ZOOMLION
中联重科

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 2018

FINANCIAL HIGHLIGHTS

- Revenue from continuing operations of the Group for the year ended 31 December 2018 amounted to RMB28,697 million, representing an increase of RMB8,089 million or 39.25% from 2017.
- Profit attributable to equity shareholders of the Company for the year ended 31 December 2018 amounted to RMB2,031 million, representing an increase of RMB689 million or 51.34% from 2017.
- Basic earnings per share for the year ended 31 December 2018 amounted to RMB26.60 cents, representing an increase of RMB9.04 cents compared with basic earnings per share of RMB17.56 cents in 2017. Diluted earnings per share for the year ended 31 December 2018 amounted to RMB26.41 cents, representing an increase of RMB8.85 cents compared with diluted earnings per share of RMB17.56 cents in 2017.
- The Board proposed a final dividend of RMB0.25 per share for the year ended 31 December 2018.

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 2018 together with the comparative figures for 2017:

FINANCIAL RESULTS

Financial information extracted from the audited financial statements for 2018 prepared in accordance with International Financial Reporting Standards ("**IFRSs**"):

Consolidated statement of comprehensive income
For the year ended 31 December 2018
(Expressed in RMB)

	Note	**2018** *RMB millions*	2017 *RMB millions (i)*
Continuing operations:			
Revenue	*3*	**28,697**	20,608
Cost of sales and services		**(20,923)**	(16,303)
Gross profit		**7,774**	4,305
Other income		**882**	259
Sales and marketing expenses		**(2,379)**	(2,180)
General and administrative expenses		**(2,063)**	(10,487)
Research and development expenses		**(581)**	(277)
Profit/(loss) from operations		**3,633**	(8,380)
Net finance costs	*4(a)*	**(1,205)**	(1,443)
Share of profits less losses of associates		**222**	110
Profit/(loss) before taxation	*4*	**2,650**	(9,713)
Income tax	*5*	**(682)**	1,425
Profit/(loss) from continuing operations		**1,968**	(8,288)
Discontinued operation:			
Profit from discontinued operation		**—**	9,546
Profit for the year		**1,968**	1,258

	Note	2018 RMB millions	2017 RMB millions (i)
Profit/(loss) attributable to:			
Equity shareholders of the Company			
— continuing operations		**2,031**	(8,212)
— discontinued operation		**—**	9,554
		2,031	1,342
Non-controlling interests			
— continuing operations		**(63)**	(76)
— discontinued operation		**—**	(8)
		(63)	(84)
Profit for the year		**1,968**	1,258
Basic earnings/(losses) per share (cents)	*7*		
— continuing operations		**26.60**	(107.46)
— discontinued operation		**—**	125.02
		26.60	17.56
Diluted earnings/(losses) per share (cents)	*7*		
— continuing operations		**26.41**	(107.46)
— discontinued operation		**—**	125.02
		26.41	17.56

	Note	2018 RMB millions	2017 RMB millions (i)
Profit for the year		**1,968**	1,258
Other comprehensive income for the year (after tax)			
Item that will not be reclassified to profit or loss:			
Equity investments at fair value through other comprehensive income — net movement in fair value reserve (non-recycling)		**(71)**	—
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside mainland PRC		**(155)**	408
Available-for-sale securities: net movement in fair value reserve (recycling) (ii)		**—**	45
Total other comprehensive income for the year		**(226)**	453
Total comprehensive income for the year		**1,742**	1,711
Total comprehensive income attributable to:			
Equity shareholders of the Company			
— continuing operations		**1,805**	(7,810)
— discontinued operation		**—**	9,575
		1,805	1,765
Non-controlling interests			
— continuing operations		**(63)**	(61)
— discontinued operation		**—**	7
		(63)	(54)
Total comprehensive income for the year		**1,742**	1,711

Notes:

(i) The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated.

(ii) This amount arose under the accounting policies applicable prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018 the balance of this reserve has been reclassified to fair value reserve (non-recycling) and will not be reclassified to profit or loss in any future periods.

Consolidated statement of financial position
At 31 December 2018
(Expressed in RMB)

	Note	**2018** **RMB millions**	2017 RMB millions (Note)
Non-current assets			
Property, plant and equipment		**6,077**	6,274
Lease prepayments		**1,943**	1,935
Intangible assets		**2,153**	2,250
Goodwill		**2,046**	2,088
Interests in associates	*8*	**3,500**	3,123
Other financial assets	*9*	**2,379**	2,154
Trade and other receivables	*11*	**5,498**	4,106
Receivables under finance lease	*12*	**3,656**	1,870
Pledged bank deposits		**129**	60
Deferred tax assets	*16(b)*	**1,276**	1,358
Total non-current assets		**28,657**	25,218
Current assets			
Inventories		**9,551**	8,886
Other current assets		**1,097**	897
Financial assets at fair value through profit or loss	*10*	**13,787**	6,323
Trade and other receivables	*11*	**21,554**	22,661
Receivables under finance lease	*12*	**8,835**	10,931
Pledged bank deposits		**1,184**	1,048
Cash and cash equivalents		**8,754**	7,148
Total current assets		**64,762**	57,894
Total assets		**93,419**	83,112
Current liabilities			
Loans and borrowings		**22,044**	9,348
Trade and other payables	*13*	**15,786**	14,992
Financial liabilities at fair value through profit or loss		**40**	—
Contract liabilities	*14*	**1,602**	—
Income tax payable	*16(a)*	**151**	148
Total current liabilities		**39,623**	24,488
Net current assets		**25,139**	33,406
Total assets less current liabilities		**53,796**	58,624

	Note	2018 *RMB* *millions*	2017 *RMB* *millions* *(Note)*
Non-current liabilities			
Loans and borrowings		**13,645**	19,296
Deferred tax liabilities	*16(b)*	**429**	485
Other non-current liabilities		**991**	653
Total non-current liabilities		**15,065**	20,434
NET ASSETS		**38,731**	38,190
CAPITAL AND RESERVES			
Share capital		**7,809**	7,794
Reserves		**30,355**	29,746
Total equity attributable to equity shareholders of the Company		**38,164**	37,540
Non-controlling interests		**567**	650
TOTAL EQUITY		**38,731**	38,190

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated.

Consolidated statement of changes in equity

For the year ended 31 December 2018

(Expressed in RMB)

		Attributable to equity shareholders of the Company										
	Note	**Share capital** *RMB millions*	**Capital reserve** *RMB millions*	**Statutory surplus reserve** *RMB millions*	**Exchange reserve** *RMB millions*	**Fair value reserve (recycling)** *RMB millions*	**Fair value reserve (non-recycling)** *RMB millions*	**Other reserves** *RMB millions*	**Retained earnings** *RMB millions*	**Total** *RMB millions*	**Non-controlling interests** *RMB millions*	**Total equity** *RMB millions*
Balance at 31 December 2017		7,794	12,708	2,964	(1,084)	44	—	21	15,093	37,540	650	38,190
Impact on initial application of IFRS 9		—	—	—	—	(44)	43	—	(65)	(66)	(13)	(79)
Adjusted balance at 1 January 2018		7,794	12,708	2,964	(1,084)	—	43	21	15,028	37,474	637	38,111
Changes in equity for 2018												
Profit for the year		—	—	—	—	—	—	—	2,031	2,031	(63)	1,968
Other comprehensive income		—	—	—	(155)	—	(55)	—	(16)	(226)	—	(226)
Total comprehensive income		—	—	—	(155)	—	(55)	—	2,015	1,805	(63)	1,742
Appropriation for surplus reserve		—	—	369	—	—	—	—	(369)	—	—	—
Cash dividends	*6*	—	31	—	—	—	—	—	(1,556)	(1,525)	—	(1,525)
Dividends declared by subsidiaries to non-controlling interests		—	—	—	—	—	—	—	—	—	(11)	(11)
Share incentive scheme	*15*											
— Share option scheme		—	48	—	—	—	—	—	—	48	—	48
— Restricted share scheme		15	342	—	—	—	—	—	—	357		357
Equity pick up of capital reserve change in an associate		—	5	—	—	—	—	—	—	5	—	5
Contribution from non-controlling shareholders in a subsidiary		—	—	—	—	—	—	—	—	—	6	6
Acquisition of non-controlling interests in a subsidiary		—	—	—	—	—	—	—	—	—	(2)	(2)
Safety production fund	*17(b)*	—	—	—	—	—	—	12	(12)	—	—	—
Balance at 31 December 2018		7,809	13,134	3,333	(1,239)	—	(12)	33	15,106	38,164	567	38,731

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated.

