**Zoomlion Heavy Industry Science and Technology Co., Ltd.***
中聯重科股份有限公司
*(a joint stock company incorporated in the People's Republic of China with limited liability)*
**(Stock Code: 1157)**

# ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

## FINANCIAL HIGHLIGHTS

- Turnover of the Group for 2014 was RMB25,851 million, representing a decrease of RMB12,691 million or 32.93% over 2013.
- Profit attributable to equity shareholders of the Company for 2014 was RMB594 million, representing a decrease of RMB3,250 million or 84.55% over 2013.
- Earnings per share for 2014 was RMB0.08.
- The Board proposed a final dividend of RMB0.05 per share for the year of 2014.

The board of directors (the "Board") of Zoomlion Heavy Industry Science and Technology Co., Ltd.* (the "Company") hereby announces the audited results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2014 together with the comparative figures for 2013:

# FINANCIAL RESULTS

Financial information extracted from the audited financial statements for 2014 prepared in accordance with International Financial Reporting Standards ("IFRSs"):

***Consolidated statement of comprehensive income***
*For the year ended 31 December 2014*
*(Expressed in RMB)*

| | *Note* | **2014** ***RMB millions*** | 2013 *RMB millions* |
|---|---|---|---|
| **Turnover** | *3* | **25,851** | 38,542 |
| Cost of sales and services | | **(18,642)** | (27,300) |
| **Gross profit** | | **7,209** | 11,242 |
| Other revenues and net income/(loss) | | **164** | (49) |
| Sales and marketing expenses | | **(3,036)** | (3,631) |
| General and administrative expenses | | **(2,347)** | (2,701) |
| Research and development expenses | | **(443)** | (570) |
| **Profit from operations** | | **1,547** | 4,291 |
| Net finance costs | *4(a)* | **(692)** | 195 |
| Gain on disposal of associates | | **7** | — |
| Share of profits less losses of associates | | **1** | 41 |
| **Profit before taxation** | *4* | **863** | 4,527 |
| Income tax | *5* | **(235)** | (570) |
| **Profit for the year** | | **628** | 3,957 |
| **Other comprehensive income for the year (after tax)** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of financial statements of subsidiaries outside PRC | | **(210)** | (51) |
| Change in fair value of available-for-sale equity securities | | **3** | (1) |
| **Total other comprehensive income for the year** | | **(207)** | (52) |
| **Total comprehensive income for the year** | | **421** | 3,905 |

| | Note | **2014**<br>***RMB millions*** | 2013<br>*RMB millions* |
|---|---|---|---|
| **Profit attributable to:** | | | |
| Equity shareholders of the Company | | **594** | 3,844 |
| Non-controlling interests | | **34** | 113 |
| **Profit for the year** | | **628** | 3,957 |
| **Total comprehensive income attributable to:** | | | |
| Equity shareholders of the Company | | **387** | 3,792 |
| Non-controlling interests | | **34** | 113 |
| **Total comprehensive income for the year** | | **421** | 3,905 |
| **Basic and diluted earnings per share (RMB)** | *7* | **0.08** | 0.50 |

***Consolidated balance sheet***
*As at 31 December 2014*
*(Expressed in RMB)*

| | Note | **2014** | 2013 |
|---|---|---|---|
| | | ***RMB millions*** | *RMB millions* |
| **Non-current assets** | | | |
| Property, plant and equipment | | **6,781** | 6,847 |
| Lease prepayments | | **1,960** | 1,610 |
| Intangible assets | | **1,347** | 1,320 |
| Goodwill | *9* | **1,661** | 1,796 |
| Interests in associates | | **228** | 195 |
| Other financial assets | | **471** | 146 |
| Trade and other receivables | *10* | **3,697** | 3,610 |
| Receivables under finance lease | *11* | **4,476** | 7,407 |
| Pledged bank deposits | | **520** | 974 |
| Other non-current assets | | **2,088** | — |
| Deferred tax assets | *13(b)* | **618** | 644 |
| **Total non-current assets** | | **23,847** | 24,549 |
| **Current assets** | | | |
| Inventories | | **10,376** | 8,747 |
| Other current assets | | **280** | 306 |
| Trade and other receivables | *10* | **30,639** | 26,569 |
| Receivables under finance lease | *11* | **12,202** | 10,228 |
| Pledged bank deposits | | **1,891** | 2,441 |
| Cash and cash equivalents | | **14,483** | 16,657 |
| **Total current assets** | | **69,871** | 64,948 |
| **Total assets** | | **93,718** | 89,497 |
| **Current liabilities** | | | |
| Loans and borrowings | | **5,687** | 8,397 |
| Trade and other payables | *12* | **19,494** | 23,891 |
| Income tax payable | *13(a)* | **30** | 437 |
| **Total current liabilities** | | **25,211** | 32,725 |
| **Net current assets** | | **44,660** | 32,223 |

| | Note | **2014** | 2013 |
|---|---|---|---|
| | | ***RMB millions*** | *RMB millions* |
| **Total assets less current liabilities** | | **68,507** | 56,772 |
| **Non-current liabilities** | | | |
| Loans and borrowings | | **25,925** | 12,750 |
| Other non-current liabilities | | **899** | 1,542 |
| Deferred tax liabilities | *13(b)* | **475** | 468 |
| **Total non-current liabilities** | | **27,299** | 14,760 |
| **NET ASSETS** | | **41,208** | 42,012 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **7,706** | 7,706 |
| Reserves | | **33,085** | 33,873 |
| **Total equity attributable to equity shareholders of the Company** | | **40,791** | 41,579 |
| **Non-controlling interests** | | **417** | 433 |
| **TOTAL EQUITY** | | **41,208** | 42,012 |

***Consolidated statement of changes in equity***

*For the year ended 31 December 2014*

*(Expressed in RMB)*

| | Attributable to equity shareholders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Capital reserve** | **Statutory surplus reserve** | **Exchange reserve** | **Other reserve** | **Retained earnings** | **Total** | **Non-controlling interests** | **Total equity** |
| | *RMB millions* | *RMB millions* | *RMB millions* | *RMB millions* | *RMB millions* | *RMB millions* | *RMB millions* | *RMB millions* | *RMB millions* |
| **Balance at 1 January 2013** | **7,706** | **14,606** | **2,613** | **(59)** | **(2)** | **15,898** | **40,762** | **387** | **41,149** |
| Appropriation | — | — | 289 | — | — | (289) | — | — | — |
| Cash dividends | — | — | — | — | — | (1,541) | (1,541) | — | (1,541) |
| Safety production fund | — | — | — | — | 5 | (5) | — | — | — |
| Contribution from non-controlling interests | — | — | — | — | — | — | — | 3 | 3 |
| Acquisition of non-controlling interests | — | (1,434) | — | — | — | — | (1,434) | (43) | (1,477) |
| Dividends declared by subsidiaries to non-controlling interests | — | — | — | — | — | — | — | (27) | (27) |
| Total comprehensive income for the year | — | — | — | (51) | (1) | 3,844 | 3,792 | 113 | 3,905 |
| **Balance at 31 December 2013 and 1 January 2014** | **7,706** | **13,172** | **2,902** | **(110)** | **2** | **17,907** | **41,579** | **433** | **42,012** |
| Appropriation | — | — | 4 | — | — | (4) | — | — | — |
| Cash dividends | — | — | — | — | — | (1,156) | (1,156) | — | (1,156) |
| Contribution from non-controlling interests | — | — | — | — | — | — | — | 2 | 2 |
| Acquisition of non-controlling interests | — | (19) | — | — | — | — | (19) | (38) | (57) |
| Dividends declared by subsidiaries to non-controlling interests | — | — | — | — | — | — | — | (14) | (14) |
| Total comprehensive income for the year | — | — | — | (210) | 3 | 594 | 387 | 34 | 421 |
| **Balance at 31 December 2013 and 1 January 2014** | **7,706** | **13,153** | **2,906** | **(320)** | **5** | **17,341** | **40,791** | **417** | **41,208** |

