
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Lonking Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**MAJOR TRANSACTION
RELATING TO INVESTMENT IN FINANCIAL PRODUCTS**

Hong Kong, 14 August 2017

* For identification purposes only

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DEFINITIONS

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

“AEGON-INDUSTRIAL Fund”	AEGON-INDUSTRIAL Fund Management Co., Ltd. (興業全球基金管理有限公司), a company established in the PRC with limited liability, a subsidiary of Industrial Securities and an Independent Third Party
“Announcements”	the announcements of the Company dated 16 June 2017 and 19 June 2017 respectively regarding the discloseable transactions of the Company in relation to the First Contract and the Second Contract, respectively
“Articles of Association”	the articles of association of the Company (as amended from time to time)
“associates”	has the same meaning as ascribed to it under the Listing Rules
“Bank of Shanghai”	Bank of Shanghai Co., Ltd. (上海銀行股份有限公司), a licensed bank established under the laws of the PRC and an Independent Third Party
“close associates”	has the meaning as ascribed to it under the Listing Rules
“Company”	Lonking Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“CSRC”	the China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“Entrusted Assets”	the assets, as the subject matter of the Second Contract, that the asset entrustor has the right to legally dispose of and entrust the asset manager to manage, and such assets are under custody of the asset custodian pursuant to the Second Contract
“financial products”	the principal non-guaranteed closed financial products with floating returns denominated in Renminbi
“First Contract”	the contract dated 16 June 2017 entered into between the Lonking (Shanghai) Precision and Industrial Bank to subscribe for financial products in the amount of RMB500,000,000 (equivalent to approximately HK\$579,000,000)
“Group”	the Company and its subsidiaries

DEFINITIONS

“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons
“Industrial Bank”	Industrial Bank Co., Ltd. (興業銀行股份有限公司), a licensed joint-equity commercial bank incorporated under the laws of the PRC
“Industrial Securities”	Industrial Securities Co., Ltd. (興業證券股份有限公司), a licensed securities company established under the laws of the PRC and an Independent Third Party
“Latest Practicable Date”	9 August 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Lonking (Shanghai) Machinery”	Lonking (Shanghai) Machinery Co., Ltd. (龍工(上海)機械製造有限公司), a company established in the PRC with limited liability which is interested as to 99.89% by the Company and 0.11% by Shanghai Longgong Machinery Limited (上海龍工機械製造有限公司), a company which is owned as to 39.5% and 60.5% by Mr. Li and Ms. Ngai respectively
“Lonking (Shanghai) Precision”	Lonking (Shanghai) Precision Hydraulic Component Co., Ltd., (龍工(上海)精工液壓有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
“Mr. Li”	Mr. Li San Yim, an executive Director and the spouse of Ms. Ngai
“Ms. Ngai”	Ms. Ngai Ngan Ying, a non-executive Director and the spouse of Mr. Li
“Net Entrusted Assets Unit Value”	the net asset value of the Entrusted Assets (after deducting the fees, charges and expenses payable under the Second Scheme) divided by the total number of units of the Second Scheme as at the calculation date
“PRC”	the People’s Republic of China, excluding, for the purposes of this circular, Hong Kong, Taiwan and the Macau Special Administrative Region

DEFINITIONS

“QDII”	Qualified Domestic Institutional Investor, allows investors to invest in foreign securities markets via certain fund management institutions, insurance companies, securities companies and other assets management institutions which have been approved by China Securities Regulatory Commission
“Relevant Shareholders”	Mr. Li, Ms. Ngai and China Longgong Group Holdings Limited, each being an existing Shareholder
“Risk Disclosure Statement”	a statement for sufficient disclosure in financial products selling documents and risk assessment of financial products selling by applying banking and appropriate method, to objectively indicate important specialties of and significant facts related to the financial products according to requirements of relative regulatory of the China Banking Regulatory Commission
“RMB”	Renminbi, the lawful currency of the PRC
“Second Contract”	the supplemental contract dated 19 June 2017 entered into between Lonking (Shanghai) Machinery (as asset entrustor), Shanghai AEGON Rui Zhong (as asset manager) and Bank of Shanghai (as asset custodian) to increase the investment amount by RMB500,000,000 (equivalent to approximately HK\$579,000,000) in the asset management scheme managed by Shanghai AEGON Rui Zhong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shanghai AEGON Rui Zhong”	Shanghai AEGON Rui Zhong Asset Management Co., Ltd.* (上海興全睿眾資產管理有限公司), a company established in the PRC with limited liability which is licensed by the CSRC and a wholly-owned subsidiary of AEGON-INDUSTRIAL Fund
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Third Contract”	the contract dated 20 June 2017 entered into between the Lonking (Shanghai) Machinery and Industrial Bank to subscribe for financial products in the amount of RMB500,000,000 (equivalent to approximately HK\$579,000,000)

