ZOOMLION
中联重科

中聯重科股份有限公司
ZOOMLION HEAVY INDUSTRY SCIENCE AND TECHNOLOGY CO., LTD.*

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

H Share Stock Code : 1157
A Share Stock Code : 000157

ANNUAL REPORT 2016

* For identification purpose only

Important notice

- The Board of Directors and the Supervisory Board of the Company and its directors, supervisors and senior management warrant that there are no misrepresentation, misleading statements or material omissions in this report and they shall, individually and jointly, accept full responsibility for the truthfulness, accuracy and completeness of the contents of this report.

- Zhan Chunxin, Chairman of the Board, Du Yigang, Vice President and Jiang Yuan, the person in charge of the accounting affairs warrant the truthfulness, accuracy and completeness of the financial report contained in this annual report.

- All directors attended the Board meeting at which this report was reviewed.

This report has been prepared in English and Chinese respectively. In case of discrepancy, the Chinese version shall prevail, except for the financial statements prepared in accordance with International Financial Reporting Standards, where the English version shall prevail.

Definition

Unless the context otherwise requires, the following terms shall have the meanings set out below:

"The Company" or "Zoomlion" refers to Zoomlion Heavy Industry Science and Technology Co., Ltd.

"Listing Rules" or "Listing Rules of Hong Kong" refers to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

ZOOMLION
中联重科

Zoomlion Heavy Industry Science and Technology Co., Ltd.

2016 Annual Report

Contents

ZOOMLION

Company Profile

I. Company Information

Company name (in Chinese): 中聯重科股份有限公司
Chinese abbreviation: 中聯重科
Company name (in English): Zoomlion Heavy Industry Science And Technology Co., Ltd.*
English abbreviation: Zoomlion

Legal representative of the Company: Zhan Chunxin

Secretary of the Board of Directors/Company Secretary: Shen Ke
Representative of securities affairs: Guo Tao
Contact address: No. 361 Yinpen South Road, Changsha, Hunan Province
Telephone: (86 731) 85650157
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Registered address and place of business of the Company: No. 361 Yinpen South Road, Changsha, Hunan Province, PRC
Postal code: 410013
Company website: http://www.zoomlion.com/
E-mail: 157@zoomlion.com

Authorized representatives: Zhan Chunxin, Shen Ke
Address: No. 361 Yinpen South Road, Changsha, Hunan Province, PRC

Newspapers for disclosure of the Company's information: China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily
Website publishing the A share announcement: http://www.cninfo.com.cn
Website publishing the H share announcement: http://www.hkexnews.hk

Listing information: A Shares
Shenzhen Stock Exchange of China ("SZSE")
Name: ZOOMLION
Stock Code: 000157
H Shares
The Stock Exchange of Hong Kong Limited ("SEHK")
Stock Name: ZOOMLION
Stock Code: 1157

Company Profile

II. Other relevant information

H Share Registrar: Computershare Hong Kong Investor Services Limited
Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East,
Wan Chai, Hong Kong

Legal Advisors
As to PRC law: Fangda Partners
27/F North Tower Beijing Kerry Centre | 1 Guanghua Road Chaoyang District,
Beijing, the PRC
As to Hong Kong law: Norton Rose Fulbright Hong Kong
38/F, Jardine House, 1 Connaught Place, Central, Hong Kong

Auditors
Domestic auditors: Baker Tilly China Certified Public Accountants ("Baker Tilly China")
Building 12, Foreign Cultural and Creative Garden, 19 Chegongzhuang West Road,
Haidian District, Beijing, PRC
International auditors: KPMG
8/F, Prince's Building, 10 Chater Road, Central, Hong Kong

Chairman's Statement

Chairman

Zhan Chunxin

Chairman's Statement

Dear Shareholders,

2016 was a crucial year for the national supply-side structural reform and was also a year when Zoomlion achieved important reform, significant innovation and big changes. During the year, focusing on transformation and upgrading, Zoomlion continued its promotion of "cutting overcapacity, reducing inventory, deleveraging, lowering costs and bolstering areas of weakness", actively carried out radical reform and innovation in its market, management, technology, product and business models, and struck a new rhythm and balance for its corporate operation.

The difficulty of self-reform makes it particularly valuable. Looking back to 2016, Zoomlion continued to deepen its strategic transformation, successfully completed the renewal of momentum and developed the four major segments in a more rational way; the new mechanism imparted new vigor and the new products and new technology stimulated significant innovation of production, marketing and service models as well as the business models of Zoomlion itself and the upstream and downstream sectors of the industry, thereby gradually realizing the business model of "Product on Internet, Data in Cloud, and Market on Hand". We continued to refine our management practices and maintained strict cost control. With our deeply-rooted risk management culture, the Company has been operating in a sturdy and healthy manner. Our team became more capable, and this backbone team with the will, ability and craftsmanship spirt to achieve success has become the most valuable asset of Zoomlion on the path of reform.

Every experience is a milestone of excellence from the ordinary. During the painstaking climb towards corporate transformation and upgrade, the people of Zoomlion adhered to their responsibilities and duties, and finally overcame the most difficult and dangerous path. Having stood the test of the cyclical nature of the industry, Zoomlion becomes wiser and more mature, and will become more imaginative and embrace an even brighter future.

The recently held 2017 National People's Congress and Chinese People's Political Consultative Conference indicated a direction for the full implementation of the 13th Five-Year Plan and the economic and social development for a future period. A series of optimistic signs, such as adhering to the promotion of supply-side structural reform, further unleashing the potential domestic demand, actively expanding effective investments, leading the transformation and upgrading of real economy through innovation, vigorously developing the advanced manufacturing industry, promoting profound agricultural supply-side structural reform, pursuing the mutual promotion of agricultural modernization and new urbanization, firmly promoting "One Belt, One Road", deepening international cooperation in capacity, increasing the efforts in protection and governance of ecological environment and adhering to the "defending blue sky" campaign, will continue to deliver huge policies and market dividends, open new room for the sustainable development of the construction machinery, environmental industry, agricultural machinery and financial services of Zoomlion and generate new momentum for Zoomlion to reach a new height of excellence.

Chairman's Statement

In 2017, Zoomlion's reform will bring about significant benefits. We will continue to stand firm on the fundamentals of products and technologies, persistently deepen the innovation of service and business models, and focus on achieving stability, strength and longevity through excellence. Through attentive, astute and precise efforts, the Company will achieve a development of continuous enhancement, thereby laying a long-lasting foundation for sustainable development, creating higher values for customers and bringing more returns to shareholders.

At last, on behalf of the Board, I would like to extend my gratitude to all shareholders, customers, the community and all employees of Zoomlion who have always been standing with us for their contribution and support for the development of the Company.

Chairman
Zhan Chunxin

31 March 2017

Principal Financial Data and Indicators

I. Major Financial Data prepared in accordance with China Accounting Standards ("PRC GAAP")

Unit: RMB

	2016	2015	change	2014
Operating income	**20,022,516,698.58**	20,753,346,644.02	-3.52%	25,851,195,135.57
Net (loss)/profit attributable to equity shareholders of the Company	**-933,697,485.65**	83,467,424.87		594,068,242.20
Net (loss)/profit attributable to equity shareholders of the Company after extraordinary items	**-1,677,731,345.02**	-449,019,403.74	-273.64%	318,289,572.95
Net cash flow from operating activities	**2,168,560,151.68**	-3,334,495,101.94		-7,690,132,991.82
Basic earning per share	**-0.12**	0.01		0.08
Diluted earning per share	**-0.12**	0.01		0.08
Return on net assets	**-2.44%**	0.21%	reduced by 2.65 percentage	1.43%

	End of 2016	End of 2015	change	End of 2014
Total assets	**89,141,023,453.16**	93,723,020,007.67	-4.89%	93,757,955,793.25
Net assets attributable to equity shareholders of the Company	**36,813,562,701.24**	39,936,600,440.37	-7.82%	40,830,793,317.80

Principal Financial Data and Indicators

II. Major Financial Data of the Company of the Past Five Years prepared in accordance with International Financial Reporting Standards (“IFRSs”)

Unit: RMB million

Revenue and Profit	2016	2015	2014	2013	2012
Revenue	20,023	20,753	25,851	38,542	48,071
(Loss)/profit before taxation	(1,010)	39	863	4,527	8,858
Income tax	110	58	(235)	(570)	(1,329)
(Loss)/profit for the year	(900)	97	628	3,957	7,529
(Loss)/profit attributable to:					
Equity shareholders of the Company	(929)	89	594	3,844	7,330
Non-controlling interests	29	8	34	113	199
Basic and diluted earnings per share (RMB)	(0.12)	0.01	0.08	0.50	0.95
Gearing ratio (%) (Note)	57.63%	56.70%	56.03%	53.06%	53.73%

Note: Gearing ratio is calculated based on the total liabilities divided by total assets at the end of the respective reporting period.