	Note	Share capital RMB millions	Capital reserve RMB millions	Statutory surplus reserve RMB millions	Exchange reserve RMB millions	Fair value reserve (recycling) RMB millions	Fair value reserve (non-recycling) RMB millions	Other reserves RMB millions	Retained earnings RMB millions	Total RMB millions	Non-controlling interests RMB millions	Total equity RMB millions
		Attributable to equity shareholders of the Company										
Balance at 1 January 2017		7,664	12,695	2,938	(1,462)	(1)	—	15	14,924	36,773	982	37,755
Changes in equity for 2017												
Profit for the year		—	—	—	—	—	—	—	1,342	1,342	(84)	1,258
Other comprehensive income		—	—	—	378	45	—	—	—	423	30	453
Total comprehensive income		—	—	—	378	45	—	—	1,342	1,765	(54)	1,711
Appropriation for surplus reserve		—	—	26	—	—	—	—	(26)	—	—	—
Cash dividends	*6*	—	—	—	—	—	—	—	(1,141)	(1,141)	—	(1,141)
Repurchase of own shares		(39)	(131)	—	—	—	—	—	—	(170)	—	(170)
Dividends declared by subsidiaries to non-controlling interests		—	—	—	—	—	—	—	—	—	(11)	(11)
Share incentive scheme												
— Share option scheme		—	9	—	—	—	—	—	—	9	—	9
— Restricted share scheme		169	(133)	—	—	—	—	—	—	36	—	36
Acquisition of non-controlling interests in a subsidiary		—	(7)	—	—	—	—	—	—	(7)	5	(2)
Contribution from non-controlling shareholders in a subsidiary		—	—	—	—	—	—	—	—	—	1	1
Disposal of interests in subsidiaries		—	265	—	—	—	—	—	—	265	(273)	(8)
Dilution of interest in an associate		—	10	—	—	—	—	—	—	10	—	10
Safety production fund	*17(b)*	—	—	—	—	—	—	6	(6)	—	—	—
Balance at 31 December 2017		7,794	12,708	2,964	(1,084)	44	—	21	15,093	37,540	650	38,190

Notes to the financial information

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. These 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 new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) IFRS 9, *Financial instruments*
(ii) IFRS 15, *Revenue from contracts with customers*
(iii) IFRIC 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as IFRS 9.

The Group has been impacted by IFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by IFRS 15 in relation to presentation of contract liabilities.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of IFRS 9 and IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated.

(a) IFRS 9, *Financial instruments,* including the amendments to IFRS 9, *Prepayment features with negative compensation*

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

IFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

Non-equity investments held by the Group are classified into one of the following measurement categories:

— amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

— FVOCI — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

— FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income.

The measurement categories for all financial liabilities remain the same.

Financial guarantees issued are initially recognised within "trade and other payables" at fair value. Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when expected credit losses (ECLs, see note 2(a)(ii)) on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

The carrying amounts for all financial liabilities (including financial guarantee contracts) at 1 January 2018 have not been impacted by the initial application of IFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

(ii) Credit losses

IFRS 9 replaces the "incurred loss" model in IAS 39 with the expected credit loss ("**ECL**") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to the following items:

— financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits and trade and other receivables);

— lease receivables; and

— financial guarantee contracts issued (see note 2(a)(i)).

Financial assets measured at fair value, including equity securities designated at FVOCI (non-recycling), listed equity securities designated at FVPL (recycling), structured deposits, wealth management products and derivative financial instruments and etc. are not subject to the ECL assessment.

Opening balance adjustment

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to RMB94 million, which decreased retained earnings by RMB66 million and non-controlling interests by RMB13 million and increased gross deferred tax assets by RMB15 million at 1 January 2018.

(iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

— Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.

— The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group):

    — the determination of the business model within which a financial asset is held; and

    — the designation of certain investments in equity securities not held for trading to be classified as at FVOCI (non-recycling).

— If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(b) IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 11 and IAS 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The adoption of the IFRS 15 did not have a material impact on profit and loss, related tax and retained earnings.

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset.

Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented.

For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances relating to contract liabilities were presented in the statement of financial position under "trade and other payables" until the products were delivered to the customer.

(c) IFRIC 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or contract liabilities of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

3 REVENUE AND SEGMENT REPORTING

(a) Disaggregation of revenue

The Group is principally engaged in three main operating segments from continuing operations, including (i) research, development, manufacturing and sale of construction machinery; (ii) research, development, manufacturing and sale of agricultural machinery; and (iii) finance lease services. In 2017, the Group had one operating segment from discontinued operation — research, development, manufacturing and sale of environmental sanitation equipment and the provision of environmental solutions.

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

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2018	2017
	RMB	*RMB*
	millions	*millions*
		(note)
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products of service lines		
Continuing operations:		
Construction machinery		
— Concrete machinery	**10,130**	7,250
— Crane machinery	**12,447**	6,761
— Others	**4,076**	3,757
Agricultural machinery	**1,477**	2,295
Discontinued operation:		
Environmental industry	**—**	2,665
	28,130	22,728
Revenue from other sources		
Continuing operations:		
Construction machinery		
— Concrete machinery	**35**	85
— Crane machinery	**25**	44
— Others	**10**	24
Financial services	**497**	392
	567	545
	28,697	23,273

Note: The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18 and IAS 11.

(b) 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.

Continuing reportable segment:

(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 2018 and 2017.

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

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

Discontinued reportable segment for the year ended 31 December 2017:

(i) A wide range of environmental and sanitation machineries, including road sweepers, washing vehicles and waste treatment equipment, as well as provides environmental solutions.

(i) 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.

Disaggregation of revenue from contracts with customers by timing of revenue recognition 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 years ended 31 December 2018 and 2017 is set out below:

	2018			2017
	Point in time	**Over time**	**Total**	
	RMB millions	***RMB millions*** *(note (ii))*	***RMB millions***	*RMB millions* *(note (i))*
Reportable segment revenue:				
Continuing operations:				
Construction machinery				
— Concrete machinery	**10,130**	**35**	**10,165**	7,335
— Crane machinery	**12,447**	**25**	**12,472**	6,805
— Others	**4,076**	**10**	**4,086**	3,781
Agricultural machinery	**1,477**	**—**	**1,477**	2,295
Financial services	**—**	**497**	**497**	392
	28,130	**567**	**28,697**	20,608
Discontinued operation:				
Environmental industry	**—**	**—**	**—**	2,665
	28,130	**567**	**28,697**	23,273

Notes:

(i) The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18.

(ii) Revenue recognised over time include rental income and service income.

(ii) Information about profit or loss

	2018	2017
	RMB millions	*RMB millions*
Reportable segment profit:		
Continuing operations:		
Construction machinery		
— Concrete machinery	**2,436**	1,344
— Crane machinery	**3,625**	1,492
— Others	**1,115**	757
Agricultural machinery	**102**	320
Financial services	**496**	392
	7,774	4,305
Discontinued operation:		
Environmental industry	**—**	664
	7,774	4,969

(iii) Reconciliations of segment profit/(loss)

	2018	2017
	RMB millions	*RMB millions*
Reconciliation of segment profit/(loss):		
Total reportable segment profit	**7,774**	4,969
Elimination of discontinued operation	**—**	(664)
Gross profit from continuing operations	**7,774**	4,305
Other income	**882**	259
Sales and marketing expenses	**(2,379)**	(2,180)
General and administrative expenses	**(2,063)**	(10,487)
Research and development expenses	**(581)**	(277)
Net finance costs	**(1,205)**	(1,443)
Share of profits less losses of associates	**222**	110
Profit/(loss) before taxation from continuing operations	**2,650**	(9,713)

(iv) 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 S.p.A ("**CIFA**") and m-tec mathis technik GmbH ("**m-tec**"), which are determined to be outside PRC.

	2018	2017
	RMB millions	*RMB millions*
Revenue from external customers		
— Mainland PRC (of which RMB2,447 million in 2017 relates to discontinued operation)	**25,107**	20,908
— Outside PRC (of which RMB218 million in 2017 relates to discontinued operation)	**3,590**	2,365
Total	**28,697**	23,273

	2018	2017
	RMB millions	*RMB millions*
Specified non-current assets		
— Mainland PRC	**7,755**	7,981
— Outside PRC	**265**	228
Total	**8,020**	8,209

4 PROFIT BEFORE TAXATION

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

(a) Net finance costs:

	2018	2017
	RMB millions	*RMB millions*
Continuing operations:		
Interest income	**(347)**	(392)
Loss on re-measurement of derivative financial instruments at fair value	**—**	26
Interest on loans and borrowings	**1,451**	1,479
Net exchange loss	**101**	330
	1,205	1,443
Discontinued operation:		
Interest income	**—**	(6)
Gain on re-measurement of derivative financial instruments at fair value	**—**	(3)
Interest on loans and borrowings	**—**	9
Net exchange loss	**—**	19
	—	19
	1,205	1,462

(b) Staff costs:

	2018	2017
	RMB millions	*RMB millions*
Continuing operations:		
Salaries, wages and other benefits	**2,063**	1,744
Share incentive scheme expenses	**267**	45
Contributions to retirement schemes	**337**	284
	2,667	2,073
Discontinued operation:		
Salaries, wages and other benefits	**—**	159
Contributions to retirement schemes	**—**	16
	—	175
	2,667	2,248

(c) Other items:

	2018 *RMB millions*	2017 *RMB millions (Note)*
Continuing operations:		
Cost of inventories sold	**20,923**	16,303
Depreciation of property, plant and equipment	**585**	664
Amortisation of lease prepayments	**50**	54
Amortisation of intangible assets	**202**	206
Gain on disposal of property, plant and equipment, intangible assets and lease prepayments	**4**	25
Operating lease charges	**134**	143
Auditors' remuneration:		
— audit services	**10**	9
Product warranty costs	**151**	128
Impairment losses:		
— property, plant and equipment	**1**	149
— trade receivables	**145**	5,927
— receivables under finance lease	**85**	797
— inventories	**36**	1,823
— goodwill	**50**	24
Discontinued operation:		
Cost of inventories sold	**—**	1,803
Depreciation of property, plant and equipment	**—**	27
Amortisation of lease prepayments	**—**	2
Amortisation of intangible assets	**—**	15
Operating lease charges	**—**	6
Auditors' remuneration:		
— audit services	**—**	1
Product warranty costs	**—**	2
Impairment losses		
— trade receivables	**—**	10

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated.