DEFINITIONS

“China Banking Regulatory
Commission”

the minister-level institution directly under and authorized by the State Council of the People’s Republic of China responsible for centralized supervising and managing banks, financial assets management companies, trust and investment companies and another saving-type financial organizations, and maintaining lawfulness and steady operation of the banking industry

“%”

per cent

* *For identification purposes only*

This circular contains translations between Renminbi and Hong Kong dollars amounts at RMB1.00=HK\$1.16, being the exchange rate prevailing as at the date of this circular. These translations shall not be taken as a representation that the Renminbi could actually be converted into Hong Kong dollar at such rates or at all.

LETTER FROM THE BOARD

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)

Executive Directors:

Mr. Li San Yim (*Chairman*)
Mr. Chen Chao
Mr. Luo Jian Ru
Mr. Zheng Ke Wen
Mr. Yin Kun Lun

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Non-executive Director:

Ms. Ngai Ngan Ying

Principle place of business

in Hong Kong:

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

Independent Non-executive Directors:

Dr. Qian Shi Zheng
Mr. Wu Jian Ming
Mr. Chen Zhen

14 August 2017

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION RELATING TO INVESTMENT IN FINANCIAL PRODUCTS

1. INTRODUCTION

The purposes of this circular are, to provide you with information regarding, among other things, (i) further details of the First Contract, the Second Contract and the Third Contract and the transactions contemplated thereunder; and (ii) financial information of the Group. This circular is despatched to the Shareholders for information purposes only.

* For identification purposes only

LETTER FROM THE BOARD

2. THE FIRST CONTRACT

Reference is made to the Announcements. On 16 June 2017, Lonking (Shanghai) Precision and Industrial Bank entered into the First Contract to subscribe for financial products in the amount of RMB500,000,000 (equivalent to approximately HK\$579,000,000) (the “**First Scheme**”) which will be funded by the internal resources of the Company.

The major terms of the First Contract are as follows:

Name of financial products:	Golden Snowball Closed RMB Financial Product of Industrial Bank 21004 (The third phase in 2017) (Principal non-guaranteed and floating returns type)
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Investment amount:	Up to RMB500,000,000 (equivalent to approximately HK\$579,000,000) The investment amount was determined by the Company with reference to the idle cash of the Company available to be utilized for investment purpose.
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Type of product:	Principal non-guaranteed and floating returns
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Reference net annualized rate of return:	5.2%
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Reference net annualized rate of return refers to the total return rate of the product’s investment portfolio minus the return rate of sale management fee, the rate of product custody fee and the rate of investment management fee (if any). Reference net annualized rate of return is the prediction of the bank based on assumptions, historical data or past investment experience, and does not reflect the actual gain of the investors, nor does it constitute a commitment to any income derived from the financial product.

Liquidity of product:	Closed (Not available for purchase and redemption upon the establishment of the product)
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Valid period of product:	Commencing from 16 June 2017 (as the subscription date) and up to 16 November 2017 (as the maturity date)
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The coverage of investment and investment management:	The coverage of the financial management series includes but not limited to:
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Category 1: monetary market instruments including bank deposit, bond repurchase, monetary funds and other interbank financing tools;

LETTER FROM THE BOARD

Category 2: market bonds and debt financing instruments from banks and stock exchanges, including treasury bonds, policy financial bonds, central bank bills, short-term financing notes, medium-term notes, enterprise bonds, corporate bonds, convertible bonds, subordinated debts and hybrid capital bonds, as well as other fixed income short-term investment instruments; and

