ZMJ

# Zhengzhou Coal Mining Machinery Group Company Limited
# 鄭州煤礦機械集團股份有限公司

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock code: 00564)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

**FINANCIAL HIGHLIGHTS**

The revenue of the Group for 2019 was RMB25,721.42 million, representing a decrease of RMB290.31 million (i.e. 1.12%) as compared with 2018.

Profit for the year attributable to owners of the Company for 2019 was RMB1,040.25 million, representing an increase of RMB207.91 million (i.e. 24.98%) as compared with 2018.

Earnings per share for 2019 was RMB60.04 cents.

The Board proposed a final dividend of RMB1.85 (tax inclusive) per 10 shares for 2019.

The board of directors (the "**Board**") of Zhengzhou Coal Mining Machinery Group Company Limited (the "**Company**") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2019 together with the comparative figures of the corresponding period in 2018 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31 DECEMBER 2019*

| | *Note* | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|---|
| **Revenue** | *3* | **25,721,417** | 26,011,730 |
| Cost of sales | | **(20,923,902)** | (21,159,849) |
| **Gross profit** | | **4,797,515** | 4,851,881 |
| Other income | *5* | **225,180** | 106,060 |
| Other gains and losses | *6* | **(418,404)** | (174,503) |
| Selling and distribution expenses | | **(1,020,635)** | (1,044,119) |
| Administrative expenses | | **(994,626)** | (1,203,184) |
| Research and development expenses | | **(1,015,026)** | (1,030,195) |
| Reversal of net impairment losses on financial and contract assets | | **157,875** | 46,947 |
| Share of profit/(loss) of associates | | **38,013** | (49,642) |
| Share of profit of joint ventures | | **3,716** | 5,908 |
| Finance costs, net | *7* | **(243,532)** | (220,415) |
| **Profit before tax** | | **1,530,076** | 1,288,738 |
| Income tax expense | *8* | **(390,166)** | (349,830) |
| **Profit for the year** | | **1,139,910** | 938,908 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | **1,040,253** | 832,344 |
| Non-controlling interests | | **99,657** | 106,564 |
| | | **1,139,910** | 938,908 |

| | Note | **2019** | 2018 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **Other comprehensive income:** | | | |
| *Items that will not be reclassified subsequently to profit or loss:* | | | |
| Remeasurement of post-employment benefit obligations | | **4,818** | (60,990) |
| Changes in the fair value of financial assets at fair value through other comprehensive income | | **(1,606)** | (17,585) |
| *Items that may be reclassified to profit or loss:* | | | |
| Exchange differences arising on translation | | **(17,440)** | (6,249) |
| Cash flow hedging | | **514** | 2,279 |
| Other comprehensive expense for the year, net of income tax | | **(13,714)** | (82,545) |
| **Total comprehensive income for the year** | | **1,126,196** | 856,363 |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **1,026,539** | 749,799 |
| Non-controlling interests | | **99,657** | 106,564 |
| | | **1,126,196** | 856,363 |
| **EARNINGS PER SHARE** | *10* | | |
| – Basic (RMB cents) | | **60.04** | 48.04 |
| – Diluted (RMB cents) | | **60.04** | 48.04 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*AS AT 31 DECEMBER 2019*

| | | As at 31 December | |
|---|---|---|---|
| | | **2019** | 2018 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **4,841,820** | 4,865,313 |
| Leasehold land and land use rights | | **–** | 440,964 |
| Right-of-use assets | | **1,171,066** | – |
| Investment properties | | **175,335** | 193,820 |
| Goodwill | | **677,221** | 853,808 |
| Intangible assets | | **1,505,901** | 1,578,613 |
| Investments in associates | | **285,453** | 393,472 |
| Investments in joint ventures | | **71,722** | 40,006 |
| Financial assets at fair value through other comprehensive income | | **29,934** | 31,540 |
| Deferred tax assets | | **419,390** | 442,322 |
| Finance lease receivables | | **23,348** | 28,508 |
| Long-term receivables | | **263,231** | 422,235 |
| Contract related assets | | **–** | 35,410 |
| Loans receivable from associates and a joint venture | | **6,500** | 10,000 |
| Total non-current assets | | **9,470,921** | 9,336,011 |
| **CURRENT ASSETS** | | | |
| Finance lease receivables, current portion | | **26,084** | 24,958 |
| Long-term receivables, current portion | | **239,513** | 131,926 |
| Loans receivable from associates and a joint venture | | **10,000** | 9,750 |
| Inventories | | **3,631,699** | 3,960,844 |
| Trade and other receivables | *11* | **5,836,197** | 6,326,997 |
| Transferred trade receivables | | **158,762** | 242,879 |
| Financial assets at fair value through profit or loss | | **1,394,296** | 355,539 |
| Financial assets at fair value through other comprehensive income | | **4,246,819** | 3,955,287 |
| Derivative financial instruments | | **13,946** | 4,401 |
| Tax recoverable | | **38,581** | 29,661 |
| Contract related assets | | **30,457** | – |
| Bank deposits | | **858,141** | 884,480 |
| Cash and cash equivalents | | **3,863,435** | 2,746,038 |
| Total current assets | | **20,347,930** | 18,672,760 |
| **Total assets** | | **29,818,851** | 28,008,771 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION** *(Continued)*
*AS AT 31 DECEMBER 2019*

| | Note | As at 31 December 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Borrowings | | **1,741,881** | 1,848,242 |
| Lease liabilities | | **551,705** | – |
| Deferred tax liabilities | | **292,778** | 341,611 |
| Contract liabilities | | **–** | 39,790 |
| Redemption liabilities | | **567,404** | 1,177,921 |
| Provisions | | **197,740** | 228,810 |
| Employee benefit obligations | | **378,430** | 280,903 |
| Other non-current liabilities | | **124,138** | 95,934 |
| Total non-current liabilities | | **3,854,076** | 4,013,211 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | *12* | **8,005,539** | 8,130,550 |
| Contract liabilities | | **1,699,335** | 1,390,874 |
| Income tax liabilities | | **156,371** | 147,150 |
| Borrowings | | **1,395,606** | 1,019,585 |
| Lease liabilities | | **140,143** | – |
| Redemption liabilities | | **720,000** | – |
| Provisions | | **543,141** | 738,499 |
| Liabilities associated with transferred trade receivables | | **158,762** | 242,879 |
| Derivative financial instruments | | **3,632** | 35,179 |
| Total current liabilities | | **12,822,529** | 11,704,716 |
| **Total liabilities** | | **16,676,605** | 15,717,927 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | *13* | **1,732,471** | 1,732,471 |
| Share premium | | **4,199,421** | 4,199,421 |
| Reserves | | **6,307,839** | 5,525,318 |
| Equity attributable to owners of the Company | | **12,239,731** | 11,457,210 |
| Non-controlling interests | | **902,515** | 833,634 |
| **Total equity** | | **13,142,246** | 12,290,844 |
| **Total equity and liabilities** | | **29,818,851** | 28,008,771 |

# NOTES TO THE FINANCIAL INFORMATION
*FOR THE YEAR ENDED 31 DECEMBER 2019*

## 1 GENERAL INFORMATION

The Company was established in the PRC on 28 December 2008 as a joint stock company with limited liability under the Company Law of the PRC. On 3 August 2010, the Company completed its initial public offering and listing of 140,000,000 A shares on the Shanghai Stock Exchange under the stock code 601717.SS. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 5 December 2012. The consolidated financial statements are presented in Renminbi ("**RMB**").