5 INCOME TAX

Income tax in the consolidated statement of comprehensive income represents:

(a) Continuing operations

(i) Taxation charged/(credited) to profit or loss:

	2018 *RMB millions*	2017 *RMB millions*
Current tax — PRC income tax	**620**	(1,130)
Current tax — Income tax in other tax jurisdictions	**7**	10
Deferred taxation	**55**	(305)
Tax expenses/(credits) on continuing operations	**682**	(1,425)

(ii) Reconciliation between actual tax expenses/(credits) and accounting profit/(loss) at applicable tax rates:

	2018 *RMB millions*	2017 *RMB millions*
Profit/(loss) before taxation	**2,650**	(9,713)
Notional tax on profit/(loss) before taxation, calculated at the statutory income tax rate applicable to the jurisdictions concerned (note (a))	**663**	(2,428)
Tax effect of non-deductible expenses	**500**	153
Current year loss for which no deferred tax assets was recognised	**96**	81
Tax effect of non-taxable income (note (a))	**(146)**	(116)
Tax effect of tax concessions (note (b))	**(361)**	920
Additional deduction for qualified research and development expenses (note (c))	**(70)**	(35)
Actual tax expenses/(credits)	**682**	(1,425)

(b) Discontinued operation

(i) Taxation charged to profit or loss:

	2018 *RMB millions*	2017 *RMB millions*
Current tax — PRC income tax	**—**	1,396
Deferred taxation	**—**	23
Tax expenses on discontinued operations	**—**	1,419

(ii) Reconciliation between actual tax expenses and accounting profit at applicable tax rates:

	2018 *RMB millions*	2017 *RMB millions*
Profit before taxation	**—**	10,965
Notional tax on profit before taxation, calculated at the statutory income tax rate applicable to the jurisdictions concerned (note (a))	**—**	2,741
Tax effect of non-taxable income (note (a))	**—**	(347)
Tax effect of tax concessions (note (b))	**—**	(975)
Actual tax expenses	**—**	1,419

Notes:

(a) The PRC statutory income tax rate is 25% (2017: 25%).

The Company's subsidiaries in the HKSAR are subject to Hong Kong Profits Tax at 16.5% (2017: 16.5%) in respect of assessable profits arising in or derived from Hong Kong. In 2018 and 2017, 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 28.4% (2017: 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%. One subsidiary of the Company renewed its status as high-technology enterprises in 2018 and accordingly are subject to income tax at 15% for the years from 2018 to 2020.

The 15% preferential tax rate applicable to high-technology enterprises is subject to renewal approval jointly by the relevant authorities, upon expiry of the three-year grant period, according to the then prevailing income tax regulations. The Company and certain of its subsidiaries have begun the renewal approval process. It is probable that they are qualified as high-technology enterprises. Management therefore believes 15% represents the best estimate of the annual tax rate of these entities for the year ending 31 December 2019.

(c) Under the income tax law and its relevant regulations, a 75% additional tax deduction is allowed for qualified research and development expenditure for the year ended 31 December 2018 (2017: 50%).

6 DIVIDENDS

(i) Dividends paid during year

Pursuant to the shareholders' approval at the Annual General Meeting held on 29 June 2018, a final cash dividend of RMB0.2 per share based on 7,794 million ordinary shares totalling RMB1,559 million in respect of the year ended 31 December 2017 was declared in which RMB31 million was declared to restricted shareholders who are expected to be unlocked and RMB3 million was declared to restricted shareholders who are not expected to be unlocked, and was fully paid by February 2019.

Pursuant to the shareholders' approval at the Annual General Meeting held on 27 June 2017, a final cash dividend of RMB 0.15 per share based on 7,625 million ordinary shares totalling RMB 1,141 million in respect of the year ended 31 December 2016 was declared, and was fully paid by the end of 2017.

(ii) Dividends proposed after the balance sheet date

Pursuant to a resolutions passed at the directors' meeting on 29 March 2019, a final dividend in respect of the year ended 31 December 2018 of RMB0.25 (2017: RMB0.20) per share totaling RMB1,952 million (2017: RMB1,559 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 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB2,031 million (2017: RMB1,342 million) and the weighted average of 7,635 million ordinary shares (2017: 7,642 million shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2018 ***millions***	2017 *millions*
Issued ordinary shares at 1 January	**7,794**	7,664
Effect of shares repurchased	**—**	(22)
Effect of restricted A shares issued	**(169)**	—
Effect of restricted A shares unlocked	**10**	—
Weighted average number of ordinary shares at 31 December	**7,635**	7,642

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB2,031 million (2017: RMB1,342 million) and the weighted average number of ordinary shares of 7,691 million shares (2017: 7,642 million shares), calculated as follows:

(i) Weighted average number of ordinary shares (diluted)

	2018	2017
	millions	*millions*
Weighted average number of ordinary shares at 31 December	**7,635**	7,642
Effect of deemed issue of restricted A shares	**56**	—
Weighted average number of ordinary shares (diluted) at 31 December	**7,691**	7,642

The vested share options have an anti-dilutive effect on the basic earnings per share.

The unlocked restricted shares and unvested share options are subject to the unlocking or vesting conditions including certain performance conditions, which are excluded in the calculation of diluted earnings per share.

8 INTERESTS IN ASSOCIATES

	2018	2017
	RMB	*RMB*
	millions	*millions*
Infore Environment	**2,795**	—
ZEI	**—**	2,572
Aggregate carrying amount of individually material associates in the consolidated financial statements	**2,795**	2,572
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**705**	551
Total	**3,500**	3,123

The above associates are accounted for using the equity method in the consolidated financial statements.

The following list contains only the particulars of a material associate, which is a listed corporate entity whose quoted market price is available:

				Proportion of ownership interest		
Name of associate	**Form of business structure**	**Place of incorporation and business**	**Particulars of issued and paid up capital** ***(millions)***	**Group's effective interest**	**Held by the Company**	**Principal activities**
Infore Environment Technology Group Co., ltd. ("**Infore Environment**") *(Note)*	Incorporated	China	RMB3,163	12.62%	12.62%	Environmental construction and project operation

Note: Infore Environment is listed on the main board of Shenzhen Stock Exchange. On 31 December 2018, the quoted market price of Infore Environment was RMB5.65 per share and the fair value of the investment in Infore Environment was RMB2,256 million.

Pursuant to the board of directors resolution of ZEI held on 15 April 2018, a dividend of RMB568 million was declared to its shareholders, among which RMB114 million was declared to the Company. The Company, together with the other shareholders of ZEI, invested a total amount of RMB534 million to Changsha Yingtai Enterprise Management Co., Ltd. ("**Changsha Yingtai**") as initial capital injection. The shareholders of ZEI obtained the shares in Changsha Yingtai in which the Company holds 21.28% equity interest and accounts for it as an associate as at 31 December 2018. On 31 July 2018, Changsha Yingtai paid a consideration of RMB501 million to ZEI in exchange of its 81.44% equity interest in Ladurner Ambiente S.p.A ("**Ladurner**") which had been a subsidiary of ZEI since 2016. After this transaction, Ladurner was spun-off from ZEI and became a subsidiary of Changsha Yintai.

On 17 July 2018, the Company together with other seven shareholders of ZEI (collectively referred to as the "**Sellers**") entered into an asset purchase agreement (the "**Agreement**") with Infore Environment to exchange all Sellers' shares in ZEI (after spun-off Ladurner) with 63.11% shares in Infore Environment (the "**Transaction**"). Upon completion of this transaction, the Company would obtain 12.62% of equity interest in Infore Environment with 399,214,659 newly issued shares.

On 26 November 2018, the Transaction was approved by the China Securities Regulatory Commission. On 27 November 2018, Infore Environment finished completion of the change of the Industry and Commerce Administration authorities and the Transaction was completed. The Company obtains significant influence over Infore Environment as a result of the right of representation on the Board of Directors of Infore Environment. The investment in Infore Environment is recognised as interest in associate with a consideration of RMB2,795 million and a gain of RMB148 million was recognised in other income during the year.

On 4 January 2019, the newly issued stock registration procedures were completed, and the Company received the shares of Infore Environment.

In accordance with the profit compensation agreement in relation to the above transaction, if ZEI fails to achieve net profit (after deducting non-recurring gains and losses) of RMB997 million, RMB1,230 million and RMB1,495 million for years 2018, 2019 and 2020 respectively, Infore Environment may require the Sellers to compensate the difference between the promised profit and actual profit in proportion by shares and/or by cash. For the year 2018, ZEI has achieved the performance target. Management expected the probability of outflow of economic benefits in relation to the compensation is remote and therefore no contingent liability is provided or disclosed.

