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 2016

FINANCIAL HIGHLIGHTS

- Revenue of the Group for 2016 amounted to RMB20,023 million, representing a decrease of RMB730 million or 3.52% from 2015.
- Loss attributable to shareholders of the Company for 2016 amounted to RMB929 million, representing a decrease on profit attributable to shareholders of the Company of RMB1,018 million or 1,143.82% from 2015.
- Losses per share for 2016 amounted to RMB0.12.
- The Board proposed a final dividend of RMB0.15 per share for the year of 2016.

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 (collectively, the "Group") for the year ended 31 December 2016, together with the comparative figures for 2015:

FINANCIAL RESULTS

Financial information extracted from the audited financial statements for 2016 prepared in accordance with International Financial Reporting Standards ("IFRSs"):

Consolidated statement of comprehensive income
For the year ended 31 December 2016
(Expressed in RMB)

	Note	**2016** ***RMB millions***	2015 *RMB millions*
Revenue	*3*	**20,023**	20,753
Cost of sales and services		**(15,245)**	(15,146)
Gross profit		**4,778**	5,607
Other income		**764**	676
Sales and marketing expenses		**(2,446)**	(2,502)
General and administrative expenses		**(2,949)**	(2,271)
Research and development expenses		**(297)**	(320)
(Loss)/profit from operations		**(150)**	1,190
Net finance costs	*4(a)*	**(871)**	(1,182)
Gain on disposal of associates		**—**	30
Share of profits less losses of associates		**11**	1
(Loss)/profit before taxation	*4*	**(1,010)**	39
Income tax	*5*	**110**	58
(Loss)/profit for the year		**(900)**	97
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		**(672)**	(470)
Change in fair value of available-for-sale financial assets		**(1)**	—
Total other comprehensive income for the year		**(673)**	(470)
Total comprehensive income for the year		**(1,573)**	(373)

	Note	**2016**	2015
		RMB millions	*RMB millions*
(Loss)/profit attributable to:			
Equity shareholders of the Company		**(929)**	89
Non-controlling interests		**29**	8
(Loss)/profit for the year		**(900)**	97
Total comprehensive income attributable to:			
Equity shareholders of the Company		**(1,602)**	(381)
Non-controlling interests		**29**	8
Total comprehensive income for the year		**(1,573)**	(373)
Basic and diluted earnings per share (RMB)	*7*	**(0.12)**	0.01

Consolidated statement of financial position
As at 31 December 2016
(Expressed in RMB)

	Note	**2016** **RMB millions**	2015 RMB millions
Non-current assets			
Property, plant and equipment		**8,069**	8,520
Lease prepayments		**2,201**	2,375
Intangible assets		**2,682**	2,358
Goodwill	*9*	**2,076**	1,993
Interests in associates		**604**	208
Available-for-sale financial assets		**1,407**	181
Trade and other receivables	*10*	**3,032**	3,504
Receivables under finance lease	*11*	**1,895**	2,484
Pledged bank deposits		**72**	189
Other non-current assets		**64**	—
Deferred tax assets	*13(b)*	**1,137**	855
Total non-current assets		**23,239**	22,667
Current assets			
Inventories		**12,770**	14,083
Other current assets		**684**	449
Trade and other receivables	*10*	**32,074**	30,493
Receivables under finance lease	*11*	**12,212**	12,644
Pledged bank deposits		**1,547**	1,860
Cash and cash equivalents		**6,575**	11,487
Total current assets		**65,862**	71,016
Total assets		**89,101**	93,683
Current liabilities			
Loans and borrowings		**9,712**	13,273
Trade and other payables	*12*	**17,089**	16,813
Income tax payable	*13(a)*	**75**	87
Total current liabilities		**26,876**	30,173
Net current assets		**38,986**	40,843

	Note	2016 RMB millions	2015 RMB millions
Total assets less current liabilities		**62,225**	63,510
Non-current liabilities			
Loans and borrowings		**23,085**	21,881
Other non-current liabilities		**583**	621
Payable for acquisition of non-controlling interests		**265**	—
Deferred tax liabilities	*13(b)*	**537**	439
Total non-current liabilities		**24,470**	22,941
NET ASSETS		**37,755**	40,569
CAPITAL AND RESERVES			
Share capital		**7,664**	7,664
Reserves		**29,109**	32,232
Total equity attributable to equity shareholders of the Company		**36,773**	39,896
Non-controlling interests		**982**	673
TOTAL EQUITY		**37,755**	40,569

Consolidated statement of changes in equity

For the year ended 31 December 2016

(Expressed in RMB)

	Attributable to equity shareholders of the Company								
	Share capital *RMB millions*	Capital reserve *RMB millions*	Statutory surplus reserve *RMB millions*	Exchange reserve *RMB millions*	Other reserve *RMB millions*	Retained earnings *RMB millions*	Total *RMB millions*	Non-controlling interests *RMB millions*	Total equity *RMB millions*
Balance at 1 January 2015	7,706	13,153	2,906	(320)	5	17,341	40,791	417	41,208
Changes in equity for 2015									
Profit for the year	—	—	—	—	—	89	89	8	97
Other comprehensive income	—	—	—	(470)	—	—	(470)	—	(470)
Total comprehensive income	—	—	—	(470)	—	89	(381)	8	(373)
Appropriation for surplus reserve	—	—	11	—	—	(11)	—	—	—
Cash dividends	—	—	—	—	—	(385)	(385)	—	(385)
Safety production fund	—	—	—	—	6	(6)	—	—	—
Repurchase of own shares	(42)	(86)	—	—	—	—	(128)	—	(128)
Business combination	—	—	—	—	—	—	—	899	899
Acquisition of non-controlling interests	—	(1)	—	—	—	—	(1)	(611)	(612)
Dividends declared by subsidiaries to non-controlling interests	—	—	—	—	—	—	—	(40)	(40)
Balance at 31 December 2015	7,664	13,066	2,917	(790)	11	17,028	39,896	673	40,569