Unit: RMB million

Assets and Liabilities	2016	2015	2014	2013	2012
Non-current assets	23,239	22,667	23,847	24,549	25,691
Current assets	65,862	71,016	69,871	64,948	63,243
Current liabilities	26,876	30,173	25,211	32,725	34,109
Net current assets	38,986	40,843	44,660	32,223	29,134
Total assets less current liabilities	62,225	63,510	68,507	56,772	54,825
Non-current liabilities	24,470	22,941	27,299	14,760	13,676
Net assets	37,755	40,569	41,208	42,012	41,149
Total equity attributable to equity shareholders of the Company	36,773	39,896	40,791	41,579	40,762
Non-controlling interest	982	673	417	433	387

Principal Financial Data and Indicators

III. Reconciliation of Financial Data under PRC GAAP and IFRSs

Unit: RMB million

	Net (loss)/profit attributable to equity shareholders of the Company		Net assets attributable to equity shareholders of the Company	
	Current year	**Last year**	**Current year**	**Last year**
Under PRC GAAP	(933)	83	36,813	39,936
Items and amounts adjusted under IFRSs				
Acquisition related costs incurred on prior year business combination[(1)]	—	—	(40)	(40)
Special reserve for production safety[(2)]	4	6	—	—
Under IFRSs	(929)	89	36.773	39,896

(1) Since acquisition cost of RMB40 million incurred in 2008 was recognized in the cost of business combination in accordance with PRC GAAP while recognized in profit or loss in accordance with IFRSs, this results in the difference between the net assets attributable to equity shareholders of the Company under those two accounting standards;

(2) Under PRC GAAP, safety production fund should be accrued and recognized 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 purchased cost with a corresponding increase in the accumulated depreciation. Such fixed assets are not depreciated thereafter. Under IFRSs, expense is recognized in profit or loss when incurred, and fixed assets are capitalized and depreciated in accordance with applicable accounting policies.

Report of the Board of Directors

The Board of Directors of the Company announces the Report of the Board of Directors for the year ended 31 December 2016 together with the audited financial statements of the Company and the Group.

I. Overview

In 2016, the world economy and trade growth rate were the lowest in seven years, while the domestic economy was steady and favorable amid steady development. In the industry segments in which the Company operates, the construction machinery industry, after operating at a low-level of growth as impacted by the accumulated effect of changes, pains and absorption in recent years, through the commencement of national and regional major projects and the launch of the "One Belt, One Road" project in the second half of the year, showed a rebound. The environmental protection machinery industry, through the increase in the efforts of environmental protection of the government and the continuous steady growth of the market, and with the continuous increase in the support of government policies and the basically mature standards, technology and operation of the end of the industry chain, had a broader space for development. The agricultural machinery industry, affected by the reduction of agricultural machinery subsidies, the fall of food prices, the de-inventory of the stock at national II standards, etc., had a slowdown in its growth rate, but the fundamentals remain positive.

During the reporting period, the Company recorded a revenue of approximately RMB20.023 billion and a net loss attributable to equity shareholders of the Company of approximately RMB929 million in 2016. The operating loss of the Company in 2016 was mainly attributable to the construction machinery segment's active and steady resolution to inventory risk, strict control of new risks, increase of employee departure compensation, strategic investment in transformation and upgrading, etc.. However, the Company's operating cash flow improved significantly compared to last year and the risk exposure was effectively controlled, while the market share of concrete machinery and lifting machinery continued to maintain the leading position in the industry and the profitability of the agricultural machinery and environmental industry segments continued to increase, and the Company's overall new momentum and vitality of development have been constantly enhanced.

During the reporting period, the Company, during the transitional pains of transformation of supply-side structural reform, made great efforts to promote management reform, product upgrade and business model innovation, and the enterprise's management gradually found a new balance and achieved a new development pattern.

Report of the Board of Directors

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

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

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

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

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

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

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

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

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

Report of the Board of Directors

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

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

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

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

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

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

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

Report of the Board of Directors

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

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

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

Report of the Board of Directors

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

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

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

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

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

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

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

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

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

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

(1) Managing budgets to reduce cost and improve efficiency. The Company made a thorough review on the budgets and stringently controlled cost and expenses, and determined the operating cost and labor cost based on the results of operations with the combination of rigid control with positive incentives, advance warning and dynamic monitor to effectively reduce the operating cost.

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

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

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

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

- Listed on China’s 500 Most Valuable Brands for 13 consecutive years, ranking 73rd with a brand value of RMB40.634 billion, representing an increase of 21% as compared to last year.
- Continued to be listed on Top 100 Global Challengers, being the only one company of the industry on the list.
- Ranking 255th among top 500 enterprises of China in 2016 and the 124th among Chinese manufacturing enterprises.

Report of the Board of Directors

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

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

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

II Analysis of Financial position

Details of the financial position of the Company are set out in "Management Discussion and Analysis".

III Outlook for 2017

(I) Industry development trend and market outlook

1. Construction machinery market

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

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

2. **Environmental industry market**

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

3. **Agricultural machinery market**

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

(II) Main operation direction for 2017

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

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

Report of the Board of Directors

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

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

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

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

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

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

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

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

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

IV. Profit Distribution and Bonus Dividend

The Company has emphasised on shareholders' returns. Since its listing in 2000, the Company has distributed cash dividend in every year. As at 31 December 2016, the accumulative cash dividend distributed by the Company amounted to RMB9.09 billion.

According to the profit distribution plan for 2016 of the Company, based on the total share capital of 7,664,132,250 shares, the Company will pay cash dividend of RMB0.15 (tax inclusive) for every share and will not issue bonus shares by capitalisation of the capital reserve.

Report of the Board of Directors

According to the Law on Corporate Income Tax of the People's Republic of China and its implementing rules which came into effect on 1 January 2008 and other relevant rules, the Company is required to withhold 10% corporate income tax before distributing the 2016 dividend to non-resident enterprise shareholders as appearing on the H Share register of members of the Company. Any shares registered in the name of the non-individual shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organizations, will be treated as being held by non-resident enterprise shareholders and therefore will be subject to the withholding of the corporate income tax. Cash dividend payable to H Share non-resident enterprises after the deduction of the said corporate income tax is RMB0.135 per share (for reference only). Cash dividend payable to the shareholder of H Shares will be paid in Hong Kong dollars. The Company assumes no responsibility and will not entertain any claims arising from any delay in, or inaccurate determination of, the status of the shareholders or any dispute over the mechanism of withholding. Shareholders are recommended to consult their taxation advisors regarding their holding and disposing of H shares of the Company for the PRC, Hong Kong and other tax effects involved.

According to the profit distribution plan for 2015 of the Company, based on the total share capital of 7,664,132,250 shares, the Company will pay cash dividend of RMB0.15 (tax inclusive) for every share and will not issue bonus shares by capitalisation of the capital reserve.

According to the profit distribution plan for 2014 of the Company, based on the total share capital of 7,705,954,050 shares, the Company will pay cash dividend of RMB0.05 (tax inclusive) for every share and will not issue bonus shares by capitalisation of the capital reserve.

V. Pre-emptive Rights

The Articles of Associations and laws of China do not contain any pre-emptive provision requiring the Company to issue new shares to existing shareholders on a pro-rata basis according to their existing shareholdings.

VI. Property, Plant and Equipment

Movements of the property, plant and equipment of the Company during the reporting period are set out in note 11 to the financial statements prepared under IFRSs.

Report of the Board of Directors

VII. Major suppliers and customers

Total purchases by the Company from the top five suppliers amounted to RMB1,942,015,704.74, accounting for 16.88% of the aggregate annual purchase of the Company and total purchases by the Company from the largest supplier accounted for 11.97% of the aggregate annual purchase of the Company. To the best knowledge of the Directors, during the reporting period, none of the directors, supervisors, their associates or shareholders holding more than 5% of the Company's share capital in issue had an interest in the top five suppliers of the Company. During the Reporting Period, the Company considered that it has maintained a good and stable relationship with its key suppliers.

Total sales to the top five customers of the Company amounted to RMB589,856,811.77, accounting for 2.95% of the aggregate annual sales of the Company and the total sales to the largest customer of the Company accounted for 1.02% of the aggregate annual sales of the Company. To the best knowledge of the Directors, during the reporting period, none of the directors, supervisors, their associates or shareholders holding more than 5% of the Company's share capital in issue had an interest in the top five customers of the Company. During the Reporting Period, the Company considered that it has maintained a good and stable relationship with its key customers.

VIII. Donations

During the reporting period, the charity donations and other donations of the Company amounted to approximately RMB3.80 million in aggregate.

IX. Human Resources

As at 31 December 2016, the Company had employed a total of 15,154 employees. Details of the Company's staff costs and employee benefit plans for 2016 are disclosed in notes 5(b) and 23 to the financial statements prepared under IFRSs respectively.

The Company offers a comprehensive range of staff facilities and fringe benefits to attract, retain and motivate employees. During the reporting period, the Company considered that it has maintained a good relationship with its employees and the employee turnover rate was at an acceptable level.

X. Charge on Assets

Details of the Company's charge on assets are set out in note 20 to the financial statements prepared under IFRSs.

Report of the Board of Directors

XI. PERMITTED INDEMNITY PROVISION

Subject to and as permitted by applicable laws, every director of the Company and some of its associated companies (as defined under the Companies Ordinance, Cap. 622) shall be entitled to be indemnified by the relevant company against all costs, charges, losses, expenses and liabilities incurred by him or her in the execution and discharge of his or her duties or in relation thereto pursuant to their respective Articles of Associations and/or contracts with the directors. Such provisions were in force during the financial year ended 31 December 2016 and remained in force as of the date of this report.

XII. ENVIRONMENTAL POLICIES AND PERFORMANCE

The Company continues to keep abreast with the requirements of the relevant environmental laws and regulations applicable to it to ensure compliance. The Company does not produce material waste nor emit material quantities of pollutants during its operation. During the reporting period, the Company has complied with the relevant environmental laws and regulations applicable to it in all material respects, including permit requirements.

XIII.COMPLIANCE WITH LAWS AND REGULATIONS

The Company's operations are mainly carried out by the Company's subsidiaries in the PRC. Our operations accordingly shall comply with relevant laws and regulations in the PRC. During the Reporting Period, the Company did not breach any relevant laws and regulations that exert a significant impact on the Company.

Management Discussion and Analysis

The following management discussion and analysis is based on financial statements data prepared under IFRSs.