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

### 2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") and disclosure requirements of the Hong Kong Companies ordinance Cap. 622. The financial statements have been prepared on a historical cost basis, except for the following:

- certain financial assets and liabilities (including derivative instruments) – measured at fair value, and
- defined benefit pension plans – plan assets measured at fair value.

The preparation of the financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

### 2.2 Changes in accounting policies

***(a) New and amended standards adopted by the Group***

The Group has applied the following standards and amendments that are relevant to the Group for the first time for their annual reporting period commencing 1 January 2019:

- IFRS 16 Leases
- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- IFRIC 23 Uncertainty over Income Tax Treatments

Except for IFRS 16, other changes to accounting standards do not have significant impact on the Group's financial statements.

*(b)* ***New standards and interpretations not yet adopted***

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

**2.3 Adoption of IFRS 16**

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019, where they are different to those applied in prior periods.

The Group has adopted IFRS 16 from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.61%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

*(a)* ***Measurement of lease liabilities***

| | **2019**<br>***RMB'000*** |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | **1,003,510** |
| Discounted using the lessee's incremental borrowing rate of at the date of initial application | **801,930** |
| Add: finance lease liabilities recognised as at 31 December 2018 | **2,521** |
| (Less): short-term leases and low-value leases recognised on a straight-line basis as expense | **(20,480)** |
| Lease liability recognised as at 1 January 2019 | **783,971** |
| Of which are: | |
| Current lease liabilities | **155,982** |
| Non-current lease liabilities | **627,989** |
| | **783,971** |

*(b)* ***Measurement of right-of-use assets***

The right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

| | **31 December 2019** *RMB'000* | 1 January 2019 *RMB'000* |
|---|---|---|
| Buildings | **602,633** | 702,176 |
| Land use rights | **487,214** | 440,964 |
| Office and operating equipment | **1,262** | 1,929 |
| Machines | **6,062** | 112 |
| Others | **73,895** | 79,970 |
| **Total right-of-use assets** | **1,171,066** | 1,225,151 |

*(c)* ***Adjustment recognised in the balance sheet on 1 January 2019***

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

| | **31 December 2018** *RMB'000* | **Adoption of IFRS 16** *RMB'000* | **1 January 2019** *RMB'000* |
|---|---|---|---|
| Leasehold land and land use rights | 440,964 | (440,964) | – |
| Property, plant and equipment | 4,865,313 | (2,737) | 4,862,576 |
| Right-of-use assets | – | 1,225,151 | 1,225,151 |
| Lease liabilities, non-current portion | – | 627,989 | 627,989 |
| Lease liabilities, current portion | – | 155,982 | 155,982 |
| Other non-current liabilities | 95,934 | (1,386) | 94,548 |
| Trade and other payables | 8,130,550 | (1,135) | 8,129,415 |

*(d)* ***Impact on segment disclosures and earnings per share***

Adjusted net profit, segment assets and segment liabilities for 31 December 2019 all increased as a result of the change in accounting policy. Lease liabilities are now included in segment liabilities, whereas finance lease liabilities were previously excluded from segment liabilities. The following segments were affected by the change in policy:

| | **Coal mining machinery** | | **Auto parts** | |
|---|---|---|---|---|
| | **Assets** *RMB'000* | **Liabilities** *RMB'000* | **Assets** *RMB'000* | **Liabilities** *RMB'000* |
| Right-of-use assets (excluding land use rights) | 38,717 | 38,876 | 645,134 | 652,972 |

Basic earnings per share decreased by RMB0.88 cents per share for the year ended 31 December 2019 as a result of the adoption of IFRS 16.

*(e)* ***Practical expedients applied***

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics

- reliance on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases

- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

*(f)* ***Lessor accounting***

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

*(g)* ***The Group's leasing activities and how these are accounted for***

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable

- variable lease payment that are based on an index or a rate

- amounts expected to be payable by the lessee under residual value guarantees

- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and

- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability

- any lease payments made at or before the commencement date less any lease incentives received

- any initial direct costs, and

- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

***(h) Variable lease payments***

There is one factory lease of SEG Automotive Components Brazil Ltda. contains variable payment terms. This contract is based on an index and can contain variable payments.

***(i) Extension and termination options***

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

***(j) Residual value guarantees***

To optimise lease costs during the contract period, the Group sometimes provides residual value guarantees in relation to equipment leases.

Estimating the amount payable under residual value guarantees

The Group initially estimates and recognises amounts expected to be payable under residual value guarantees as part of the lease liability. The amounts are reviewed, and adjusted if appropriate, at the end of each reporting period. At the end of reporting period, no material amount was expected to be payable under residual value guarantees as part of lease liabilities.

## 3 REVENUE

| | **Year ended 31 December 2019** | | |
|---|---|---|---|
| | **Manufacture of coal mining machinery** | **Manufacture of auto parts** | **Total** |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| Sales of auto parts | **–** | **16,041,025** | **16,041,025** |
| Sales of hydraulic roof supports | **6,269,018** | **–** | **6,269,018** |
| Revenue from steel and other materials trading | **2,118,017** | **128,801** | **2,246,818** |
| Sales of spare parts for coal mining machinery | **1,002,430** | **–** | **1,002,430** |
| Sales of other coal mining equipment | **86,532** | **–** | **86,532** |
| Other revenue | **75,594** | **–** | **75,594** |
| | **9,551,591** | **16,169,826** | **25,721,417** |

| | Year ended 31 December 2018 | | |
|---|---|---|---|
| | Manufacture of coal mining machinery | Manufacture of auto parts | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Sales of auto parts | – | 17,658,657 | 17,658,657 |
| Sales of hydraulic roof supports | 5,107,137 | – | 5,107,137 |
| Revenue from steel and other materials trading | 2,052,719 | 86,294 | 2,139,013 |
| Sales of spare parts for coal mining machinery | 868,332 | – | 868,332 |
| Sales of other coal mining equipment | 136,959 | – | 136,959 |
| Other revenue | 101,632 | – | 101,632 |
| | 8,266,779 | 17,744,951 | 26,011,730 |

## 4 SEGMENT INFORMATION

Information reported to the chief executive of the Company, being the chief operating decision maker (CODM), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. Specifically, the Group's reportable segments under IFRS 8 are (i) manufacture of coal mining machinery; and (ii) manufacture of auto parts. No operating segments have been aggregated in arriving at the reportable segments of the Group.

CODM primarily uses a measure of segment net profit to assess the performance of operating segments.

