313,000 (net loss in the six months ended 30 June 2022: RMB112,000).

10. Inventories

	30 June 2023 <i>RMB'000</i> (unaudited)	31 December 2022 <i>RMB'000</i> (audited)
Raw materials	905,905	1,121,894
Work in progress	130,152	187,313
Finished goods	1,709,261	2,282,066
	2,745,318	3,591,273

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 2023 <i>RMB'000</i> (unaudited)	31 December 2022 <i>RMB'000</i> (audited)
Trade receivables	3,090,932	3,054,426
Impairment	(471,303)	(440,204)
	2,619,629	2,614,222
Less: Non-current portion	(92,625)	(160,908)
	<u>2,527,004</u>	<u>2,453,314</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 2023 <i>RMB'000</i> (unaudited)	31 December 2022 <i>RMB'000</i> (audited)
0 to 90 days	1,253,142	1,011,246
91 to 180 days	555,076	427,940
181 to 360 days	332,735	510,709
Over 1 year	478,676	664,327
	<u>2,619,629</u>	<u>2,614,222</u>

12. Prepayments, deposits and other receivables

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Prepayments	149,547	357,490
Deductible value-added tax	–	15,517
Deposits	4,019	2,382
Total	153,566	375,389
Other receivables:		
Loan receivables	444,260	445,177
Less: Impairment	(426,729)	(419,045)
Net loan receivables	17,531	26,132
Other miscellaneous receivables	162,490	130,827
Less: Impairment	(698)	(698)
Net other miscellaneous receivables	161,792	130,129
Total other receivables	179,323	156,261
Grand total	332,889	531,650

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

12. Prepayments, deposits and other receivables *(Continued)*

Loan receivables were generated 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. Financial assets at fair value through other comprehensive income

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Bills receivable, at fair value	329,500	161,289

The Group has classified bills receivable that are held both to collect cash flows and to sell as financial assets at fair value through other comprehensive income under HKFRS 9.

14. Equity investments at fair value through other comprehensive income

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Equity investments designated at fair value through other comprehensive income unlisted equity investments, at fair value	1,000	1,000

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

15. Financial assets at fair value through profit or loss

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Listed equity investments, at fair value	224,224	220,803
Wealth management and fund investment products, at fair value	1,895,667	1,911,383
Less: Non-current portion	2,119,891 (637,941)	2,132,186 (618,437)
Total	1,481,950	1,513,749

The above listed equity investments at 30 June 2023 were classified as financial assets at fair value through profit or loss as they were held for trading.

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

16. Derivative financial instruments

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Current:		
Interest rate swaps	31,192	–
Non-current:		
Interest rate swaps	–	40,548

Interest rate swaps were not designated for hedging purposes and were measured at fair value through profit or loss. Fair value gain on non-hedging interest rate swaps was RMB31,192,000 (2022: RMB40,548,000).

17. Cash and cash equivalents and pledged bank deposits

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Cash and bank balances	3,675,115	2,031,973
Time deposits	711,188	1,656,255
	4,386,303	3,688,228
Less: Pledged cash and bank balances and time deposits:		
Pledged for bank loans	(400,419)	(400,100)
Pledged for bank acceptance bills	(301,939)	(418,201)
Pledged for purchasing financial assets at fair value through profit or loss	–	(800,000)
Pledged for others	(8,830)	(37,954)
Cash and cash equivalents	3,675,115	2,031,973

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 2023 <i>RMB'000</i> (unaudited)	31 December 2022 <i>RMB'000</i> (audited)
0 to 180 days	3,107,165	3,717,267
181 days to 1 year	37,826	24,377
1 to 2 years	14,546	12,437
2 to 3 years	6,820	11,051
Over 3 years	29,044	28,334
	3,195,401	3,793,466

The bills payable are aged within six months at the end of each reporting period and secured by pledged bank deposits amounting to RMB301,939,000 (31 December 2022: RMB418,201,000) (note 17).