Overview

The Company is principally engaged in the research and development, manufacturing, sale and provision of services of construction machinery, environmental sanitation machinery and agricultural machinery, as well as the investment and operation of environmental solutions and other financial services such as finance lease. Construction machinery, including concrete machinery, crane machinery, road construction machinery, infrastructure construction machinery, road building and maintenance machinery and forklift truck, is mainly for infrastructure and real estate construction service. Serving to provide equipments and operational services for environmental treatment, the Company is mainly engaged in the manufacturing of environmental sanitation machinery, making investments in environmental treatment projects and the provision of environmental solutions, which include sorting and disposal of solid wastes, disposal of domestic wastes and involve comprehensive investment and operational project of urban environmental treatment. Agricultural machinery industry, including farming machinery, harvesting machinery, drying machinery and agricultural equipment, is mainly for provision of complete package of services for breeding, field preparation, sowing, field management, harvesting, drying and storage.

Construction machinery sector is a capital-intensive industry with high technological barrier, characterized by diversified types of products, small quantity of production, numerous spares and parts, and complicated manufacturing process. The sector has higher entry barrier and its prosperity is closely correlated to the macro economy and investments in fixed assets, infrastructure and real estates. The sector currently enters into a relatively mature development stage. With the State's effort in continuously implementing the policy of "cut excessive industrial capacity, eliminate inventory, deleverage, reduce costs and bolster weak spots" and the structural reform on the supply side, the industrial integration is accelerated and the market demand for major products mainly arise from leading companies, which will realize the development direction of the industry for higher quality through further reform.

As all levels of government enhance the supervision on the environment and implement responsibility system for environment protection, investment in environmental protection has kept increasing and the demand for municipal environment and sanitation equipment, such as road sweeper, road sprinkler and anti-dust truck, also expanded. As a result, the environmental machinery market has maintained stable growth. With the continuous support of national policy, the environment industry is expected to have a promising development prospect. In addition, the influx of international and domestic capital, resources and talents into the environment industry has also contributed to the accelerated pace of large-scale integration of the industry in a wider coverage.

The demand and use of agricultural machinery industrial products are significantly subject to locality and seasonality, and the growth of the industry is mainly affected by the plantation area of corps, subsidy policy for the purchase of agricultural machinery and grain price. As large-scale multinational agricultural machinery companies, such as John Deere (迪爾), CNH Industrial (凱斯紐荷蘭), AGCO (愛科), CLAAS (克拉斯) and Kubota and Yanmar from Japan, enter into Chinese market, the industry currently faces increasingly fierce competition. With the comprehensive mechanization of corps plantation and the support of relevant industrial policy for high-tech equipment and "smart agriculture" by the State, the fundamentals of the agricultural machinery industry will remain positive.

Management Discussion and Analysis

Results of Operations

The following table sets forth a summary of our consolidated results of operations for 2016.

	Year Ended 31 December	
	2016	2015
	RMB	RMB
	millions	millions
Revenue	**20,023**	20,753
Cost of sales and services	**(15,245)**	(15,146)
Gross profit	**4,778**	5,607
Other income	**764**	676
Sales and marketing expenses	**(2,446)**	(2,502)
General and administrative expenses	**(2,949)**	(2,271)
Research and development expenses	**(297)**	(320)
(Loss)/profit from operations	**(150)**	1,190
Net finance costs	**(871)**	(1,182)
Gain on disposal of associates	**—**	30
Share of profits less losses of associates	**11**	1
(Loss)/profit before taxation	**(1,010)**	39
Income tax	**110**	58
(Loss)/profit for the year	**(900)**	97
(Loss)/profit attributable to:		
Equity shareholders of the Company	**(929)**	89
Non-controlling interests	**29**	8

Revenue

We generate revenue primarily from the following operating segments:

Construction machinery segment (consist of concrete machinery sub-segment, crane machinery sub-segment and others);

Environmental industry segment;

Agricultural machinery segment; and

Financial services segment.

Management Discussion and Analysis

The following table sets forth the breakdown of our consolidated revenue by our operating segments for 2016:

	Year Ended 31 December	
	2016	2015
	RMB millions	RMB millions
Reportable segment revenue		
Construction machinery		
— Concrete machinery	**4,813**	5,476
— Crane machinery	**3,540**	4,574
— Others	**2,202**	2,314
Environmental industry	**5,607**	4,525
Agricultural machinery	**3,452**	3,295
Financial services	**409**	569
Total	**20,023**	20,753

In 2016, the world economy and trade growth rate were the lowest in seven years, while the domestic economy became steady and optimistic after a slowdown. Among the industry segments in which the Company operates business, the construction machinery industry, after experiencing the three phases of change, pains and digestion of low-level operation in recent years, through the commencement of national and regional major projects and the launch of the "One Belt, One Road" project in the second half of the year, built a foundation and showed a recovering trend; the environmental protection machinery industry, through the increase in the efforts of environmental protection of the government and the continuous steady growth of the market, with the continuous increase in the support of government policies and the basically mature standards, technology and operation of the end of the industry chain, had a broader space for development; the agricultural machinery industry, affected by the downward adjustment of agricultural machinery subsidies, fall of food prices, digestion of tier two inventories, etc., had a slowdown in its growth rate, but basically continued to be optimistic.

During the reporting period, the Company recorded a revenue of approximately RMB20.023 billion and a net loss attributable to equity shareholders of the company of approximately RMB929 million. The operating loss of the Company in 2016 was mainly attributable to the construction machinery segment's active and steady resolution to inventory risk, strict control of new risks, increase of employee departure compensation, strategic investment in transformation and upgrading, etc.. However, the Company's operating cash flow improved significantly compared to last year and the exposure risk was effectively controlled, while the concrete machinery and lifting machinery market share continued to maintain the industry leading position and the profitability of the agricultural machinery and environmental industry segments continued to increase, and the Company's overall new momentum and vitality of development have been constantly enhanced.

Management Discussion and Analysis

During the reporting period, the Company, being under the transitional pains of transformation of supply-side structural reform, made great efforts to promote management reform, product upgrading and business model innovation, and the enterprise's management gradually found a new balance and achieve a new development pattern.

The following table sets forth the breakdown of our revenue by geographic sales location for 2016:

	Year Ended 31 December	
	2016	2015
	RMB	RMB
	millions	millions
Revenue from external customers		
— Mainland PRC	**17,858**	18,198
— Outside PRC	**2,165**	2,555
Total	**20,023**	20,753

Cost of sales and services

Our cost of sales and services primarily consists of:

Raw materials, i.e., costs of raw materials, parts and components, including steel, branded chassis, hydraulic parts and components, engines, tires and electric controls, and a variety of other raw materials and fabricated or manufactured components;

Staff costs, including salaries and benefits for personnel directly involved in manufacturing activities;

Depreciation and amortization of property, plant and equipment used for manufacturing purposes;

Costs of finance lease services, including fees, other surcharges and interest related to factoring of receivables under finance lease; and

Others, including manufacturing overhead, such as maintenance of production equipment and utility costs, including electricity, steam and water and costs associated with waste treatment.

Management Discussion and Analysis

Gross profit

The following table sets forth the gross profit by operating segments for the period indicated.

	Year Ended 31 December	
	2016	2015
	RMB	RMB
	millions	millions
Reportable segment profit		
Construction machinery		
— Concrete machinery	**912**	1,149
— Crane machinery	**957**	1,423
— Others	**403**	529
Environmental industry	**1,490**	1,417
Agricultural machinery	**607**	520
Financial services	**409**	569
Total	**4,778**	5,607

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

Other income

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

Sales and marketing expenses

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

Management Discussion and Analysis

General and administrative expenses

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

Research and development expenses

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

Loss/profit from operations

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

Net finance costs

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

Loss/profit for the year

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

Loss/profit attributable to shareholders of the Company

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

Cash Flow and Capital Expenditure

During 2016, we financed our operations primarily through cash proceeds from loans and borrowings and issuance of the RMB commercial paper. As of 31 December 2016, we had RMB6,575 million in cash and cash equivalents, most of which were denominated in Renminbi. Our cash and cash equivalents primarily consist of cash and demand deposits.

The following table sets forth a summary of our consolidated cash flows for 2016:

	Year Ended 31 December	
	2016	2015
	RMB	RMB
	millions	millions
Net cash generated from/(used in) operating activities	**1,750**	(4,012)
Net cash (used in)/generated from investing activities	**(352)**	3,070
Net cash used in financing activities	**(6,380)**	(2,042)
Net decrease in cash and equivalents	**(4,982)**	(2,984)
Effect of foreign exchange rate changes	**70**	(12)
Cash and cash equivalents at the beginning of the year	**11,487**	14,483
Cash and cash equivalents at the end of the year	**6,575**	11,487

Operating activities

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

Investing activities

In 2016, net cash used in investing activities was RMB352 million, consisting primarily of: (i) payments for the purchases of property, plant and equipment, intangible assets and lease prepayment of RMB482 million; (ii) payment for acquisition of available-for-sale financial assets of RMB1,220 million; (iii) net cash outflow impact of RMB160 million arising from acquisition of subsidiaries, and added back the effect of (i) proceeds from disposal of property, plant and equipment, intangible assets and lease prepayment of RMB319 million; (ii) proceeds

Management Discussion and Analysis

from transfer of partial interests in Changsha Zhongjian Zhonglian Machinery Equipment Leasing Co., Ltd. of RMB400 million; (iii) a decrease in pledged bank deposits of RMB430 million; (iv) interest income of RMB419 million.

Financing activities

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

Capital Expenditures

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

Commitments and Contigent Liabilities

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

As at 31 December 2016, we had contingent liabilities of RMB3,740 million in connection with financial guarantees provided for certain bank loans obtained by our customers to finance their purchases of our products. Under the guarantee contracts, if the customers defaulted, we are entitled to repossess the product which had been purchased and pledged by the customers. For the year ended 31 December 2016, due to our customers' default, we paid RMB240 million, to the banks under our guarantees.