*Consolidated cash flow statement*
*For the year ended 31 December 2014*
*(Expressed in RMB)*

| | **2014** | 2013 |
|---|---|---|
| | ***RMB millions*** | *RMB millions* |
| **Operating activities** | | |
| **Profit before taxation** | **863** | 4,527 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **512** | 459 |
| Amortisation of lease prepayments | **38** | 29 |
| Amortisation of intangible assets | **96** | 74 |
| Share of profits less losses of associates | **(1)** | (41) |
| Interest income | **(720)** | (694) |
| Interest expense | **1,260** | 970 |
| Loss on disposal of property, plant and equipment, and intangible assets | **11** | 22 |
| Loss on disposal of a subsidiary | **—** | 1 |
| Gain on disposal of associates | **(7)** | — |
| Loss/(gain) on remeasurement of derivative financial instruments at fair value | **12** | (3) |
| Impairment loss of property, plant and equipment | **—** | 12 |
| Impairment loss of goodwill | **—** | 25 |
| | **2,064** | 5,381 |
| (Increase)/decrease in inventories | **(581)** | 3,041 |
| Increase in trade and other receivables | **(4,058)** | (8,086) |
| Decrease in receivables under finance lease | **2,471** | 2,543 |
| Cash paid for repurchase of equipment at fair market value from banks to which the Group previously factored its receivables under finance lease without recourse | **(2,509)** | (673) |
| Cash paid for repurchase of equipment from third-party leasing company under joint leasing arrangement | **—** | (64) |
| Decrease in trade and other payables | **(5,166)** | (720) |
| **Cash (used in)/generated from operations** | **(7,779)** | 1,422 |
| Income tax paid | **(632)** | (1,379) |
| **Net cash (used in)/generated from operating activities** | **(8,411)** | 43 |

| | 2014 | 2013 |
|---|---|---|
| | ***RMB millions*** | *RMB millions* |
| **Investing activities** | | |
| Payment for purchase of property, plant and equipment | **(534)** | (853) |
| Lease prepayments | **(388)** | (196) |
| Payment for purchase of intangible assets | **(53)** | (89) |
| Dividends received from associates | **16** | 13 |
| Prepayment for acquisition of Detank Heavy Machinery Co., Ltd. | **(2,088)** | — |
| Payment for acquisition of investments in available-for-sale financial assets | **(350)** | — |
| Proceeds from disposal of other investments | **38** | — |
| Payment for acquisition of m-tec mathis technik GmbH, net of cash acquired | **(239)** | — |
| Payment for investments in associates and equity investments | **(46)** | (22) |
| Proceeds from disposal of property, plant and equipment and intangible assets | **29** | 51 |
| Proceeds from disposal of a subsidiary | **—** | 2 |
| Interest received | **720** | 694 |
| Decrease/(increase) in pledged bank deposits | **1,004** | (292) |
| **Net cash used in investing activities** | **(1,891)** | (692) |
| **Financing activities** | | |
| Proceeds from loans and borrowings | **14,296** | 12,175 |
| Proceeds from issuance of RMB medium-term notes | **8,991** | — |
| Repayments of loans and borrowings | **(12,707)** | (10,924) |
| Interest paid | **(1,134)** | (956) |
| Dividends paid to equity shareholders | **(1,156)** | (1,540) |
| Dividends paid by subsidiaries to non-controlling interests | **(18)** | (42) |
| Contribution from non-controlling interests | **2** | 2 |
| Payment for acquisition of non-controlling interests | **(44)** | (1,469) |
| **Net cash generated from/(used in) financing activities** | **8,230** | (2,754) |
| **Net decrease in cash and cash equivalents** | **(2,072)** | (3,403) |
| **Cash and cash equivalents at beginning of year** | **16,657** | 20,084 |
| **Effect of foreign exchange rate changes** | **(102)** | (24) |
| **Cash and cash equivalents at end of year** | **14,483** | 16,657 |

*Notes to the financial information*
*For the year ended 31 December 2014*

## 1 STATEMENT OF COMPLIANCE

Consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). IFRSs include all individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related interpretations. Consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## 2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued the following amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to IFRS 10, IFRS 12 and IAS 27, Investment entities
- Amendments to IAS 32, Offsetting financial assets and financial liabilities
- Amendments to IAS 36, Recoverable amount disclosures for non-financial assets
- Amendments to IAS 39, Novation of derivatives and continuation of hedge accounting
- IFRIC 21, Levies

The Group has adopted the above amendments and interpretation. These amendments do not have significant impact on the Group's financial statements. The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period.

## 3 TURNOVER

The principal activities of the Group are research, development, manufacturing and sale and leasing of concrete machinery, crane machinery, environmental and sanitation machinery, road construction and pile foundation machinery and other related heavy machinery and capital equipment.

Turnover represents revenue from sales and lease of the Group's machinery products, net of value-added tax and is after deduction of any trade discounts.

The amounts of each significant category of revenue recognised in turnover are as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB millions*** | *RMB millions* |
| Sales of: | | |
| Concrete machinery | **10,555** | 17,191 |
| Crane machinery | **7,423** | 12,479 |
| Environmental and sanitation machinery | **4,024** | 3,282 |
| Road construction and pile foundation machinery | **1,026** | 1,731 |
| Earth working machinery | **698** | 772 |
| Other machinery products | **1,195** | 1,626 |
| Finance income under finance lease | **930** | 1,461 |
| | **25,851** | 38,542 |

## 4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

### (a) Net finance costs:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB millions*** | *RMB millions* |
| Finance income: | | |
| Interest income | **(720)** | (694) |
| Loss/(gain) on remeasurement of derivative financial instruments at fair value | **12** | (3) |
| | **(708)** | (697) |
| Finance costs: | | |
| Interest on loans and borrowings | **1,260** | 970 |
| Net exchange loss/(gain) | **140** | (468) |
| | **1,400** | 502 |
| | **692** | (195) |

### (b) Staff costs:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB millions*** | *RMB millions* |
| Salaries, wages and other benefits | **2,706** | 3,029 |
| Contributions to retirement schemes | **263** | 265 |
| | **2,969** | 3,294 |

(c) **Other items:**

| | **2014** | 2013 |
|---|---|---|
| | ***RMB*** | *RMB* |
| | ***millions*** | *millions* |
| Cost of inventories sold | **18,640** | 27,295 |
| Depreciation of property, plant and equipment | **512** | 459 |
| Amortisation of lease prepayments | **38** | 29 |
| Amortisation of intangible assets | **96** | 74 |
| Operating lease charges | **202** | 230 |
| Auditors' remuneration: | | |
| — audit services | **12** | 14 |
| — non-audit services | **—** | 1 |
| Product warranty costs | **95** | 156 |
| Loss on disposal of property, plant and equipment and intangible assets | **11** | 22 |
| Impairment losses/(reversal): | | |
| — trade receivables | **450** | 591 |
| — receivables under finance lease | **(62)** | 432 |
| — inventories | **172** | (49) |
| — property, plant and equipment | **—** | 12 |
| — goodwill | **—** | 25 |

## 5 INCOME TAX

Income tax in the consolidated statements of comprehensive income represents:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB*** | *RMB* |
| | ***millions*** | *millions* |
| **Current tax — PRC income tax** | | |
| Provision for the year | **221** | 729 |
| **Current tax — Income tax in other tax jurisdictions** | | |
| Provision for the year | **4** | 4 |
| **Deferred taxation** ***(Note 13(b))*** | | |
| Origination and reversal of temporary differences | **(78)** | (193) |
| Change in recognised deductible temporary differences | **88** | 30 |
| | **235** | 570 |

Reconciliation between actual income tax expense and notional tax on profit before taxation is as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB millions*** | *RMB millions* |
| Profit before taxation | **863** | 4,527 |
| Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned *(Note (a))* | **216** | 1,132 |
| Tax effect of non-deductible expenses | **133** | 117 |
| Change in recognised deductible temporary differences | **88** | 30 |
| Current year loss for which no deferred tax assets was recognised | **51** | 10 |
| Tax effect of non-taxable income | **(30)** | (26) |
| Tax effect of tax concessions *(Note (b))* | **(112)** | (524) |
| Additional deduction for qualified research and development expenses *(Note (c))* | **(111)** | (169) |
| Actual income tax expense | **235** | 570 |

*Notes:*

(a) The PRC statutory income tax rate is 25% (2013: 25%).