19. Other payables and accruals

	30 June 2023 <i>RMB'000</i> (unaudited)	31 December 2022 <i>RMB'000</i> (audited)
Accrued sales rebate	352,755	303,123
Other payables	99,619	103,334
Salary and wages payable	122,064	162,950
Contract liabilities	149,547	82,724
Payable for acquisition of property, plant and equipment	22,360	76,786
VAT and other taxes payable	40,539	11,446
Deposits for finance leases	5,772	6,272
Investment management fee	40,185	41,764
Other accrued expenses	62,985	76,113
	895,826	864,512

20. Interest-bearing bank borrowings

	30 June 2023 (unaudited)			31 December 2022 (audited)		
	Effective annual interest rate (%)	Maturity	RMB'000	Effective annual interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	5.35-5.85	2024	734,719	–	–	–
Non-current						
Bank loans – secured	–	–	–	1.05-5.22	2024	708,161
			734,719			708,161

Group's bank loans are secured by the pledge of certain of the Group's time deposits amounting to RMB400,419,000 (31 December 2022: RMB400,100,000) (note 17).

21. Commitments

At 30 June 2023, the Group had capital commitments of RMB37,086,000 (31 December 2022: RMB56,822,000) 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 sets out the total amounts of transactions which have been entered into with related parties during the six-month periods ended 30 June 2023 (unaudited) and 30 June 2022 (unaudited) as well as balances with related parties as at 30 June 2023 (unaudited) and 31 December 2022 (audited):

		Amounts			
		Sales to	Purchases	due	Amounts
		related	from	from	due to
		parties	related	related	related
		parties	parties	parties	parties
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Related parties:					
Longyan City Jinlong					
Machinery Company	2023	–	16,401	–	1,615
Limited (note a)	2022	–	28,209	–	6,275
Herkules (Shanghai)					
Automation Equipment	2023	–	8,753	4,347	3,512
Co., Ltd. (note b)	2022	–	6,970	1,888	3,858
Shanghai Refined Machinery					
Co., Ltd. (note c)	2023	–	–	243	56
	2022	4	–	244	56
Shanghai Longtui Machinery					
Environmental Technology	2023	60	281	14	262
Co., Ltd. (note d)	2022	–	13	2	396

22. Related party transactions *(Continued)*

- Note a: Mr. Ngai Ngan Gin, brother of Ms. Ngai Ngan Ying (ultimate controller of the Company), holds a controlling interest in this entity.
- Note b: Herkules (Shanghai) Automation Equipment Co., Ltd. is wholly owned by Mr. Chen Jie, son-in-law of Mr. Li San Yim (executive director and chairman of the Group). The Group prepaid RMB4,347,000 for the purchase of equipment from Herkules (Shanghai) Automation Equipment Co., Ltd. at 30 June 2023.
- Note c: Shanghai Refined Machinery Co., Ltd. is wholly owned by Refined Holdings, which is in turn wholly owned by Mr. Li Bin, son of Mr. Li San Yim, executive director and chairman of the Group.
- Note d: Shanghai Longtui Machinery Environmental Technology Co., Ltd. is wholly owned by Mr. Li Jun, son of Mr. Li San Yim, executive director and chairman of the Group.

Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2023 <i>RMB'000</i> (unaudited)	2022 <i>RMB'000</i> (unaudited)
Short-term employee benefits	9,344	11,129
Pension scheme contributions	86	85
Total compensation paid to key management personnel	9,430	11,214

23. Financial instruments by category

The carrying amounts of financial instruments as at 30 June 2023 (unaudited) and 31 December 2022 (audited) are as follows:

30 June 2023

Financial assets

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total
	Designated as such upon initial recognition RMB'000	Mandatorily designated as such RMB'000	Equity instruments RMB'000			
Trade receivables	–	–	–	–	2,527,004	2,527,004
Financial assets at fair value through other comprehensive income	–	–	–	329,500	–	329,500
Long-term receivables	–	–	–	–	92,625	92,625
Due from related parties	–	–	–	–	4,604	4,604
Financial assets included in prepayments, deposits and other receivables	–	–	–	–	182,732	182,732
Finance lease receivables	–	–	–	–	55	55
Financial assets at fair value through profit or loss	–	2,119,891	–	–	–	2,119,891
Derivative financial instruments	31,192	–	–	–	–	31,192
Equity investments at fair value through other comprehensive income	–	–	1,000	–	–	1,000
Pledged deposits	–	–	–	–	711,188	711,188
Cash and cash equivalents	–	–	–	–	3,675,115	3,675,115
	31,192	2,119,891	1,000	329,500	7,193,323	9,674,906

23. Financial instruments by category *(Continued)*

Financial liabilities

	Financial liabilities at amortised cost <i>RMB'000</i>
Trade and bills payables	3,195,401
Financial liabilities included in other payables and accruals	162,164
Deposits for finance leases	5,809
Dividends due to shareholders	394,617
Interest-bearing bank borrowings	734,719
Due to related parties	5,445
	4,498,155

23. Financial instruments by category (Continued)

31 December 2022

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 RMB'000	Total RMB'000
	Designated as such upon initial recognition RMB'000	Mandatorily designated as such RMB'000	Equity instruments RMB'000	Financial assets at fair value through other comprehensive income RMB'000		
Trade receivables	-	-	-	-	2,453,314	2,453,314
Financial assets at fair value through other comprehensive income	-	-	-	161,289	-	161,289
Long-term receivables	-	-	-	-	160,908	160,908
Due from related parties	-	-	-	-	2,134	2,134
Financial assets included in prepayments, deposits and other receivables	-	-	-	-	158,043	158,043
Finance lease receivables	-	-	-	-	254	254
Financial assets at fair value through profit or loss	-	2,132,186	-	-	-	2,132,186
Derivative financial instruments	40,548	-	-	-	-	40,548
Equity investments at fair value through other comprehensive income	-	-	1,000	-	-	1,000
Pledged deposits	-	-	-	-	1,656,255	1,656,255
Cash and cash equivalents	-	-	-	-	2,031,973	2,031,973
	40,548	2,132,186	1,000	161,289	6,462,881	8,797,904

23. Financial instruments by category (Continued)

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	3,793,466
Financial liabilities included in other payables and accruals	221,884
Deposits for finance leases	6,307
Interest-bearing bank borrowings	708,161
Due to related parties	10,585
	<u>4,740,403</u>

24. Fair value and fair value hierarchy of financial instruments

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

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

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

24. Fair value and fair value hierarchy of financial instruments

(Continued)

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

The fair values of the non-current portion of trade receivables 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 changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank borrowings as at 30 June 2023 were assessed to be insignificant. The fair values of the non-current portion of pledged bank deposits were assessed and approximated to their carrying amounts.

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

The Group enters into derivative financial instrument contracts (interest rate swaps) with a bank. Interest rate swaps are measured using valuation techniques similar to swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties and interest rate curves.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments and unlisted wealth management products issued by asset management companies that are not traded in an active market are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instruments are included in Level 2. If one or more of the significant inputs are not based on observable market data, the instruments are included in Level 3.

The fair values of investment funds classified as Level 3 are based on net asset value reports provided by the managers of such funds. For certain underlying unlisted equity securities held by the investment funds, the valuation techniques adopted include the use of last transaction price of recent fund raising by the underlying investee, and the market comparison approach, etc. The fair value measurement of these financial instruments may involve unobservable inputs such as liquidity discount. An increase (decrease) in liquidity discount would result in a lower (higher) fair value. The Group periodically reviewed all significant unobservable inputs and valuation adjustments used to measure the fair values of financial instruments in Level 3.