Category 3: other financial assets and their portfolios that are in compliance with the requirements of the regulations of authorities, including trust schemes, asset management schemes of securities dealers, insurance debt investment plans, beneficial interests of fund account and the abovementioned assets, priority beneficial interests of securities investment structured trust products, equity beneficial right products based on investment in shares of companies listed on Shanghai and Shenzhen stock exchanges, priority beneficial interests of futures structured products, quantitative hedging investments, asset management plans of fund accounts based on investment in limited partnership equity, structured fund A shares investments and arbitrage, financial investments for the purpose of subscription for new shares under the placing tranche, bonds issued in overseas markets by QDII asset management scheme, financial instruments for the purpose of A-shares secondary market investment and other transactional financing products with controllable risks (as prescribed by Industrial Bank) approved by the approval departments of Industrial Bank.

If the duration of other financial assets deployed by the products, such as the trust scheme and the beneficial interest of trust, is inconsistent with the term (i.e. the duration of the former is longer than the one of the latter), the allocation proportion of assets with low liquidity arising from duration mismatches shall not exceed 70%.

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Industrial Bank will use the funding to make investments to the extent required with its principle of integrity, prudence and diligence. This product is subject to various factors such as market changes and failures or exceeding of the projected proceeds raised, which allows the scope of investment and the type and proportion of the assets to be reasonably variable without any compromise of client's expected returns and the risk ratings of the product.

Risk level:

The risk-level of investing in the First Scheme is medium. In accordance with the relevant regulatory requirements of China Banking Regulatory Commission on the contents of Risk Disclosure Statement from a financial product as well as the internal risk ratings management measure of Industrial Bank, this product is a medium risk financial product.

3. THE SECOND CONTRACT

On 19 June 2017, Lonking (Shanghai) Machinery (as asset entrustor), Shanghai AEGON Rui Zhong (as asset manager) and Bank of Shanghai (as asset custodian) entered into the Second Contract, being the supplemental contract to the First Contract, to increase the investment amount by RMB500,000,000 (equivalent to approximately HK\$579,000,000) in the asset management scheme managed by Shanghai AEGON Rui Zhong (the “**Second Scheme**”).

The major terms of the Second Contract are as follows:

Investment amount:

Up to RMB500,000,000 (equivalent to approximately HK\$579,000,000) which will be funded by the internal resources of the Group.

LETTER FROM THE BOARD

Scope and proportion of Investment: Investment under the Second Scheme will include cash, bank deposits, shares (including new shares and private placement), subjects of Hong Kong stocks on Shanghai Hong Kong Stock Connect (滬港通) and Shenzhen Hong Kong Stock Connect (深港通), bonds (including newly issued bonds and convertible bonds), exchangeable private placement bonds, bond repurchase, securities investment funds (including securities investment funds issued by AEGON-INDUSTRIAL Fund), other asset management schemes operated by the other mutual fund companies and their subsidiaries (including special asset management schemes, and asset management schemes issued by Shanghai AEGON Rui Zhong and AEGON-INDUSTRIAL Fund), central bank bills, non-financial corporate debt financing instruments, asset backed securities, various types of asset income rights and other assets approved by the CSRC.

Investment in the subjects of Hong Kong stocks on Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect can only be made when the corresponding system of the asset custodian is completed. Such investment is not applicable to the securities of the Company.

Under the Second Scheme, the proportion of investment in shares (including new shares) shall be not more than 80% of the net asset value of the Second Scheme by market capitalization; the proportion of investment in bonds (including newly issued bonds) and exchangeable private placement bonds shall be not more than 100% of the total asset value of the Second Scheme by market capitalization; and the proportion of investment in funds shall be not more than 100% of the net asset value of the Second Scheme by market capitalization.

Fee: In addition to other charges and expenses, the Company shall pay asset management fee and asset custodian fee to Shanghai AEGON Rui Zhong and Bank of Shanghai, respectively calculated based on the investment amount.

(a) Asset management fee (per day) = net value of the Entrusted Assets as at the previous day x 1.2%/total number of calendar days of the relevant year

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The rate of the asset management fee of 1.2% was determined based on the average rates of 1 to 2% of similar products offered by Shanghai AEGON Rui Zhong to its individual customers other than the Group as adjusted in accordance with different situations of specific customers and agreed between the asset manager and the asset entrustor. Taking into account the tailor-made features of the products offered by Shanghai AEGON Rui Zhong to its individual customers, the asset management fee of the Second Scheme has been adjusted with reference to the scale, the term, the investment scope and the specific terms and conditions of the above comparable products.