Starting from 1 January 2013, our certain customers financed their purchase of our machinery products through finance leases provided by third-party leasing companies. Under the third party leasing arrangement. We provide guarantee to the third-party leasing companies that in the event of customer default. We are required to make payment to the leasing companies for the outstanding lease payments due from the customer. At the same time, we are entitled to repossess and sell the leased machinery, and retain any net proceeds in excess of the guarantee payments made to the leasing companies. As at 31 December 2016, our maximum exposure to such guarantees was RMB954 million. The terms of these guarantees coincide with the tenure of the lease contracts which generally range from 2 to 5 years. For the year ended 31 December 2016, there was no payment made for repossession of machinery incurred under the guarantee arrangement as a result of customer default.

Management Discussion and Analysis

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

Working Capital and Indebtedness

The table below sets forth the details of our current assets and liabilities as of 31 December 2016:

	31 December	
	2016	2015
	RMB	RMB
	millions	millions
Current assets		
Inventories	**12,770**	14,083
Other current assets	**684**	449
Trade and other receivables	**32,074**	30,493
Receivables under finance lease	**12,212**	12,644
Pledged bank deposits	**1,547**	1,860
Cash and cash equivalents	**6,575**	11,487
Total current assets	**65,862**	71,016
Current liabilities		
Loans and borrowings	**9,712**	13,273
Trade and other payables	**17,089**	16,813
Income tax payable	**75**	87
Total current liabilities	**26,876**	30,173

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

Management Discussion and Analysis

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

	As of 31 December	
	2016	2015
	RMB	RMB
	millions	millions
Secured short-term bank loans		
— RMB denominated	**412**	148
— EUR denominated	**368**	4
Unsecured short-term bank loans		
— RMB denominated	**2,443**	200
— EUR denominated	**1,860**	3,980
— USD denominated	**208**	3,491
RMB commercial paper	**1,200**	—
	6,491	7,823
Add: current portion of long-term loans and borrowings	**3,221**	5,450
Total	**9,712**	13,273
Secured long-term bank loans		
— EUR denominated	**194**	—
Unsecured long-term bank loans		
— RMB denominated	**7,470**	3,836
— EUR denominated	**2,885**	1,651
— USD denominated	**—**	5,317
Unsecured RMB bond	**—**	1,099
RMB medium-term notes	**8,995**	8,993
Guaranteed USD senior notes	**6,762**	6,435
	26,306	27,331
Less: current portion of long-term loans and borrowings	**(3,221)**	(5,450)
Total	**23,085**	21,881

Management Discussion and Analysis

As at 31 December 2016, our Euro unsecured short-term loans, Euro secured short-term loans, RMB unsecured short-term loans and RMB unsecured long-term loans amounts of RMB365 million, RMB139 million, RMB1,370 million and RMB660 million respectively, are subject to certain restrictive financial covenants. As at 31 December 2016, we have not breached any of these restrictive financial covenants. If we were unable to comply with such restrictive financial covenants and were not exempted by the lending banks, we might be ordered to repay the bank loans immediately, and our liquidity will be adversely affected.

As at 31 December 2016, our facilities from 28 domestic and overseas financial institutions amounted to approximately RMB80,459 million had not been utilized.

Liquidity Risk

Exposure to liquidity risk arises in the normal course of the Company's business. Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

The following table sets out the remaining contractual maturities of the financial liabilities as of 31 December 2016, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current prevailing rates as of 31 December 2016) and the earliest date the Company would be required to repay:

	As at 31 December 2016					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions
Loans and borrowings	32,797	37,961	11,017	4,982	16,818	5,144
Trade and other payables	17,089	17,089	17,089	–	–	–
Other non-current liabilities	583	583	–	352	159	72
Payable for acquisition of non-controlling interests	265	413	–	–	413	–
Interest rate swap (net settled)	1	2	–	–	1	1
	50,735	56,048	28,106	5,334	17,391	5,217
Financial guarantees issued						
Maximum amount guaranteed	66	4,694	4,694	–	–	–

Management Discussion and Analysis

	As at 31 December 2016				
	Contractual undiscounted cash inflow/(outflow)				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Forward foreign exchange contracts:					
— outflow	(7,911)	–	–	–	(7,911)
— inflow	8,022	–	–	–	8,022

Management believes that the Group's current cash on hand, expected cash flows from operations and available standby credit facilities from financial institutions will be sufficient to meet the Group's working capital requirements and repay its borrowings and obligations when they become due.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's deposits placed with financial institutions and receivables from customers.

Credit risk is primarily attributable to bank deposits, trade and other receivables, receivables under finance lease, financial guarantees and endorsed bills with full recourse which were derecognized by the Group. The maximum exposure to credit risk is represented by the carrying amount of these financial assets and guarantee obligations.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. Collaterals, such as properties, machinery or third party guarantees, are generally required for customers with lower credit ratings. In addition, credit insurance coverage is required for overseas sales. Certain customers are required to pay by letters of credit. In respect of receivables under finance lease, a risk control committee is responsible for the establishment of credit risk management policies, the supervision on the implementation of such policies and determination of the key terms of the lease contracts. Credit review department, legal department, finance department and information technology department are collectively responsible for credit risk management and monitoring of settlement of receivables under finance lease. Debtors overdue by three months or more are handled by risk management department which is responsible for recovering debts through legal and other actions. Bank deposits are placed with financial institutions that have high credit ratings. Given their credit ratings, management does not expect any counterparty to fail to meet its obligations.

Management Discussion and Analysis

Please refer to notes 16, 17 and 27 of the financial statements prepared under IFRSs for more quantitative information about the Company's credit risk.

Interest Rate Risk

Interest rate risk exposure arises primarily from bank deposits, receivables under finance lease, short-term and long-term bank and other borrowings. These financial instruments bearing interest at variable rates and at fixed rates expose us to cash flow interest rate risk and fair value interest rate risk, respectively.

Please refer to note 27 of the financial statements prepared under IFRSs for more quantitative information about the Company's interest rate risk.

Currency Risk

The Company is exposed to currency risk primarily through deposits, sales, purchases and borrowings which give rise to receivables, payables, loans and borrowings and cash balances that are denominated in a foreign currency, that is, a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily US dollars, Euro, Japanese Yen, HK dollars and Swiss Franc.

Please refer to note 27 of the financial statements prepared under IFRSs for more quantitative information about the Company's currency risk.

Capital Management

The Company's primary objectives for managing capital are to safeguard the Company's ability to continue operation as a going concern, so that it can continue to provide investment returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost. The Company regularly reviews and manages its capital structure so as to maintain a balance between the high shareholders' returns (that might be possible with higher levels of borrowings) and the security and advantages afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. The Company monitors its capital structure on the basis of the debt-to-equity ratio. For this purpose, the Company defines debt as total loans and borrowings and defines equity as all components of equity attributable to equity shareholders of the Company.

Please refer to note 26 of the financial statements prepared under IFRSs for more information about the Company's capital management.

Environmental, Social and Governance Report

1 About This Report

Basis of Preparation

This report has been prepared in accordance with Appendix 27 Environmental, Social and Governance Reporting Guide ("the ESG Guide") to the *Main Board Listing Rules of the Hong Kong Stock Exchange* for the reporting period from 1 January 2016 to 31 December 2016. Previous activities relating to certain reporting aspects are also considered retrospectively.

Group Business

During the reporting period, Zoomlion Heavy Industry Science and Technology Co., Ltd. (hereinafter referred to as "the Company") is principally engaged in the research and development, manufacturing, sale and provision of services of construction machinery, environmental sanitation machinery and agricultural machinery, as well as the investment and operation of environmental solutions and other financial services such as finance lease. Construction machinery, including concrete machinery, crane machinery, road construction machinery, infrastructure construction machinery, road building and maintenance machinery and forklift truck, is mainly for infrastructure and real estate construction service. Serving to provide equipments and operational services for environmental treatment, the Company is mainly engaged in the manufacturing of environmental sanitation machinery, making investments in environmental treatment projects and the provision of environmental solutions, which include sorting and disposal of solid wastes, disposal of domestic wastes and involve comprehensive investment and operational project of urban environmental treatment. Agricultural machinery industry, including farming machinery, harvesting machinery, drying machinery and agricultural equipment, is mainly for provision of complete package of services for breeding, field preparation, sowing, field management, harvesting, drying and storage.

Release Cycle

The report is prepared annually. The Environmental, Social and Governance Report for the next reporting period (2017) is expected to be released in April 2018. The report is available on the website of the Hong Kong Stock Exchange and the Company's official website.

Reporting Scope

Considering that overseas subsidiaries of the Company and some small business segments of construction machinery (such as material handling machinery and systems, specialised vehicles and vehicle axles) have inconsiderable environmental, social and governance impacts, the report is focused on the operating environments and social policies of primary construction machinery segment, environmental industry segment and agricultural machinery segment of the Company and its subsidiaries within China during the reporting period.

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Stakeholder Involvement

Key environmental, social and governance stakeholders at the Group level, whether internal or external, include internal personnel (from management to frontline employees), suppliers, clients, shareholders, investors, governments and communities where the Company operate. As the 2016 Environmental, Social and Governance Report prepared under the ESG Guide of the Hong Kong Stock Exchange is the first of its kind for the Company, the report has been prepared mainly on the basis of materiality assessments of the Company's management. For the next year, however, in addition to management involvement in materiality assessments, the Company will involve other stakeholders to review and update materiality assessments, with the purpose of ensuring that the report reflects, to the greatest extent possible, the most recent progress of the Company in sustainable development.

Materiality Assessment

Based on our stakeholder and materiality assessments, we believe that the following issues are important to the Company's sustainable development. Those issues have been identified as the Company's sustainable development focuses.