The Company's subsidiaries in the HKSAR are subject to Hong Kong Profits Tax at 16.5% (2013: 16.5%).

The Company's overseas subsidiaries are subject to income tax at rates ranging from 19.0% to 31.4% (2013: 27.5% to 31.4%).

(b) According to the income tax law and its relevant regulations, entities that qualified as high-technology enterprises under the tax law are entitled to a preferential income tax rate of 15%. The Company and certain of its subsidiaries obtained or renewed its status as high-technology enterprises in 2014 and accordingly are subject to income tax at 15% for the years from 2014 to 2016. Besides, a subsidiary of the Company was qualified as software developer and is entitled to income tax exemption for the years from 2013 to 2014 and a 12.5% preferential tax rate for the years from 2015 to 2017.

(c) Under the income tax law and its relevant regulations, a 50% additional tax deduction is allowed for qualified research and development expenses.

## 6 DIVIDENDS

### (i) Dividends paid during year

Pursuant to the shareholders' approval at the Annual General Meeting held on 27 June 2014, a final cash dividend of RMB0.15 per share based on 7,706 million ordinary shares totalling RMB1,156 million in respect of the year ended 31 December 2013 was declared, of which RMB1,155 million was paid by the end of 2014, and the remaining balance of RMB1 million will be paid in 2015.

### (ii) Dividends proposed after the balance sheet date

Pursuant to a resolution passed at the directors' meeting on 27 March 2015, a final dividend in respect of the year ended 31 December 2014 of RMB0.05 (2013: RMB0.15) per share totalling RMB385 million (2013: RMB1,156 million) was proposed for shareholders' approval at the Annual General Meeting. The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

## 7 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB594 million (2013: RMB3,844 million), and the weighted average number of shares of 7,706 million in issue during the year (2013: 7,706 million shares).

There were no dilutive potential ordinary shares in issue as at 31 December 2014 (31 December 2013: Nil).

## 8 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

(i) Concrete machinery segment: this segment primarily researches, develops, manufactures and sells various concrete machineries, including truck-mounted concrete pumps, trailer-mounted concrete pumps, dry mortar products, concrete placing booms, concrete mixing plants, truck-mounted concrete mixers, truck-mounted line concrete pumps and self-propelled boom concrete pumps.

(ii) Crane machinery segment: this segment primarily researches, develops, manufactures and sells a variety of cranes, including truck cranes, all-terrain truck cranes, crawler cranes and various types of tower cranes.

(iii) Environmental and sanitation machinery segment: this segment primarily researches, develops, manufactures and sells a wide range of environmental and sanitation machineries, including road sweepers, washing vehicles and waste treatment equipment.

(iv) Road construction and pile foundation machinery segment: this segment primarily researches, develops, manufactures and sells different types of road construction and pile foundation machineries, including road surface heaters, motor graders, road rollers, pavers, road surface cold planners, asphalt mixing equipment and rotary drilling rigs.

(v) Earth working machinery segment: this segment primarily researches, develops, manufactures and sells a variety of earth working machineries, including loaders, bulldozers and excavators.

(vi) Finance lease segment: this segment primarily provides finance lease services to customers for purchasing machinery products of the Group and from other vendors.

Other operating segments of the Group include research, development, manufacturing and sale of other machinery products, including material handling machinery and systems segment, specialised vehicles and vehicle axles. None of these segments met any of the quantitative thresholds for determining reportable segments for the years ended 31 December 2014 and 2013.

### (a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following basis:

The measure used for reporting segment profit is turnover less cost of sales and services.

A measurement of segment assets and liabilities is not provided regularly to the Group's most senior executive management and accordingly, no segment assets or liabilities information is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2014 is set out below:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB millions*** | *RMB millions* |
| Reportable segment revenue: | | |
| Concrete machinery | **10,555** | 17,191 |
| Crane machinery | **7,423** | 12,479 |
| Environmental and sanitation machinery | **4,024** | 3,282 |
| Road construction and pile foundation machinery | **1,026** | 1,731 |
| Earth working machinery | **698** | 772 |
| Finance lease services | **930** | 1,461 |
| Total reportable segment revenue | **24,656** | 36,916 |
| Revenue from all other segments | **1,195** | 1,626 |
| Total | **25,851** | 38,542 |
| Reportable segment profit: | | |
| Concrete machinery | **2,368** | 4,568 |
| Crane machinery | **2,063** | 3,361 |
| Environmental and sanitation machinery | **1,200** | 947 |
| Road construction and pile foundation machinery | **325** | 562 |
| Earth working machinery | **43** | 14 |
| Finance lease services | **928** | 1,456 |
| Total reportable segment profit | **6,927** | 10,908 |
| Profit from all other segments | **282** | 334 |
| Total | **7,209** | 11,242 |

**(b) Reconciliation of segment profit**

| | **2014** | 2013 |
|---|---|---|
| | ***RMB millions*** | *RMB millions* |
| Total segment profit | **7,209** | 11,242 |
| Other revenues and net income/(loss) | **164** | (49) |
| Sales and marketing expenses | **(3,036)** | (3,631) |
| General and administrative expenses | **(2,347)** | (2,701) |
| Research and development expenses | **(443)** | (570) |
| Net finance costs | **(692)** | 195 |
| Gain on disposal of associates | **7** | — |
| Share of profits less losses of associates | **1** | 41 |
| Consolidated profit before taxation | **863** | 4,527 |

**(c) Geographic information**

The following tables set out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, and lease prepayments ("specified non-current assets"). The geographical location of revenue is based on the selling location. The geographical location of specified non-current assets is based on the physical location of the asset. No geographic information is presented for trademarks, technical know-how and goodwill as these assets are commonly used by the Group both in and outside PRC. All other non-current assets are physically located in the PRC, except for customer relationships acquired through business combination of CIFA and m-tec, which are determined to be outside PRC.

| | **2014** | 2013 |
|---|---|---|
| | ***RMB millions*** | *RMB millions* |
| Revenue from external customers | | |
| — Mainland PRC | **22,956** | 35,755 |
| — Outside PRC | **2,895** | 2,787 |
| Total | **25,851** | 38,542 |

| | **2014** | 2013 |
|---|---|---|
| | ***RMB millions*** | *RMB millions* |
| Specified non-current assets | | |
| — Mainland PRC | **8,470** | 8,255 |
| — Outside PRC | **271** | 202 |
| Total | **8,741** | 8,457 |

## 9 GOODWILL

In April 2014, the Company completed the acquisitions of m-tec mathis technik GmbH and its subsidiaries (collectively "m-tec Group") with a cash consideration of EUR35 million (equivalent to RMB296 million). m-tec Group is engaged in the manufacturing of concrete machinery with its sales primarily in Europe and China. The purpose of the business combination was to broaden the Group's product line. Goodwill of RMB36 million was recognized on the acquisition of m-tec.

## 10 TRADE AND OTHER RECEIVABLES

| | **2014** | 2013 |
|---|---|---|
| | ***RMB millions*** | *RMB millions* |
| Trade receivables | **31,574** | 28,671 |
| Less: provision for impairment | **(1,780)** | (1,451) |
| | **29,794** | 27,220 |
| Less: trade receivables due after one year | **(3,697)** | (3,610) |
| | **26,097** | 23,610 |
| Bills receivable | **1,816** | 848 |
| | **27,913** | 24,458 |
| Amounts due from related parties | **657** | 604 |
| Amounts due from subsidiaries | **—** | — |
| Prepayments for purchase of raw materials | **204** | 251 |
| Prepaid expenses | **413** | 398 |
| VAT recoverable | **580** | 371 |
| Deposits | **310** | 125 |
| Others | **562** | 362 |
| | **30,639** | 26,569 |

All of the trade and other receivables (including amounts due from subsidiaries), except those described below, are expected to be recovered or recognised as expense within one year.