The Directors are of the view that the asset management fee is fair and reasonable as (a) it was determined by making reference to the “2-20” fee model (the “**Fee Model**”) for private equity funds which is widely adopted by the market that private equity fund management companies charge about 2% of the fund size as asset management fee and about 20% of the investment return as the performance-based management fee; (b) the Group shall monitor whether Shanghai AEGON Rui Zhong has been charging the asset management fee in accordance with the Fee Model; and (c) the asset management fee was determined by taking into account the scale, the term, the investment scope and the specific terms and conditions of the Second Scheme.

(b) Asset custodian fee (per day) = net value of the Entrusted Assets as at the previous day x 0.10%/total number of calendar days of the relevant year.

The rate of the asset custodian fee of 0.10% was determined based on the generally accepted rate in banking industry.

Term:

The Contract is valid for one year from 19 June 2017. The Contract can be extended on a basis of one year cycle if no written objection is raised by the asset entrustor within one month before the expiry of the Contract. During the term of the Contract, the asset entrustor can request the termination of the Contract in writing. The date of the termination of the Contract is determined subject to no objections confirmed by the asset manager and the asset custodian. Upon the termination of the Contract, the parties to the Contract should liquidate the Entrusted Assets in accordance with the Contract.

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Risk-return profile:	The risk-return profile of the Second Scheme is “relatively high risk and relatively high return”.
Expected return:	Floatable return with no guaranteed profits.
Composition of cash income available for distribution:	The composition of cash income available for distribution is the cash that can be allocated to asset entrustor, after deducting all the taxes and expenses payable by the Entrusted Assets from the carrying cash value of the Entrusted Assets in custody in the custodial account. The net asset value of the Entrusted Assets after the distribution of income should be no less than RMB30,000,000.
Withdrawal of Entrusted Assets:	The Entrusted Assets is not allowed to be withdrawn within 10 working days from depositing the investment amount. For the remaining term of the Contract, if the net asset value of the Entrusted Assets is more than RMB30,000,000, partial withdrawal of the Entrusted Assets is allowed, provided that the net asset value of the remaining Entrusted Assets after withdrawal shall not be less than RMB30,000,000. In the event that the net asset value of the Entrusted Assets is less than RMB30,000,000, early withdrawal is not allowed but the parties to the Contract may by mutual agreement to early terminate the Contract.
Risk Exposure and Stop Loss:	The initial Net Entrusted Assets Unit Value is RMB1.00. The Second Scheme has set a stop loss value of the Net Entrusted Assets Unit Value of RMB0.80, and upon the Net Entrusted Assets Unit Value of the Second Scheme on a trade day hitting the stop loss value, the asset manager will realize all the assets of the Second Scheme by closing out all positions within 15 working days (except for restricted assets (流通受限資產)), and the Second Scheme will be subject to early termination and will be liquidated. Since the Second Scheme is a principal non-guaranteed product, the asset entrustor shall bear the risk of no gain or loss of principal.

4. THE THIRD CONTRACT

On 20 June 2017, Lonking (Shanghai) Machinery and Industrial Bank entered into the Third Contract to subscribe for financial products in the amount of RMB500,000,000 (equivalent to approximately HK\$579,000,000) (the “**Third Scheme**”) which will be funded by the internal resources of the Company.

To the best information, knowledge and belief of the Directors, and after making all reasonable enquiries, Industrial Bank and its associates are Independent Third Parties.

LETTER FROM THE BOARD

The major terms of the Third Contract are as follows:

Name of financial products:	Golden Snowball Closed RMB Financial Product of Industrial Bank 21006 (The third phase in 2017) (Principal non-guaranteed and floating returns type)
Investment amount:	Up to RMB500,000,000 (equivalent to approximately HK\$579,000,000) as stipulated in the Third Contract which will be funded by the internal resources of the Group. The investment amount was determined by the Company with reference to the idle cash of the Company available to be utilized for investment purpose.
Type of product:	Principal non-guaranteed and floating returns
Reference net annualized rate of return:	5.2% Reference net annualized rate of return refers to the total return rate of the product's investment portfolio minus the return rate of sale management fee, the rate of product custody fee and the rate of investment management fee (if any). Reference net annualized rate of return is the prediction of the bank based on assumptions, historical data or past investment experience, and does not reflect the actual gain of the investors, nor does it constitute a commitment to any income derived from the financial product.
Liquidity of product:	Closed (Not available for purchase and redemption upon the establishment of the product)
Valid period of product:	Commencing from 20 June 2017 (as the subscription date) and up to 18 December 2017 (as the maturity date)
The coverage of investment and investment management:	The coverage of the financial management series includes but not limited to: Category 1: monetary market instruments including bank deposit, bond repurchase, monetary funds and other interbank financing tools;

LETTER FROM THE BOARD

Category 2: market bonds and debt financing instruments from banks and stock exchanges, including treasury bonds, policy financial bonds, central bank bills, short-term financing notes, medium-term notes, enterprise bonds, corporate bonds, convertible bonds, subordinated debts and hybrid capital bonds, as well as other fixed income short-term investment instruments; and

Category 3: other financial assets and their portfolios that are in compliance with the requirements of the regulations of authorities, including trust schemes, asset management schemes of securities dealers, insurance debt investment plans, beneficial interests of fund account and the abovementioned assets, priority beneficial interests of securities investment structured trust products, equity beneficial right products based on investment in shares of companies listed on Shanghai and Shenzhen stock exchanges, priority beneficial interests of futures structured products, quantitative hedging investments, asset management plans of fund accounts based on investment in limited partnership equity, structured fund A shares investments and arbitrage, financial investments for the purpose of subscription for new shares under the placing tranche, bonds issued in overseas markets by QDII asset management scheme, financial instruments for the purpose of A-shares secondary market investment and other transactional financing products with controllable risks (as prescribed by Industrial Bank) approved by the approval departments of Industrial Bank.

If the duration of other financial assets deployed by the products, such as the trust scheme and the beneficial interest of trust, is inconsistent with the term (i.e. the duration of the former is longer than the one of the latter), the allocation proportion of assets with low liquidity arising from duration mismatches shall not exceed 70%.

LETTER FROM THE BOARD

Industrial Bank will use the funding to make investments to the extent required with its principle of integrity, prudence and diligence. This product is subject to various factors such as market changes and failures or exceeding of the projected proceeds raised, which allows the scope of investment and the type and proportion of the assets to be reasonably variable without any compromise of client's expected returns and the risk ratings of the product.

Risk level:

The risk-level of investing in the Third Scheme is medium. In accordance with the relevant regulatory requirements of China Banking Regulatory Commission on the contents of Risk Disclosure Statement from a financial product as well as the internal risk ratings management measure of Industrial Bank, this product is a medium risk financial product.

5. REASONS FOR AND BENEFITS OF ENTERING INTO THE THIRD CONTRACT

By entering into the Third Contract, the Group intends to maximize the utilization of idle funds of the Group, and improve the capital usage efficiency and investment return of the Group. The Directors (including independent non-executive Directors) are of the opinion that the terms of the Third Contract are fair and reasonable and are in the interests of the Group and its Shareholders as whole.

The Board takes into account of (i) the risk level and estimated investment return of the investment products, and (ii) the working capital sufficiency of the Company, to determine the suitable investment products.

The benchmark of rate of return for Golden Snowball Closed RMB Financial Product of Industrial Bank 21006 (The third phase in 2017) was determined with reference to the rate of annualized return set by Industrial Bank for its other clients who invested in similar type of investment products. The reference rate ranges from 4.8% to 5.2%.

The Company also made comparison between various commercial banks on their rate of return of investment products, reputation and capability, security control measures, risk management and service quality to ensure that the Company would be benefited from the investment products subscribed through Industrial Bank.

6. RISK FACTORS ASSESSMENT ON THE INVESTMENT PRODUCTS

The following risk factors were assessed on the investment products:

- **Credit risk:** the portfolio managers invest in the investment products according to the “product description”. Where certain counterparties to relevant investment products default, or when their credit level decreases, the Company may face the risk of losing the investment principal and return.