The following is an analysis of the Group's revenue and results by reportable and operating segments. The Group prepare the segment reporting for net profit excluding the impact of a) impairment of goodwill b) interest expense of redemption liabilities. All of these 2 items are related to manufacture of auto parts segment.

| | **Manufacture of coal mining machinery** *RMB'000* | **Manufacture of auto parts** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|
| **Year ended 31 December 2019** | | | |
| Segment revenue | **9,551,591** | **16,169,826** | **25,721,417** |
| Segment net profit/(loss) excluding impairment of goodwill, interest expense of redemption liabilities | **1,659,300** | **(250,909)** | **1,408,391** |
| **Year ended 31 December 2018** | | | |
| Segment revenue | 8,266,779 | 17,744,951 | 26,011,730 |
| Segment net profit excluding impairment of goodwill, interest expense of redemption liabilities | 893,600 | 245,254 | 1,138,854 |

| | **As of December 31** | |
|---|---|---|
| | **2019** *RMB'000* | 2018 *RMB'000* |
| Segment revenue and consolidated revenue | **25,721,417** | 26,011,730 |
| Segment net profit excluding impairment of goodwill, interest expense of redemption liabilities | **1,408,391** | 1,138,854 |
| Impairment of goodwill | **(174,086)** | (109,125) |
| Interest expense on redemption liabilities | **(94,395)** | (90,821) |
| Consolidated profit for the year | **1,139,910** | 938,908 |

The following is an analysis of the Group's assets and liabilities by reportable and operating segments. The Group prepared the segment reporting for total assets and liabilities excluding, the impact of a) goodwill, and b) redemption liabilities. All of 2 items are related to manufacture of auto parts segment.

| | At 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| **SEGMENT ASSETS** | | |
| Manufacture of coal mining machinery | **16,637,534** | 14,518,380 |
| Manufacture of auto parts | **12,504,096** | 12,636,583 |
| Total segment assets | **29,141,630** | 27,154,963 |
| Goodwill | **677,221** | 853,808 |
| Consolidated assets | **29,818,851** | 28,008,771 |
| **SEGMENT LIABILITIES** | | |
| Manufacture of coal mining machinery | **7,283,768** | 6,415,742 |
| Manufacture of auto parts | **8,105,433** | 8,124,264 |
| Total segment liabilities excluding redemption liabilities | **15,389,201** | 14,540,006 |
| Redemption liabilities | **1,287,404** | 1,177,921 |
| Consolidated liabilities | **16,676,605** | 15,717,927 |

Segment assets are measured in the same way as in the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

| | **2019** | | |
|---|---|---|---|
| | **Segment assets** *RMB'000* | **Investment in associates and joint ventures** *RMB'000* | **Additions to non-current assets** *RMB'000* |
| Manufacture of coal mining machinery | | | |
| The PRC | **14,887,478** | **284,598** | **298,820** |
| Germany | **3,611** | **–** | **–** |
| Other countries | **125,122** | **–** | **316** |
| Manufacture of auto parts | | | |
| The PRC | **7,701,003** | **72,577** | **316,638** |
| Germany | **2,926,176** | **–** | **440,695** |
| Other countries | **3,230,899** | **–** | **232,968** |
| Total segment assets | **28,874,289** | **357,175** | **1,289,437** |
| Elimination | **(165,995)** | | |
| Unallocated: | | | |
| Goodwill | **677,221** | | |
| Deferred tax assets | **419,390** | | |
| Derivative financial instruments | **13,946** | | |
| **Total assets as per the financial position** | **29,818,851** | | |

| | 2018 | | |
|---|---|---|---|
| | Segment assets *RMB'000* | Investment in associates and joint ventures *RMB'000* | Additions to non-current assets *RMB'000* |
| Manufacture of coal mining machinery | | | |
| The PRC | 12,706,704 | 393,472 | 122,509 |
| Germany | 4,265 | – | – |
| Other countries | 21,869 | – | – |
| Manufacture of auto parts | | | |
| The PRC | 7,028,839 | 40,006 | 329,802 |
| Germany | 3,014,033 | – | 425,273 |
| Other countries | 4,065,030 | – | 409,647 |
| Total segment assets | 26,840,740 | 433,478 | 1,287,231 |
| Elimination | (132,500) | | |
| Unallocated: | | | |
| Goodwill | 853,808 | | |
| Deferred tax assets | 442,322 | | |
| Derivative financial instruments | 4,401 | | |
| Total assets as per the financial position | 28,008,771 | | |

**Geographical information**

The analysis of revenue by geographical location of customers is as follows:

| | 2019 | 2018 |
|---|---|---|
| | ***RMB'000*** | RMB'000 |
| The PRC | **15,417,387** | 14,830,433 |
| Germany | **4,745,898** | 5,507,551 |
| Other countries | **5,558,132** | 5,673,746 |
| | **25,721,417** | 26,011,730 |

**Information about major customers**

The following illustrates the revenue from customers which contributing over 10% of the total revenue of the Group:

| | 2019 | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Customer A – manufacture of auto parts segment | **3,389,763** | 3,348,294 |

## 5 OTHER INCOME

| | 2019 | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Government grants *(Note)* | **156,959** | 52,132 |
| Interest income on bank deposits, long-term receivables and finance lease receivables | **68,221** | 53,928 |
| | **225,180** | 106,060 |

*Note:* Government grants mainly represent government grants received from the local government for compensation of research and development expenses incurred, and in respect of construction of the Group's new plant, which are transferred from deferred income to profit or loss when related expenses incurred or over the useful lives of the relevant assets.

## 6 OTHER GAINS AND LOSSES

| | 2019 | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Net foreign exchange gain/(loss) | **41,896** | (40,473) |
| Gain on disposal of associates | **16,257** | – |
| Dividend from financial assets at fair value through comprehensive income | **2,897** | – |
| (Loss)/gain on disposal of property, plant and equipment, and intangible assets | **(2,192)** | 1,978 |
| Net fair value loss on derivative financial instruments | **(55,998)** | (25,948) |
| Impairment of goodwill | **(174,086)** | (109,125) |
| Impairment of development costs *(Note)* | **(246,731)** | – |
| Gain on disposal of financial assets at fair value through profit or loss | **–** | 3,041 |
| Others | **(447)** | (3,976) |
| | **(418,404)** | (174,503) |

*Note:* During 2019, the Group upgraded the BRM technology from BRM 1.5 to BRM 2.8, an advanced version of the development costs. With the change of the components of the technology, all the current customized projects would be transferred to BRM 2.8. The Group made an impairment on the capitalized development cost which are directly linked with BRM 1.5 with the amount of RMB246.7 million.

## 7 FINANCE COSTS, NET

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interests on bank borrowings | **108,600** | 113,567 |
| Interests on redemption liabilities | **111,054** | 106,848 |
| Interests on leases | **23,878** | – |
| | **243,532** | 220,415 |

## 8 INCOME TAX EXPENSE

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current income tax | **406,201** | 395,283 |
| Under/(over) provision in prior years – enterprise income tax | **9,971** | (7,906) |
| Deferred income tax | **(26,006)** | (37,547) |
| | **390,166** | 349,830 |

### (a) PRC corporate income tax

The corporate income tax ("**CIT**") is calculated based on the statutory profit of subsidiaries incorporated in the PRC and the applicable tax rate in accordance with the PRC tax laws and regulations, after adjustments on certain income and expense items, which are not assessable or deductible for income tax purposes.

In accordance with the PRC tax laws, standard corporate income tax rate is 25%. The Company and certain subsidiaries are qualified for new/high-tech technology enterprises status and enjoyed preferential income tax rate of 15% during 2019 and 2018.

### (b) Germany profits tax

Applicable profit tax rate of Germany is 29%. During the year ended 31 December 2019, no profit tax has been provided due to accumulated losses (2018: 0).

### (c) Others

Applicable profit tax rates of the Group's other subsidiaries are between 9% and 37.68%, for the years ended 31 December 2019 and 2018.