	Attributable to equity shareholders of the Company								
	Share capital *RMB millions*	Capital reserve *RMB millions*	Statutory surplus reserve *RMB millions*	Exchange reserve *RMB millions*	Other reserve *RMB millions*	Retained earnings *RMB millions*	Total *RMB millions*	Non-controlling interests *RMB millions*	Total equity *RMB millions*
Balance at 1 January 2016	**7,664**	**13,066**	**2,917**	**(790)**	**11**	**17,028**	**39,896**	**673**	**40,569**
Changes in equity for 2016									
Loss for the year	**—**	**—**	**—**	**—**	**—**	**(929)**	**(929)**	**29**	**(900)**
Other comprehensive income	**—**	**—**	**—**	**(672)**	**(1)**	**—**	**(673)**	**—**	**(673)**
Total comprehensive income	**—**	**—**	**—**	**(672)**	**(1)**	**(929)**	**(1,602)**	**29**	**(1,573)**
Appropriation for surplus reserve	**—**	**—**	**21**	**—**	**—**	**(21)**	**—**	**—**	**—**
Cash dividends	**—**	**—**	**—**	**—**	**—**	**(1,150)**	**(1,150)**	**—**	**(1,150)**
Safety production fund	**—**	**—**	**—**	**—**	**4**	**(4)**	**—**	**—**	**—**
Business combination	**—**	**(265)**	**—**	**—**	**—**	**—**	**(265)**	**248**	**(17)**
Decrease in non-controlling interests on disposal of a subsidiary	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(21)**	**(21)**
Acquisition of non-controlling interests	**—**	**(106)**	**—**	**—**	**—**	**—**	**(106)**	**63**	**(43)**
Dividends declared by a subsidiary to non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(10)**	**(10)**
Balance at 31 December 2016	**7,664**	**12,695**	**2,938**	**(1,462)**	**14**	**14,924**	**36,773**	**982**	**37,755**

Notes to the financial information
For the year ended 31 December 2016

1 STATEMENT OF COMPLIANCE

The financial information contained in this preliminary announcement of annual results was extracted from the Group's consolidated financial statements. 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 a number of amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- Annual Improvements to IFRSs 2012–2014 Cycle
- Amendments to IFRS 10, Consolidated financial statements and IAS 28, Investments in associates and joint venture, *Sale or contribution of assets between an investor and its associate or joint venture*
- Amendments to IFRS 11, Joint arrangements, *Accounting for acquisitions of interests in joint operations*
- Amendments to IAS 1, Presentation of financial statements, *Disclosure initiative*
- Amendments to IAS 16, Property, plant and equipment, and IAS 38, Intangible assets, *Clarification of acceptable methods of depreciation and amortization*

The Group has adopted the above amendments and interpretation. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE

The principal activities of the Group are research, development, manufacturing and sale of construction machinery, environmental sanitation equipment and agricultural machinery, as well as the provision of environmental solutions and finance lease services.

Revenue from sales and lease of the Group's machinery products is net of value added tax and after deduction of any trade discounts.

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

	2016 ***RMB millions***	2015 *RMB millions*
Construction machinery		
— Concrete machinery	**4,813**	5,476
— Crane machinery	**3,540**	4,574
— Others	**2,202**	2,314
Environmental industry	**5,607**	4,525
Agricultural machinery	**3,452**	3,295
Financial services	**409**	569
	20,023	20,753

4 (LOSS)/PROFIT BEFORE TAXATION

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

(a) Net finance costs:

	2016	2015
	RMB millions	*RMB millions*
Finance income:		
Interest income	**(419)**	(956)
Gain on remeasurement of derivative financial instruments at fair value	**(121)**	(14)
	(540)	(970)
Finance costs:		
Interest on loans and borrowings	**1,619**	1,706
Net exchange (gain)/loss	**(208)**	446
	1,411	2,152
	871	1,182

(b) Staff costs:

	2016	2015
	RMB millions	*RMB millions*
Salaries, wages and other benefits	**1,907**	2,163
Contributions to retirement schemes	**290**	273
	2,197	2,436

(c) Other items:

	2016	2015
	RMB millions	*RMB millions*
Cost of inventories sold	**14,921**	15,134
Depreciation of property, plant and equipment	**746**	625
Amortisation of lease prepayments	**53**	54
Amortisation of intangible assets	**186**	150
Operating lease charges	**177**	189
Auditors' remuneration:		
— audit services	**13**	14
— non-audit services	**6**	—
Product warranty costs	**105**	112
Impairment losses recognised/(reversal):		
— trade receivables	**764**	559
— receivables under finance lease	**129**	(3)
— inventories	**380**	141
— goodwill	**—**	20

5 INCOME TAX

Income tax in the consolidated statement of comprehensive income represents:

	2016	2015
	RMB millions	*RMB millions*
Current tax — PRC income tax		
Provision for the year	**169**	177
Current tax — Income tax in other tax jurisdictions		
Provision for the year	**4**	5
Deferred taxation (Note 13(b))		
Origination and reversal of temporary differences	**(283)**	(127)
Reversal of previously recognised taxable temporary differences	**—**	(113)
Income tax credit	**(110)**	(58)

Reconciliation between actual income tax credit and notional tax on (loss)/profit before taxation is as follows:

	2016	2015
	RMB millions	*RMB millions*
(Loss)/profit before taxation	**(1,010)**	39
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to the jurisdictions concerned *(Note (a))*	**(253)**	10
Tax effect of non-deductible expenses *(Note (a))*	**203**	223
Reversal of previously recognised taxable temporary differences	**—**	(113)
Current year loss for which no deferred tax assets was recognised	**30**	61
Tax effect of non-taxable income *(Note (a))*	**(138)**	(124)
Tax effect of tax concessions *(Note (b))*	**81**	(47)
Additional deduction for qualified research and development expenses *(Note (c))*	**(33)**	(68)
Actual income tax credit	**(110)**	(58)

Notes:

(a) The PRC statutory income tax rate is 25% (2015: 25%).

The Company's subsidiaries in the HKSAR are subject to Hong Kong Profits Tax at 16.5% (2015: 16.5%) in respect of assessable profits arising in or derived from Hong Kong. In 2016, the Group did not derive any income chargeable to Hong Kong Profits Tax on the basis that all the income was offshore sourced, all the expenses incurred by the subsidiaries in Hong Kong have been disallowed.

The Company's overseas subsidiaries are subject to income tax at rates ranging from 19.0% to 31.4% (2015: 19.0% 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. And 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 29 June 2016, a final cash dividend of RMB0.15 per share based on 7,664 million ordinary shares totalling RMB1,150 million in respect of the year ended 31 December 2015 was declared, and was fully paid by the end of 2016.