— Hazardous waste disposal

— Greenhouse gas emissions

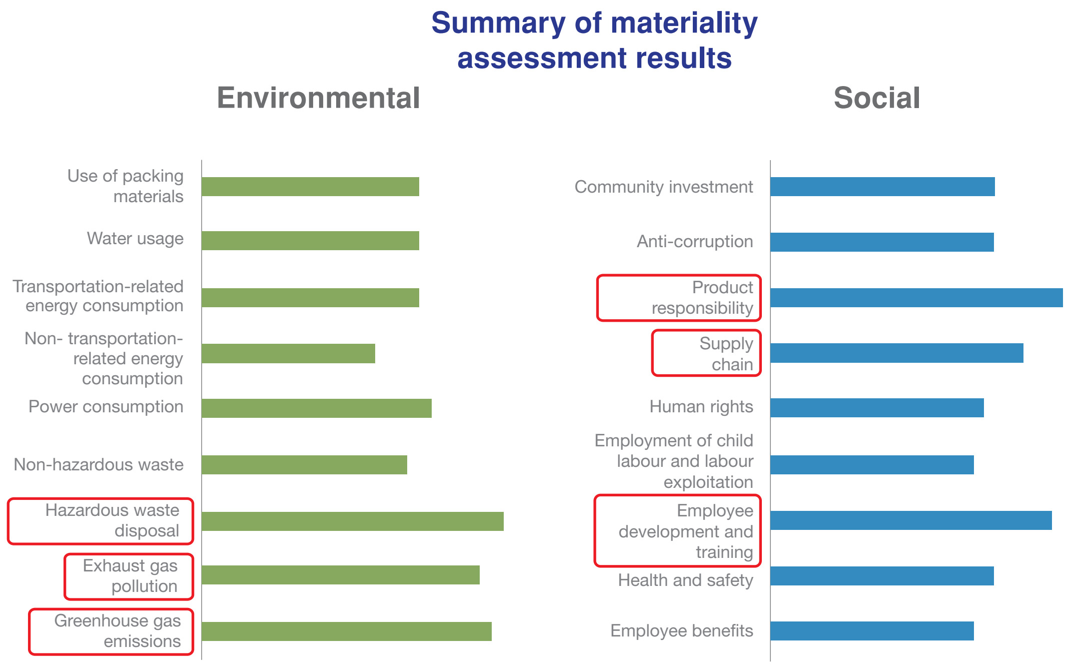
— Exhaust gas pollution

— Product responsibility

— Employee development and training

— Supply chain

Environmental, Social and Governance Report



2 Environmental Protection

The Company attaches great importance to environmental and ecological protection, and has formulated administrative guidelines on safety and environmental matters that underlined the importance of people and the need for green manufacturing. It pushed for continued progress in energy conservation and environmental protection, as well as coordinated economic and environmental development in accordance with state environmental laws and regulations, and the requirements of supervisory authorities for energy conservation and environmental protection.

We remain highly attentive to the possible impacts of machinery manufacturing on the environment, and consider energy conservation and environmental protection a paramount issue in our production and business operation. Significant environmental impacts of the Company's businesses primarily arise from energy consumption and discharges and emissions in relation to product assembly and painting. We are committed to reducing the impact of our business activities on the environment by:

- Observing all environmental laws and regulations, as well as other statutory requirements, including industrial standards;

- Building a sound environmental management system that ensures that business procedures are carried out in a responsible manner, whether socially or for employees;

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- Setting clear environmental objectives and pushing for continued progress in environmental protection;

- Providing sufficient investments in environmental protection and energy conservation causes, and banning pollution activities;

- Increasing environmental awareness, strengthening environmental training and education, and earnestly executing energy conservation and emission reduction work; and

- Incorporating energy conservation and emission reduction matters in our business decision-making processes.

As at the end of the reporting period, ten subsidiaries of the Company obtained the ISO 14001 Environmental Management System Certificate. The Company valued the importance of building an environmental management system. The Company's CEO appointed the vice president in charge of business operation, safety and environmental matters to lead the work in building an environmental management system. The Company's Operational, Safety and Environmental Department then followed relevant standards on the environmental management system to provide centralised coordination, guidance and supervision for work related to the environmental management system.

As at the end of the reporting period, the Company's two subsidiaries passed clean production reviews. They have developed technologically sound, cost-effective and environmentally-friendly clean production solutions that made it possible to use environmentally-friendly non-toxic or low-toxic materials, as well as pollution-free or low-pollution techniques and equipment for the whole production processes. No or little harm on people's health and the environment will be produced from the selection of raw materials to treatment and disposal of used materials.

2.1 Emissions

Manufacturing of engineering machinery inevitably leads to emissions of exhaust gas and disposal of waste water and solid waste. The Company has developed the *Procedures for Identifying, Evaluating and Controlling Environmental Factors* to screen environmental factors relevant to the Company, identify significant environmental factors and formulate specific plans for controlling such factors.

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In order to standardise waste management and protect production and public environments, the Company formulated the *Waste Management Measures* for various types of waste such as recyclable waste, non-recyclable waste and hazardous waste. With regard to hazardous waste in particular, we ensured complete compliance with state requirements set out in Appendix A to the *Specifications for Controlling Pollution from Hazardous Waste Storage* (GB18597-2001) to apply waste labelling, make specific collection and transportation plans based on actual production procedures and disposal cycles of hazardous waste, and involve specialists to collect waste. Hazardous waste was stored in a location determined in accordance with the *Specifications for Controlling Pollution from Hazardous Waste Storage* (GB18597-2001) that require separate storage based on the types and properties of hazardous waste, as well as dual-key sealing. The Company abided by state laws and regulations on storage periods, and moved hazardous waste in a timely manner. Additionally, we formulated the *Detailed Rules on Hazardous Waste Practices*, under which the Safety and Environmental Management Department conducted regular supervision and random inspection.

As a socially responsible enterprise, the Company is keenly aware of its responsibility for reducing greenhouse gas emissions. It expanded the space of green areas in the industrial park to absorb more greenhouse gases. It set aside green areas of certain scales based on the specific conditions of a new industrial park under construction. When renovating and expanding an old industrial park, the Company strived to increase the space of green fields and plant more trees. We have set out rules on green space management, maintenance and protection in the *Administrative Rules on Industrial Parks*. Green facilities within factories can absorb greenhouse gases and regulate their emissions on top of bringing delight to employees and improving urban environments. The Company also made specific rules on energy conservation and emission reduction. For instance, it controls room air conditioning at no lower than 26 degrees Celsius in summer and no higher than 20 degrees Celsius in winter. It strives to reduce the use of equipment that consumes large amounts of energy, including gasoline-fuelled equipment. This practice resulted in effective emission reductions of carbon dioxide, methane and other greenhouse gases. In order to build itself into an energy-saving, green manufacturer with low carbon footprint, the Company is mobilised at all levels to effect and observe enhanced office, production and habit management.

In order to control waste water disposal and emissions of exhaust gas, and reduce environmental pollution, the Company formulated the *Rules on Treatment of Exhaust Gas, Waste Water and Noises* to ensure control over and management of exhaust gas, waste water and noises.

With regard to emissions of exhaust gas, the Company maintained strict compliance with the *Specifications for Air Pollutant Emissions* (GB16297-1996). Key air pollution sources in the Company's daily business operations include production-related smoke, dust, volatile chemicals, decomposed gas, vehicle exhaust, bottled or pipeline gas leaks, and household dust and fumes. The Company has formulated and implemented sound source-specific control procedures.

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The Company abides by the *Specifications for Waste Water Disposal* (GB/8978-96), following waste water isolation and sedimentation processes or subjecting waste water to treatment at a water treatment plant until it meets certain standards and is safe to be disposed. Key waste water sources in the Company's daily business operations include production-related and domestic waste water. The Company has formulated and implemented sound source-specific control procedures.

2.2 Use of Resources

The Company uses power for production and non-production purposes. Production-related power is mainly used by various processing machines, electric traction equipment, air compressors, heat treatment of machine parts and electric welders. Non-production-related power is mainly used by offices, canteens and apartments. Water consumption is also for production and non-production purposes. Production-related water is mainly used for cleaning, quenching, cooling and test-run purposes. Non-production-related water is mainly used by offices, canteens and apartments.

The Company records its energy and water consumption and reports it to relevant government authorities. It manages the use of energy, water and other resources in accordance with the requirements of relevant government authorities. For instance, in response to government authorities' requirements to perform an energy audit once every five years, the Company's Operation, Safety and Environmental Department hired a Changsha-based new energy technology research and development specialist to conduct an energy audit of the Company.

In order to effect enhanced energy management, reduce consumption of resources and increase energy efficiency, the Company formulated the *Measures on Energy Management* based on state energy policies and energy management standards, and in line with the Company's actual production needs and consumption of resources. The Company awards actions that benefit the intensive use of energy, water and other resources for conservation purposes and puts energy and resources to efficient use, while punishing actions that result in a waste of energy and resources.

2.3 Environment and Natural Resources

The Company shoulders more responsibilities for fulfilling lean production and green manufacturing at a time of continuous economic growth and under the requirements for building a resources-conserving and environmentally-friendly society.

We are committed to introducing and developing green manufacturing technologies to meet emerging social needs. We take into account the environmental impacts of production and manufacturing processes and favour a production and manufacturing model with the highest resource efficiency on top of ensuring product competitiveness in terms of functionality, quality and cost. We strive to eliminate or minimise environmental pollution arising from any stage of the product life cycle from design, manufacturing, use to disposal, and ensure that products meet environmental protection standards to the extent that they produce no or little harm on the ecological environment and remain a true testimony to our commitment to conserving resources and energy, increasing resource efficiency and reducing energy consumption.