Aggregate information of associates that are not individually material:

	2018 ***RMB*** ***millions***	2017 *RMB* *millions*
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**705**	551

	2018 ***RMB*** ***millions***	2017 *RMB* *millions*
Aggregate amounts of the Group's share of those associates'		
Profit/(loss) from operations	**35**	(17)
Other comprehensive income	**—**	—
Total comprehensive income	**35**	(17)

9 OTHER FINANCIAL ASSETS

	Note	**31 December 2018**	**1 January 2018**	31 December 2017
		RMB millions	***RMB millions***	*RMB millions*
Financial assets at FVOCI				
Equity securities	*(i),(iii)*	**2,268**	**2,140**	—
Financial assets at FVPL				
Listed equity securities	*(ii),(iii)*	**111**	**14**	—
Available-for-sale equity securities				
Equity securities	*(iii)*	**—**	**—**	2,154
Total		**2,379**	**2,154**	2,154

(i) The equity securities comprises equity funds and other unlisted equity securities. The fair value of equity funds and unlisted equity securities are RMB1,364 million and RMB904 million respectively at 31 December 2018. The Group designated these investments at FVOCI (non-recycling), as the investments are held for strategic purposes. Dividends of RMB32 million were received on investments in equity securities during the year. A loss accumulated in the fair value reserve (non-recycling) of RMB16 million in relation to partial disposal of equity securities was transferred to retained earnings during the year.

(ii) The listed equity securities represent the Group's investments in listed companies. The fair value of these investments was RMB111 million, based on their quoted market prices as at 31 December 2018.

(iii) Available-for-sale financial assets were reclassified to financial assets at FVOCI and financial assets at FVPL upon the initial application of IFRS 9 at 1 January 2018.

10 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
	RMB millions	*RMB millions*
Financial assets carried at fair value through profit or loss:		
— Wealth management products *(note)*	**8,443**	6,319
— Structured deposits *(note)*	**5,344**	—
— Derivative financial instruments	**—**	4
	13,787	6,323

Note: The Group invests its spare cash in wealth management products and structured deposits offered by banks and other financial institutions. These products generally have a pre-set maturity and expected return, with its underlying assets being a wide range of government and corporate bonds, central bank bills, money market funds as well as other listed and unlisted equity securities in the PRC. The Group evaluates these products on a fair value basis in accordance with accounting policy.

11 TRADE AND OTHER RECEIVABLES

	31 December 2018	**1 January 2018**	31 December 2017
	RMB millions	***RMB millions***	*RMB millions*
Trade receivables	**28,497**	**26,917**	26,917
Less: loss allowance	**(5,912)**	**(5,993)**	(5,937)
	22,585	**20,924**	20,980
Less: trade receivables due after one year	**(5,498)**	**(4,096)**	(4,106)
	17,087	**16,828**	16,874
Bills receivable	**1,350**	**2,237**	2,237
	18,437	**19,065**	19,111
Amounts due from related parties	**376**	**1,175**	1,175
Prepayments for purchase of raw materials	**558**	**210**	210
Prepaid expenses	**494**	**465**	465
VAT recoverable	**970**	**885**	885
Deposits	**123**	**141**	141
Others	**596**	**674**	674
	21,554	**22,615**	22,661

All of the trade and other receivables, except those described below, are expected to be recovered or recognised as expense within one year.

Note: Upon the adoption of IFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on trade receivables.

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 2018, the weighted average discount rate was approximately 4.75% (2017: 4.75%) per annum. As at 31 December 2018, trade receivables due after one year of RMB5,498 million (31 December 2017: RMB4,106 million) were presented net of unearned interest of RMB564 million (31 December 2017: RMB419 million).

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 loss allowance is as follows:

	2018	2017
	RMB	*RMB*
	millions	*millions*
Within 1 year	**11,495**	11,605
Over 1 year but less than 2 years	**4,132**	4,810
Over 2 years but less than 3 years	**2,813**	3,775
Over 3 years but less than 5 years	**3,754**	790
Over 5 years	**391**	—
	22,585	20,980

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 40% to 50% of the product price (2017: 30% to 40%). For sales under instalment payment method that has instalment payment periods generally ranging from 6 to 42 months (2017: 6 to 42 months), customers are normally required to make an upfront payment ranging from 30% to 50% of the product price (2017: 20% to 40%).

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.

The movement in the loss allowance in respect of trade receivables during the year is as follows:

	2018	2017
	RMB	*RMB*
	millions	*millions*
Balance at 31 December 2017 under IAS 39	**5,937**	
Impact on initial application of IFRS 9	**56**	
Adjusted/balance at 1 January	**5,993**	2,853
Impairment losses recognised	**145**	5,937
Reclassification from loss allowance of receivable under finance lease	**16**	2
Uncollectible amounts written off	**(242)**	(304)
Written off upon disposal of discontinued operation	**—**	(63)
Written off upon sale of trade receivables	**—**	(2,488)
Balance at 31 December	**5,912**	5,937

Bills receivable represent short-term bank acceptance notes receivable that entitle the Group to receive the full face amount from the banks at maturity, which generally ranges from 3 to 6 months from the date of issuance. Historically, the Group had experienced no credit losses on bills receivable. The Group from time to time endorses bills receivable to suppliers in order to settle trade payables.

As at 31 December 2018, the Group endorsed certain bank acceptance bills to suppliers for settling trade payables of the same amount on a full recourse basis. The Group has derecognised these bills receivable and payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than six months from the end of the reporting period. In the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations, should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of these bills are of good credit quality and non-settlement of these bills by the issuing banks on maturity is not probable. As at 31 December 2018, the Group's maximum exposure to loss and undiscounted cash outflow, which is same as the amount payable by the Group to suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB2,343 million (31 December 2017: RMB1,031 million).

As at 31 December 2018, bills receivable of RMB203 million (31 December 2017: Nil) were discounted to banks or other financial institutions with recourse, where substantially the risks and rewards of ownership had not been transferred. Since the Group has continuing involvement in the transferred assets, these discounted bills receivable were therefore not derecognised. During the year ended 31 December 2018, no bills receivable (31 December 2017: RMB148 million) was discounted to banks or other financial institutions 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, these discounted bills receivable were therefore derecognised.

12 RECEIVABLES UNDER FINANCE LEASE

	31 December 2018	**1 January 2018**	31 December 2017
	RMB millions	***RMB millions***	*RMB millions*
Gross investment	**14,623**	**14,715**	14,715
Unearned finance income	**(465)**	**(354)**	(354)
	14,158	**14,361**	14,361
Less: loss allowance	**(1,667)**	**(1,598)**	(1,560)
	12,491	**12,763**	12,801
Less: receivables under finance lease due after one year	**(3,656)**	**(1,862)**	(1,870)
Receivables under finance lease due within one year	**8,835**	**10,901**	10,931

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 (2017: 2 to 5 years). Customers are normally required to make an upfront payment ranging from 5% to 40% of the product price (2017: 5% to 30%) and pay a security deposit ranging from 1% to 10% of the product price (2017: 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.

Note: Upon the adoption of IFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on receivables under finance lease.

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

	2018	2017
	RMB	*RMB*
	millions	*millions*
Present value of the minimum lease payments		
Within 1 year	**10,260**	12,283
Over 1 year but less than 2 years	**2,102**	1,008
Over 2 years but less than 3 years	**1,235**	649
Over 3 years	**561**	421
	14,158	14,361
Unearned finance income		
Within 1 year	**320**	286
Over 1 year but less than 2 years	**88**	40
Over 2 years but less than 3 years	**41**	19
Over 3 years	**16**	9
	465	354
Gross investment		
Within 1 year	**10,580**	12,569
Over 1 year but less than 2 years	**2,190**	1,048
Over 2 years but less than 3 years	**1,276**	668
Over 3 years	**577**	430
	14,623	14,715

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

	2018	2017
	RMB	*RMB*
	millions	*millions*
Not yet due	**6,663**	7,466
Within 1 year past due	**2,535**	2,879
Over 1 year but less than 2 years past due	**2,588**	1,702
Over 2 years past due	**2,372**	2,314
Total past due	**7,495**	6,895
	14,158	14,361
Less: loss allowance	**(1,667)**	(1,560)
	12,491	12,801

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.

The movement in the loss allowance in respect of receivables under finance lease during the year, is as follows:

	2018	2017
	RMB millions	*RMB millions*
Balance at 31 December 2017 under IAS 39	**1,560**	
Impact on initial application of IFRS 9	**38**	
Adjusted/balance at 1 January	**1,598**	765
Impairment losses recognised	**85**	797
Reclassification to loss allowance of trade receivables	**(16)**	(2)
Balance at 31 December	**1,667**	1,560

Note: Upon the adoption of IFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on receivables under finance lease.

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.