(ii) Dividends proposed after the balance sheet date

Pursuant to a resolution passed at the directors' meeting on 30 March 2017, a final dividend in respect of the year ended 31 December 2016 of RMB0.15 (2015:RMB0.15) per share totalling RMB1,150 million (2015: RMB1,150 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 loss attributable to equity shareholders of the Company of RMB929 million (2015: profit attributable to euity shareholders of the Company of RMB89 million), and the weighted average number of shares of 7,664 million in issue during the year (2015: 7,689 million shares).

There were no dilutive potential ordinary shares in issue as at 31 December 2016 (31 December 2015: Nil).

8 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business sectors. 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) Construction machinery segment consists of the following sub-segments:

Concrete machinery sub-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.

Crane machinery sub-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.

Others primarily research, develop, manufacture and sell of other machinery products, including road construction and pile foundation machinery, earth working machinery, material handling machinery and systems, 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 2016 and 2015.

(ii) Environmental industry segment primarily researches, develops, manufactures and sells a wide range of environmental and sanitation machineries, including road sweepers, washing vehicles and waste treatment equipment, as well as provides environmental solutions.

(iii) Agricultural machinery segment primarily researches, develops, manufactures and sells a wide range of agricultural machineries, including tractors, grain harvesters and drying machines.

(iv) Financial services segment primarily provides finance lease services to customers for purchasing machinery products of the Group and from other vendors.

(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 revenue 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 2016 is set out below:

	2016	2015
	RMB millions	*RMB millions*
Reportable segment revenue:		
Construction machinery		
— Concrete machinery	**4,813**	5,476
— Crane machinery	**3,540**	4,574
— Others	**2,202**	2,314
Environmental industry	**5,607**	4,525
Agricultural machinery	**3,452**	3,295
Financial services	**409**	569
Total	**20,023**	20,753
Reportable segment profit:		
Construction machinery		
— Concrete machinery	**912**	1,149
— Crane machinery	**957**	1,423
— Others	**403**	529
Environmental industry	**1,490**	1,417
Agricultural machinery	**607**	520
Financial services	**409**	569
Total	**4,778**	5,607

(b) Reconciliation of segment profit

	2016	2015
	RMB millions	*RMB millions*
Total segment profit	**4,778**	5,607
Other income	**764**	676
Sales and marketing expenses	**(2,446)**	(2,502)
General and administrative expenses	**(2,949)**	(2,271)
Research and development expenses	**(297)**	(320)
Net finance costs	**(871)**	(1,182)
Gain on disposal of associates	**—**	30
Share of profits less losses of associates	**11**	1
Consolidated (loss)/profit before taxation	**(1,010)**	39

(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, Ladurner and m-tec, which are determined to be outside PRC.

	2016	2015
	RMB millions	*RMB millions*
Revenue from external customers		
— Mainland PRC	**17,858**	18,198
— Outside PRC	**2,165**	2,555
Total	**20,023**	20,753

	2016	2015
	RMB millions	*RMB millions*
Specified non-current assets		
— Mainland PRC	**9,891**	10,672
— Outside PRC	**379**	223
Total	**10,270**	10,895

9 GOODWILL

On 29 April 2016, the Company completed the acquisition of 57% interest in Ladurner Ambiente S.p.A. and its subsidiaries (collectively "Ladurner Group") with a cash consideration of EUR50 million (equivalent to RMB369 million), which would be adjusted with the post-acquisition earning of Ladurner Group from 2017 to 2018, through its wholly-owned subsidiary, Changsha Zoomlion Environmental Industry Co., Ltd.. Ladurner Group operates in the construction and management of plants for the production of energy from renewable resources, waste treatment and photovoltaic plants with its sales primarily made in Europe. The purpose of the business combination was to broaden the Group's business in environmental operation and management. Goodwill of RMB44 million was recognized on the acquisition.

Apart from the above, another acquisition of a Chinese company operating in the construction and management of plants for waste treatment with a cash consideration of RMB86 million, has been completed on 20 June 2016. No goodwill was resulted from this acquisition.

10 TRADE AND OTHER RECEIVABLES

	2016 *RMB millions*	2015 *RMB millions*
Trade receivables	**32,687**	31,801
Less:allowance for doubtful debts	**(2,853)**	(2,316)
	29,834	29,485
Less:trade receivables due after one year	**(3,032)**	(3,504)
	26,802	25,981
Bills receivable	**2,197**	1,186
	28,999	27,167
Amounts due from related parties	**312**	386
Prepayments for purchase of raw materials	**205**	172
Prepaid expenses	**408**	357
VAT recoverable	**849**	945
Deposits	**264**	332
Others	**1,037**	1,134
	32,074	30,493

All of the trade and other receivables, 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 2016, the weighted average discount rate was approximately 4.75% (2015: 4.75%) per annum. As at 31 December 2016, trade receivables due after one year of RMB3,032 million (31 December 2015: RMB3,504 million) were presented net of unearned interest of RMB239 million (31 December 2015: RMB274 million).

During the year ended 31 December 2016, trade receivable, net of allowance for doubtful debts, of RMB2,068 million were factored to banks or other financial institutions (2015: Nil) without recourse, where substantially all the risks and rewards of ownership had been transferred. Since the Group does not have continuing involvement in the transferred assets, those trade receivables were therefore derecognised.

As at the end of the reporting period, ageing analysis based on the invoice date of trade receivables (which are included in trade and other receivables), net of allowance for doubtful debts is as follows:

	2016	2015
	RMB	*RMB*
	millions	*millions*
Within 1 month	**2,911**	3,080
Over 1 month but less than 3 months	**2,837**	3,080
Over 3 months but less than 1 year	**7,772**	10,250
Over 1 year but less than 2 years	**8,909**	9,826
Over 2 years but less than 3 years	**5,610**	2,622
Over 3 years but less than 5 years	**1,795**	627
	29,834	29,485

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 (2015: 20% to 30%). For sales under instalment payment method that has instalment payment periods generally ranging from 6 to 42 months (2015: 6 to 42 months), customers are normally required to make an upfront payment ranging from 15% to 30% of the product price (2015: 15% 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 allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2016	2015
	RMB	*RMB*
	millions	*millions*
Balance at 1 January	**2,316**	1,780
Impairment losses recognised	**764**	559
Reclassification from impairment of receivables under finance lease	**9**	6
Uncollectible amounts written off	**(236)**	(29)
Balance at 31 December	**2,853**	2,316

11 RECEIVABLES UNDER FINANCE LEASE

	2016 *RMB* *millions*	2015 *RMB* *millions*
Gross investment	**15,220**	16,146
Unearned finance income	**(348)**	(373)
	14,872	15,773
Less: allowance for doubtful debts	**(765)**	(645)
	14,107	15,128
Less: receivables under finance lease due after one year	**(1,895)**	(2,484)
Receivables under finance lease due within one year	**12,212**	12,644

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 (2015: 2 to 5 years). Customers are normally required to make an upfront payment ranging from 5% to 25% of the product price (2015: 5% to 25%) and pay a security deposit ranging from 1% to 10% of the product price (2015: 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.