The Company set energy conservation objectives based on the requirements of state and provincial development and reform commissions for enterprises to take energy conservation and low carbon actions. Pursuant to the requirements of the Changsha Development and Reform Commission for such actions, the Company carried out energy conservation and emission reduction work, and strived to meet its objectives. It regularly reports to the Changsha Development and Reform Commission, the Development and Reform Commission of Hunan Province and other government authorities on its energy conservation and emission reduction progress.

We have invested considerable human resources, capital and technological empowerment to drive our on-going transformation to green manufacturing, focusing on areas such as design, process planning, the use of new materials, recycling of packing materials and products, and equipment application. Green manufacturing requires a full consideration of the impacts of products and their manufacturing processes on resources and the environment, a preference for manufacturing processes that warrant low energy and resource consumption, low waste and noise levels and low environmental pollution, a reduced use of non-renewable and deficient resources, an adoption of alternative substances and technologies and a maximum use of modularised and standardised components to minimise resource consumption and resultant waste. The Company is a leading player in the engineering machinery industry in terms of environmental care and resource efficiency, and is making a noticeable contribution to building a resource-conserving and environmentally-friendly society.

3 Product Responsibility

The Company built and improved a product quality management system based on the requirements of state quality laws and regulations, adhered to a prevention-oriented quality management model and revised a series of quality management measures, such as the *Manual on Integrated Management*. Its products are all produced in accordance with current state, local and industrial standards, or in some areas, standards higher than those standards. Vehicles manufactured by the Company all passed China's Compulsory Product Certification. We hold various review activities on a yearly basis, including internal, management and external appraiser reviews on product quality management. Through those activities, we continued to improve and implement our quality management system and mechanisms.

Through years of business development, the Company has given rise to a quality culture centred on Integrity and Excellence, as well as a unique quality management model that is led by a cultural foundation, directed to strategic planning, driven by the market, empowered by technology and structured in a multi-level matrix. It also built a scientifically sound system for planning, distributing and implementing quality strategies. Under the concerted effects of the quality culture, the quality management model and the quality strategy system, the Company continued to improve the quality of product design, supplier components and manufacturing processes, thus satisfying customers' expectations and needs for "Quality Products, Cost-effectiveness and Efficient Service".

The Company made the ability to ensure safety and quality and promote quality development one of the indicators for performance reviews, and effected control over the entire process before, during and after an event to ensure quality and safety. It carried out regular performance reviews on its departments. For instance, for departments in charge of quality issues, the Company not only set key performance indicators (KPIs), including the quality cost indicator and the physical quality indicator, but also identified work priorities, such as overcoming major quality difficulties and building a quality data system. It also set indicators respectively for the Research and Development Department, the Production Department and the Marketing Department, such as research and development quality cost, warranty claims and the external quality failure rate.

The Company formulated the *Detailed Rules on Crisis Reporting and Treatment*, the *Procedures for Major Accident Feedback and Treatment* and the *Measures for Major Accident Treatment* to standardise the management of quality accidents in the market and ensure that all product-related quality accidents are reported, analysed with feedback, handled, and shared for experience enhancement in a timely manner, and that negative social impacts are avoided.

The Company honours a commitment to protecting customer privacy, and leverages rigorous internal management in its business activities to ensure customer information security.

The Company has no violations of state laws and regulations on the health and safety, advertising, inselling and primary matters relating to products and sources provided during the reporting period.

4 Employment and Labour Standards

The Company believes that talents are the primary productive force, talent management is critical to corporate development and people should be able to make use of their best abilities to realise their full potential under a boundaryless organisational structure. Such ideas form the backbone of the Company's human resources policies. By improving its five systems — the human resources strategy and planning system, the system for identifying, introducing, evaluating and hiring talents, the compensation and performance management system, the talent cultivation and development system and the employee relation management system, the Company is maintaining continued and sound development. It continues to improve organisational performance and employee satisfaction and achieve harmonious growth of the Company and its employees through market-oriented practices and policies that put people first.

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We actively participated in legal trainings provided by government authorities and gained an understanding of updated laws and regulations and cases in this respect to ensure compliance with the *Labour Law of the People's Republic of China*, the *Employment Contract Law of the People's Republic of China*, the *Regulations on the Labour Protection of Female Staff and Workers*, the *Regulations on Professional Skill Certification*, the *Interim Regulations on the Collection and Payment of Social Insurance Premiums*, the *Regulations on Management of Housing Provident Fund*, the *Regulations on Paid Annual Leave for Employees*, the *Labour Dispute Mediation and Arbitration Law of the People's Republic of China* and other laws and regulations. We have formulated on the basis of those rules a series of employee management measures, such as the *Rules on Recruitment Management*, the *Rules on Employee Benefits*, the *Measures for Employee Attendance and Leave Management*, the *Compensation Rules* and the *Rules on Employee Rewards and Punishments*, and effectively implemented those policies and measures to ensure equality and justice, motivate employees and maintain our market competitiveness.

The Company maintains equal opportunity across all employment affairs, including recruitment, training, career development and employee promotion. During the reporting period, the Company observed all relevant laws and regulations on, for instance, minimum wages and anti-discriminatory actions. The Company advocates fair competition, and will under no circumstances discriminate against or harass any employee based on gender, age, marital status, religion, race, nationality and health conditions.

The Company abides by international protocols on labour standards and the *Law of the People's Republic of China on the Protection of Minors*, and bans the employment of child labourers (those aged below 16). The Company carries out stringent screening and verification of applicants' identity at the recruitment stage to avoid accidentally hiring child labourers due to false information. The Company also performs daily inspections and audits to strengthen supervision in this respect. During the reporting period, the Company has no incidents of child labourer employment, nor does it have any discriminatory or harassment incidents.

Although the Company values and encourages employee devotion and commitment, it resolutely prohibits forced labour. We provide adequate and reasonable rest and leave for employees in line with relevant laws and regulations. We arrange for voluntary overtime work based on our production needs and workload. The Company fully respects employees' freedom in choosing careers, and will by no means withhold employees' valid certificates or require payment of deposits. Forced labour is absent in all of the Company's factories.

The Company provides its employees with a comprehensive and diverse range of benefits, continues to optimise employee communication channels and effectiveness, and strives to nurture in employees an enhanced sense of belonging.

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As long as state leave regulations are not to be violated, we provide employees with various additional leave benefits, such as paternity leave, family planning leave and home leave, to facilitate employees' work and life. In addition to the leave benefits, we also provide comprehensive benefits covering employees' various needs, including free laundry, shuttle bus service, work lunch and well-equipped apartments. We provide summer and winter allowances based on the working environment and distribute special compensations to employees in the event of them giving birth, getting married, being hospitalised or losing a relative, among others. The Company provides free health checks for all its employees, and occupational health examinations at a designated hospital with sufficient qualifications for those who are exposed to occupational hazards. Such examinations are provided before and during the employment, as well as at the time when such employment is ended. Health examinations during the employment are provided once a year and there are designated personnel in charge of such affairs.

The Company has no violations of state laws and regulations on the employment and labour standards during the reporting period.

4.1 Healthy and Safe Working Environment

The Company carries out safety-related work in accordance with the guidelines that underline the importance of safety, prevention and comprehensive treatment, as well as a safety management mechanism that strives to improve safety management capabilities and push for standardised safety practices. The Company adheres to and enforces state laws and regulations on the protection of occupational health and safety and bears responsibilities and obligations for its employees. We perform comprehensive production safety performance reviews each year to improve production safety management at the basic and higher levels. This serves the purpose of reducing the number of accidents, effectively preventing and resolutely curbing large-scale production safety accidents and containing occupational hazards. We also strive to strengthen safety management at site operations, determine the responsibilities of in-charge persons at various levels and improve the safety management system. We have put in place effective control over activities, services and products associated with environmental factors and occupational health and safety risks that are either of great importance or determined as necessary to be controlled. This is to ensure that integrated management guidelines, objectives and indicators are observed for such activities, services and products. In order to facilitate this practice, the Company formulated the *Control Procedures for Environmental and Occupational Health and Safety Practices*.

All industrial parks of the Company have been certified as Enterprises with Standardised Safety Production Procedures. Among them, three parks — the Lugu Industrial Park, the Zoomlion Science Park and the Quantang Industrial Park — have been awarded Level I Enterprises with Standardised Safety Production Procedures (Machinery), eight parks Level II Enterprises with Standardised Safety Production Procedures (Machinery) and another eight parks Level III Enterprises with Standardised Safety Production Procedures (Machinery).

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In order to motivate production and operational functions to improve safety management capabilities, we formulated and implemented the *Measures of Zoomlion Heavy Industry Science and Technology Co., Ltd. for Safety Production Performance Reviews* that prescribe assessment and incentive policies for such functions. Our efforts in this regard have given rise to more meticulous safety management systems, safety training, hidden hazard detection and treatment, and infrastructure management at our production and operational functions, improved safety awareness and capabilities of our management personnel and consolidated the foundation of our safety-related work.

The Company has no violations of state laws and regulations on the protection of occupational health and safety during the reporting period.

4.2 Development and Training

During the reporting period, the Company continued to provide directors, supervisors, senior management personnel and employees with enhanced training and learning opportunities on, for instance, capital market-related laws and regulations, policies and guidelines, regulatory requirements and case studies to ensure that they complied with such rules and performed their duties accordingly. We formulated the *Measures for Training Management*, setting a high standard for employees' code of conduct and competence. We provided new employees with induction training on code of conduct and ethics, as well as on corporate culture to help them become identified with positive values.

Zoomlion Business School at the headquarters is the coordinator of such trainings, with training management functions of various business units organising training-related work and evaluations. In 2016, the Company provided 1,530 trainings with 45,395 participants and an average satisfaction rate of 93.7 percent. The trainings were able to cover employees of the Company at all levels.