LETTER FROM THE BOARD

- **Interest rate risk:** the profit rate of the investment products changes depending on the market interest rate, the Company may face the risk of losing the investment principal and return. If the price index rises, and the profit rate of investment products is lower than the inflation rate, a negative rate of return may occur.
- **Liquidity risk:** the Company cannot terminate or redeem the investment in advance during the term of investment, therefore the Company is unable to withdraw amount invested in the financial products to meet our liquidity needs. Certain assets in the portfolio will be realized at the fair value of the market, which may cause a loss in investment principal and return.
- **Regulation and policy risk:** changes to national regulatory policy, monetary policy, fiscal and taxation policy, industrial policy, macroeconomic policies and related laws and regulations might affect the operation of investment, which results in the loss of the investment principal and return.
- **Deferred payment risk:** financial assets may not be realized in a timely manner due to changes in the capital market, defer payment may result in a loss of the principal and return of the investment products.
- **Early repayment risk:** the estimated rate of return may not be reached if the investment term is terminated earlier than agreed.
- **Information transmission risk:** the Company may not be able to access the relevant information in a timely manner if there is a system failure, which results in a loss of the investment return.
- **Others:** force majeure, poor performance of investment managers and lapse of investment products.

7. INTERNAL PROCEDURES FOR MAKING INVESTMENT DECISIONS

Our financial department prepares investment proposal after seeking advice from external experts. The investment proposal contains relevant information for making investment decisions, amongst others, the Company's current situation of business operation, risk analysis of the investment products, the rate of return of investment products and the terms and conditions of the subscription agreement. The senior management of the Company is responsible for reviewing the investment proposal and reporting to the Chairman of the Board and the Chief Financial Officer if they approved such proposal. The Chairman of the Board and the Chief Financial Officer will make final decision on approving the investment proposal. The Company complies with these procedures every time when making investment decision.

8. INFORMATION OF THE PARTIES TO THE THIRD CONTRACT

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

LETTER FROM THE BOARD

Lonking (Shanghai) Machinery is a non-wholly owned subsidiary of the Company which is primarily engaged in the manufacture and distribution of wheel loaders.

9. LISTING RULES IMPLICATIONS

One or more of the applicable percentage ratios in respect of the investment amount under the Third Contract when aggregated with the investment amount under the First Contract and the Second Contract as disclosed in the Announcements exceeds 25% but is less than 100%. The entering of the Third Contract when aggregated with the First Contract and the Second Contract constitutes a major transaction of the Company and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Company has obtained written shareholders' approval for the Third Contract and the transactions contemplated thereunder pursuant to Rule 14.44 of the Listing Rules from the Relevant Shareholders, who together, are the beneficial owners holding an aggregate of 2,385,316,520 Shares, representing approximately 55.73% of the issued share capital of the Company as at the date of this announcement. To the best information, knowledge and belief of the Directors, after making all reasonable enquires, no Shareholder or any of its associate has any material interest in the Third Contract and the transactions contemplated thereunder and is required to abstain from voting if the Company were to convene a general meeting for approving the Third Contract and the transactions contemplated thereunder. As such, no general meeting will be convened for the purpose of approving the Third Contract and the transactions contemplated thereunder as permitted under Rule 14.44 of the Listing Rules.

As additional time was required to prepare and finalize the information to be included in this circular, the Company has applied for and the Stock Exchange has granted a waiver from strict compliance with Rule 14.41(a) of the Listing Rules.

10. RECOMMENDATION

The Directors are of the view that the terms of the Third Contract are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. If a general meeting were to be convened for the approval of the Third Contract and the transactions contemplated thereunder, the Board would recommend the Shareholders to vote in favour of the resolution to approve the same at such general meeting.

11. ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Lonking Holdings Limited
Li San Yim
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

The Company is required to set out in this circular the information for the last three financial years with respect to the profits and losses, financial record and position in a comparative table and the latest published audited balance sheet together with the notes on the annual report for the last financial year of the Group.

The audited consolidated financial statements of the Group prepared in accordance with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants for the three financial years ended 31 December 2016 together with the relevant notes thereto can be found from pages 40 to 144 of the annual report of the Company for the year ended 31 December 2014, pages 41 to 136 of the annual report of the Company for the year ended 31 December 2015 and pages 55 to 150 of the annual report of the Company for the year ended 31 December 2016, respectively.