13 TRADE AND OTHER PAYABLES

	31 December 2018	**1 January 2018**	31 December 2017
	RMB millions	***RMB millions***	*RMB millions*
Trade creditors	**6,998**	**5,700**	5,700
Bills payable	**3,802**	**3,394**	3,394
Trade creditors and bills payable	**10,800**	**9,094**	9,094
Amounts due to related parties	**23**	**50**	50
Amounts due to non-controlling shareholders of certain subsidiaries	**338**	**468**	468
Receipts in advance	**—**	**—**	1,330
Payable for acquisition of property, plant and equipment	**259**	**249**	249
Accrued staff costs	**568**	**488**	488
Product warranty provision	**82**	**75**	75
VAT payable	**601**	**261**	261
Sundry taxes payable	**131**	**171**	171
Security deposits	**397**	**504**	504
Interest payable	**143**	**141**	141
Financial guarantees issued	**55**	**35**	35
Other accrued expenses and payables	**1,895**	**1,740**	1,740
Dividends payable	**251**	**—**	—
Locked restricted share	**243**	**386**	386
	15,786	**13,662**	14,992

Note: As a result of the adoption of IFRS 15, gross amount due to customers for advances received is included in contract liabilities.

All of the other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

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

	2018	2017
	RMB millions	*RMB millions*
Due within 1 month or on demand	**4,638**	4,254
Due after 1 month but within 3 months	**2,791**	2,103
Due after 3 months but within 6 months	**3,223**	2,542
Due after 6 months but less than 12 months	**148**	195
	10,800	9,094

14 CONTRACT LIABILITIES

	Note	**31 December 2018**	1 January 2018 *(i)*	31 December 2017 *(i)*
		RMB millions	RMB millions	*RMB millions*
Contract liabilities				
Receipts in advance	*(ii)*	**1,602**	1,330	—
		1,602	1,330	—

Notes:

(i) The Group has initially applied IFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

(ii) Upon the adoption of IFRS 15, these amounts were reclassified from "Trade and other payables" to "Contract liabilities".

	2018
	RMB millions
Balance at 1 January	**1,330**
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the period	**(3,083)**
Increase in contract liabilities as a result of billing in advance of manufacturing activities	**3,355**
Balance at 31 December	**1,602**

15 SHARE INCENTIVE SCHEME

On 1 November 2017, a Share Incentive Scheme was considered and approved at the first extraordinary general meeting of 2017, the A shareholders' Class Meeting of 2017 and H shareholders' Class Meeting of 2017. On 7 November 2017, the Company adopted the Share Incentive Scheme and the related resolution was considered and passed at the seventh extraordinary meeting of the fifth session of the board of directors, pursuant to which the date of grant for the Share Incentive Scheme of the Company has been set for 7 November 2017, and 171,568,961 share options and 171,568,961 restricted shares were planned to be granted to 1,231 selected current employees (the "**Participants**") of the Group ("**the First Grants**"). Each share option shall entitle its eligible holder to purchase one Zoomlion ordinary A share at an exercise price of RMB4.57, and the Participants are entitled to purchase Zoomlion restricted A shares at RMB2.29 each. The Participants of the Share Incentive Scheme included directors, senior executives and core technical employees. As a result, 168,760,911 share options and 168,760,911 restricted shares were granted to the Participants on 7 November 2017.

On 10 September 2018, the resolution in respect of the grant of additional options and additional restricted shares (the "**Second Grants**") under the Share Incentive Scheme was passed at sixth extraordinary meeting of the fifth session of board of directors, pursuant to which the date of grant for the Share Incentive Scheme of the Company has been set for 10 September 2018 and 19,063,218 share options and 19,063,218 restricted shares were planned to be granted to 405 selected current employees of the Group (the "**Participants**"). Each share option shall entitle its eligible holder to purchase one Zoomlion ordinary A share at an exercise price of RMB3.96, and the Participants are entitled to purchase Zoomlion restricted A shares at RMB1.96 each. As a result, 18,554,858 share options and 18,554,858 restricted shares were granted to the Participants on 10 September 2018.

On 6 November 2018, the board of directors further resolved to approve the commencement of the first exercise period in respect of options granted under the First Grants. A total number of 65,471,398 share options and 65,877,838 restricted shares granted to the Participants under First Grants were vested or unlocked.

(a) share options

(i) The terms and conditions of the share option are as follows:

	Number of instruments	Vesting conditions	Contractual life of option
Options granted to directors: — on 1 November 2017	2,288,520	The first exercise period shall commence from trading day after expiry of the 12-month period from the date of grant. The share options shall be exercisable separately in the subsequent 3 exercise periods or tranches, whose percentages of options exercisable are 40%, 30% and 30% respectively, subject to certain performance conditions as the conditions of exercise.	1.73 years
Options granted to employees: — on 1 November 2017	161,999,651	The first exercise period shall commence from trading day after expiry of the 12-month period from the date of grant. The share options shall be exercisable separately in the subsequent 3 exercise periods or tranches, whose percentages of options exercisable are 40%, 30% and 30% respectively, subject to certain performance conditions as the conditions of exercise.	1.73 years
Options granted to employees: — on 10 September 2018	18,554,858	The first exercise period shall commence from trading day after expiry of the 12-month period from the date of grant. The share options shall be exercisable separately in the subsequent 2 exercise periods or tranches, whose percentages of options exercisable are 50% and 50% respectively, subject to certain performance conditions as the conditions of exercise.	2.17 years
	182,843,029		

(ii) The number and weighted average exercise prices of share options are as follows:

	2018		2017	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**4.57**	**168,760,911**	—	—
Exercised during the year	**—**	**—**	—	—
Forfeited during the year	**4.57**	**(4,472,740)**	—	—
Granted during the year	**3.96**	**18,554,858**	4.57	168,760,911
Outstanding at the end of the year	**4.52**	**182,843,029**	4.57	168,760,911
Exercisable at the end of the year	**4.57**	**65,471,398**	—	—

(iii) Fair value of share options and assumptions

The fair value of the equity-settled share options granted on the date of the First Grants and the Second Grants is estimated using Black-Scholes model and conditions for the share options taken into account. The input variables under the applied model are as follow:

The First Grants	**First tranche**	**Second tranche**	**Third tranche**
Fair value at measurement date	0.45	0.58	0.65
Share price	4.55	4.55	4.55
Exercise price	4.57	4.57	4.57
Volatility	19.04%	19.04%	19.04%
Risk-free interest rate	2.10%	2.75%	2.75%
Dividend yield	2.27%	2.27%	2.27%

The Second Grants	**First tranche**	**Second tranche**
Fair value at measurement date	0.19	0.26
Share price	3.69	3.69
Exercise price	3.96	3.96
Volatility	16.92%	16.92%
Risk-free interest rate	2.10%	2.75%
Dividend yield	3.53%	3.53%

The expected volatility is based on the historical volatility in the publicly available information.

(b) Restricted share

The number of restricted shares are as follows:

	2018	2017
	Number of restricted shares	Number of restricted shares
Outstanding at the beginning of the year	**168,760,911**	—
Vested during the year	**(65.877,838)**	—
Forfeited during the year	**(4,066,300)**	—
Granted during the year	**18,554,858**	168,760,911
Outstanding at the end of the year	**117,371,631**	168,760,911
Contractual life of restricted shares	**1.31 years**	1.73 years

The fair value of restricted share granted on 1 November 2017 and 10 September 2018 were RMB2.26 and RMB1.71 per share, respectively, which is the difference between the market price of the ordinary share at the grant date and the proceeds received from the employees.

The terms and conditions of the restricted shares are substantially the same as that of share options, except for certain minor difference to individual's performance criteria.

(c) Expected demission rate of the Participants and share incentive scheme expenses

Management estimates the expected yearly percentage of the Participants that will leave the Group at the end of the vesting period /locking period in order to determine the amount of share incentive scheme expenses to be recognised in the Consolidated statement of profit or loss and other comprehensive income. As at 31 December 2018, the weighted average expected demission rate of the Participants was assessed to be 3.05% (2017:3.02%). In 2018, share incentive scheme expenses of RMB267 million (2017: RMB45 million) were recognised in the consolidated statement of profit or loss and other comprehensive income.

16 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2018 *RMB millions*	2017 *RMB millions*
Provision for PRC income tax	**148**	140
Provision for income tax in other tax jurisdictions	**3**	8
	151	148

Note: Income tax payable after one year is recognized in other non-current liabilities.

(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 2018

	Balance at 31 December 2017 *RMB millions*	Impact on initial application of IFRS 9 *RMB millions*	Balance at 1 January 2018 *RMB millions*	Credited/ (charged) to profit or loss *RMB millions*	Credited/ (charged) to reserves *RMB millions*	Balance at 31 December 2018 *RMB millions*
Deferred tax assets arising from:						
Receivables	**902**	**15**	**917**	**(93)**	**1**	**825**
Inventories	**114**	**—**	**114**	**21**	**—**	**135**
Accrued expenses	**53**	**—**	**53**	**48**	**—**	**101**
Tax losses	**210**	**—**	**210**	**(73)**	**—**	**137**
Others	**79**	**—**	**79**	**3**	**(4)**	**78**
Total	**1,358**	**15**	**1,373**	**(94)**	**(3)**	**1,276**
Deferred tax liabilities arising from:						
Property, plant and equipment	**(15)**	**—**	**(15)**	**1**	**—**	**(14)**
Intangible assets	**(369)**	**—**	**(369)**	**22**	**(1)**	**(348)**
Lease prepayments	**(43)**	**—**	**(43)**	**1**	**—**	**(42)**
Others	**(58)**	**—**	**(58)**	**15**	**18**	**(25)**
Total	**(485)**	**—**	**(485)**	**39**	**17**	**(429)**

Year ended 31 December 2017

	Balance at 1 January 2017 *RMB millions*	Disposal of discontinued operation *RMB millions*	Credited/ (charged) to profit or loss *RMB millions*	Credited/ (charged) to reserves *RMB millions*	Balance at 31 December 2017 *RMB millions*
Deferred tax assets arising from:					
Receivables	614	(10)	297	1	902
Inventories	88	—	26	—	114
Accrued expenses	42	(5)	15	1	53
Tax losses	311	(15)	(90)	4	210
Others	82	(19)	39	(23)	79
Total	1,137	(49)	287	(17)	1,358
Deferred tax liabilities arising from:					
Property, plant and equipment	(24)	9	—	—	(15)
Intangible assets	(425)	48	23	(15)	(369)
Lease prepayments	(46)	—	3	—	(43)
Others	(42)	30	(31)	(15)	(58)
Total	(537)	87	(5)	(30)	(485)

Note: Upon the initial application of IFRS 9, the Group has recognised deferred tax assets on the additional credit losses recognised under the ECL model.