For the year 2016, competence building is a training priority for the Company. We introduced a management course on Peter Drucker's classic book — *The Effective Executive*. The course was split into a four-phase training, covering all middle and senior management personnel of the Company. In addition, the Company jointly held the first Zoomlion Employee Development Programme (EDP) for senior management with Hunan University, and cultivated a young team with enhanced knowledge base, new management philosophy and strong execution.

The Company held various specialised training activities based on the nature and needs of different departments, positions and professions. It provided management personnel with training of various forms, such as team executive ability practices, sand-table simulation, reading workshops, lectures and professional ad hoc exercises that aim to expand their knowledge and hone their skills through such experiential and interactive activities. For employees at the production frontline, the Company provided trainings on production management, quality management, manufacturing processes and safety management, as well as coaching for professional skill appraisal. It also held profession-specific skill competitions, which also served an educational purpose by involving established technicians to give instructions in person. The activities cultivated competent production management personnel and skilled technicians. With regard to employees at the marketing frontline, the Company adopted on-site and online training programmes on marketing knowledge, product knowledge, marketing skills, internet marketing and other areas.

In order to make its training more effective, the Company has been making unrelenting efforts to establish a training platform, build a team of trainers and develop course resources. In 2016, the Company introduced a mobile learning platform — the Zhiniao system, which allows for mobile online learning, examination and discussion, so that employees can effectively use their fragmented time to learn. This expanded training coverage and improved training efficiency. In addition to introducing this new learning platform, in order to enrich course resources and nurture specialised trainers, the Company organised a three-phase training for trainers and held a contest to select One Hundred Outstanding Trainers and One Hundred Excellent Courses. The contest identified the first one hundred outstanding internal part-time trainers and developed 286 courses, amply serving the purpose of nurturing trainers and enriching courses.

The Company strongly supports employees who wish to attend open classes and trainings aimed at elevating their academic degree, and has set up a special fund for this purpose. In addition, the Company strived to improve the competence and skills of its employees by actively engaging in professional skill appraisal work, organising established technician-hosted workshops and coaching employees for various professional contests.

4.3 Anti-corruption

Corruption harms the interests of a company and affects its corporate image. Anti-corruption upholds the business ethics of an enterprise, constitutes the foundation for an enterprise's long-term development and protects an enterprise's core teams and employees. The Company advocates business integrity and fair competition, requiring employees to abide by local laws and regulations, as well as the Company's rules and regulations. It formulated the *Eight Don'ts for Management Teams*, *Employee Code of Conduct*, the *Rules on Rewards and Punishments for Employees*, the *Supervision and Management Rules*, the *Reporting Management Measures* and other anti-corruption rules. It strive to raise employee awareness of corruption and business bribery and honour a compliance culture in daily operations. The Company identified no corruptive acts and has no violations of state laws and regulations relating to bribery, extortion, fraud or money laundering during the reporting period.

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5 Supply Chain Management

Integrity is at the heart of the Company's corporate culture. It is also of vital importance to our supply chain management. We have established an effective system for internal control over procurement, and strived to prevent unjustifiable employee behaviours by continuously popularising our values and regularly holding educational activities on professional integrity. We also strived to educate our suppliers on the value of professional integrity, and entered into a written integrity commitment with them to build an honest and transparent procurement system with us. In addition, we have made our complaint hotline, complaint mailbox and other channels known to the public to ensure that this procurement system was under effective execution and supervision.

The Company formulated the *Measures for Supplier Access Scoring and Supplier Management* to evaluate new suppliers under consideration to determine whether they meet the selection criteria. The Company rates each qualified supplier based on the evaluation results and the grade of its products to effect grade-based supplier management. We require suppliers to pass ISO/QS9000 certification, TS16949 certification or other acceptable quality system certification, and consider historical records of suppliers' compliance with environmental and labour laws and regulations a vital selection criterion. We also require that suppliers should have no violations of state laws and regulations in all material respects. After selecting our suppliers, we will sort through them to identify those that are strong in market standing, performance and commitment, and that recognise our values and culture. We will give our focused attention to them, and provide supply chain management and technical training and support to build a sound supply chain ecosystem.

With technological advances, supply chain management has become the third profit source after rational use of resources and improved labour efficiency. Corporate competition has increasingly been focused on the supply chain. We have always been committed to building an efficient, module-based and intelligent supply chain management platform. With years of continued efforts, we have now built a supply chain management system integrating OA, SAP and WEB systems. Our self-developed VMI was also launched in 2016, serving to build an efficient and intensive collaborative closed loop with suppliers and customers.

6 Community Investment

We firmly believe that corporate value originates from society, and thus considers it important to invest in communities and support public causes. We will take social responsibility that is in line with our strategic planning and business scale, making public welfare an integral part of our development and ensuring respect for and a focus on people at every stage of our development as a way to fulfil our social responsibility.

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In the educational sphere, starting from 2003, in partnership with the Hunan Charity Federation, Hunan TV Economy Channel and Xiaoxiang Morning Paper, we held annual "Love-Changes-Destiny" charity events to provide financial aid for students from poor families or orphans who were admitted to an undergraduate university (whether a university that adopts early recruitment, a top university or a general university) in the current year. We provided them with a one-time financial aid of RMB3,000 to RMB5,000. Each year, we initiate the donation activity, which is fully covered by Hunan TV Economy Channel and Xiaoxiang Morning Paper in an effort to promote public participation and receive public supervision. As the sponsor of the programme, the Company has made a total contribution of over RMB20 million, making us the largest donor in the programme. We also supported more students than any other donors. Over the past 14 years, the province raised a total of over RMB150 million in charity funds, and helped over 40,000 underprivileged students access higher education. The charity programme claimed the Hunan Charity Award, the China Charity Award and the China Charity Outstanding Contribution Award, with tremendous influence across the province and the country.

In the social relief sphere, as we are the manufacturer of engineering machinery, we have a special role to play in rescue and emergency repair efforts in the event of major accidents, whether as a lead coordinator or in cooperation with government authorities. Bearing in mind our social responsibility, we provided enormous support for and assistance in such efforts in the form of equipment, technology, human resources and supplies. We have also built an urban emergency response base with the Changsha High-tech Industrial Zone and offered training to a team of emergency response specialists that we had formed in the first place. We provided emergency response assistance in the event of the following incidents: the 2008 South China winter storms, the 2008 Wenchuan earthquake, the 2009 Zhuzhou bridge collapse, the 2010 Yushu earthquake, the 2013 Ya'an earthquake, the 2013 Hunan severe drought, the 2014 Ludian earthquake, the 2015 Shenzhen landslide, the 2016 flood and the 2016 Xiamen hurricane. In each of the above events, we were always the first team from the public sector to arrive at the disaster-stricken site, making the biggest contribution within our power to rescue and emergency repair efforts.

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7 Reference Table for ESG General Disclosures

ESG aspects	KPIs	Descriptions	Page	Notes
	Environmental			
A1	Emissions	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	P39	2.1
A2	Use of Resources	Policies on the efficient use of resources, including energy, water and other raw materials.	P41	2.2
A3	Environment and Natural Resources	Policies on minimising the issuer's significant impact on the environment and natural resources.	P41	2.3
	Social			
B1	Employment	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	P43	4
B2	Health and Safety	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	P45	4.1
B3	Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	P46	4.2
B4	Labour Standards	Information on (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	P43	4
B5	Supply Chain Management	Policies on managing environmental and social risks of the supply chain.	P48	5

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ESG aspects	KPIs	Descriptions	Page	Notes
B6	Product Responsibility	Information on (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	P42	3
B7	Anti-corruption	Information on (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	P47	4.3
B8	Community Investment	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	P48	6

Significant Events

I. Significant Connected Transactions of the Company during the Year

(I) The Company had no significant connected transactions according to the relevant domestic regulations.

(II) Under the Listing Rules of Hong Kong, the continuing connected transactions of the Company during 2016 were as follows:

Framework sales agreement with Dongfeng Motor Corporation

Dongfeng Motor Corporation holds 11.14% of the equity interest in Hunan Zoomlion Axle Co., Ltd., a subsidiary of the Company, and is therefore a substantial shareholder of Hunan Zoomlion Axle Co., Ltd. and a connected person of the Company. Dongfeng Motor Corporation was established in 1969 and is currently one of the top three automakers in China. Its main businesses include production and sale of passenger vehicles, commercial vehicles, engine, auto parts and components, and equipment in the PRC. To regulate the sales and purchase arrangement between the Company and Dongfeng Group after the Listing, the Company has entered into a framework sales agreement (the "Dongfeng Framework Sales Agreement") dated 13 August 2013 with Dongfeng Motor Corporation and such agreement was expired on 31 December 2015. The Company entered into the Dongfeng Sales Renewal Agreement dated 30 March 2016 to renew the terms and conditions set out in the Dongfeng Framework Sales Agreement. Such agreement has taken effect from 1 January 2016 and has a term of three years. Pursuant to the Dongfeng Framework Sales Agreement, Dongfeng Group will purchase axles and other auto components produced by the Company from time to time. In 2016, total sales of the Company to Dongfeng Group amounted to approximately RMB383 million (excluding value-added tax).

Dongfeng Purchase Renewal Agreement with Dongfeng Motor Corporation

The Company entered into a framework purchase agreement (the "Dongfeng Framework Purchase Agreement") dated 13 August 2013 with Dongfeng Motor and such agreement was expired on 31 December 2015. On 30 March 2016, the Company entered into the Dongfeng Purchase Renewal Agreement to renew the terms and conditions set out in the Dongfeng Framework Purchase Agreement. The Dongfeng Purchase Renewal Agreement has taken effect from 1 January 2016 and has a term of three years. Pursuant to the Dongfeng Purchase Renewal Agreement, the Company will purchase steel springs, chassis, engines and other auto components from the Dongfeng Group from time to time. In 2016, the total purchases from the Dongfeng Group amounted to approximately RMB1,230 million (excluding VAT).