The minimum lease payments receivable as at the end of the reporting period are as follows:

	2016	2015
	RMB millions	*RMB millions*
Present value of the minimum lease payments		
Within 1 year	**12,711**	13,122
Over 1 year but less than 2 years	**1,054**	1,456
Over 2 years but less than 3 years	**628**	668
Over 3 years	**479**	527
	14,872	15,773
Unearned finance income		
Within 1 year	**283**	306
Over 1 year but less than 2 years	**37**	39
Over 2 years but less than 3 years	**18**	16
Over 3 years	**10**	12
	348	373
Gross investment		
Within 1 year	**12,994**	13,428
Over 1 year but less than 2 years	**1,091**	1,495
Over 2 years but less than 3 years	**646**	684
Over 3 years	**489**	539
	15,220	16,146

Overdue analysis of receivables under finance lease as at the end of the reporting period is as follows:

	2016	2015
	RMB millions	*RMB millions*
Not yet due	**7,414**	8,260
Within 1 year past due	**3,988**	4,031
Over 1 year but less than 2 years past due	**2,335**	2,224
Over 2 years past due	**1,135**	1,258
Total past due	**7,458**	7,513
	14,872	15,773
Less: allowance for doubtful debts	**(765)**	(645)
	14,107	15,128

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.

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 allowance for doubtful debts during the year, is as follows:

	2016	2015
	RMB millions	*RMB millions*
Balance at 1 January	**645**	654
Impairment losses recognised/(reversed)	**129**	(3)
Reclassification to impairment of trade receivables	**(9)**	(6)
Balance at 31 December	**765**	645

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

	2016	2015
	RMB millions	*RMB millions*
Trade creditors	**6,579**	6,378
Bills payable	**5,601**	5,674
Trade creditors and bills payable	**12,180**	12,052
Amounts due to related parties	**49**	15
Amounts due to non-controlling shareholders of certain subsidiaries	**468**	477
Receipts in advance	**847**	838
Payable for acquisition of property, plant and equipment	**436**	608
Accrued staff costs	**328**	293
Product warranty provision	**72**	74
VAT payable	**211**	146
Sundry taxes payable	**114**	126
Security deposits	**568**	525
Interest payable	**187**	236
Other accrued expenses and payables	**1,629**	1,423
	17,089	16,813

Ageing analysis of trade creditors and bills payable as at the end of the reporting period is as follows:

	2016	2015
	RMB millions	*RMB millions*
Due within 1 month or on demand	**5,154**	5,076
Due after 1 month but within 3 months	**2,923**	2,910
Due after 3 months but within 6 months	**3,485**	3,473
Due after 6 months but less than 12 months	**618**	593
	12,180	12,052

13 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Income tax payable in the consolidated statement of financial position represents:

	2016	2015
	RMB millions	*RMB millions*
Provision for PRC income tax	**66**	82
Provision for income tax in other tax jurisdictions	**9**	5
	75	87

(b) Deferred tax assets and liabilities recognised:

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

Year ended 31 December 2016

	Balance at 1 January 2016	**Acquisition from business combination**	**Credited/ (charged) to profit or loss**	**(Credited)/ charged to reserves**	**Balance at 31 December 2016**
	RMB millions	***RMB millions***	***RMB millions***	***RMB millions***	***RMB millions***
Deferred tax assets arising from:					
Receivables	**516**	**—**	**97**	**1**	**614**
Inventories	**71**	**5**	**12**	**—**	**88**
Accrued expenses	**37**	**2**	**3**	**—**	**42**
Tax losses	**212**	**2**	**116**	**(19)**	**311**
Others	**19**	**18**	**45**	**—**	**82**
Total	**855**	**27**	**273**	**(18)**	**1,137**
Deferred tax liabilities arising from:					
Property, plant and equipment	**(17)**	**(10)**	**3**	**—**	**(24)**
Intangible assets	**(385)**	**(59)**	**27**	**(8)**	**(425)**
Lease prepayments	**(35)**	**—**	**(11)**	**—**	**(46)**
Others	**(2)**	**(31)**	**(9)**	**—**	**(42)**
Total	**(439)**	**(100)**	**10**	**(8)**	**(537)**

Year ended 31 December 2015

	Balance at 1 January 2015	Acquisition from business combination	Credited/ (charged) to profit or loss	(Credited)/ charged to reserves	Balance at 31 December 2015
	RMB millions	*RMB millions*	*RMB millions*	*RMB millions*	*RMB millions*
Deferred tax assets arising from:					
Receivables	436	14	67	(1)	516
Inventories	34	19	18	—	71
Accrued expenses	40	12	(14)	(1)	37
Tax losses	84	59	11	58	212
Others	24	2	(7)	—	19
Total	618	106	75	56	855
Deferred tax liabilities arising from:					
Property, plant and equipment	(14)	(4)	1	—	(17)
Intangible assets	(324)	(114)	45	8	(385)
Lease prepayments	(29)	(9)	3	—	(35)
Others	(108)	—	116	(10)	(2)
Total	(475)	(127)	165	(2)	(439)

As at 31 December 2016, deferred tax assets in respect of asset impairment losses and tax losses totalling RMB347 million (31 December 2015: RMB317 million) 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

(a) Reconciliation of total equity of the Group

	2016	2015
	RMB millions	*RMB millions*
Total equity reported under PRC GAAP	**37,795**	40,609
—Acquisition-related costs incurred on prior year business combination	**(40)**	(40)
Total equity reported under IFRSs	**37,755**	40,569

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

	2016	2015
	RMB millions	*RMB millions*
Total comprehensive income for the year reported under PRC GAAP	**(1,569)**	(367)
— Safety production fund (Note)	**(4)**	(6)
Total comprehensive income for the year reported under IFRSs	**(1,573)**	(373)

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.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis was prepared based on our financial information prepared in accordance with the IFRSs.