24. Fair value and fair value hierarchy of financial instruments

(Continued)

Fair value hierarchy

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

Assets measured at fair value:

As at 30 June 2023 (unaudited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through other comprehensive income	–	329,500	–	329,500
Equity investments designated at fair value through other comprehensive income	–	–	1,000	1,000
Financial assets at fair value through profit or loss	224,224	1,257,726	637,941	2,119,891
Derivative financial instruments	–	31,192	–	31,192
	224,224	1,618,418	638,941	2,481,583

24. Fair value and fair value hierarchy of financial instruments

(Continued)

Fair value hierarchy (Continued)

Assets measured at fair value: (Continued)

As at 31 December 2022 (audited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through other comprehensive income	-	161,289	-	161,289
Equity investments designated at fair value through other comprehensive income	-	-	1,000	1,000
Financial assets at fair value through profit or loss	220,803	1,911,383	-	2,132,186
Derivative financial instruments	-	40,548	-	40,548
	220,803	2,113,220	1,000	2,335,023

24. Fair value and fair value hierarchy of financial instruments

(Continued)

Fair value hierarchy (Continued)

Assets measured at fair value: (Continued)

The movements in fair value measurements within Level 3 during the period are as follows:

Financial assets at fair value through profit or loss and equity investments designated at fair value through other comprehensive income– unlisted:

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
At beginning of period	1,000	1,000
Transferred	618,437	–
Total gains recognised in the statement of profit or loss included in other gains and losses	19,504	–
At end of period	638,941	1,000

During the period, in relation to certain underlying investments of wealth management and fund investment products, as compared to the last year, the fair value measurement relied more on subjective judgment by the management as the time lapsed from the last transaction increased over time. Accordingly, the management transferred non-current portion of wealth management and fund investment products from level 2 to level 3. No quantitative sensitivity disclosure is provided because the wealth management and fund investment products invested in a large portfolio of underlying different securities, which are subject to different types and extent of measurement uncertainties. Management is of the view that the disclosure of estimation of fair value changes as a result of a reasonable range of different unobservable inputs is not meaningful.

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 29 August 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT AND BUSINESS REVIEW

In the first half of 2023, against the backdrop of an increasingly complex global economic environment, China's overall economic performance improved with good momentum, and recorded a GDP growth of 5.5%. The construction machinery industry was faced with challenge of continued cyclical downward in the domestic market and a good opportunity brought by growth trend in the international market. In active response to the situation, the Group comprehensively upgraded technology research and development and quality control through scientific planning, innovation, and precise policy implementation. The Group persistently devoted itself to improving product quality, consolidating development foundation, and concentrating on customer needs and market development trends. It took the initiative to constantly deliver new products and refined products, and strived for the best. The Group spared no effort to consolidate and enhance the market share of its superior products, and made significant progress in expanding into emerging international markets and segmented markets. It continued to explore complete built-up units, spare parts and other markets, put more efforts to compete for orders. The market share of its leading products steadily increased, and the overall development quality of the Group gradually improved. During the reporting period, the Group realized a total operating revenue of RMB5,726 million, which decreased by RMB281 million or 4.68% year on year from RMB6,007 million in the same period of 2022. The Group's product mix is dominated by loader and forklift. Among them, loader is still the Group's most competitive products and the main source of profit. By fully leveraging the advantages of vertical integration, the Group continued to expand and optimize its domestic and overseas sales channels for the loader business. During the reporting period, the sales of loaders accounted for 42.28% of the Group's total sales, representing a decrease of 5.13 percentage points from 47.41% in the same period of 2022. Forklifts are widely used in various industries such as manufacturing, transportation, warehousing and logistics. The Group is focused on technological innovation for its forklifts to continuously enhance its product competitiveness, with the sales of forklifts accounting for 33.80% during the current period, representing an increase of 1.37 percentage points as compared with that in the same period of 2022. The Group has continued to improve the quality and control the costs of its excavators, and expanded its overseas markets, which offset the adverse impact of the downward phase in the domestic excavator market, with its proportion of sales up 2.57 percentage points to 11.73% as compared with that in the same period of 2022. During the reporting period, the Group's consolidated gross profit margin was 16.49%, an increase of 1.79 percentage points from 14.70% in the same period of 2022. Net profit for the reporting period was RMB307 million, up by RMB159 million or 107.43% year on year from RMB148 million last year. The growth in net profit was mainly due to the significant increase in both export income and net gains generated from financial assets. Under the favorable background of strong demand in overseas market, the Group continuously launched high-quality products suitable for overseas markets and improved its overseas sales network, leading to a year-on-year growth of 49.19% in export income based on the significant growth in the previous three consecutive years.