The Group generally allows certain customers with appropriate credit standing to make payments in instalments over a maximum period of 42 months ("instalment payment method"). Instalment payments with terms more than one year are discounted at a rate which approximates the debtor's borrowing rate in transactions with an independent lender under comparable terms and conditions. For the year ended 31 December 2014, the weighted average discount rate was approximately 6.00% (2013: 6.15%) per annum. As at 31 December 2014, trade receivables due after one year of RMB3,697 million (31 December 2013: RMB3,610 million) were presented net of unearned interest of RMB281 million (31 December 2013: RMB285 million).

During the year ended 31 December 2014, trade receivables of RMB5,197 million (2013: RMB2,021 million) were factored to banks and other financial institutions without recourse, and were therefore derecognised. Under the non-recourse factoring agreements, the Group has agreed to repurchase equipment at fair value from banks or other financial institutions to which the Group previously factored its receivables, upon repossession of the equipment under the relevant equipment sales contracts by such banks or financial institutions. During the year ended 31 December 2014, the Group did not have any repurchase of assets from banks and other financial institutions under such commitment (2013: Nil).

Ageing analysis based on billing date of trade receivables (net of provision for impairment) as at the balance sheet date is as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB millions*** | *RMB millions* |
| Within 1 month | **4,475** | 5,091 |
| Over 1 month but less than 3 months | **5,431** | 5,599 |
| Over 3 months but less than 1 year | **11,104** | 11,392 |
| Over 1 year but less than 2 years | **6,758** | 4,648 |
| Over 2 years but less than 3 years | **1,775** | 379 |
| Over 3 years but less than 5 years | **251** | 111 |
| | **29,794** | 27,220 |

Trade receivables under credit sales arrangement are generally due within 1 to 3 months from the date of billing, and customers are normally required to make an upfront payment ranging from 20% to 30% of the product price (2013: 15% to 30%). For sales under instalment payment method that has instalment payment periods generally ranging from 6 to 42 months (2013: 6 to 48 months), customers are normally required to make an upfront payment ranging from 15% to 30% of the product price (2013: 10% to 30%).

As part of the Group's ongoing control procedures, management monitors the creditworthiness of customers to which it grants credit in the normal course of business. Credit exposure limits are established to avoid concentration risk with respect to any single customer.

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movement in the provision for impairment during the year, including both specific and collective loss components, is as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB millions*** | *RMB millions* |
| Balance at 1 January | **1,451** | 871 |
| Impairment losses recognised | **450** | 591 |
| Reclassification from impairment of receivable under finance lease | **15** | — |
| Uncollectible amounts written off | **(136)** | (11) |
| Balance at 31 December | **1,780** | 1,451 |

## 11 RECEIVABLES UNDER FINANCE LEASE

| | 2014 *RMB millions* | 2013 *RMB millions* |
|---|---|---|
| Gross investment | **17,876** | 19,515 |
| Unearned finance income | **(544)** | (1,149) |
| | **17,332** | 18,366 |
| Less: provision for impairment | **(654)** | (731) |
| | **16,678** | 17,635 |
| Less: receivables under finance lease due after one year | **(4,476)** | (7,407) |
| Receivables under finance lease due within one year | **12,202** | 10,228 |

The Group provides equipment finance lease services to customers purchasing machinery products of the Group or other vendors through its leasing subsidiaries. Under the finance lease arrangement, the collectability of the minimum lease payments is reasonably predictable, there is no significant uncertainty surrounding the amount of un-reimbursable cost yet to be incurred by the Group under the lease arrangement. The finance lease contracts entered into by the Group typically are for a period ranging from 2 to 5 years (2013: 2 to 5 years). Customers are normally required to make an upfront payment ranging from 5% to 25% of the product price (2013: 5% to 25%) and pay a security deposit ranging from 1% to 10% of the product price (2013: 1% to 10%). At the end of the lease term, the lessee has an option to purchase the leased machinery at nominal value and the ownership of the leased machinery is then transferred to the lessee. The leases do not provide any guarantee of residual values.

During the year ended 31 December 2014, no receivables under finance lease were factored to banks (2013: RMB6,759 million without recourse and were derecognised). Under the non-recourse factoring agreements, the Group has agreed to repurchase equipment at fair market value from banks to which the Group previously factored its receivables, upon repossession of the equipment under the relevant finance lease contracts by such banks. During the year ended 31 December 2014, the Group made payments of RMB2,509 million (2013: RMB673 million) to banks to repurchase the repossessed equipment and/or related beneficial rights to the outstanding debt balance due from customers. As a result, the Group recorded RMB995 million as inventories for the repossessed equipment and recorded the remaining RMB1,514 million as receivables. During the year ended 31 December 2014, the Group renegotiated the terms of settlement with certain customers and changed the collateral requirements on these customers. The relevant finance lease arrangements were terminated, taking into consideration of the manner of repayment and collateral pledged with the Group. Accordingly, RMB2,077 million were reclassified from receivables under finance lease to trade receivables during the year ended 31 December 2014.

### (a) Ageing analysis of receivables under finance lease

The minimum lease payments receivable as at the balance sheet date are as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB millions*** | *RMB millions* |
| *Present value of the minimum lease payments* | | |
| Within 1 year | **12,670** | 10,643 |
| Over 1 year but less than 2 years | **2,775** | 3,726 |
| Over 2 years but less than 3 years | **1,313** | 2,504 |
| Over 3 years | **574** | 1,493 |
| | **17,332** | 18,366 |
| *Unearned finance income* | | |
| Within 1 year | **405** | 751 |
| Over 1 year but less than 2 years | **84** | 230 |
| Over 2 years but less than 3 years | **34** | 109 |
| Over 3 years | **21** | 59 |
| | **544** | 1,149 |
| *Gross investment* | | |
| Within 1 year | **13,075** | 11,394 |
| Over 1 year but less than 2 years | **2,859** | 3,956 |
| Over 2 years but less than 3 years | **1,347** | 2,613 |
| Over 3 years | **595** | 1,552 |
| | **17,876** | 19,515 |

**(b) Overdue analysis**

Overdue analysis of receivables under finance lease as at the balance sheet date is as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB millions*** | *RMB millions* |
| Not yet due | **12,214** | 13,741 |
| Less than 1 month past due | **415** | 461 |
| 1 to 3 months past due | **747** | 749 |
| 3 to 12 months past due | **2,443** | 2,126 |
| 12 to 24 months past due | **1,310** | 1,186 |
| More than 24 months past due | **203** | 103 |
| Total past due | **5,118** | 4,625 |
| | **17,332** | 18,366 |
| Less: provision for impairment | **(654)** | (731) |
| | **16,678** | 17,635 |

Past due receivables refer to the amount remains unpaid after the relevant payment due date, including those receivables that are overdue for only one day.

**(c) Impairment of receivables under finance lease**

Impairment losses in respect of receivables under finance lease are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against the receivables directly.

The movement in the provision for impairment during the year, is as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB millions*** | *RMB millions* |
| Balance at 1 January | **731** | 299 |
| Impairment losses (reversed)/recognised | **(62)** | 432 |
| Reclassification to impairment of trade receivables | **(15)** | — |
| Balance at 31 December | **654** | 731 |

The Group monitors the credit risk arising from finance lease arrangement through various control measures. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, finance income under finance lease is recognised in accordance with the accounting policies.