As at 31 December 2018, deferred tax assets in respect of tax losses totalling RMB371 million (31 December 2017: RMB362 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.

17 RECONCILIATION OF FINANCIAL INFORMATION PREPARED UNDER PRC GAAP TO IFRSs

(a) Reconciliation of total equity of the Group

	As at 31 December 2018 *RMB millions*	Adjusted balance as at 1 January 2018 *RMB millions*	As at 31 December 2017 *RMB millions*
Balance at 31 December 2017		38,227	
Impact on initial application of IFRS 9		(79)	
Total equity reported under PRC GAAP	**38,768**	38,148	38,227
— Acquisition-related costs incurred on prior year business combination	**(37)**	(37)	(37)
Total equity reported under IFRSs	**38,731**	38,111	38,190

Note: Upon the adoption of IFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on total equity of the Group.

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

	2018 *RMB millions*	2017 *RMB millions*
Total comprehensive income for the year reported under PRC GAAP	**1,730**	1,702
— Safety production fund *(Note 1)*	**12**	6
— Impairment of goodwill *(Note 2)*	**—**	3
Total comprehensive income for the year reported under IFRSs	**1,742**	1,711

Note 1: 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.

Note 2: The Group has elected to early adopt IFRS 3 (revised) retrospectively to all business combinations that occurred on or after 1 January 2007. IFRS 3 (revised) requires acquisition-related costs to be expensed in profit or loss. As a result, acquisition-related costs of RMB40 million (the related tax impact is nil as the acquisition-related costs were not tax deductible) incurred in business combinations occurred during the year ended 31 December 2008 were expensed in profit or loss under IFRSs, which resulted in a lower goodwill balance than that under PRC GAAP.

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.

Revenue

Our revenue from continuing operations increased by 39.25% from RMB20,608 million for the year ended 31 December 2017 to RMB28,697 million for the year ended 31 December 2018. The increase of revenue was mainly due to the continuous recovery of the construction machinery market, and as a result the Group's gross profit margin of products increased and profitability also significantly enhanced. Among which, revenue of concrete machinery and crane machinery for the year ended 31 December 2018 increased by RMB2,880 million and RMB5,686 million, representing a year-on-year increase of 39.72% and 84.10%, respectively. On the other hand, due to the insufficient market demand for traditional agricultural machinery products, adjustment of purchase subsidy policy and decline in crop prices, revenue of agricultural machinery for the year ended 31 December 2018 decreased by RMB818 million, representing a year-on-year decrease of 35.64%.

Cost of Sales and Services

Due to the expansion of sales scale, our cost of sales and services increased by 28.34% from RMB16,303 million for the year ended 31 December 2017 to RMB20,923 million for the year ended 31 December 2018.

Gross profit

As a result of the foregoing, our gross profit increased by 80.58% from RMB4,305 million for the year ended 31 December 2017 to RMB7,774 million for the year ended 31 December 2018. Our gross profit margin increased from 20.89% for the year ended 31 December 2017 to 27.09% for the year ended 31 December 2018, which is mainly due to a significant increase in gross profit margin of concrete machinery and crane machinery.

Other income

Our other income increased from the net gain of RMB259 million for the year ended 31 December 2017 to a net gain of RMB882 million for the year ended 31 December 2018, which is mainly due to an one-off gain on sale of 20% equity interest in Changsha Zoomlion Environmental Industry Co., Ltd. of RMB148 million and increase in gains on financial assets at FVPL of RMB444 million.

Sales and marketing expenses

Our sales and marketing expenses increased by 9.13% from RMB2,180 million for the year ended 31 December 2017 to RMB2,379 million for the year ended 31 December 2018 primarily due to an increase in product warranty costs as a result of an increase in revenue.

General and administrative expenses

Our general and administrative expenses decreased from RMB10,487 million for the year ended 31 December 2017 to RMB2,063 million for the year ended 31 December 2018 primarily due to the followings: 1) Impairment losses for trade receivables and receivables under finance lease decreased by RMB5,782 million and RMB712 million, which are due to that certain long-aged trade receivables were impaired to quoted price in 2017. 2) Impairment losses for reprocessed machineries decreased by RMB1,582 million which are due to that certain reprocessed machineries were planned to be disposed at a lower price in short-term in 2017. The above one-off items did not occurred in 2018.

Net finance costs

Our net finance costs for the year ended 31 December 2017 was RMB1,443 million and our net finance costs for the year ended 31 December 2018 was RMB1,205 million. The fluctuation was due to the effect of decrease in net exchange loss.

Profit for the year

As a result of the foregoing, our profit for the year increased by 56.44% from a profit RMB1,258 million for the year ended 31 December 2017 to a profit RMB1,968 million for the year ended 31 December 2018.

Operating activities

In 2018, net cash generated from operating activities was RMB4,717 million derived primarily from the profit before taxation of RMB2,650 million in total, adjusted to reflect interest expenses of RMB1,451 million, depreciation and amortisation of RMB837 million, gain on sale of 20% equity interest in Changsha Zoomlion Environmental Industry Co., Ltd. of RMB148 million, net realised and unrealised gains on financial assets at FVPL of RMB503 million, share incentive scheme expenses of RMB267 million and added back the effect of (i) the decrease of receivables under finance lease of RMB228 million; (ii) the increase in trade and other payables of RMB901 million and (iii) the increase in contract liabilities of RMB1,602 million, and net off the following items: (i) the increase in inventories of RMB108 million; (ii) the increase in trade and other receivables of RMB1,471 million and (iii) income tax payment of RMB431 million.

Investing activities

In 2018, net cash used in investing activities was RMB7,242 million, consisting primarily of: (i) payment for purchase of property, plant and equipment of RMB370 million; (ii) payment for financial assets at FVPL of RMB38,414 million and (iii) the increase in pledged bank deposits of RMB205 million and offset by (i) proceeds from disposal of financial assets at FVPL of RMB31,394 million and (ii) interest received of RMB347 million.

Financing activities

In 2018, net cash generated from financing activities was RMB4,102 million, consisting primarily of: (i) repayments of loans and borrowings of RMB15,063 million; (ii) cash dividends paid to equity shareholders of RMB1,308 million; (iii) interest payments of RMB1,428 million and (iv) repayments of guaranteed USD senior notes of RMB325 million and added (i) proceeds from loans and borrowings of RMB22,205 million and (ii) proceeds from issuance of restricted shares of RMB37 million.

BUSINESS REVIEW AND PROSPECT

I. Operation Review of 2018

In 2018, the global economy continued its trend of recovery with a stabilized economic growth rate, while the Chinese economy generally maintained stable with an upward trend. Driven by favorable factors such as replacement of aged equipment, enhancement of infrastructure, promotion of environmental protection and replacement of labors, the construction machinery industry continued to grow strongly and achieved high-quality development. As affected by the insufficient market demand for traditional products, adjustment of purchase subsidy policies and decline in crop prices, the agricultural machinery industry experienced a downturn in market sales of major products and entered a period of transformation and upgrade.

In 2018, the Company earnestly promoted its new development concepts, comprehensively implemented new strategies, new management and new incentives and released new development potentials. As various business indicators continued a robust upward trend, the Company has maintained its strong market leading position, with an increase in gross profit margin quarter by quarter and a significant enhancement in profitability, paving a propitious path for the sustainable development of the Company.

In 2018, the Company achieved revenue of RMB28,697 million, representing a year-on-year increase of 39.25%; profit attributable to equity shareholders of the Company for the year amounted to RMB2,031 million, representing a year-on-year increase of 51.34%; operating cash flow amounted to RMB4,717 million, representing a year-on-year increase of 92.30%.

The major work carried out by the Company during the Reporting Period was as follows:

(1) Emerging effect from strategic focus

The Company focused on its main business of equipment manufacturing, optimized resource allocation, further promoted industrial upgrade and continued to establish the Company as a new equipment manufacturing enterprise of “equipment manufacturing + Internet” and “industry + finance”.

1. Strengthened construction machinery. During the Reporting Period, sales revenue of the Company’s construction machinery products amounted to RMB26,653 million, representing a year-on-year increase of 50.01%, further indicating the effectiveness of the cluster of advantageous construction machinery sectors.