Results of Operations

Revenue

Our revenue decreased by 3.52% from RMB20,753 million for the year ended 31 December 2015 to RMB20,023 million for the year ended 31 December 2016. Revenue decreased in 2016 mainly due to the decrease in demand of construction market, especially in the first half of the year. The increase of revenue in environmental industry sector and agricultural machinery sector partly offset the decreasing effect of revenue in construction machinery sector.

Cost of sales and services & Gross profit

Our cost of sales and services remains stable for the years ended 31 December 2015 and 2016. However, our gross profit decreased by 14.79% from RMB5,607 million for the year ended 31 December 2015 to RMB4,778 million for the year ended 31 December 2016. Our gross profit margin decreased from 27.02% for the year ended 31 December 2015 to 23.86% for the year ended 31 December 2016, which was mainly due to the decreased sales of high-margin products such as high-meter pump truck and large-loading crane impacted by market downturn and sales of reprocessed machinery with margin lower than new equipment during the year.

Other income

Our other income increased from the net gain of RMB676 million for the year ended 31 December 2015 to a net gain of RMB764 million for the year ended 31 December 2016, which was mainly due to the increase in gain resulting from disposal of assets, such as fixed assets, land use rights and etc..

Sales and marketing expenses

Our sales and marketing expenses decreased by 2.24% from RMB2,502 million for the year ended 31 December 2015 to RMB2,446 million for the year ended 31 December 2016. In 2016, sales and marketing expenses as a percentage of our consolidated revenue remains stable compared with 2015.

General and administrative expenses

Our general and administrative expenses increased by 29.85% from RMB2,271 million for the year ended 31 December 2015 to RMB2,949 million for the year ended 31 December 2016. General and administrative expenses as a percentage of our consolidated revenue increased from 10.94% for the year ended 31 December 2015 to 14.73% for the year ended 31 December 2016, which was primarily resulted from the provision for impairment of assets and payment of staff severance due to dowsizing for efficiency.

Research and development expenses

Our research and development expenses decreased by 7.19% from RMB320 million for the year ended 31 December 2015 to RMB297 million for the year ended 31 December 2016, which resulted from decrease in material costs, design testing costs and etc. in research and development investments.

Loss/profit from operations

As a result of the above factors, the Company's operating performance changed from a profit from operations of RMB1,190 million in 2015 to a loss from operations of RMB150 million in 2016.

Net finance costs

Our net finance costs for the year ended 31 December 2015 was RMB1,182 million and our net finance costs for the year ended 31 December 2016 decreased to RMB871 million. The fluctuation was resulted from decrease in interest expenses due to decrease in interest-bearing liabilities and certain measures taken by the Company to reduce currency risk.

Loss/profit for the year

As a result of the foregoing, our loss/profit for the year decreased by 1,027.84% from a profit of RMB97 million for the year ended 31 December 2015 to a loss of RMB900 million for the year ended 31 December 2016. Our net profit margin dropped from 0.47% for the year ended 31 December 2015 to -4.49% for the year ended 31 December 2016.

Loss/profit attributable to shareholders of the Company

As a result of the foregoing, our loss/profit attributable to shareholders of the Company decreased by 1,143.82% from a profit of RMB89 million for the year ended 31 December 2015 to a loss of RMB929 million for the year ended 31 December 2016.

Cash Flow

Operating activities

In 2016, net cash generated from operating activities was RMB1,750 million derived primarily from the loss before taxation of RMB1,010 million, adjusted to reflect interest expenses of RMB1,619 million and depreciation and amortisation of RMB985 million, added back the effect of (i) decrease in inventories of RMB3.296 million, (ii) the decrease of receivables under finance lease of RMB667 million; and (iii) the increase in trade and other payables of RMB220 million and net of the following items: (i) the increase in trade and other receivables of RMB2,661 million; and (ii) the income tax payment of RMB202 million.

Investing activities

In 2016, net cash used in investing activities was RMB352 million, consisting primarily of: (i) payments for the purchases of property, plant and equipment, intangible assets and lease prepayment of RMB482 million; (ii) payment for acquisition of available-for-sale financial assets of RMB1,220 million; (iii) net cash outflow impact of RMB160 million arising from acquisition of subsidiaries. And added (i) proceeds from disposal of property, plant and equipment, intangible assets and lease prepayment of RMB319 million; (ii) proceeds from sales of 40% interests in Changsha Zhongjian Zhonglian Machinery Equipment Leasing Co., Ltd. of RMB400 million; (iii) a decrease in pledged bank deposits of RMB430 million; (iv) interest income of RMB419 million.

Financing activities

In 2016, net cash used in financing activities was RMB6,380 million, consisting primarily of (i) proceeds from loans and borrowings of RMB22,834 million and (ii) contribution from non-controlling shareholders of RMB90 million, offset by: (i) repayments of loans and borrowings of RMB26,420 million; (ii) cash dividends paid to equity shareholders of RMB1,158 million; (iii) interest payments of RMB1,533 million; (iv) payment on the acquisition of non-controlling interest of RMB52 million; (v) dividends paid by subsidiaries to non-controlling interests of RMB10 million; and (vi) payment on repurchase of guaranteed USD senior notes of RMB131 million.

Capital Expenditures

For the year ended 31 December 2016, our capital expenditures on purchase of property, plant and equipment, intangible assets and lease prepayments amounted to RMB638 million.

Commitments and Contingent Liabilities

As at 31 December 2016, our commitment consisted of capital commitments that have been authorised and contracted for in the amount of RMB339 million, capital commitments that have been authorised but not contracted for in the amount of RMB8 million and operating lease commitments of RMB163 million, of which RMB67 million was payable within one year.

As at 31 December 2016, we had contingent liabilities of RMB3,740 million in connection with 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 2016, due to our customers' default, we paid RMB240 million, to the banks under our guarantees.

Starting from 1 January 2013, certain customers of the Group financed 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 customer default, the Group is required to make payment to the leasing companies for the outstanding lease payments due from the customer. At the same time, the Group is entitled to repossess and sell the leased machinery, and retain any net proceeds in excess of the guarantee payments made to the leasing companies. As at 31 December 2016, the Group's maximum exposure to such guarantees was RMB954 million. The terms of these guarantees coincide with the tenure of the lease contracts which generally range from 2 to 5 years. For the year ended 31 December 2016, there was no payment made for repossession of machinery incurred under the guarantee arrangement as a result of customer default.