GEOGRAPHICAL RESULTS

After the last round of sustained high-speed growth, investment in China's infrastructure construction has slowed down, and the newly increased domestic market demand for infrastructure machinery industry during the period ended 30 June 2023 is insufficient. Compared with the same period last year, sales from all parts of China have decreased significantly. Among them, the sales from Northwest and North decreased by 27.4% to RMB493 million and 18.1% to RMB1,246 million, respectively. Sales from the South decreased slightly by 2.8% to RMB553 million. Sales from Southwest and Central China decreased by 17.3% to RMB347 million and 15.6% to RMB568 million, respectively. Sales from the Northeast and East decreased by 11.9% to RMB202 million and 10.0% to RMB827 million, respectively. Sales from overseas markets surged by 49.2% to RMB1,492 million, which made up for the downturn in the domestic market to a certain extent. This was mainly due to insufficient production capacity in overseas markets, resulting in a strong demand. At the same time, after years of hard work, the Company's product competitiveness has been greatly improved in overseas markets.

PRODUCTS ANALYSIS

Except for excavators and components, the sales of various products of the Group decreased significantly compared with the same period last year. This is mainly due to the sluggish investment in infrastructure and the lack of new demand leading to the sluggish overall demand in the infrastructure machinery industry.

Wheel Loaders

Revenue from sales of wheel loaders decreased by 15.0% to RMB2,421 million (For the six months ended 30 June 2022: approximately RMB2,848 million) for the Period compared with the same period last year. Among them, the sales income of ZL50, ZL30 and ZL60 loader series decreased respectively by 21.3%, 11.7% and 17.0% to RMB1,694 million, RMB300 million and RMB199 million. Mini loaders increased by 100.0% to approximately RMB216 million. Wheel loader sales accounted for 42.3% of total sales, down from 47.4% in the same period last year.

Forklifts and Road Rollers

Revenue from sales of forklift products decreased slightly by 0.7% from the same period last year to RMB1,935 million (For the six months ended 30 June 2022: approximately RMB1,948 million). Sales of forklift products accounted for 33.8% of the Group's total revenue for the first half of the year.

Revenue from sales of road roller products decreased by 11.4% from the same period last year to RMB31 million (For the six months ended 30 June 2022: RMB35 million). The sales revenue of road roller accounted for only 0.5% of the Group's total revenue.

Excavators

Revenue from sales of excavator products increased significantly by 22.2% compared to the same period last year to RMB672 million (For the six months ended 30 June 2022: RMB550 million). This is mainly due to the booming demand in the international market and the increase in overseas sales of excavator products in the post-epidemic era.

Components

In the first half of the year, revenue from sales of components increased by 6.7% to approximately RMB668 million (For the six months ended 2022: RMB626 million). This was mainly due to the increase in export sales of complete machines, which led to a significant increase in sales of components.

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 2023, the Group had bank balances and cash of approximately RMB3,675 million (31 December 2022: approximately RMB2,032 million) and pledged bank deposit of approximately RMB711 million (31 December 2022: approximately RMB1,656 million). Compared with last year, the cash and bank balance increased about RMB1,643 million, which was as a result of net cash inflow of RMB919 million from operating activities, net cash inflow of RMB742 million from investing activities and net cash outflow of RMB19 million from financing activities and effect of foreign exchange rate change at RMB1 million.

The pledged deposit balance at 30 June 2023 decreased approximately RMB945 million. Details of pledged bank deposit for the period ended 30 June 2023 are set out in Note 17 to the interim results.