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before tax | **1,530,076** | 1,288,738 |
| Tax at applicable tax rate of respective entities | **268,380** | 269,454 |
| Tax effect of share of result of associates and joint ventures | **(6,259)** | 6,560 |
| Tax effect of income not taxable for tax purpose | **(4,641)** | (26,893) |
| Tax effect of expenses that are not deductible for tax purpose | **60,820** | 51,697 |
| Tax effect of tax losses and temporary differences not recognised | **141,123** | 105,589 |
| Utilisation of tax losses and temporary differences previously not recognised | **(11,324)** | (4,966) |
| Additional deduction for qualified research and development expenses | **(67,904)** | (53,254) |
| Under/(over) provision in prior years | **9,971** | (7,906) |
| Effect of change in tax rate during the year | **–** | 9,549 |
| | **390,166** | 349,830 |

## 9 DIVIDENDS

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Dividends recognised as distribution during the year | | |
| – 2018 Final (RMB0.145 per share) | **251,208** | – |
| – 2017 Final (RMB0.050 per share) | **–** | 86,623 |
| | **251,208** | 86,623 |

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of RMB0.185 per share (2018: final dividend in respect of the year ended 31 December 2018 of RMB0.145 per share) in an aggregated amount of RMB320,507,203 has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 10 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share attributable to owners of the Company is based on the following data:

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Earning for the purpose of basic earnings per share (profit for the year attributable to owners of the Company) | **1,040,253** | 832,344 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,732,471,370** | 1,732,471,370 |
| Earnings per share (RMB cents) | **60.04** | 48.04 |

### (b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. The share options are assumed to have been converted into ordinary shares.

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Earnings:** | | |
| Profit attributable to owners of the Company used in the diluted earnings per share calculation | **1,040,253** | 832,344 |
| **Number of shares:** | | |
| Weighted average number of ordinary shares in issue during the year per share calculation | **1,732,471,370** | 1,732,471,370 |
| Add: share options | **192,913** | – |
| Weighted average number of ordinary shares in issue and potential ordinary shares used as the denominator in calculating diluted earnings per share | **1,732,664,283** | 1,732,471,370 |
| Diluted earnings per share (RMB cents) | **60.04** | 48.04 |

## 11 TRADE AND OTHER RECEIVABLES

| | 2019 | 2018 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade receivables | **5,252,011** | 5,760,750 |
| Less: loss allowance | **(612,367)** | (853,294) |
| | **4,639,644** | 4,907,456 |
| Prepayments to suppliers | **372,396** | 507,566 |
| Deposits | **70,054** | 24,197 |
| Other tax recoverable | **601,272** | 880,090 |
| Receivable from disposal of an associate | **64,057** | – |
| Staff advances | **17,296** | 7,363 |
| Others | **185,464** | 97,493 |
| Less: loss allowance | **(113,986)** | (97,168) |
| | **1,196,553** | 1,419,541 |
| Total trade and other receivables | **5,836,197** | 6,326,997 |

The following is the ageing analysis of trade receivables net of loss allowance presented based on the invoice date at the end of each reporting period:

| | 2019 | 2018 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Within 180 days | **3,837,690** | 4,255,933 |
| Over 180 days but within 1 year | **589,284** | 351,338 |
| Over 1 year but within 2 years | **177,330** | 228,364 |
| Over 2 years within 3 years | **35,340** | 71,821 |
| | **4,639,644** | 4,907,456 |

The trade and other receivables denominated in foreign currencies, are expressed in RMB as at 31 December 2019 and 31 December 2018 as follows:

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| EUR | **795,054** | 809,741 |
| USD | **323,806** | 527,588 |
| INR | **127,090** | 156,762 |
| BRL | **72,336** | 79,310 |
| MXI | **20,190** | 11,070 |
| ZAF | **8,456** | 5,369 |
| RUB | **6,949** | 2,828 |
| JPY | **5,313** | 6,313 |
| CAD | **–** | 504 |
| Others | **14** | 47 |
| | **1,359,208** | 1,599,532 |

**Movement of loss allowance on trade and other receivables**

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Opening balance | **950,462** | 1,015,331 |
| Reversed during the year | **(161,873)** | (58,006) |
| Write off | **(55,239)** | (3,724) |
| Currency exchange | **(6,997)** | (3,139) |
| Closing balance | **726,353** | 950,462 |

## 12 TRADE AND OTHER PAYABLES

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Notes payable *(Note a)* | **1,621,931** | 1,882,103 |
| Trade payable *(Note a)* | **4,733,324** | 4,988,510 |
| | **6,355,255** | 6,870,613 |
| Salary and bonus payables | **525,880** | 612,802 |
| Deposits *(Note b)* | **60,498** | 82,134 |
| Deferred income to be recognised within one year *(Note c)* | **–** | 5,942 |
| Interest payable | **15,665** | 11,719 |
| Other taxes payable | **468,757** | 222,410 |
| Accruals and other payables *(Note d)* | **579,484** | 324,930 |
| | **8,005,539** | 8,130,550 |

*Notes:*

(a) The following is the ageing analysis of notes payable and trade payables presented based on invoice date at the end of each reporting period:

| | 2019 | 2018 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Within 1 year | **6,185,284** | 6,576,168 |
| Over 1 year | **169,971** | 294,445 |
| | **6,355,255** | 6,870,613 |

(b) Deposits represent the deposits received from suppliers for transportation and other services.

(c) Deferred income to be recognised within one year represents the government subsidies received by the Group towards certain research projects. The amount was treated as deferred income and transferred to profit or loss over the useful lives of the relevant assets.

(d) Accruals and other payables mainly consist of payables for the acquisition of property, plant and equipment, rental payables, sales rebate and payables for other services.

## 13 SHARE CAPITAL

| | Listed A Shares | | Listed H Shares | | Total | |
|---|---|---|---|---|---|---|
| | Number of share | Amount | Number of share | Amount | Number of share | Amount |
| | *'000* | *RMB'000* | *'000* | *RMB'000* | *'000* | *RMB'000* |
| At 31 December 2018 and 31 December 2019 | 1,489,237 | 1,489,237 | 243,234 | 243,234 | 1,732,471 | 1,732,471 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL ANALYSIS

### Revenue

Our revenue decreased by 1.12% from RMB26,011.73 million for the year ended 31 December 2018 to RMB25,721.42 million for the year ended 31 December 2019, mainly because of the net effect of coal mining machinery segment and auto parts segment.

### Cost of Sales

As the Group recorded a decrease in our revenue, our cost of sales decreased by 1.12% from RMB21,159.85 million for the year ended 31 December 2018 to RMB20,923.90 million for the year ended 31 December 2019 accordingly.

### Gross Profit

Driven by the above factors, our gross profit decreased by 1.12% from RMB4,851.88 million for the year ended 31 December 2018 to RMB4,797.52 million for the year ended 31 December 2019.

The change in gross profit during the year primarily comprised of two parts. The gross profit margin of the coal mining machinery segment increased from 23.7% for the year ended 31 December 2018 to 28.7% for the year ended 31 December 2019 due to the product mix. As of 31 December 2019, the gross profit margin of the auto parts segment of the Group decreased from 16.2% for the year ended 31 December 2018 to 12.7% for the year ended 31 December 2019.