① Continuously improved the market position of major products. The Company focused on and strengthened its efforts in segmented markets and fully promoted the extensive development of its customer alliance to build an efficient and sustainable industrial chain ecosystem. The major products accomplished fruitful results in both production and sales with rise in both volume and prices, achieving an average down payment ratio of 40%. The domestic market shares of crane machinery and concrete machinery products continued to maintain their leading positions, among which construction crane machinery and concrete long-arm pump trucks maintained the first in the industry.

② Strengthened the development of potential and emerging markets. With earth working machinery ready to be introduced and the market sales network laid out in advance, the G-series new generation earth working machinery products developed by the Company was launched. The Company speeded up the planning of work-at-height platform product layout and launched eight models of high-end intelligent products in three categories in October to explore the blue ocean market. The businesses of manufactured sand, dry mortar and spraying robotic arm continued to expand with a favorable trend.

2. Enhanced agricultural machinery. The Company explicitly formulated the strategy for the development of mid-to-high-end agricultural machinery, focused on its advantageous businesses, speeded up product structure adjustment and technological upgrade and promoted the application of intelligent agriculture.

① Market edges remained solid. The sales volume of drying machinery ranked first consecutively in the domestic market, while the domestic market share of wheat harvester machinery and sugarcane machinery products ranked second in the industry.

② AI empowered intelligent agriculture, transformed and upgraded to introduce new functions. The Company signed a strategic cooperation agreement with Landing. AI, an artificial intelligence company founded by Professor Andrew Yan-Tak Ng, to focus on the application of artificial intelligence technology in agricultural machinery. Through this, Zoomlion's agricultural machinery business entered into the field of artificial intelligence technology at a high starting point.

3. Escalated the expansion of financial business. The Company established Zoomlion Industrial Fund in cooperation with leading fund management teams in China, in order to further enhance the financial services capabilities of Zoomlion Capital. The Company established a financing guarantee company to improve the industrial chain layout corresponding to the industrial sector and promote industrial transformation and upgrade.

4. Planned for industrial Internet layout. The Company established ZValley Company, completely entered into the field of industrial Internet and fostered the transformation of traditional manufacturing into intelligent manufacturing. "Intelligent Management (智管)", an equipment management application targeting at construction machinery users, and "Intelligent Leasing (智租)", a leasing business management application, were released in bauma CHINA in November 2018, and ZvalleyOS, an industrial Internet platform, was released in December 2018.

(2) Intelligent manufacturing driving transformation and upgrade, with manufacturing capabilities achieving leapfrog improvement

The Company speeded up the upgrade of manufacturing, creating a new model for the development of high-end equipment manufacturing industry.

1. Escalated the advancement of intelligent manufacturing. For the construction machinery sector, the Company constructed an intelligent tower crane factory and intelligent work-at-height machinery production line of high standard and high efficiency at a high starting point, achieving intelligent, automated and flexible production. Among which, the Changde intelligent tower crane factory operated in an industrial park is a "domestically first-class and internationally advanced" intelligent factory that integrates intelligent application control, intelligent production line, intelligent logistics and intelligent detection technology. The Company commenced the planning and construction of an intelligent mixer manufacturing industrial park and hydraulic key component industrial park. For the agricultural machinery sector, a high-end and high-powered tractor production line was launched in Kaifeng Industrial Park, which comprehensively introduced the intelligent magnetic-guided AGV system and integrated intelligent Internet of Things technology and various automated production process equipment, elevating the level of domestic agricultural machinery manufacturing to a new height.

2. Promoted industrial agglomeration and upgrade. The Company fully commenced the planning and construction of Zoomlion Intelligent Industrial City to achieve industrial agglomeration, created intelligent products and strived to develop fields such as intelligent manufacturing, industrial Internet and artificial intelligence to achieve industrial upgrade, and nurtured upstream and downstream enterprises of key components to complement, extend and strengthen the industrial chain.

(3) Leading the market by technological innovation, with outstanding results in research and development innovation

The Company achieved new breakthroughs in the area of international standards, with our momentum in independent innovation continuously enhancing and our intelligent and green manufacturing leading the development of the industry.

1. Introduced our leading standards to the international field again. The Company is the first domestic construction machinery enterprise to lead the formulation of international standards, with the number of registered international standardization experts increased to 11. During the Reporting Period, for international standards under the lead of the Company, "Cranes — Limiting and Indicating Devices — Part 3: Tower Cranes" was submitted for approval, "Concrete Pumps — Part 2: Concrete Pumps — Test Methods for Technical Parameters" was under review and "Cranes — Safe use — Part 1: General" was successfully approved, and two new international standards proposals, namely "Cranes — Crane Driving Manual — Part 3: Tower Cranes" and "Safety Requirements for Concrete and Mortar Preparation Equipment", were admitted.

2. Achieved fruitful results in independent innovation.

① Construction machinery products: Four of our products, namely T7020 flat-arm tower crane, ZCC8800W crawler crane, RMAS3000 manufactured sand + dry mortar integrated production line and ZRS322E single-drum hydraulic double-drive road roller, were included on the list of 2018 TOP50 Chinese Construction Machinery Products (2018 中國工程機械年度產品 TOP50), and our 2000-ton all-terrain crane was awarded the first prize of China Machinery Industry Science and Technology Award (中國機械工業科學技術獎一等獎).

② Agricultural machinery products: Our DC200 batch-type recirculating grain dryer and high-powered (above 100 horsepower) tractor were respectively awarded the 2018 Agricultural Machinery Industry "Product Gold Award" and "Most Influential Brand Award". The drum sugarcane harvester developed by the Company is incorporated with various technical patents previously absent in China, achieving international advanced standards in terms of product intelligence, harvesting efficiency, impurity rate and adaptability. We developed the first unmanned integrated harvester in China, which has been verified through two rounds of harvesting of rice and wheat in Xinghua, Jiangsu Province.

③ The establishment of innovation platform achieved remarkable results. The tower crane green design and manufacturing integrated platform demonstration project was included in the national green manufacturing system integration project, with intelligent and green manufacturing leading the development of the industry. In January 2018, the Company was approved to set up the "Key Laboratory of the Ministry of Agriculture of Major Crop Production Technology and Equipment in South China", which is the only key laboratory in China for conducting research and application in respect of major crop production technology and equipment in South China. The layout of the Company's research and development platform was further optimized.

④ The Company was selected as one of the top 100 innovative enterprises in China, ranking first in the construction machinery industry, and our "multi-axis vehicle electro-hydraulic servo steering system, steering control method and multi-axis vehicle" patent was awarded the China Patent Excellence Award.

(4) Internationalization reaching a new level

The Company continued to focus on key countries and regions and intensified its efforts in overseas markets. In accordance with the principle of "leading, intensifying and penetrating", the Company speeded up the layout planning and upgrade of overseas production bases to form a local manufacturing cluster along the "One Belt, One Road".

1. Continuously strengthened the layout planning of key overseas markets. The Company focused on key regions, key product lines, components and service capabilities, continuously promoted local operations and expanded overseas markets to achieve coverage and stability in key markets around the world.

2. Continuously advanced the expansion and upgrade of overseas bases. The Company speeded up the expansion and upgrade of CIFA from Italy from a regional company specializing in concrete equipment to a comprehensive global company covering concrete, engineering and construction products with production and manufacturing operation covering the Middle East and North America. The Company fostered the establishment of an independent operational entity by m-tec in China, in order to introduce the German high-end manufacturing and service standards to China. The construction of the China-Belarus Industrial Park project was gradually proceeded. The Company speeded up the progress of local operations in India and prepared for the construction of new factories in India, in order to establish a comprehensive production and manufacturing base integrating research, production and sales along the "One Belt, One Road".

3. Continuously promoted global resource integration. The Company acquired 100% of equity interests in Wilbert from Germany, a globally leading manufacturer of tower cranes, and entered into the European high-end tower crane market to achieve global coverage of full range of products in the tower crane business.

(5) Promoting management reform in-depth, significantly improving operational quality

During the Reporting Period, the Company continuously strengthened its management platform, innovated management tools and improved management capabilities, achieving a new level of management standards and operational efficiency.

1. Intensified digital management and decision-making. Focusing on product research and development, production and manufacturing, marketing services, financial management, risk control and business decision-making, the Company created a "Zoomlion Intellect" information management platform and application to strengthen whole-process business management and monitoring, achieving digital, accurate and efficient management end-to-end.

2. Intensified internal marketization mechanism and assessment. The Company comprehensively promoted the implementation of reform of profit-centered management and established an incentive system of "co-creation of values and benefit sharing", in order to achieve strict assessment, full encouragement and solid commitment to stimulate the vitality of all employees.

3. Comprehensively enhanced risk management and control capabilities.

   The Company adhered to tightening credit policy, verified the quality of new machinery sales contracts one by one, resolutely resisted low-quality orders and firmly grasped the key points of risk control, significantly enhancing the quality of new business operations. Daily inspection and cycled inspection mechanism was established to promote "one case, one decision" management for high-risk customers, basically solving inventory risk.

4. Promoted quality culture and system construction. The Company focused on product delivery standards, product early-stage failure rate and three-guarantee period loss rate to build a quality firewall. With quality standards as the basis, the Company strictly standardized its quality system with processes and indicators, carried out quality cost management and implemented quality responsibility to promote the comprehensive enhancement of product quality.