Liquidity and Financial Resources

The Group are committed to build a sound finance position. Total equity as at 30 June 2023 was approximately RMB9,644 million, a 1.1% decrease from approximately RMB9,751 million as at 31 December 2022.

The current ratio of the Group at 30 June 2023 was 2.18 (31 December 2022: 2.38). 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 2023, 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 2023, the gross gearing ratio (defined as total liabilities divided by total assets) was approximately 36.26% (as at 31 December 2022: 36.64%).

Capital Expenditure

During the period, the Group acquired property, plant and equipment of approximately RMB77 million (for the six months ended 30 June 2022: approximately RMB156 million) in line with a series of strategic transformation and product transformation of the Group.

Other Gains and Losses

During the period, the Group's other gains increased by approximately RMB176 million compared with the same period last year. This was mainly due to losses of RMB22 million (30 June 2022: approximately RMB177 million) in fair value changes of the wealth management and investment product and derivative financial instruments invested by the Group. At the same time, net investment income from financial assets during the period, including derivative gains from interest rate swap contract and financial assets, increased by approximately RMB25 million to approximately RMB36 million compared with the same period last year.

Impairment losses on financial assets, net

During the period, the impairment of financial assets of the Group increased by approximately RMB40 million compared with the same period last year, which was mainly due to the corresponding increase in the provision for bad debts of some dealers, as a result of the Group's risk assessment based on the recovery of trade receivables during the period.

Finance costs

During the period, the Group's financial costs increased by approximately RMB12 million compared with the same period last year, which was mainly due to the increase in the accrued US dollar loan interest due to the increase in the US dollar loan interest rate during the period.

Long-term receivables

As of the end of the period, long-term receivables decreased by 42.4% to RMB93 million compared with the same period last year, which was mainly due to the decrease in sales revenue and installment sales during the period.

Prepayments, deposits and other receivables

As of the end of the current period, Prepayments, deposits and other receivables decreased by 37.4% compared with the same period last year to RMB333 million. This was mainly due to the overall downturn in the market environment, the group's procurement policy tended to be cautious, and the decrease in purchase volume resulted in decrease in prepayments in advance.

PROSPECT

Since 2023, China's economy and society have resumed normalised operation in a comprehensive manner, with macro policies taking significant effect, the national economy rebounding and improving, and high-quality development being steadily pushed forward. Given the enormous development potential and resilience of the Chinese economy, there is no change in its long-term positive fundamentals. Looking ahead, the Chinese government will continue to implement a proactive fiscal policy and a prudent monetary policy, and extend, optimise, improve and implement a series of tax and fee reduction policies, so as to promote the economy to achieve effective improvement in quality and reasonable growth in quantity. With the increase in the construction and supply of guaranteed housing, and the steady progress of the urban village renovation and the public infrastructure construction for "normal and urgent use", the physical workload of infrastructure projects is expected to stabilise and rebound, which will gradually release the driving effect, and the demand for the domestic construction machinery industry is expected to improve. In the international market, as the internationalisation of Chinese brands continues to improve, the popularity of Chinese manufacturing continues to improve, the cost, price-performance ratio and delivery advantages have gradually been highlighted, and benefiting from the deep ploughing of the Belt and Road, the demand in the international market is expected to remain robust. With a focus on customer needs and market trends, the Group will adopt a new mindset, innovate and develop, take the initiative to strive for the lead and strengthen confidence in development, so as to persistently refine and optimize the four host products (loaders, excavators, forklifts and road machinery) and core components that extended the product manufacturing chain. The Group always adheres to the marketing principle of agency system, makes full use of its three strengths of "quality, service and cost effectiveness", gains insight into the macro environment and market developments to adapt to the situation, and sticks to long-term development strategies to maintain strategic determination and initiative. The Group also keeps enhancing its development resilience by continuously enriching product models, expanding product application scenarios, and continuously promoting the greening and intelligence of products to unswervingly enhance product competitiveness, as well as actively expanding and continuously engaging in domestic and international markets, and constantly improving marketing service capabilities. The Group will reform internal procurement management, facilitate procurement cost reduction and technological progress, vigorously promote the quality awareness of manufacturing excellent products, and advance the steady improvement of product quality in all aspects from process control, management implementation to supply chain supervision and management, technology research and development and innovation, with an aim to gain high recognition in domestic and international markets through stable and reliable product quality, thereby winning new development opportunities for the Group in the downward cycle of domestic industry 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 2023, 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 2023 (the “2023 AGM”) due to other important engagement.