Therefore, the overall gross profit margin of the Group remained at 18.65% for the year ended 31 December 2019.

### Other Income

Our other income increased by 112.31% from RMB106.06 million for the year ended 31 December 2018 to RMB225.18 million for the year ended 31 December 2019, mainly because of the Group gained more government grants in 2019.

### Other Gains and Losses

Our other gains and losses increased from loss of RMB174.50 million for the year ended 31 December 2018 to loss of RMB418.40 million for the year ended 31 December 2019, primarily as a result of the impairment of goodwill and development costs.

**Selling and Distribution Expenses**

Our selling and distribution expenses decreased by 2.25% from RMB1,044.12 million for the year ended 31 December 2018 to RMB1,020.64 million for the year ended 31 December 2019, mainly due to the decrease from auto parts segment during the year.

**Administrative Expenses**

Our administrative expenses decreased by 17.33% from RMB1,203.18 million for the year ended 31 December 2018 to RMB994.63 million for the year ended 31 December 2019, mainly due to the decrease from auto parts segment during the year.

**Research and Development Expenses**

Our research and development expenses remained stable at RMB1,015.03 million in 2019.

**Share of Profit of Associates**

Share of profit of associates turned from a loss of RMB49.64 million for the year ended 31 December 2018 to a gain of RMB38.01 million for the year ended 31 December 2019.

**Finance Costs**

Our finance costs increased from RMB220.42 million for the year ended 31 December 2018 to RMB243.53 million for the year ended 31 December 2019, which was due to the increase of interests on leases.

**Profit Before Tax**

Being affected by the factors referred to above in aggregate, our profit before tax increased by 18.73% from RMB1,288.74 million for the year ended 31 December 2018 to RMB1,530.08 million for the year ended 31 December 2019.

**Income Tax Expense**

Our income tax expense increased by 11.53% from RMB349.83 million for the year ended 31 December 2018 to RMB390.17 million for the year ended 31 December 2019, primarily as a result of the increase in taxable income. Our effective tax rate decreased to 25.50% for the year ended 31 December 2019 from 27.15% for the year ended 31 December 2018.

**Profit Attributable to Owners of the Company**

Based on the factors referred to above, profit attributable to owners of the Company increased by 24.98% from RMB832.34 million for the year ended 31 December 2018 to RMB1,040.25 million for the year ended 31 December 2019.

**Trade and Other Receivables**

As at 31 December 2019, trade and other receivables amounted to approximately RMB5,836.20 million, representing a decrease of approximately RMB490.80 million as compared to approximately RMB6,327.00 million as at the end of 2018.

**Liquidity**

The Group's net current assets were approximately RMB7,525.40 million (31 December 2018: RMB6,968.04 million) and the current ratio was 1.59 as at 31 December 2019 (31 December 2018: 1.60). The decrease in current ratio was mainly attributable to the increase in borrowings and redemption liabilities.

**2019 BUSINESS REVIEW**

2019 is a milestone year in ZMJ's history, as the Company received an inspection by General Secretary Xi Jinping who delivered important instructions on ZMJ's development, pointed out the direction for its advancement, injected great vitality and brought tremendous opportunities. In 2019, both leaders and employees of the Company worked under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and carried out the spirit of the important issues address by General Secretary Xi Jinping during his inspection of ZMJ with depth. In this way, ZMJ worked on industry transformation and upgrade, enhanced independent innovation, developed high-end and smart manufacturing, deepened its work on various aspects of the state-owned enterprise reform, and strived for high-quality development, which led to continuous improvement of various production and operation indicators.

In 2019, the revenue generated by the Company amounted to RMB25,721.42 million, representing a year-on-year decline of 1.12%. Net profit attributable to the parent company amounted to RMB1,040.25 million, representing a year-on-year increase of 24.98%.

**(I) Strengthening Strategic Guidance and Driving Enterprise Reform Continuously**

In 2019, the Company guided itself under the development strategy of "international strategic positioning, market-based corporate governance, high-end industry layout and global human resources" and the requirements of the "Reform of Hundreds of State-owned Enterprises" (雙百行動), with more intensive work on the top-level design of reform and development as well as greater technology and management innovation to keep driving the fast development, transformation and upgrade of the Company.

1. *Sorting out development strategies for each of the Group's industry segments and exploring the direction of future development*

   We took the latest situation into account, to boost technical R&D and smart upgrade for our industry segments. Specifically, we further deepened our strategies of "intelligent, comprehensive, international and society-oriented development" for the coal mining machinery segment, "high-end, professional, international and progressive development" for ASIMCO, as well as SEG reform and electrification development. In addition, we explored the development approaches and objectives for the next five years, and revolved around our development strategies to distribute and allocate resources.

2. *Further improving the Group's governance system*

First, we have established and improved an overarching management system mainly for our industry segments. A business department has been formed for coal mining machinery, with new companies established for commercial factoring and software respectively, as well as efforts to improve our functions of global internal auditing and information management. Second, we developed such systems and institutions that adapted to the Group's management requirements, with analysis and reporting systems formulated for every aspect of the Group, so as to optimize the decision-making mechanism and business processes.

3. *Building a global human resources management system*

We optimized our Group's mechanism to select, employ, nurture and retain exceptional talents, with a view to staffing the key posts of our headquarters with excellent international-oriented talents. Our cross-border and inter-segment talent exchanges also took place, in a bid to cultivate outstanding personnel that are equipped with an international vision and the capability of local management in China. We continued to procure different cultures and industries to communicate and integrate with one another, by promoting learning, communication and cultural integration within the Company, so as to lay a solid foundation for its long-term development.

4. *Exploring the establishment of a mid to long-term mechanism for incentives and restrictions*

As a leader of the state-owned enterprise reform in Henan Province, the Company continued to deepen the reform of state-owned enterprises by exploring the implementation of a mid to long-term super profit incentive scheme and a share option incentive scheme. As such, a mid to long-term incentives and restrictions mechanism has taken shape that largely adapts to the talent market and pegs to the economic efficiency of the Company, thus aligning the long-term interests of shareholders, the Company and its staff.

5. *Adhering to technology as guidance to propel industry transformation and upgrade*

Under the unified strategic layout for smart manufacturing, we made new progress and breakthroughs in the construction of smart factories. In respect of key components for hydraulic roof supports, our automatic production lines have commenced commissioning and operation successively, with system development completed for the first phase of the MES project. We have also finished planning the construction project of large comprehensive key equipment for ZMJ, with project construction taking place in an intensive and orderly manner.

## (II) Operation and Development of the Coal Mining Machinery Segment

In 2019, the coal industry presented a positive picture with stable market demand for coal mining machinery. By capturing such rare market opportunities, the Company recorded a major uptick in its operating results, attained important breakthroughs with its strategy of "international strategic positioning, market-based corporate governance, high-end industry layout and global human resources", and further enhanced the integrated strength of its coal mining machinery segment.

1. *Seizing market opportunities to be more competitive within the industry*

   In 2019, ZMJ continued to gravitate towards "orders that generate profit and cash flow", capture quality orders, work harder on collecting receivables and optimize its market structure. As a result, the year saw high-quality growth of orders and receivables collection, both reaching historic new highs.