Certain customers of the Group finance their purchase of the Group's agricultural machinery products through cargo-backed loans in the form of bank acceptance notes provided by the banks. The Group undertakes the joint liability guarantee for the customers. In the event of customer default, the Group is required to make payments to the banks for the outstanding amount due from the customers when the bank acceptant notes are due. As at 31 December 2016, the Group's maximum exposure to such guarantees was RMB123 million.

Working Capital and Indebtedness

Our net current asset decreased from RMB40,843 million as at 31 December 2015 to RMB38,986 million as at 31 December 2016, mainly attributable to the decrease of inventories and cash and cash equivalents.

Our outstanding loans and borrowings decreased by 7% from RMB35,154 million as at 31 December 2015 to RMB32,797 million as at 31 December 2016, mainly attributable to the decrease of short-term borrowings.

As at 31 December 2016, our Euro unsecured short-term loans, Euro secured short-term loans, RMB unsecured short-term loans and RMB unsecured long-term loans amounts of RMB365 million, RMB139 million, RMB1,370 million and RMB660 million respectively, are subject to certain restrictive financial covenants. As at 31 December 2016, we have not breached 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 2016, our facilities from 28 domestic and overseas financial institutions amounted to approximately RMB80,459 million had not been utilized.

BUSINESS REVIEW AND PROSPECT

I. Operation Review of 2016

1. Further transformation and upgrading to create a landscape for new development

During the reporting period, the Company made new breakthrough in four sectors and developed new drive for the growth of operations results through further industrial transformation.

(1) The Company made breakthrough in construction machinery sector in establishing a market-oriented management and decision-making system with regional markets as the Layout. Meanwhile, the Company developed new generation 4.0 product featured with efficiency, reliable operation, convenient management and environment-friendly, adhering to "module platform and intelligent product" as the core.

(2) The Company applied global advanced technology in the environmental industrial sector, gradually implemented new model of complete environmental solution, and made new substantive breakthroughs in county environmenal project, kitchen waste treatment project, percolate treatment project, town sewage treatment, mid- to large-scale sewage plant project and other environmental solution projects, creating a new profit point for its supply of green solutions.

(3) The Company followed the world's trend of innovation for the agricultural machinery sector, developed high horsepower tractors and other high-end intelligent products, and explored new business model and innovative market services, with increasing footprint in smart agriculture industry.

(4) The integration of manufacturing and financing business was speeded up by the business acceleration of Zoomlion capital and finance company, industry fund and insurance business.

2. Full implementation of the transformation of intelligent network and customer-related business to reconstruct the business model

During the reporting period, the Company vigorously introduced innovation to business model of various industrial sectors through intelligent technology, Internet of Things and the Internet.

(1) Construction machinery sector: Under the new business model of "Product on Internet, Data in Cloud, and Market on Hand", manufacturers, customers and products were connected with each other through intelligent products with the function of self-diagnosis, self-adjustment and self-adaption. In addition, customers were provided with real-time, online and pro-active services, which were different from the traditional ways of research and development, sale, service and management.

The Company commenced the construction of a "client-to-client" management platform, promoted the integrated management of customer-oriented business including marketing, product delivery, spares supply, after-sales service and post-loan management, and transformed to focused marketing targeting high-valued customers from the traditional marketing model.

The Company initially constructed a big data platform and application to provide precise management, remote diagnosis and predictive maintenance services to customers, thereby pro-actively delivering precise services.

(2) Environmental industrial sector: The Company piloted the application of intelligent sanitation through regional Internet of Things to promote the transformation into "equipment and operation management" model. Meanwhile, the Company made continuous efforts in areas such as treatment of town household waste, kitchen waste and sewage and soil remediation to build up a smart environmental system focusing on complete environmental solution.

(3) Agricultural machinery sector: The Company boosted the construction of "Internet and agricultural machinery" service platform to assign jobs timely and efficiently. The agricultural production project with full mechanization and the "intelligent agriculture" model project combining big data, Internet of Things, expert database and new agricultural machinery entered into the implementation stage.

3. Achieving satisfactory results by self-innovation and leading the industry development by technological innovation

In 2016, the Company obtained 448 invention patents, maintaining the first place in the industry, and was awarded two "China Excellent Patent Award". Meanwhile, the Company took the lead in the formulation of "Cranes-Limiting and Indicating Devices-Part 3: Tower Cranes" at the ISO/TC96 annual conference, and the "Terminology and Commercial Specifications of Concrete Mixing Plant and Mortar Mixing Plant" drafted by the Company was passed by poll by DIS at the ISO/TC195 annual conference, securing more representation and a greater say for the Company in respect of international standards.

During the reporting period, the Company spared no efforts in the development of "Product 4.0" through the combination of "modularization, intelligence and Internet and Internet of Things", and developed over 50 samples of "Product 4.0" for the year, of which 16 products were successfully launched to the market, achieving significant enhancement in technology, quality, cost and service and receiving unanimous recognition from the market, industry and government.

Construction machinery sector: ZCC3200NP crawler crane was successfully installed in the reactor pressure vessel of the first fourth-generation nuclear power plant in the world. QAY2000 wheeled crane was first used in Ningxia wind farm; TC6517 hammerhead tower crane played an important role in the successful completion of the FAST project. The National Science and Technology Support Programs under "the 12th Five Year Plan", including "Research and industrialization of critical equipment for the pile foundation construction of diagram wall and complex stratum" and "Technological research and industrialization of construction hoist with lifting moment of 52,000 kN.m", and a 863 project, namely, "Critical remanufacturing technology and demonstration of generic construction machinery parts", all undertaken by the Company were successfully checked and accepted. The formulation of national standard "Building construction machinery and equipment-Distributing mast for concrete pumps principles of calculation and stability" (GB/T32542-2016), which was led by the Company, was approved. The Company was granted the First Prize of Science and Technology Innovation Award by China Fire Protection Association for its YT60 Aerial Fire Fighting Vehicle project. The project of pneumatic and screening separation technology of fine materials with high precision and its application for concrete machinery equipment of machine-made sand was awarded the Second Prize of Science and Technology by China Machinery Industry Federation in 2016. The Company successfully organized the 25th session annual conference of International Organization for Standardization/Technical Committee (cranes).

Environmental industrial sector: The project of "Critical technology and industrialization of efficient dry cleaning equipment for environmental protection" was awarded the First Prize of Science and Technology by China Machinery Industry Federation. Two invention patents, namely, "Garbage sorting system and method" and "High chromium iron, thin-wall tubes made by it and the preparation method of thin-wall tubes", were awarded the "China Excellent Patent Award". The Company launched a series of new products, such as dust-free dry road sweeper, small road sweeper, spraying pneumatic hammer and anti-dust car, filling the blank list of self-developed products and taking the lead the industry.