## 12 TRADE AND OTHER PAYABLES

| | **2014** | 2013 |
|---|---|---|
| | ***RMB millions*** | *RMB millions* |
| Trade creditors | **7,319** | 8,629 |
| Bills payable | **6,141** | 7,027 |
| Trade creditors and bills payable | **13,460** | 15,656 |
| Amounts due to related parties | **32** | 27 |
| Receipts in advance | **983** | 1,066 |
| Payable for acquisition of property, plant and equipment | **536** | 750 |
| Accrued staff costs | **515** | 676 |
| VAT payable | **143** | 616 |
| Security deposits | **880** | 1,091 |
| Product warranty provision | **93** | 116 |
| Sundry taxes payable | **263** | 303 |
| Payables for factoring discount | **78** | 478 |
| Cash collected on behalf of banks | **703** | 1,550 |
| Other accrued expenses and payables | **1,808** | 1,562 |
| | **19,494** | 23,891 |

*Notes:*

Ageing analysis of trade creditors and bills payable as at the balance sheet date is as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB millions*** | *RMB millions* |
| Due within 1 month or on demand | **5,490** | 6,091 |
| Due after 1 month but within 3 months | **3,404** | 4,760 |
| Due after 3 months but within 6 months | **3,915** | 4,020 |
| Due after 6 months but less than 12 months | **651** | 785 |
| | **13,460** | 15,656 |

## 13 INCOME TAX IN THE BALANCE SHEETS

### (a) Income tax payable in the balance sheets represents:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB millions*** | *RMB millions* |
| Provision for PRC income tax | **26** | 433 |
| Provision for income tax in other tax jurisdictions | **4** | 4 |
| | **30** | 437 |

### (b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheets and the movements during the year are presented as follows:

**Year ended 31 December 2014**

| | **Balance at 1 January 2014** | **Acquisition from business combination** | **Credited/ (charged) to profit or loss** | **Effect of exchange rate** | **Balance at 31 December 2014** |
|---|---|---|---|---|---|
| | ***RMB millions*** | ***RMB millions*** | ***RMB millions*** | ***RMB millions*** | ***RMB millions*** |
| **Deferred tax assets arising from:** | | | | | |
| Receivables | **405** | **1** | **32** | **(2)** | **436** |
| Inventories | **32** | **—** | **2** | **—** | **34** |
| Accrued expenses | **64** | **—** | **(22)** | **(2)** | **40** |
| Tax losses | **109** | **—** | **(14)** | **(11)** | **84** |
| Others | **34** | **1** | **(9)** | **(2)** | **24** |
| Total | **644** | **2** | **(11)** | **(17)** | **618** |
| **Deferred tax liabilities arising from:** | | | | | |
| Property, plant and equipment | **(5)** | (9) | **—** | — | (14) |
| Intangible assets | **(327)** | (48) | **14** | 37 | (324) |
| Lease prepayments | **(33)** | — | **4** | — | (29) |
| Others | **(103)** | — | **(17)** | 12 | (108) |
| Total | **(468)** | (57) | **1** | 49 | (475) |

**Year ended 31 December 2013**

| | Balance at 1 January 2013 | Acquisition from business combination | Credited/ (charged) to profit or loss | Effect of exchange rate | Balance at 31 December 2013 |
|---|---|---|---|---|---|
| | *RMB millions* | *RMB millions* | *RMB millions* | *RMB millions* | *RMB millions* |
| **Deferred tax assets arising from:** | | | | | |
| Receivables | 213 | — | 192 | — | 405 |
| Inventories | 43 | — | (11) | — | 32 |
| Accrued expenses | 54 | — | 10 | — | 64 |
| Tax losses | 74 | — | 34 | 1 | 109 |
| Others | 72 | — | (39) | 1 | 34 |
| Total | 456 | — | 186 | 2 | 644 |
| **Deferred tax liabilities arising from:** | | | | | |
| Property, plant and equipment | (8) | — | 3 | — | (5) |
| Intangible assets | (338) | — | 15 | (4) | (327) |
| Lease prepayments | (33) | — | — | — | (33) |
| Others | (61) | — | (41) | (1) | (103) |
| Total | (440) | — | (23) | (5) | (468) |

As at 31 December 2014, RMB231 million (31 December 2013: RMB124 million) of deferred tax assets in respect of asset impairment losses and tax losses were not recognised by certain subsidiaries of the Company, as it is not probable that sufficient future taxable profits will be available to utilise such tax benefits.

## 14 RECONCILIATION OF FINANCIAL INFORMATION PREPARED UNDER PRC GAAP TO IFRSS

Effects of major differences between the total equity and total comprehensive income under PRC GAAP and the total equity and total comprehensive income under IFRSs are analysed as follows:

### (a) Reconciliation of total equity of the Group

| | **2014** | 2013 |
|---|---|---|
| | ***RMB millions*** | *RMB millions* |
| Total equity reported under PRC GAAP | **41,248** | 42,052 |
| — Acquisition-related costs incurred on prior year business combination | **(40)** | (40) |
| Total equity reported under IFRSs | **41,208** | 42,012 |

### (b) Reconciliation of total comprehensive income for the year of the Group

| | **2014** | 2013 |
|---|---|---|
| | ***RMB millions*** | *RMB millions* |
| Total comprehensive income for the year reported under PRC GAAP | **421** | 3,900 |
| — Safety production fund *(Note)* | **—** | 5 |
| Total comprehensive income for the year reported under IFRSs | **421** | 3,905 |

*Note:* Under PRC GAAP, safety production fund should be accrued and recognised in profit or loss with a corresponding credit in reserve according to relevant PRC regulations. Such reserve is reduced for expenses incurred for safety production purposes or, when safety production related equipment are purchased, is reduced by the purchase cost with a corresponding increase in the accumulated depreciation. Such fixed assets are not depreciated thereafter. Under IFRSs, expense is recognised in profit or loss when incurred, and fixed assets are capitalised and depreciated in accordance with applicable accounting policies.

**(c)** There is no material difference between the consolidated cash flow of the Group reported under PRC GAAP and IFRSs.

# MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis was prepared based on our financial information prepared in accordance with the International Financial Reporting Standards.

## Results of Operations

### *Turnover*

Our turnover decreased by 32.93% from RMB38,542 million for the year ended 31 December 2013 to RMB25,851 million for the year ended 31 December 2014. Economic development varied more widely among advanced economies in 2014, with the growth in developing economies slowing down, indicating a still bumpy road ahead to global economy recovery. The growth of fixed assets investment and real estate investment in the PRC hit decade low and China's economic growth entered into a "new normal" stage. The construction machinery industry continued to face challenges such as overcapacity, sluggish market demand, assimilation of inventory risks and the throes of plummeting operation results. Meanwhile, driven by the increase in the state's investment in the construction of environmental protection infrastructure, the contribution of environmental industry to the GDP continued to rise, providing an unprecedented opportunity for the development of the environmental industry. The market capacity is enormous with extensive development prospects.

In particular, our turnover from sales of concrete machinery decreased by 38.60% from RMB17,191 million for 2013 to RMB10,555 million for 2014. Our turnover from sales of crane machinery fell by 40.52% from RMB12,479 million for 2013 to RMB7,423 million for 2014, mainly attributable to the continuing slowdown in the growth of the state's fixed assets investment, especially the real estate investment, resulting in a further shrinkage of the market demand for our two major products, concrete machinery and crane machinery. At the same time, for the sake of risk control and high-quality operations, we have been adhered to a tight sales policy for the whole year, which also affected the revenue in certain extent. Our turnover from sales of environmental machinery increased by 22.61% from RMB3,282 million for 2013 to RMB4,024 million for 2014, which partially offset the effect brought by the decrease of revenue of construction machinery.

### *Cost of Sales and Services*

Due to the decrease in the volume of the Company's sales, our cost of sales and services reduced by 31.71% from RMB27,300 million for the year ended 31 December 2013 to RMB18,642 million for the year ended 31 December 2014, which was in line with the decrease in our sales and production volume.

### *Gross profit*

As a result of the foregoing, our gross profit decreased by 35.87% from RMB11,242 million for the year ended 31 December 2013 to RMB7,209 million for the year ended 31 December 2014. Our gross profit margin decreased from 29.17% for the year ended 31 December 2013 to 27.89% for the year ended 31 December 2014, which was attributable to the change of product mix and slight decrease in selling price.