2. *Upgrading the R&D system with continuously stronger guidance of technology*

   ZMJ worked to improve the overall structure of its R&D system by establishing the smart mining research institute, ramping up the top-level design and system development of scientific research, consolidating the R&D strengths of its departments and subsidiaries, conducting scientific research on the intelligent equipment sets and control system for comprehensive coal mining, and expediting the R&D and promotion of intelligent ZMJ products.

   **First, we made a fresh breakthrough in comprehensiveness.** The high-end coal mining machine, a proprietary product by ZMJ's join stock companies, has passed the appraisal by experts. Upon successful promotion and application, ZMJ's first wholly proprietary set of comprehensive intelligent equipment provides a unified software and hardware platform, communications protocol and control strategy for the equipment control system of comprehensive mining workface. Such an integrated control system enables a high degree of integration between all control subsystems and the intelligent central control system. Hence, ZMJ has become the sole enterprise in the domestic coal industry that integrates intelligent, high-end, comprehensive and lifetime services, with its industry clout further expanded.

   **Second, we achieved new developments in being intelligent.** Our product structure has further evolved towards the intelligent products market. Large-scale promotion has taken place for our new-generation electrical control system, workface inertial navigation and automatic alignment technologies. We also made initial progress with our big data platform for workface, mine pressure analysis and alert technology. In 2019, we promoted more than 60 sets of intelligent workface, which accounted for the largest domestic market share within the industry.

**Third, we broke new grounds in our international drive.** We managed to enter the premium market of Australia, fully opened up such market in the USA, consolidated our advantageous market position in Russia, and further lifted our influence and competitiveness in the international high-end market.

**Fourth, we attained new accomplishments in technology innovation.** Our model has proven effective in developing the regional standard frame technology, while we also succeeded in developing hydraulic roof supports with a high magnification ratio. Our first set of waste filling roof supports have been developed and used in underground mines. We have passed the 60,000-time experiment for our Australian ultrahigh-end column and commenced mass supply of it. In 2019, ZMJ was identified as a Model Enterprise for Single-item Best Performance in the Manufacturing Industry (製造業單項冠軍示範企業) by the Ministry for Industry and Information Technology and China Federation of Industrial Economics.

3. *Intensively tapping into potential for higher efficiency, with constant enhancement of product quality*

To ensure timely delivery of products and cater to customer demands, ZMJ coordinates internal and external resources to explore its production capacity continuously, so that it can meet the objective of high quality and high production with safety and environmental protection ensured. In the meantime, ZMJ has capitalized on internet cloud service by launching an aftersales APP "ZMJ Customer Service Manager" (ZMJ客服管家), in an effort to enhance the integration of aftersales resources, information collection and user interaction as well as to offer better service to users.

## (III) Operation and Development of the Auto Parts Segment

2019 witnessed dwindling sales amongst the core auto markets globally, with the sharpest declines recorded in Indian and Chinese markets, coupled with China-US trade frictions. Affected by such factors, the Company's auto parts segment responded to the grim industry landscape proactively by keeping a close eye on orders and receivables collection externally and working on cost cutting and efficiency enhancement internally. As a result, its individual corporate growth surpassed industry peers.

1. *Stable operation of the ASIMCO auto parts business, with sustained momentum in the R&D of new technologies*

In 2019, amidst increasing uncertainties such as the sliding sales among global core auto markets and China-US trade frictions, ASIMCO operated steadily and performed better than the average level in the auto industry, with leading businesses recording sustained growth.

First, ASIMCO, active in leveraging the opportunities from global industry chain adjustment, employed technology and quality improvement to enter mid to high-end markets, and proactively engaged in the adjustment of the international auto parts industry chain. Second, ASIMCO drove its technology upgrade through a range of approaches such as independent R&D, adjustment of industry chain, upgrade of production lines, and collaboration via joint venture. It also took the initiative to follow the trend of upgrading the National VI emissions standard, by tapping into the technology and processes required by the National VI exhaust emissions standard. Third, ASIMCO actively responded to China-US trade frictions by establishing its sales network for Europe.

2. *Pushing forward the consolidation and reform of SEG*

First, under the enhanced initiative of SEG consolidation and reform, we kept driving the transformation of SEG from a business segment of a major group to a medium-sized company, with ongoing efforts to sort out its operating system and business process to achieve lower costs and high efficiency. A new five-year development strategy was also formulated, which clearly set out the positioning, technological development direction and product layout of the firm, so as to focus on internal resources and pursue greater synergy. Second, we actively establish our presence in products relating to the electrification technology, with continued research and manufacturing of the second-generation BRM products with better energy-saving function. Furthermore, we worked to integrate global R&D resources, accelerate the introduction and training of R&D talents for new energy motors as well as the development of R&D capacity, in a bid to realize synergetic global R&D. In May 2019, SEG New Energy Automobile Technology Co., Ltd. (索恩格新能源汽車技術有限公司) was founded in Changsha, for the purpose of simultaneous design and synergetic R&D with the R&D center of the SEG headquarters.

### (IV) Phased achievements for the development of Zhima Street

Our wholly-owned subsidiary Zhima Street Industrial worked on "Zhima Street 1958 Dual Innovation Park Project" (芝麻街1958雙創園項目), a project mainly engaged in renovating and improving the Company's old factories and with "Scientific Innovation and Cultural Innovation" as the theme to revitalize idle factory premises. For the first phase, work has almost been completed for the renovation and leasing of the initial development zone which covers an area of 14,400 square meters. The zone is designed to undergo three to five years of development to gradually attain a high degree of concentration of the scientific innovation industry, serve as a new domestic landmark of scientific innovation, and become a leading entrepreneurial and cultural hub in the Central Plains of China.

## Industry Landscape and Trends

*1. Situation of the coal mining machinery industry*

Based on the energy reserve status-quo of China, coal will retain its role as the primary energy source of China within the short term. In recent years, relevant authorities have rolled out a number of policies for the coal industry. The focus of coal de-capacity has gradually shifted from reduction of aggregate amount to systematic and structural optimization. As a result, the coal industry has seen rapid improvement in industry concentration as well as further optimization of industry structure and landscape, which is conducive to the virtuous development of coal mining machinery businesses. Meanwhile, coal businesses have increasingly urgent demand for automatic, intelligent and highly reliable coal machinery products, based on the demand for safety and lower manpower costs.

In March 2020, eight authorities such as the National Development and Reform Commission jointly issued the Guiding Opinions on Accelerating the Development of Intelligent Coal Mines (《關於加快煤礦智能化發展的指導意見》), in an aim to drive the integrated development of intelligent technology and the coal industry, enable more intelligent coal mines and facilitate the high-quality development of the Chinese coal industry. The document sets out three phased objectives for developing intelligent coal mines:

–By 2021, the country will have developed a variety of intelligent model mines under different models, with an initial system taking shape for information-based transmission and automatic operation technology that covers the major processes of coal mine development design, geological assurance, production and safety. The system will largely enable more efficient driving workface with less manpower, fewer or no operators for the comprehensive mining workface, and remote monitoring of regular posts at underground and open pit mines with no requirement for staff on duty.

–By 2025, large-scale coal mines and those suffer severe calamities will have largely turned intelligent, with technical specifications and standard systems established for the intelligent development of coal mines. Such mines will be capable of intelligent decision-making and automated synergetic operation of development design, geological assurance, excavation (stripping), transportation, ventilation, washing and selection as well as logistics systems. Robots will be deployed for key underground posts, while continuous intelligent operation and unmanned transportation will take place at open pit coal mines.