5. Optimized after-sales services system. The Company built a new service management platform and system focusing on customer satisfaction, promoted the visualization of component logistics and established a star rating system for after-sales services personnel, in order to enhance the quality of our components and after-sales services and improve customer satisfaction.

II. Business Outlook of the Group

(I) Industry development trend and market outlook

1. Construction machinery market

In 2019, China will continue to implement proactive fiscal policies and sound monetary policies, strengthen counter-cyclical adjustment and increase efforts in infrastructure construction. With the "steady growth" policy for infrastructure construction gradually implemented, approval of infrastructure projects such as transportation infrastructure speeded up and the construction of key areas including Xiong'an New District and Guangdong-Hong Kong-Macao Greater Bay Area rolled out, the construction of beautiful Chinese rural areas will be expedited. With the speed up of promotion of prefabricated buildings, enhancement of environmental protection requirements, further replacement of labors by machinery, continuous growth momentum of periodical equipment update and intensive promotion of the national "One Belt, One Road" initiative, the construction machinery industry will continue to grow, and leading enterprises with edges in brand, technology, scale and services will gain greater competitive strengths.

2. Agricultural machinery market

In December 2018, the State Council issued the *Guiding Opinions of the State Council on Speeding Up the Transformation and Upgrade of Agricultural Mechanization and Agricultural Machinery Equipment Industry* (《國務院關於加快推進農業機械化和農機裝備產業轉型升級的指導意見》). With the implementation of the national rural revitalization strategy and the intensification of the agricultural supply-side structural reform, the level of mechanization of domestic agriculture will be further enhanced, providing opportunities and room for development for the industry, and the future development of the industry will generally remain favorable. Meanwhile, along with the constant adjustment and optimization of agricultural machinery subsidy policies, agricultural machinery subsidy funds will focus on large-scale agricultural entities such as rural cooperatives and mid-to-high-end, green and intelligent products. Leading companies with edges in brand, technology, scale and services will seize development opportunities.

(II) Main operation direction for 2019

1. Ensuring the completion of target responsibility system. The Company will enhance its profit-centered assessment incentive model, improve the performance accountability and termination mechanism of managers at all levels, strengthen training of talent teams, reinforce the crisis awareness and benign competition of all employees and stimulate the new vitality of sustainable development, in order to accomplish the strategic goals and enhance the operational quality of the Company.

2. Speeding up digital transformation. Firstly, based on product intelligence, the Company will consolidate its existing data foundation, intensify the integration and application of the Company's internal logistics, information flow and capital flow functions, and continuously promote the intelligentization and digitalization of the Company's products, manufacturing, services, supply chain and management. Secondly, focusing on the upstream and downstream industry chain and leveraging on its experience in Internet of Things and big data, the Company will develop and expand outwards to empower traditional manufacturing industries and drive the transformation of traditional business models.

3. Fostering international breakthroughs. Firstly, the Company will continuously intensify its channels, components and localization strategies and further empower its overseas subsidiaries to implement its strategy of "I see, I come and I conquer". Secondly, the Company will speed up the implementation of local manufacturing projects in Italy, Belarus and India and establish regional integrated manufacturing bases in Europe, Russian-speaking regions and South Asia, in order to improve the comprehensive competitiveness of products and foster new growth momentum overseas through local manufacturing and local management.

4. Continuously promoting intelligent manufacturing. Firstly, the Company will comprehensively commence the construction of Zoomlion Intelligent Industrial City to establish an "intelligent industrial city" that integrates intelligent manufacturing bases of high-end equipment and research application bases of artificial intelligence. Secondly, the Company will commence the establishment of its product intelligence enterprise standard system to reinforce its leading position in product intelligence. Thirdly, the Company will promote the continuous improvement and upgrade of products 4.0 to realize the transformation of single-machine intelligence to multi-machine intelligence, manufacturing processes to manufacturing visualization and digital resources to data values, leading the upgrade of industry products.

5. Establishing core competitiveness in services. The Company will continuously promote the transformation of service system, optimize resource allocation and improve service skills and component supply capabilities. Leveraging on industrial Internet technology and mobile application promotion, the Company will constantly provide users with more convenient, personalized and customized services, and extend and enhance

the services of the entire value chain, leading and promoting the transformation and upgrade of service-oriented manufacturing in the industry and setting the benchmark for industry services.

6. Establishing new supplier relationship. The Company will form long-term strategic alliance with suppliers, in order to transform trading relationship to long-term mutually beneficial strategic alliance relationship, so that the sharing of high-quality resources of technology, techniques and manufacturing can be achieved and a stable, efficient and low-cost supply chain system can be established.

7. Striving to develop potential and emerging markets. Firstly, in respect of earth working machinery, the Company will establish new sales channels to provide customers with more professional and efficient sales and services. A full range of products, especially the performance and quality of products, will be upgraded to enhance market competitiveness, bringing greater positive synergies to product research and development, manufacturing and market services. Secondly, in respect of work-at-height machinery, based on our high-efficiency intelligent production lines and a full range of intelligent products, the Company will incorporate intelligent Internet of Things technology to rapidly explore the market.

8. Transforming and upgrading the agricultural machinery sector. The business of the agricultural machinery sector is based on "building foundation, making focus and achieving breakthrough". Through the enhancement of product manufacturing quality and improvement in costs, the Company will create reliable products, focus on products and markets, pay attention to product quality, delivery and service enhancement, and achieve business breakthroughs by "reducing costs, controlling fees and generating revenue".

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

1. Uncertainties on macroeconomic situation and industry growth.

   Measures: We will pay close attention to macroeconomic policies and industry trends to formulate corresponding preventive adjustment strategies and measures. We will enhance research and development capability and technological innovation standard to consolidate the competitiveness and market share of intelligent products 4.0. We will restructure business models to enhance the profitability of value-added business and after-market services. We will establish an efficient operation and management mechanism that adapts to market competition.

2. Volatility in prices of commodities such as steel and petroleum, risk of increase in production costs of the Group.

   Measures: We will pay attention to the global trend of price changes of major raw materials and energy, and conduct analysis, research and judgment to make correct and favorable purchasing decisions. Through the re-integration of supplier resources and centralized procurement of common materials, we will nurture large-scale and specialized suppliers to form a long-term supplier strategic alliance and establish a stable, reliable, efficient and low-cost supply chain system. We will enhance the utilization rate of materials through the use of technology and innovation processes, and develop new materials and new processes with alternative technology to continuously reduce costs.

3. Uncertainties on exchange rate fluctuations, risk of decrease in earnings from overseas investments and sales.

   Measures: We will closely monitor relevant exchange rate policies of the global financial market and China, and conduct analysis, research and judgment to select appropriate exchange rate management tools for the active management of exchange rate risks. We will speed up the local production of overseas bases along the "One Belt, One Road" to hedge against risk of exchange rate fluctuations.

FINAL DIVIDEND AND ANNUAL GENERAL MEETING

Pursuant to a resolution passed at the Board meeting on 29 March 2019, a final dividend for the year ended 31 December 2018 of RMB0.25 per share was proposed, totaling RMB1,952 million (based on the number of issued shares as at the date of this announcement). 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 2019. 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 2018, 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 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, 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 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 has made specific enquiry to all directors and supervisors, and all its directors and supervisors have confirmed that they complied with the Model Code throughout the year ended 31 December 2018. 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 2018, the Company repurchased its own ordinary shares traded on the Shenzhen Stock Exchange of China Limited as follows:

On 30 August 2018, the board of directors of the Company resolved that the Restricted A Shares held by 24 participants of the Restricted A share incentive scheme who had, since completion of the First Grants, ceased employment with the Group be repurchased and cancelled by the Company. As the Participants are no longer qualified participants within the meaning of the Restricted A share incentive scheme, the Board proposed to repurchase and cancel 2,024,500 Restricted A Shares granted under the Restricted A Share Incentive Scheme to but not yet unlocked by the Participants, in accordance with the terms of the Restricted A share incentive scheme. The Repurchase Price was RMB2.09 per share, and the aggregate price paid anmounted to RMB4.23 million. The Repurchase and Cancellation was completed on 21 September 2018.

On 6 November 2018, the board of directors of the Company resolved that the Restricted A Shares held by 7 participants of the Restricted A share incentive scheme who had, since completion of the First Grants, ceased employment with the Group be repurchased and cancelled by the Company. As the Participants are no longer qualified participants within the meaning of the Restricted A share incentive scheme, the Board proposed to repurchase and cancel 2,041,800 Restricted A Shares granted under the Restricted A Share Incentive Scheme to but not yet unlocked by the Participants, in accordance with the terms of the Restricted A share incentive scheme. The Repurchase Price was RMB2.09 per share, and the aggregate price paid amounted to RMB4.27 million. The Repurchase and Cancellation was completed on 29 November 2018.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities in the year ended 31 December 2018.

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. He Liu 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 2017 and its interim results for the six months ended 30 June 2018. The Audit Committee has reviewed the audited annual financial statements of the Company for the year ended 31 December 2018 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, 29 March 2019

As at the date of this announcement, the executive director of the Company is Dr. Zhan Chunxin; the non-executive directors are Mr. He Liu 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*