Each of the said audited consolidated financial statements of the Group for the three financial years ended 31 December 2016 is incorporated by reference to this circular and forms part of this circular. The said annual reports of the Company are available on the Company's website at www.lonkinggroup.com and the website of the Stock Exchange at www.hkexnews.hk. Please also see below the links to the annual reports of the Company:

Annual Report 2016:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0424/LTN201704241557.pdf>

Annual Report 2015:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0422/LTN20160422467.pdf>

Annual Report 2014:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0424/LTN20150424558.pdf>

2. INDEBTEDNESS

As at the close of business on 30 June 2017, being the latest practicable date for the purpose of this indebtedness statement, the Group had indebtedness as follows:

Borrowings

As at 30 June 2017, the Group had total outstanding borrowings of approximately RMB1,660 million which are secured bank loans.

Pledge of assets

As at 30 June 2017, the Group had pledged assets with aggregate carrying values of approximately RMB1,382 million, of which approximately RMB1,262 million and RMB120 million are pledged as collateral for bank loans and other loans respectively.

Contingent liabilities and guarantees

As at 30 June 2017, the Group had no any contingent liabilities or guarantees.

Save as disclosed above, the Group did not have any outstanding mortgages, charges, debentures or other loan capital or bank overdrafts, loans, debt securities or other similar indebtedness or acceptance credits or hire purchase commitments or any guarantees or other material contingent liabilities as at 30 June 2017.

3. WORKING CAPITAL

Taking into account the financial resources available to the Group, without obtaining any additional financing from any persons or institutions for 12 months from the date of publication of this circular, and in the absence of unforeseen circumstances, and also taking into account the effect of the Third Contract, the Directors believed that the Group will be in a strong and healthy position and has sufficient resources in support of its working capital requirement and meet its foreseeable capital expenditure.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

In 2017, China's supply side reform will enter into a critical period, the national economy will be stable and trending good, and construction machinery will also usher in a stable stage of development. The Company will seize the opportunity, take advantage of it, and continue to concentrate on construction machinery industry to develop four host products (loaders, fork lifts, excavators, road rollers) and core components stronger and excellent. The Company will consolidate corporate management basis, improve the corporate governance mechanism, intensively and comprehensively enhance the management level of the Company, do a good job in process tracking and product after-sales service, increase R & D investment, continue to enhance its own technology R & D capabilities, enhance product reliability, pay attention to product quality, and improve product brand influence and attention. In addition, the Company will continue to explore and develop the market, improve channel management capabilities, with focus on enhancing market share, integrate marketing channels, establish smooth information channels, use flexible marketing strategy, and occupy and deeply cultivate the excavators market in the city, to increase the market share of its products. While exploring and developing domestic market, the Company will also optimize its export product structure, improve the construction of overseas marketing network, and expand the proportion of exports. The Company will continuously consolidate and optimize its dominating terrain features, and continue to consolidate the industry leader status of its main core products. In fork lifts market, the Company will optimize the allocation of procurement and transportation resources, strengthen cost control and expense management, improve decision-making efficiency and level, continue to practice the Group's robust business style, and establish a sound risk control and management mechanism, to ensure the healthy development of the Company and dealers "really and flexibly". The Company will promote the Group's big family culture, create a good family atmosphere, improve staff stability and satisfaction, be highly concerned

about the survival and development of partners, and achieve real win-win, to ensure the healthier and longer-term development of the Company. At last, the Company will stay true to its initial determination, seize the opportunity, and strive to create a new situation in the development of the Group's undertaking.

5. MATERIAL ADVERSE CHANGE

As disclosed in the annual report of the Company for the year ended 31 December 2016, in the year of 2016, the Group recorded net profit of approximately RMB462 million, representing a year-on-year increase of 296.06%, mainly attributable to the increase in gross profit brought about by the increase in sales and the decrease in sales cost, the increase in foreign exchange earnings, and the reduction in expenses such as financial expenses.

Save as disclosed above, the Directors are not aware of any other material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the latest published audited financial statements of the Group have been made up and up to and including the Latest Practicable Date.

6. EFFECT OF THE THIRD CONTRACT ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP

The financial products are recorded as available-for-sale investments under current assets of the Group. Entering into the Third Contract will increase the available-for-sale investments of the Group and will decrease the bank balances and cash of the Group. The investment return of the financial products will be recorded as other comprehensive income of the Group.