Agricultural machinery sector: Three special projects on "intelligent agricultural machinery equipment", including "Driving technology and development of paddy field tractor" led by the Company, and "Corn combine harvesting technology and intelligent equipment research and development" and "Multi-function harvesting technology and equipment development for sugarcane and sugarbeet" with participation of the Company, were included into the National Key Research and Development Programs under "the 13th Five Year Plan". The Company made a significant breakthrough by launching high horsepower tractors and filled the blank list of self-development. Sugarcane harvesters, silage maize harvester and biological materials relieved the demand pressure of the industry.

4. ***Making efforts to expand overseas market and achieving good progress in creating a global market***

The Company followed closely the national strategy of "One Belt and One Road", accelerated the establishment of presence in countries along the belt and furthered the capacity collaboration to facilitate the internationalization of construction machinery, agriculture machinery and environment & sanitation machinery. Meanwhile, the Company focused on the domestic market, systematically promoted the construction of global spare parts system and channel system, and enhanced its recognition and competitiveness in overseas market.

During the reporting period, truck cranes and environment & sanitation equipment branded ZOOMLION-MAZ jointly manufactured by the Company with MAZ Group, a Belarus company, were successfully launched. The Company entered into long-term cooperation agreement with the Ministry of Industry of the Republic of Belarus. The first high-end tower crane were introduced into the north American market. The first overseas maintenance center for full series of products was established in Myanmar. The Company also established nine centralized warehouses in places including Indonesia, Thailand, India, Dubai and Russia to provide more efficient and convenient services for customers and accelerated its internationalization progress.

5. Further promoting precise risk management for better development in future

During the reporting period, the Company took effective and prudent measures to relieve inventory risk, stringently control incremental risks, strengthen the supervision of internal control, precisely control risk and enhance the capability.

(1) Properly relieving inventory risk. The Company conducted an overall check on accounts, equipment and customers by reconciliation of accounts receivables and clearing second-hand equipment, made substantial progress in cases which disturbed market order and impaired interests of the Company, significantly eliminated the inventory and mitigated the risk. The Company revitalized the inventory of second-hand equipment through strategic cooperation, export, border trading, and the coordination of online and offline trade, and achieved satisfactory results. In addition, the Company revitalized the long-term idle assets through classification management and precise measures.

(2) Strictly controlling incremental risks. The Company voluntarily rejected orders placed by customers of low creditablilty and control incremental risks by taking measures of customer credit investigation, strictly following the percentage of initial payment, controlling the quality of contract performance and fully monitoring the accounts receivables.

(3) Strengthening the supervision of internal control. On one hand, the Company strengthened the process monitoring and brought the internal control system into full play for improving efficiency, controlling risk and ensuring compliance. On the other hand, the Company further strengthened the internal control and applied the diagnosis and consultancy functions of the internal control system to enhance the management.

6. Enhancing management and improving efficiency by various measures and consolidating the development foundation

During the reporting period, the Company took effective and prudent measures to reduce cost and improve efficiency, increase innovation efforts in incentive mechanism, continuously optimize the team and enhance quality, and enhance its brand influence.

(1) Managing budgets to reduce cost and improve efficiency. The Company made a thorough review on the budgets and stringently controlled cost and expenses, and determined the operating cost and labor cost based on the results of operations with the

combination of rigid control with positive incentives, advance warning and dynamic monitor to effectively reduce the operating cost.

(2) Developing innovative incentive mechanism. The Company changed the original income distribution mechanism for research and development personnel and provided them with "virtual shares" of products which link income with products sales in order to boost technological innovation and product innovation and benefit the society.

(3) Continuing team optimization and quality enhancement. The Company carried out assessment for technical position and review of key employees to effectively retain its core team, and implemented elimination system to pass over pressure and release energy.

(4) The brand influence of the Company was increasingly enhanced.

Major honors received by the Company during the reporting period are set out below:

- Listed on China's 500 Most Valuable Brands for 13 consecutive years, ranking 73rd with a brand value of RMB40.634 billion, representing an increase of 21% as compared to last year.

- Continued to be listed on Top 100 Global Challengers, being the only one company of the industry on the list.

- Ranking 255th among top 500 enterprises of China in 2016 and the 124th among Chinese manufacturing enterprises.

- Ranking 133rd among top 500 Asian brands in 2016, with its outcome of transformation and internationalization recognized.

- Listed on "Top 100 Innovative Enterprises in Mainland China in 2016", attracting tremendous attention to its achievements in diversified innovation.

- Awarded the National Quality Engineering Award for teams with reliable quality in the national machinery industry.

II. Business Outlook of the Company

(I) Industry development trend and market outlook

1. Construction machinery market

In 2017, the central government will continue her positive fiscal policies and optimal and stable monetary policies. In addition, the central government will actively expand investment and continue to strengthen the construction of major projects, such as high-speed rail, highway, airport and rail transit, and rural public infrastructure, to steadily promote new urbanization. Leveraging on the government's plan to make an investment of RMB800 billion in railway construction and RMB1,800 billion in highway and water transportation, to rebuild 6 million houses in shanty town, to construct and reconstruct 200,000 kilometers of highway, to commence the construction of urban underground utility pipes of over 2,000 kilometers and 15 large-scale hydraulic projects in 2017, together with stock equipment entering into the updating peak and the capital support for PPP projects, the construction machinery market will continuously recover.

In terms of export, benefiting from the accelerated implementation of the national strategy of "going global", significant increase in investment in countries along the "One Belt and One Road", steady growth of project contracts and enhancement of export competitiveness due to depreciation of RMB, the export of construction machinery products is expected to bounce back rapidly.

2. *Environmental industry market*

With the official launch of the Ecological and Environmental Protection Plan under "the 13th Five Year Plan", the country will further increase investment in environmental protection to strengthen environmental solutions, and implement PPP model to significantly relieve the funding pressure of all levels of government, which will contribute to the rapid development of the environmental industry with tremendous opportunities. In addition, increase in mechanization of road sweepers also promotes increasing demand for environment and sanitation trucks. Businesses involving air pollution control, soil remediation, sewage treatment, daily waste classification, disposal of kitchen waste and recycle of construction waste are expected to have a very promising prospect. In such circumstance, equipment manufactures will gradually transform to environmental solution providers. It is also expected that companies with key technology, sufficient capital and stronger innovation capabilities in the market and business model will have a competitive edge.