### *Other revenues and net income*

Our other revenues and net income is the net gain of RMB164 million for the year ended 31 December 2014 and the net loss of RMB49 million for the year ended 31 December 2013. The increase was mainly because we got high-tech project award from the government in 2014.

### *Sales and marketing expenses*

Our sales and marketing expenses decreased by 16.39% from RMB3,631 million for the year ended 31 December 2013 to RMB3,036 million for the year ended 31 December 2014. Sales and marketing expenses as a percentage of our consolidated turnover increased from 9.42% for the year ended 31 December 2013 to 11.74% for the year ended 31 December 2014 primarily due to the fact that the Company was unable to achieve its sales target set at the beginning of the year and hence the deployment of sales resources were not commensurate with the expected target.

### *General and administrative expenses*

Our general and administrative expenses decreased by 13.11% from RMB2,701 million for the year ended 31 December 2013 to RMB2,347 million for the year ended 31 December 2014. General and administrative expenses as a percentage of our consolidated turnover increased from 7.01% for the year ended 31 December 2013 to 9.08% for the year ended 31 December 2014 primarily due to the decrease of our turnover.

### *Research and development expenses*

Our research and development expenses decreased by 22.28% from RMB570 million for the year ended 31 December 2013 to RMB443 million for the year ended 31 December 2014. We focused more on new technology research in 2014 which cost less than new products' trial production.

### *Profit from operations*

As a result of the foregoing, our profit from operations dropped by 63.95% from RMB4,291 million for the year ended 31 December 2013 to RMB1,547 million for the year ended 31 December 2014. Our operating margin fell from 11.13% for the year ended 31 December 2013 to 5.98% for the year ended 31 December 2014.

### *Net finance costs*

Due to the increase in interest expenses derived from additional interest-bearing liabilities, and the exchange losses arising from fluctuation of exchange rate, we had net finance costs of RMB692 million for the year ended 31 December 2014.

### *Income tax expenses*

Our income tax expenses dropped by 58.77% from RMB570 million for the year ended 31 December 2013 to RMB235 million for the year ended 31 December 2014 primarily due to a drop in sales and thus taxable income was decreased. Our effective income tax rate increased from 12.59% for the year ended 31 December 2013 to 27.23% for the year ended 31 December 2014, mainly attributable to the increase in withholding income tax and the increase in the gains of the subsidiaries outside the PRC established in high tax rate regions derived from the PRC.

### *Profit for the year*

As a result of the foregoing, our profit for the year decreased by 84.13% from RMB3,957 million for the year ended 31 December 2013 to RMB628 million for the year ended 31 December 2014. Our net profit margin dropped from 10.27% for the year ended 31 December 2013 to 2.43% for the year ended 31 December 2014.

### *Profit attributable to shareholders of the Company*

As a result of the foregoing, our profit attributable to shareholders of the Company decreased by 84.55% from RMB3,844 million for 2013 to RMB594 million for 2014.

## Cash Flow

### *Operating activities*

In 2014, net cash used in operating activities was RMB8,411 million derived primarily from the profit before taxation of RMB863 million, adjusted to reflect the interest expenses of RMB1,260 million and depreciation and amortization of RMB512 million, and deducting the following items: (i) the increase in trade and other receivables of RMB4,058 million; (ii) the decrease in trade and other payables of RMB5,166 million; (iii) the income tax payment of RMB632 million; (iv) the decrease in receivables under finance lease of RMB2,471 million; and (v) the payment for repurchase of equipment at fair market value from banks to which the Group previously factored its receivables under finance lease without recourse of RMB2,509 million, and the decrease in inventories of RMB581 million.

### *Investing activities*

In 2014, net cash used in investing activities was RMB1,891 million, consisting primarily of: (i) payments for the purchases of property, plant, equipment and land of RMB922 million; (ii) a decrease in pledged bank deposits of RMB1,004 million, (iii) payment for acquisition of investments in available-for-sale financial assets of RMB350 million, and (iv) prepayments of RMB2,088 million for the acquisition of Chery Heavy Industry Co., Ltd. and net cash of RMB239 million used in the acquisition of m-tec Group.

### *Financing activities*

In 2014, net cash generated from financing activities was RMB8,230 million, consisting primarily of the proceeds from loans and borrowings of RMB14,296 million, offset by repayments of loans and borrowings of RMB12,707 million, net cash from issuance of medium-term notes of RMB8,991 million, dividends paid to equity shareholders of RMB1,156 million in cash and interest payments of RMB1,134 million, and payment on the acquisition of minority interest of RMB44 million.

### *Capital Expenditures*

For the year ended 31 December 2014, our capital expenditures for the purchases of property, plant and equipment, intangible assets and lease prepayments amounted to RMB975 million.

### *Commitments and Contingent Liabilities*

As at 31 December 2014, our commitment consisted of capital commitments that have been authorized and contracted for in the amount of RMB596 million, capital commitments that have been authorized but not contracted for in the amount of RMB4 million and operating lease commitments of RMB341 million, of which RMB113 million was payable within one year.

As at 31 December 2014, we had contingent liabilities of RMB14,525 million in connection to financial guarantees provided for certain bank loans obtained by our customers to finance their purchases of our products. Under the guarantee contracts, if the customers defaulted, we are entitled to repossess the product which had been purchased and pledged by the customers. For the year ended 31 December 2014, due to our customers' default, we paid RMB497 million, to the banks under our guarantees.

Certain of finance lease contracts between us and our end-user customers are jointly arranged by our leasing subsidiaries and a third-party leasing company. Under the joint leasing arrangements, we provide guarantees to third-party leasing company that in the event of customers' default, we may be called upon to repay the leasing company for its share of the outstanding lease due from the respective customers. At the same time, we are entitled to repossess and sell the machinery as subject of the lease and retain any excess of the sale proceeds over the guaranteed amount that is payable to the leasing company. As at 31 December 2014, our maximum exposure to such guarantees was RMB5 million. The term of the guarantees is generally in line with the term of the lease contracts which generally ranges from two to five years. For the year ended 31 December 2014, there was no payment made to the third-party leasing company to repurchase the machinery under the guarantee arrangements due to our customers' default.

Starting from 1 January 2013, certain customers of the Group finance their purchase of the Group's machinery products through finance leases provided by third-party leasing companies. Under the third party leasing arrangement, the Group provides guarantee to the third-party leasing companies that in the event of customers' default, the Group may be called upon to repay the leasing companies for the outstanding lease payments due from the customers. At the same time, the Group is entitled to repossess and sell the machinery as subject of the lease, and retain any excess the guaranteed amount that is payable to the leasing companies. As at 31 December 2014, the Group's maximum exposure to such guarantees was RMB2,736 million. The term of these guarantees is generally in line with the term of the lease contracts which generally range from 2 to 5 years. For the year ended 31 December 2014, there was no payment made to repurchase machinery under the guarantee arrangement customers default.

### *Working Capital and Indebtedness*

Our net current asset increased from RMB32,223 million as at 31 December 2013 to RMB44,660 million as at 31 December 2014, mainly attributable to the increase of trade and other receivables, and the decrease of trade and other payables.

Our outstanding loans and borrowings increased by 49.49% from RMB21,147 million as at 31 December 2013 to RMB31,612 as at 31 December 2014, mainly attributable to the issue of medium-term notes of RMB9,000 million in 2014.

As at 31 December 2014, the aggregate outstanding principal amounts of our RMB and US dollar unsecured short-term and long-term loans were RMB3,730 million and RMB9,873 million respectively, thus we have to comply with certain restrictive financial covenants. As of 31 December 2014, we have not violated any of these restrictive financial covenants. If we were unable to comply with such restrictive financial covenants and were not exempted by the lending banks, we might be ordered to repay the bank loans immediately, and our liquidity will be adversely affected.

As at 31 December 2014, our facilities from 31 domestic and overseas financial institutions amounted to approximately RMB75,300 million have not been utilized. In addition, 11 domestic financial institutions have granted facilities in an aggregate amount of RMB23,900 million to us under non-recourse factoring arrangements.