1. RESPONSIBILITY STATEMENTS

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with respect to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors

As at the Latest Practicable Date, the interests and short positions of the Director and chief executive of the Company in the Shares or, underlying shares or debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

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

Name of directors	Capacity	Number of Shares held	Approximate percentage of the issued share capital of the Company
Li San Yim and Ngai Ngan Ying (<i>Note 1</i>)	Held by controlled corporation (<i>Note 2</i>)	1,312,058,760	30.65%
Li San Yim and Ngai Ngan Ying (<i>Note 1</i>)	Beneficial owner	1,073,257,760	25.08%
Luo Jianru	Beneficial owner	1,902,000	0.04%
Chen Chao	Beneficial owner	1,327,000	0.03%
Zheng Ke Wen	Beneficial owner	429,900	0.01%
		<u>2,388,975,420</u>	<u>55.81%</u>

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

Note 2: These shares were held through China Longgong Group Holdings Limited, a company that is wholly owned by Mr. Li San Yim and Ms. Ngai Ngan Ying as to 55% and 45% respectively, which is the registered shareholder of these 1,312,058,760 shares.

(ii) *Long positions in shares of the associated corporation of the Company and Lonking (Shanghai) Machinery*

Name of directors	Capacity	Number of Shares held	Percentage of the issued share capital of the Company
Mr. Li San Yim	Corporate <i>(Note)</i>	480,000	0.11%
Ms. Ngai Ngan Ying	Corporate <i>(Note)</i>	480,000	0.11%

Note: The 0.11% interest of Lonking (Shanghai) Machinery is held by Shanghai Longgong Machinery Limited, which is owned by Mr. Li and Ms. Ngai as to 39.5% and 60.5% respectively.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

(b) **Substantial shareholders**

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, Shareholders (other than a Director or chief executive of the Company) who had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name of shareholders	Capacity	Number of Shares held	Percentage of the issued share capital of the Company
China Longgong Group Holdings Limited <i>(Note)</i>	Beneficial owner	1,312,058,760	30.65%
GIC Private Limited	Investment manager	254,303,916	5.94%

Note: China Longgong Group Holdings Limited is wholly owned by Mr. Li and Ms. Ngai as to 55% and 45% respectively. Both Mr. Li and Ms. Ngai are directors of China Longgong Group Holdings Limited.

Save as disclosed in this circular, as at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, other than a Director or chief executive of the Company, no persons had interests or short position in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable within one year without payment of compensation, other than statutory compensation).

4. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this circular and are or may be material:

- (a) the First Contract;
- (b) the Second Contract; and
- (c) the asset management contract dated 23 September 2015 entered into between Lonking (Shanghai) Machinery (as asset entrustor), Shanghai AEGON Rui Zhong (as asset manager) and Bank of Shanghai (as asset custodian) with an investment amount of RMB200,000,000 (equivalent to approximately HK\$243,000,000).

5. LITIGATION

So far as the Company is aware, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

6. COMPETING BUSINESS INTEREST OF DIRECTORS

As at the Latest Practicable Date, none of the Directors nor their respective close associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

7. MISCELLANEOUS

- (a) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2016, being the date to which the latest published audited accounts of the Group were made up.

- (b) As at the Latest Practicable Date, none of the Directors was materially interested in contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.
- (c) The company secretary of the Company is Mr. Chu Shun. He is a member of the Institute of Public Accountants in Australia.
- (d) The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (e) The principal place of business of the Company in Hong Kong is Unit 1802, 18th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.
- (f) The principal share registrar of the Company in Cayman Islands is SMP Partners (Cayman) Limited at 3rd Floor, Royal Bank House, 24 Shedden Road, P.O. Box 1586, Grand Cayman, KY1-1110, Cayman Islands.
- (g) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (h) The English text of this circular shall prevail over their respective Chinese text for the purpose of interpretation.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's registered office at Unit 1802, 18th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong during normal business hours on any weekdays, except public holidays, from the date of this circular up to and including 28 August 2017:

- (a) the memorandum and articles of association of the Company;
- (b) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;
- (c) the Third Contract; and
- (d) this circular.