Code Provision B.2.3 and B.2.4

Each of Dr. Qian Shizheng and Mr. Wu Jian Ming has been appointed as an independent non-executive Director for more than nine years. Pursuant to Code B.2.3 of the code provisions of Corporate Governance Code set out in Appendix 14 of the Listing Rules (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.

Dr. 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.

Mr. Wu has over 30 years' experiences in the government sectors and public services in Mainland China. The Company values Mr. Wu continued service by bringing different perspectives and insights in the boardroom. The Board, having considered his comprehensive knowledge, professional skills and experience as well as his thorough and deepened understanding of the Company and the Company's relevant industry, is of the view that Mr. Wu's continued tenure will bring valuable contribution to the future sustainable development of the Company which is in the best interests of the Company and of the Shareholders.

The Company has received from Mr. Qian and Mr. Wu a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Each of Mr. Qian and Mr. Wu 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 and Mr. Wu to be independent under the Listing Rules despite the fact that he has served the Company for more than nine years. Accordingly, Mr. Qian and Mr. Wu 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 2023, a separate resolution to re-elect Mr. Qian and Mr. Wu 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.

Improvements in Internal Control Systems

Additional measures and improvements for the internal control systems of the Company during the six months ended 30 June 2023.

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

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

INVESTOR RELATIONS MANAGEMENT

Information Disclosures

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

In the first half of 2023, the Company mainly communicated with domestic and foreign investors through reception of visitors and telephone conferences, thus maintaining a good relationship with the international capital market. During the first half of the year ended 30 June 2023, the Company made a total of more than 28 visits and telephone conferences communications with domestic and foreign investors.

Other Stakeholders' interests

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

Contact

Investor Relations

Ms. Lv Zhen Zhen

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DISCLOSURE OF INTERESTS

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

As at 30 June 2023, the interests of the directors and chief executive of the Company in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register to be kept by the Company pursuant to Section 352 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code were as follows:

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

Ordinary shares of HK\$0.10 each of the Company

Name of directors	Capacity	Number of shares held	Percentage of issued share capital as at 30 June 2023
Ngai Ngan Ying	beneficial owner	2,398,273,188	56.03%
Chen Chao	beneficial owner	1,596,000	0.04%
Zheng Ke Wen	beneficial owner	429,900	0.01%
		2,400,299,088	56.08%

(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

Name of directors	Capacity	Registered share capital	Percentage of issued share capital as at 30 June 2023
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 2023, 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 2023, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of directors, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company.

Long positions

Ordinary shares of HKD0.10 each of the Company

Name of shareholder	Capacity	Number of ordinary shares interested	Percentage of the issued share capital of the Company
Citigroup Inc.	Investment Manager	212,611,658	4.96%

Saved as disclosed above, as at 30 June 2023, 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 2023 (six months ended 30 June 2022: 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 2023, the Group employed approximately 7,105 employees.

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

During the period ended on 30 June 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares and any other listed securities.

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 2023 have been reviewed by the audit committee of the Company.

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

Hong Kong, 29 September 2023

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

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

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

Non-executive directors

Ms. Ngai Ngan Ying

Independent non-executive directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

EXECUTIVE COMMITTEE

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

COMPANY SECRETARY

Mr. Chu Shun

HEAD OFFICE

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8 Finance Street Central, Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower,
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PRINCIPAL BANKERS

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Longyan Branch
Bank of China Tower
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