## BUSINESS REVIEW AND PROSPECT

### Review of 2014

#### 1. *Strategic transformation saw initial results*

We were dedicated to implement strategic transformation. It succeeded in transforming from a sizable construction machinery enterprise into a world leading high end multi-sectors equipment manufacturer specializing in construction machinery, environmental industry, agricultural machinery and financial services.

(1) We achieved substantial breakthrough in implementing its development strategy in agricultural machinery sector through the acquisition of Chery Heavy Industry and the establishment of Zoomlion Heavy Machinery.

(2) We relocated its environmental industry sector to a new industrial zone to alleviate the constraints on production capacity, resulting in a relatively significant improvement in results of operation. At the same time, we made a breakthrough in the treatment of kitchen waste and construction waste as well as the industrialization of waste classification equipment.

(3) We have obtained approval from the CBRC in relation to the establishment of a finance company, and the preparation work has been formally commenced.

#### 2. *Accelerating global market exploration*

The Company's development of global market gained first-mover advantage by streamlining the platforms and network layout in countries such as Russia, India, Indonesia, Turkey and Africa. We actively participated in the "integration of construction and operation", construction of overseas economic cooperation zone and China-Africa industrial partnership as encouraged by the Ministry of Commerce. It persistently optimized the global deployment of resources and completed the acquisition of m-tec Group of Germany while acquiring 35% equity interest in Raxtar, a Holland company. At the same time, its service centre in Brazil has finished construction and commenced operation. Meanwhile, the Company has maintained a close relationship with sizable construction companies that adhered to the "One Belt and One Road" policy.

The Company further optimised its global strategy for internationalisation by setting up local bank financing platforms in Brazil and Thailand and adopting diversified the sales methods in the overseas markets. It has entered into contracts with local logistics suppliers in Brazil, Singapore and Dubai and established a preliminary global logistics network. The Company has also completed the construction, upgrade and renovation of warehouses for spare parts in Hong Kong, Singapore, Dubai and Brazil in order to establish a global backup system for our products and services.

During the reporting period, the Company recorded a growth in overseas sales of 3.88% as compared to the same period of last year, against the backdrop of shrinking exports across the industry.

### 3. *Reforming business model by integrating informatization and industrialization*

There were innovative breakthroughs in the endeavor for further integration of informatization and industrialization, which gradually progressed from "production and operation management optimization" to "comprehensive, in-depth and integrated information application". The Company's credit sales system has commenced the first direct online operation between the bank and the enterprise, laying a solid foundation for conducting new businesses such as "cloud mortgage" for construction machinery in the future. Leveraging the Internet of Things and intelligent control technology, which promoted the innovation of production, operation and services management models, and with support of the online operations of the official WeChat platform and GPS monitoring platform, the Company could perform intelligent tracking of customers' needs, customize product manufacturing and monitor the whole process of product movement in order to speed up the Company's transformation and upgrade from a traditional manufacturer to a high-end intelligent manufacturing services provider. These efforts also set a promising start for the Company to reform, upgrade and develop new business models, and laid a foundation for the Company to ride on the "new normal" by being high in efficiency, low in cost and top in providing services.

### 4. *Consolidating industry leading position by self-initiated innovation*

The Company adopted a new incentive scheme to speed up the development and industrialization of innovative products in the new fields of machine-made sand, dry-mixing, waste classification and construction waste, in order to develop new profit drivers.

During the Reporting Period, our project in relation to key technology and application of super tower crane was awarded the National Science and Technology Advancement Second Prize. The "100 meter-level aerial platform fire engine", a "Twelfth Five-Year" National Science and Technology Support Project undertook by the Company, passed the inspection of the

Ministry of Public Security. The Company developed the world's largest floor type machine-made sand production line by dry-process method, ZSL250(乾法樓式機制砂生產線 ZSL250). CIFA ENERGYA series hybrid power mixer was awarded the Red Dot Design Award in the world industrial design area and 5250TXS road washer was awarded the Second Prize of China Machinery Industry Science & Technology Award.

The only National Engineering Technology Research and Development Center for Concrete Machinery in China was approved to be set up by the Company and the project has passed the acceptance procedure. An international standard proposal of Safety Standards for Remote Operation of Lifting Appliances was approved. An international standard project of the Section I of Machinery and Equipment for the Preparation of Concrete and Mortar: Terminology and Commercial Specifications (ISO/AWI 19720-1) which was led and undertook by the Company, was successfully put forward, achieving a breakthrough from zero for setting up international standard for the industry. The Company successfully held annual conferences for two International Conference Standards, ISO/TC96 and ISO/TC195, respectively, showing its strong technological strength in the international stage.

### 5. *Further strengthening of management*

*(1) Strengthening comprehensive risk management and control on market operation*

1) The Company strongly implemented the policy of "one customer, one strategy" for recovering overdue loans. Basing on current market situation, the Company, by focusing on each customer and each piece of equipment, re-conducted customer rating, assets classification and evaluation. The Company formulated specific risk reaction plans and assessed the specific responsible person. The Company also set up a dedicated team to clear, monitor and handle each of the seriously overdue invoices, so as to recover debts effectively.

2) The Company established and enhanced the GPS monitoring platform. By applying the technology of the Internet of Things, equipment can be tracked, warned and verified, so as to reduce the risk of uncontrolled equipment.

3) The Company strengthened its monitoring and optimization of the key business processes of credit sales by setting up twelve monitoring areas of the key business processes and relying on the credit sales management system for closed-loop monitoring on the whole process. Under the premise that the residual value of equipment exceeded the outstanding amount of debts, the overdue risk of each piece of equipment was calculated in a dynamic and real-time manner by credit sales management system and different risk control measures were timely adopted corresponding to different warning levels in order to mitigate operational risks.

4) The Company strictly controlled the risk on multiple fronts, including tightening of credit policies, strengthening the credit assessment on customers, giving up low quality orders proactively and enforcing the responsibility for overdue payment collection.

5) The Company enhanced the management and control system of second-hand equipment by opening up processing channels of recycling, re-manufacturing and re-sale. The Company set up institutions specialized in strengthening of the complete process of second-hand equipment management; established a proactive mechanism for recycling of second-hand equipment so as to cut loss in time. The Company also established grading standards for second-hand equipment. Second-hand equipment was repaired and maintained under different classifications and grades according to its actual condition. The Company accelerated the processing of second-hand equipment through different channels such as direct sales, franchise leasing, investment and share purchase and auctions.

*(2) Strenuous promotion of cost reduction and efficiency enhancement*

1) Reducing procurement cost. The Company reduced procurement cost significantly by adopting measures such as streamlining suppliers, re-consolidating supplier resources, domestication of imported parts and unification of supporting technology. Procurement cost was hugely reduced and long-term mechanism for cost reduction and efficiency enhancement was established gradually.

2) Inventory control. By controlling incomings through ways such as strengthening linkage between production and sales and improving the accuracy of production plans and diverting outgoings through ways such as improving turnover of prototypes by increasing sales and marketing efforts and accelerating the disposal of obsolete stocks, the Company reduced the regular inventory level as well as the use of funds.

3) Clearing up expenses. By performing an overall analysis on cost structure, changing trend and budget execution, the expenses management model and process were optimized. The Company adhered to the "tightening its belt" principle for the management and control of expenses so as to strictly control each and every expenses.

*(3) Implementation of complete value chain management of second-hand equipment*

The advantages of being a manufacturer were fully utilized by refining the relevant management measures from the whole value chain perspective and implementing the comprehensive management process of "one registration per machine" covering each of the processes from sales of new machine, recycling of equipment, re-manufacturing to re-sale with a view to refining the management of second-hand equipment.

*(4) Implementing streamlining concretely*

The Company fully commenced its work on the streamlining of processes and optimizing of projects. Multi-level, complex and inefficient business processes were optimized and enhanced, which effectively improved the Company's management efficiency.

The Company deepened the implementation of the cultural activities of "being a qualified Zoomlion staff" series, aiming at optimizing the allocation of human resources, unifying the spirits of staff and strengthening the senses of responsibility and cohesion of the team, so as to reduce labour costs.