–By 2035, various coal mines will largely become intelligent, with an coal mine intelligent system in place that integrates multiple industry chains and systems; an intelligent coal mine system should also be in place that provides intelligent sensing and decision-making as well as automatic execution.

The issuance of the Guiding Opinions is bound to drive the technology upgrade of the coal mining machinery industry, presenting both huge opportunities and formidable challenges for coal mining machinery enterprises.

2. *Situation of the auto industry*

In connection with the auto industry, China has fully implemented the National VI emissions standard with increasingly rigorous limits on fuel consumption, which will help adjust the structures of traditional auto markets and products at a faster pace. On the other hand, the progressive withdrawal of financial subsidies and adjustment policies such as access conditions have finally taken place, coupled with a trading mechanism for carbon credit and new energy credit, which is set to expedite the transformation of new energy vehicles towards a market-driven industry.

In 2020, amidst the continuous slowdown in economic growth and the impact of the Covid-19 epidemic, auto consumption demand will either be delayed or suffer major declines within the short term, exerting considerable pressure on the domestic auto market as a whole. Nevertheless, the swift development of such new technologies as electrification, intelligence and network connection will help the auto industry in its further transformation and upgrade, as the domestic auto industry opens up and expands.

As regards the international auto market, auto demand was subject to the growing impact from the global spread of the Covid-19 epidemic, particularly in overseas areas such as some European countries where the epidemic prevention and control is under grim and complex conditions. In consequence, multiple overseas auto manufacturers have declared suspension or limitation on production, bringing shock waves throughout the global supply chain and leaving a negative impact on the Company’s overseas auto parts production bases.

**Business Plan for 2020**

Under the impact of the Covid-19 epidemic, global economic development is subject to more uncertainties and challenges in 2020. ZMJ will practice the spirit of the important address by General Secretary Xi Jinping during his inspection of ZMJ in an in-depth manner and revolve around the development strategies of the Company, with priorities given to the following aspects of work:

1. *Enhance independent innovation and procure high-quality development*

   (1) Structural reform for the coal mining machinery industry

   Grounded in independent innovation, the Company will engage in in-depth integration of 5G, big data, the Internet of Things, AR and other technologies, to establish an industry-leading intelligent and comprehensive R&D system, and to propel the coal mining machinery segment to become intelligent, comprehensive, international and society-oriented.

   First, the segment shall embrace intelligent development. ZMJ will take hold of the opportunities from the national policy of advancing intelligent coal mining, with continuous R&D and promotion of comprehensive coal mining technology with unmanned workface, to develop towards unmanned coal mining. Efforts will also be made to develop innovative R&D mechanisms for new technology, by improving the R&D platform and engaging in collaborative scientific research on technology as well as talent exchange and training with external parties. At the same time, continuous efforts will take place on the construction and operation of intelligent production lines.

   Second, the segment shall be more comprehensive. Comprehensive projects shall serve as a carrier to put in place the full integration system of comprehensive mining workface, focus on addressing the existing issues concerning the preliminary integration of intelligent workface, enable in-depth synergy among workface equipment, fully tap into the technical advantages of ZMJ's comprehensive machine units, and lead the trend of market demand for integrated equipment sets.

   Third, the segment shall be more international. Efforts will be made to pinpoint the changing demands of high-end markets, work on different strategies in response, capitalize on our own edge, and take the initiative to explore overseas high-end markets.

   Fourth, the segment shall be more society-oriented. A more professional service system will be established that offers more timely response and better services. Adhering to "appropriate action", we will build a professional supporting system that works scientifically and reasonably, delivers good quality, operates professionally and systematically, and responds timely, so as to provide solid assurance for the timely delivery of our products.

(2) Faster transformation and upgrade of the auto parts industry

First, we will capture such opportunities under the reform and development of the global auto market, push forward the institutional reform of SEG, respond to markets more quickly, and invest in R&D continuously. Second, we will bring the global leading edge of our auto motors business into full play when it comes to hybrid system, with a view to transforming towards energy saving and environment-friendliness and even new energy. Third, we will sustain our R&D efforts in the field of comfortable and light vehicles, to grasp core technologies. Fourth, we will recalibrate the layouts of ASIMCO and SEG's global supply chains, explore the global presence of ASIMCO supply chain, and keep transferring SEG's production to low-cost regions so as to better cater to the market at lower costs and higher efficiency. Fifth, we are planning the development strategies of ASIMCO for the next three to five years, which relate to the exploration of fresh development opportunities based on electrification, intelligence, network connection and sharing.

2. *Further deepen institutional reform*

Diversified industries and global operation have posed new requirements upon the original management system of ZMJ, as the Company's systems of decision-making, incentives and restrictions as well as regulation are in need of adapting to globalization and market orientation. With that in mind, ZMJ will continue to deepen its institutional reform by exploring the establishment of a corporate governance structure centered on the Board and market-oriented decision-making, further boosting its talent teams, and further exploring the formation of a market-oriented mechanism for talent selection and employment as well as incentives and restrictions.

3. *Improve central management capability and continuously enhance risk control*

We will work to establish robust group management and risk control systems that align with the Group's international drive and multi-industry management. First, we will continue to build information-based systems for statement management and financial consolidation systems, with real-time monitoring of business operation. Second, we will enhance the development of our team of internal control talents, to ensure that our corporate operations comply with laws and regulations and that our assets are safe. Third, we will take further steps to render our internal auditing more synergetic with the work of our Board of Supervisors and disciplinary inspection bodies, to fully amplify the overall effect of our supervisory organs as a collective force.

4. *Pay attention to Covid-19 epidemic prevention and control, and strengthen emergency management against risks*

   During the first quarter of 2020, a host of elements such as the Covid-19 epidemic and crude oil caused drastic fluctuations across global financial markets, leaving considerable uncertainties for the world economy. This also led to a delay in the demand for the coal mining machinery industry where the Company is present, and a sharp decline in the demand for the auto industry, with a grim outlook for the entire year. As of the disclosure date of this report, China remained on a positive track of epidemic prevention and control, with accelerated recovery of production and daily life. Nonetheless, as overseas epidemic prevention and control were still severe, the subsequent impact on the Company's overseas operations requires further observation according to the development of overseas epidemic situation.

   Confronted by the difficulties and challenges from the Covid-19 epidemic on its production and operation, the Company will set its eyes firmly on the annual targets by taking proactive measures. ZMJ will respond to the epidemic shock with reform, innovation and transformation, pick up its pace in the innovation of product technology, business model as well as organization and management model, to minimize the effect of the epidemic on the Company's operational indicators. ZMJ will also heighten its emergency management against risks with a better system for emergency management and risk control, and be more adaptive to the requirements of global operation. In the meantime, the Company will adhere to the principle that "cash is the king" with enhanced cash flow management.

## OTHER INFORMATION

### Purchase, Sale or Redemption of the Listed Securities of the Company

During the year ended 31 December 2019 (the "**Review Period**"), neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

### Corporate Governance Practices

The Board of the Company is committed to maintain a high standard of corporate governance practices. The Board believes that effective and reasonable corporate governance practices are essential to the development of the Group. The Company has adopted the code provisions (the "**Code Provisions**") of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules of the Stock Exchange**"). During the Review Period, the Company has complied with the applicable Code Provisions of the CG Code.