3. *Agricultural machinery market*

With the implementation of structural reform of the agricultural supply and the acceleration of rural land transfer, full agricultural mechanization will be further enhanced and the scale of agricultural machinery industry will continuously grow. In view of the support of subsidy policy for purchasing agricultural machinery to high-end and environment agricultural machinery, the subsidy for large-sized sugarcane harvesters and cotton harvesters is expected to increase, and soil preparation machine, non-tillage planter, equipment for efficient plant protection, water-saving irrigation equipment, field straw chopper, used plastic film collector and other environmental products will be benefited. With the support of national policy, new agricultural machinery products are expected to rapidly grow and common agricultural machinery products which are over capacity will continue to decrease.

(II) Main operation direction for 2017

In 2017, the Company will transform from manufacturing enterprise to manufacturing service enterprise, improve profit model, reform the management system, strictly control operating risks, consolidate human resource base, promote operation quality and comprehensively enhance profitability with the principle of "being strong" and the policy of "improving efficiency".

Taking stable and prudent measures in the construction machinery sector. The Company will take the opportunity of the recovery of demand to eliminate the historical inventory risk, continuously collect receivables, revitalize second-hand equipment in bulk, accelerate the overall launch of Product 4.0, and significantly strengthen its product quality and market competitiveness, promote customer alliance to expand the market, carry out reform of incentive mechanism to motivate research and development and technical staff, and continuously push forward intelligent manufacturing and interconnection, and re-establish business model for future growth.

Accelerating the development of the environment industry sector, increasing scale and improving efficiency. For the environment & sanitation machinery, the Company will further the transformation of marketing mechanism, stimulate the marketing iniatives, promote market-based incentive mechanism for research and development staff and cost-based production incentive mechanism, implement intelligent environment and sanitation projects, reinforce its advantage in customer resources, take advantage of its accumulated edges in the industry and strengthen its advantage in leading brand. For the environment industry sector, the Company will gradually establish profit model, marketing model and operation and management capability which fit the development of environmental business, spare no efforts on the publicity and set up sample projects related to the industry. In addition, the Company will spare no efforts on expanding the comprehensive treatment of town environment under PPP mode and integrate the technical advantages of LADURNER Company to undertake various environment treatment projects related to the treatment of solid waste, kitchen waste, high concentrated sewage and town sewage.

For agricultural machinery sector, in order to enhance the profitability, the Company strives to build up big marketing system supported by Internet platform and gradually strengthens product development, quality control, targeted marketing and risk control capability through innovation in product, management and operation model.

For financial service sector, the Company will take Zoomlion Capital as the core financial control platform, gradually establish finance lease, insurance, industry fund, bank, securities and other financial platforms, obtain A class rating for finance companies in China, develop inter-bank borrowing, securities investment and supply chain finance business, formulate professional and market-driven financial service operation mechanism, bring capital leverage into full play, and contribute the integration of construction machinery, agricultural machinery and environment industry sectors.

(III) Risk factors exposed and measures to be taken for the future development

Main risk factors exposed to and measures to be taken by the Company in 2017 are set out below:

1. Construction machinery sector may involve uncertainties as a result of the impact of macroeconomic situation and industry factors.

   The Company will pay close attention to the development of macroeconomic policies and the industry, and formulate the corresponding preventive strategies and measures; continue promoting the transformation of marketing mode and build up sales system and mechanism applicable to the market competition; enhance development capability and technological innovation to reinforce the competitive advantage of core products and increasingly expand market share; accelerate the transformation of profit model and enhance the profitability of value-added business and after-market service.

2. The cost of production factors may increase as a result of the continuous fluctuation in the price of commodities, such as oil and steel.

   The Company will pay attention to the change trend of prices of main raw materials and energy in the world and conduct analysis and judgment to make accurate and favorable procurement decision; continuously reduce the cost through the selection of suppliers, centralized procurement and the optimization of cost materials; strictly implement cost budgeting and expense controlling through comprehensive budget management, the integration of production, supply and marketing, inventory control; improve material utilization by technique and technology, and apply alternate technology to develop new materials and new techniques to continuously reduce cost.

3. Revenue from overseas investment and sales may reduce as a result of the uncertainty in exchange rate fluctuation.

   The Company will keep a close eye on the global financial market and national policies related to exchange rate and conduct analysis and judgment, and choose proper exchange rate management instruments to control the currency risk; reduce finance cost and mitigate the risk of asset devaluation through capital operation and international cooperation in financing and mergers and acquisitions; accelerate the layout of international marketing service network along the national strategic route of “One Belt and One Road”, explore key areas and key markets, improve the competitiveness of products and market localization, and get rid of the risk of revenue reduction due to the fluctuation in exchange rate.

FINAL DIVIDEND AND ANNUAL GENERAL MEETING

Pursuant to a resolution passed at the Board meeting on 30 March 2017, a final dividend for the year ended 31 December 2016 of RMB0.15 per share was proposed, totaling RMB11.50 million. Such proposal is subject to shareholders' approval at the forthcoming annual general meeting of the Company. The proposed final dividend is expected to be paid to the shareholders of the Company on or about 30 August 2017. Information regarding the record date and book close date to determine 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 TO 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 2016, the Company 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 the 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 the independent non-executive directors as well as the internal check-and-balance system of the Company, the balance of power and authority between the Board and the 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 WITH 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, after making specific enquiry with all directors and supervisors, confirmed that all its directors and supervisors complied with the Model Code throughout the year ended 31 December 2016. 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 2016, neither the Company nor any of its subsidiaries 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 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 Ms. Liu Guiliang with Mr. Hu Xinbao and Mr. Zhao Songzheng as members. The Audit Committee satisfies the requirements under Rule 3.21 of the Listing Rules.

The Audit Committee held four meetings during the year considering the annual results of the Company for the year ended 31 December 2015 and its interim results for the six months ended 30 June 2016. The Audit Committee has reviewed the audited annual financial statements of the Company for the year ended 31 December 2016 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, 30 March 2017

As at the date of this announcement, the executive directors of the Company is Dr. Zhan Chunxin; the non-executive directors are Mr. Hu Xinbao and Mr. Zhao John Huan; and the independent non-executive directors are Mr. Zhao Songzheng, Mr. Lai Kin Keung, Ms. Liu Guiliang and Mr. Yang Changbo.

* *For identification purpose only*