***6. The Management showing confidence on the prospect of the Company through reducing salaries and increasing shareholdings***

During the Reporting Period, the management team of the Company offered to reduce salaries by 50% from 1 July 2014 as a whole until results of operation of the Company improved while some of our Directors, Supervisors, Senior Management and core management personnel increased 169,000,000 shares of the Company by purchasing the shareholdings of Good Excel Group Limited, which showed the Management's confidence in the continuous and stable development of the Company in the future, enhanced the interests of the Management and shareholders as a whole and promoted the continuous and stable development of the Company.

**Outlook for 2015**

***(I) Industry development trend and market outlook***

*1. Construction machinery market*

China's ten golden years of construction machinery industry development has ended, upon which the market hit an L-shaped bottom and entered into a consolidation period with little fluctuation. Despite the constraints of transformation of domestic economy and overcapacity, market opportunities remain sizable. In 2015, the country will implement prudent monetary and proactive fiscal policy, while accelerating the construction of railways, airports and water conservation infrastructure. Meanwhile, the construction machinery industry will also benefit from the "One Belt and One Road" policy, Jing-Jin-Ji Integration Development Program, and the implementation and promotion of Yangtze River economic zone. With the continual increase of medium and small scale urban construction projects, the future for small and micro-sized as well as multifunctional products is promising. At the same time, the implementation of National IV standard will boost the market demand for energy saving and environmentally friendly products.

In terms of overseas market, construction machinery companies will leverage on the implementation of the national "One Belt and One Road" strategy and enhance the market exploration in Eastern Asia, South East Asia, Central Asia, Africa and South America, where market demands are strong, through strategic investments in foreign countries, supporting foreign enterprises and setting up localized factories. It is expected that companies which made early preparation in relation to the "One Belt and One Road" policy will outperform other competitors.

2. *Environmental industry market*

The environmental industry sees unprecedented growth opportunity. With the advancement of urbanization and inprovement of quality of city management, market demand for traditional environmental and sanitation machinery will stay on an increasing trend. As social awareness of environmental issues is raising, the government will continually increase efforts in water, soil and air pollution treatments, hence the development of environmental industry, including businesses of sewage treatment, waste classification and disposal of solid wastes, will remain fast and rapid. It is expected that companies with higher technology innovation capacity, better product portfolio and stronger brand influence will gain more competitive edge.

3. *Agricultural machinery market*

The growth in agricultural machinery industry will remain steady in medium and long term. Basing on the increasing land transformation, continuous control on straw burning, promotion of agricultural modernization and enhancing agricultural investment, the Ministry of Agriculture predicted that the penetration rate of crop farming and harvesting machinery in China will reach 70% by 2020 with large-scale, multifunctional, specialized, whole-set and environmentally friendly agricultural machines becoming the mainstream products. Companies with stronger capital resources and competitive edges will benefit from the growing industry.

***(2) Major business objectives in 2015***

Looking into 2015, the Company will strive to achieve progress under the "new normal" stage of macroeconomic development. It will adhere to the principles of "strategic improvement, management reform, business transformation and product upgrade", and commit to improve efficiency, streamline operation, increase revenue, lower costs and enhance effectiveness in order to achieve growth under the "new normal".

The construction machinery sector will continue to enhance quality, capacity and stability. It will endeavor to strengthen product function, quality, costs control and services with excellent craftsmanship. The sector will accelerate the development of overseas market and the exploration of the reform on the traditional business model of equipment manufacturing industry, so as to effectively enhance the overall competitive edge of our products and maintain steady profit growth.

The environmental industry sector will speed up the pace of achieving sizable growth. It will input more resources and actively seize strategic opportunity through reforming R&D, organizational structure, marketing model and incentive scheme, in order to gain first mover advantage. The sector will continue to enhance the competiveness and market share for traditional environmental and sanitation machinery products, as its environmental products will focus on the disposal of domestic waste and kitchen waste, thereby forming a comprehensive solution for the disposal of domestic waste and kitchen waste and setting an exemplary model of engineering project. The sector aims at creating a brand new environmental-friendly corporate image of "supplier of environmental treatment solution and whole set equipment".

The agricultural machinery sector will promote innovation and upgrade its management to achieve continuous growth. It will implement in-depth consolidation of resources, sharing and integration of cultures. Meanwhile, it will reinforce the construction of demonstrative projects in relation to integration of agricultural machinery and agronomy, and develop more high-end, intelligent and multifunctional products, with the ultimate goal of becoming the country's leading provider of comprehensive solution for mechanization of agricultural production.

The finance service sector will diversify its business scope and consolidate its foundation for management. It will endeavor to operate the finance company well and integrate resources across the industrial and financial sectors, so as to facilitate business development.

## FINAL DIVIDEND AND ANNUAL GENERAL MEETING

Pursuant to a resolution passed at the directors' meeting on 27 March 2015, a final dividend for the year ended 31 December 2014 of RMB0.05 per share was proposed, totaling RMB385 million. Such proposal is subject to shareholders' approval at the forthcoming annual general meeting of the Company. Information regarding the record date and book close date for the entitlement to the final dividend and attendance of the annual general meeting will be announced in due course.

## COMPLIANCE WITH THE CODE PROVISIONS IN THE CODE ON CORPORATE GOVERNANCE PRACTICES AND THE CORPORATE GOVERNANCE CODE AS SET OUT IN APPENDIX 14 OF THE LISTING RULES

The Board has adopted all code provisions in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the code of the Company. During the year ended 31 December 2014, the Company has complied with all the applicable code provisions set out in the Code, save and except the only deviation from code provision A.2.1 of the Code, namely, the roles of the chairman and chief executive officer have not been separated. Dr. Zhan Chunxin is currently the chairman of the Board and chief executive officer of the Company. The Board is of the view that vesting of these two roles in Dr. Zhan Chunxin can facilitate efficient formulation and implementation of business strategies of the Company, and that through the supervision of the Board and its independent non-executive directors as well as the internal check-and-balance system, the balance of power and authority between the Board and management of the Company will not be affected. The Board believes that this arrangement is in the interests of the Company and its business.

## COMPLIANCE OF THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the rules governing the securities transactions by directors set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry to all its directors and supervisors, and all its directors and supervisors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2014. The Company has not identified any non-compliance with the Model Code by any of its directors or supervisors.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## REVIEW BY THE AUDIT COMMITTEE

The Audit Committee of the Company is primarily responsible for making recommendation to the Board on the appointment and removal of the external auditors and their remuneration and terms of engagement; monitoring internal control system of the Company and its implementation; reviewing financial information of the Company and its disclosure, including monitoring the integrity and accuracy of financial statements, annual report and accounts, half-year report and quarterly reports, and review significant financial reporting judgments contained therein; reviewing the financial controls, internal control and risk management systems of the Company; and reviewing material connected transactions of the Company.

The Audit Committee comprises three members, including two independent non-executive directors and one non-executive director. It is currently chaired by Dr. Qian Shizheng with Mr. Wang Zhile and Mr. Qiu Zhongwei as members. The Audit Committee satisfies the requirements under Rule 3.21 of the Listing Rules.

The Audit Committee held five meetings during the year to consider the annual results of the Company for the year 2013 and its interim results for the year 2014. The Audit Committee has reviewed the audited annual financial statements of the Company for the year ended 31 December 2014 and the accounting principles and practices adopted by the Company and discussed matters relating to internal control and financial reporting.

By Order of the Board of
**Zoomlion Heavy Industry Science and Technology Co., Ltd.***
**Zhan Chunxin**
*Chairman*

Changsha, the PRC, 27 March 2015

*As at the date of this announcement, the executive directors of the Company are Dr. Zhan Chunxin and Mr. Liu Quan; the non-executive director is Mr. Qiu Zhongwei; and the independent non-executive directors are Dr. Qian Shizheng, Mr. Wang Zhile and Mr. Lian Weizeng.*

* *For identification purpose only*