**Model Code for Securities Transactions by Directors and Supervisors**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("**Model Code**") set out in Appendix 10 to the Listing Rules of the Stock Exchange as its code of conduct regarding securities transactions by the directors and the supervisors. The Company has made specific enquiry with all the directors and supervisors of the Company, and they have confirmed their compliance with the Model Code during the Review Period.

**Final Dividend**

Relevant resolution has been passed at a meeting of the Board held on 27 March 2020, and the Board proposed the payment of a final dividend (the "**Dividend**") of RMB1.85 (tax inclusive) per 10 shares for the year ended 31 December 2019, totalling RMB320,507,203.45. The Dividend is expected to be paid on or before 31 July 2020. The proposal in relation to the profit distribution is subject to approval by the shareholders at the 2019 annual general meeting. The time of convening the 2019 annual general meeting and the relevant arrangements will be announced by the Company in due course.

The Board is not aware of any shareholders who have waived or agreed to waive any Dividend.

According to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得税法) and its implementation regulations (the "**EIT Law**"), the tax rate of the enterprise income tax applicable to the income of a non-resident enterprise deriving from the PRC is 10%. For this purpose, any H Shares registered under the name of non-individual enterprise, including the H Shares registered under the name of HKSCC Nominees Limited, other nominees or trustees, or other organizations or entities, shall be deemed as shares held by non-resident enterprise shareholders (as defined under the EIT Law). The Company will distribute the Dividend to those non-resident enterprise shareholders subject to a deduction of 10% enterprise income tax withheld and paid by the Company on their behalf.

Any resident enterprise (as defined under the EIT Law) which has been legally incorporated in the PRC or which was established pursuant to the laws of foreign countries (regions) but has established effective administrative entities in the PRC, and whose name appears on the Company's H Share register should deliver a legal opinion ascertaining its status as a resident enterprise furnished by a qualified PRC lawyer (with the official chop of the law firm issuing the opinion affixed thereon) and relevant documents to Computershare Hong Kong Investor Services Limited in due course, if they do not wish to have the 10% enterprise income tax withheld and paid on their behalf by the Company.

Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of the Circular Guoshuifa (1993) No. 045 (關於國稅發(1993)045號文件廢止後有關個人所得稅徵管問題的通知) (the "**Notice**") issued by the State Administration of Taxation on 28 June 2011, the dividend to be distributed by the PRC non-foreign invested enterprise which has issued shares in Hong Kong to the overseas resident individual shareholders, is subject to the individual income tax with a tax rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries of their residence and Mainland China. Thus, 10% personal income tax will be withheld from the Dividend payable to any individual shareholders of H Shares whose names appear on the H Share register of members of the Company on the Record Date, unless otherwise stated in the relevant taxation regulations, taxation agreements or the Notice.

The Company will not be liable for any claim arising from any delay in, or inaccurate determination of the status of the shareholders or any disputes over the mechanism of withholding.

**Profit Distribution to Investors of Northbound Trading**

For investors of the Hong Kong Stock Exchange (including enterprises and individuals) investing in the A shares of the Company listed on the Shanghai Stock Exchange (the "**Northbound Trading**"), their dividends will be distributed in RMB by the Company through the Shanghai Branch of China Securities Depository and Clearing Corporation Limited to the account of the nominee holding such shares. The Company will withhold and pay income taxes at the rate of 10% on behalf of those investors and will report to the competent tax authorities for the withholding. For investors of Northbound Trading who are tax residents of other countries and whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of lower than 10%, those enterprises or individuals may, or may entrust a withholding agent to, apply to the competent tax authorities for the entitlement of the rate under such tax treaty. Upon approval by the tax authorities, the paid amount in excess of the tax payable based on the tax rate according to such tax treaty will be refunded.

The record date and the date of distribution of cash dividends and other arrangements for the investors of Northbound Trading will be the same as those for the holders of A shares of the Company.

**Profit Distribution to Investors of Southbound Trading**

For investors of the Shanghai Stock Exchange and the Shenzhen Stock Exchange (including enterprises and individuals) investing in the H shares of the Company listed on the Hong Kong Stock Exchange (the "**Southbound Trading**"), the Company has entered into "the Agreement on Distribution of Cash Dividends of H shares for Southbound Trading" (港股通H股股票現金紅利派發協議) with the China Securities Depository and Clearing Corporation Limited, pursuant to which, the China Securities Depository and Clearing Corporation Limited or its branches, as the nominee of the holders of H shares for Southbound Trading, will receive all cash dividends distributed by the Company and distribute the cash dividends to the relevant investors of H shares of Southbound Trading through its depositary and clearing system.

The cash dividends for the investors of H shares of Southbound Trading will be paid in RMB. Pursuant to the relevant requirements under the "Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect" (關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知) (Caishui [2014] No. 81) and the "Notice on the Tax Policies Concerning the Pilot Program of the Shenzhen-Hong Kong Stock Connect"（關於深港股票市場交易互聯互通機制試點有關稅收政策的通知）(Caishui [2016] No.127), for dividends received by domestic investors from investing in H shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect, the company of such H shares shall withhold and pay individual income tax at the rate of 20% on behalf of the investors. For dividends received by domestic securities investment funds from investing in shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The company of such H shares will not withhold and pay the income tax of dividends for domestic enterprise investors and those domestic enterprise investors shall report and pay the relevant tax themselves.

The record date and the date of distribution of cash dividends and other arrangements for the investors of Southbound Trading will be the same as those for the holders of H Shares of the Company.

**Audit Committee**

The audit committee has reviewed the accounting principles and policies adopted by the Group and the audited annual consolidated financial statements for the year ended 31 December 2019.

**Scope of Work of PricewaterhouseCoopers**

The figures in respect of this announcement of the Group's consolidated statement of profit or loss and comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2019 as set out in the Preliminary Announcement has been agreed by the Group's auditor, PricewaterhouseCoopers ("**PwC**"), to the amounts set out in the Group's audited consolidated financial statements for the year.

The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PwC on this announcement.

**Publication of Information on the Stock Exchange's and the Company's Websites**

This results announcement is posted on the website of the Stock Exchange (www.hkexnews.hk) and the Company's corporate website (www.zzmj.com), respectively.

The 2019 Annual Report which is prepared in accordance with International Financial Reporting Standards and the PRC Accounting Rules will be published on the website of the Stock Exchange, the website of the Shanghai Stock Exchange and the Company's corporate website in due course. The annual report of the Company for the year ended 31 December 2019 will be dispatched to the shareholders of the Company (if appropriate) and posted on the website of the Stock Exchange and the Company's website in due course.

By order of the Board
**Zhengzhou Coal Mining Machinery Group Company Limited**
**Jiao Chengyao**
*Chairman*

Zhengzhou, PRC, 27 March 2020

*As at the date of this announcement, the executive directors of the Company are Mr. JIAO Chengyao, Mr. JIA Hao, Mr. XIANG Jiayu, Mr. FU Zugang, Mr. WANG Xinying and Mr. WANG Bin and the independent non-executive directors of the Company are Ms. LIU Yao, Mr. JIANG Hua, Mr. LI Xudong and Mr. CHENG Jinglei.*