The Independent Non-executive Directors unanimously confirmed that the continuing connected transactions of the Company for the year 2016 were:

(1) in the ordinary course of business of the Company;

(2) entered into on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Company than terms available to or from (as appropriate) independent third parties;

(3) conducted according to the terms of the relevant agreements governing the transactions, and the terms of the transactions were fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(4) each of the annual value for the continuing connected transactions did not exceed the annual caps approved by the Board dated 30 March 2016.

In respect of the significant connected transactions disclosed above (the "Transactions"), KPMG has carried out procedures in respect of the Transactions entered into by the Company for the year ended 31 December 2016 and issued a letter to the Board of the Company, stating that: (1) they were not aware that the Transactions have not been approved by the Board; (2) they were not aware of any matter which would make them believe that the Transactions were not in accordance with the pricing policies of the Company in any material aspect in connection with the Transactions involving the provision of goods or services by the Company; (3) they were not aware of any matter which would make them believe that the Transactions were not in accordance with the relevant agreements governing the Transactions in any material aspect; (4) they were not aware of any matter which would make them believe that the respectively annual aggregate amount of each of the Transactions would exceed the annual cap as set by the Company.

The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules of Hong Kong.

II. Significant Investment, Material Acquisition and Disposal of Subsidiaries and Associated Companies

On 22 December 2015, the Company and Mandarin Capital II jointly made an investment of EUR66.20 million to acquire 75% of the equity interests in Ladurner Ambiente S.p.A. (the "Target Company") by purchasing its existing and newly issued shares. Amongst which, the Company invested EUR50.31 million to acquire 57% of the equity interests in the Target Company. On 29 April 2016, the procedures for the equity transfer of the Target Company have been fully completed. Please refer to the announcements issued by the Company dated 22 December 2015 and 29 April 2016 for further details.

On 23 December 2016, the Company entered into an equity transfer agreement with China Construction Fifth Engineering Division Corporation Ltd. (中國建築第五工程局有限公司, "CSCEC 5th Bureau"), agreed to transfer 40% equity interest in Changsha Zhongjian Zhonglian Machinery Equipment Leasing Co., Ltd. (長沙中建中聯機械設備租賃服務有限責任公司), a 75%-owned subsidiary of the Company, to CSCEC 5th Bureau at a consideration of RMB400 million and completed the transfer on 28 December 2016. Please refer to the announcements issued by the Company dated 23 December 2016 and 28 December 2016 for further details.

Saved as disclosed above, during the Reporting Period, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company.

Changes in Share Capital and Shareholders

I. Changes in Share Capital (as at 31 December 2016)

1. Changes in Share Capital

Unit: share

	Before this change		Increase (+)/ Decrease (-)	After this change	
	Number	Percentage	in this change	Number	Percentage
I. Shares subject to sales restriction	11,431,419	0.15%	388,348	11,819,767	0.15%
3. Other domestic shares	11,431,419	0.15%	388,348	11,819,767	0.15%
shares held by domestic natural persons	11,431,419	0.15%	388,348	11,819,767	0.15%
II. Shares not subject to sales restriction	7,652,700,831	99.85%	-388,348	7,652,312,483	99.85%
1. Ordinary shares denominated in RMB	6,264,493,745	81.74%	-388,348	6,264,105,397	81.74%
3. Overseas listed foreign invested shares	1,388,207,086	18.11%	0	1,388,207,086	18.11%
III. Total number of shares	7,664,132,250	100.00%	0	7,664,132,250	100.00%

II. Shareholders

1. Shareholdings of the Shareholders of the Company

Unit: share

Shareholdings of shareholders holding more than 5% of shares or the top ten shareholders								
							Condition of pledge of lock-up	
Name of shareholder	Nature of interest	Percentage of shares held	Number of shares held at the end of the reporting period	Changes during the Reporting Period	Number of restricted shares	Number of unrestricted shares	Condition of shares	Number
HKSCC NOMINEES LIMITED	Overseas legal person	18.08%	1,385,590,483	-99600	0	1,385,590,483		
State-owned Assets Supervision and Administration Commission of Hunan Province People's Government	State-owned legal person	16.35%	1,253,314,876	0	0	1,253,314,876		
Changsha Hesheng Science and Technology Investment Co., Ltd	Domestic non state-owned legal person	5.04%	386,517,443	0	0	386,517,443	Pledged	352,000,000
China Securities Finance Corporation Limited	State-owned legal person	3.01%	230,408,951	0	0	230,408,951		
GOOD EXCEL GROUP LIMITED	Overseas legal person	2.20%	168,635,680	0	0	168,635,680		
Real Smart International Limited	Overseas legal person	2.20%	168,635,602	0	0	168,635,602		
Changsha Yifang Science and Technology Investment Co., Ltd	Domestic non state-owned legal person	2.05%	156,864,942	0	0	156,864,942		
Central Huijin Asset Management Ltd.	State-owned legal person	1.51%	115,849,400	0	0	115,849,400		
Hony Capital Fund I (Tianjin), L.P.	Domestic non state-owned legal person	0.84%	64,600,000	0	0	64,600,000		
Industrial Bank Co., Ltd. — Xingquan new vision flexible allocation regularly-open mixed-launching securities investment fund (興全新視野靈活配置定期開放混合型發起式證券投資基金)	Domestic non state-owned legal person	0.64%	48,817,126	48,817,126	0	48,817,126		

Changes in Share Capital and Shareholders

The Company has complied with the minimum public float requirement under Rule 8.08 of the Listing Rules of Hong Kong.

2. Substantial Shareholders' interests in the shares and underlying shares of the Company

As at 31 December 2016, so far as the Directors and chief executive of the Company were aware, the following persons (other than the directors and supervisors of the Company) had an interest or short position in the shares or underlying shares of the Company which is required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO"), or required to be recorded in the register to be kept by the Company pursuant to Section 336 of SFO:

Name	Nature of interest	Class of shares	Number of shares	Percentage of class of shares issued (%)	Percentage of total shares issued (%)
State-owned Assets Supervision and Administration Commission of Hunan Provincial People's Government	Beneficial	A Shares	1,253,314,876	19.97	16.35
Changsha Hesheng Science and Technology Investment Co., Ltd.[2]	Beneficial	A Shares	386,517,443	6.16	5.04
Norges Bank[1]	Beneficial owner	H Shares	116,719,064 (L)	8.41	1.52
Citigroup Inc.[1][3]	Custodian corporation/ approved lending agent	H Shares	89,962,076(L)	6.48	1.17
	Interests of controlled corporation		2,856,401(L)	0.21	0.04
			809,000(S)	0.06	0.00
	Person having a security interest in shares		8,080,600(L)	0.58	0.11
Unique Element Corp.[1][4]	Interests of controlled corporation	H Shares	81,623,600(L)	5.87	1.07
			16,212,028(S)	1.16	0.21

Notes: L refers to long position. S refers to short position.

(1) The disclosure is based on the information available on the website of SEHK (www.hkexnews.com.hk).

(2) Changsha Hesheng Science and Technology Investment Co., Ltd. is an investment entity controlled and owned by the management of the Group.

(3) As stated in the form of disclosure of shareholder's interests submitted by Citigroup Inc. on 28 December 2016 (the date when the substantial shareholder become aware of the relevant event set out in the form was 23 December 2016), these shares were held via Citigroup Inc. and its affiliates.

(4) As stated in the form of disclosure of shareholder's interests submitted by Unique Element Corp. on 20 December 2016 (the date of the relevant event set out in the form was 19 December 2016), these shares were held via Unique Element Corp. and its affiliates.

Save as disclosed above, as at 31 December 2016, so far as the Directors and chief executive of the Company were aware, no persons (other than the directors and supervisors of the Company) had an interest or short position in the shares or underlying shares of the Company which is required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or required to be recorded in the register to be kept by the Company pursuant to Section 336 of SFO.

Changes in Share Capital and Shareholders

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities in the year ended 31 December 2016.

Directors, Supervisors, Senior Management and Employees

I. Changes in Shareholdings of Directors, Supervisors and Senior Management

Name	Post	Employment Status	Sex	Age	Date of commencement of tenure	Date of termination of tenure	Number of Shares held at the beginning of the period (share)	Number of Shares Increased during the period (share)	Number of Shares Decreased during the period (share)	Other changes (share)	Number of Shares held at the end of the period (share)
Zhan Chunxin	Chairman and Chief Executive Officer	incumbent	M	61	29 June 2015	29 June 2018	5,152,036	0	0	0	5,152,036
Hu Xinbao	Director	incumbent	M	48	29 June 2015	29 June 2018	0	0	0	0	0
Zhao John Huan	Director	incumbent	M	54	29 June 2015	29 June 2018	0	0	0	0	0
Lai Kin Keung	Independent Director	incumbent	M	66	29 June 2015	29 June 2018	0	0	0	0	0
Zhao Songzheng	Independent Director	incumbent	M	55	29 June 2015	29 June 2018	0	0	0	0	0
Liu Guiliang	Independent Director	incumbent	F	53	29 June 2015	29 June 2018	0	0	0	0	0
YANG Changbo	Independent Director	incumbent	M	62	29 June 2015	29 June 2018	0	0	0	0	0
Fu Zheng	Chairman of Supervisory Board	incumbent	F	48	29 June 2015	29 June 2018	0	0	0	0	0
Liu Quan	Supervisor	incumbent	M	53	29 June 2015	29 June 2018	1,068,052	0	0	0	1,068,052
Liu Chi	Employee Supervisor	incumbent	M	59	29 June 2015	29 June 2018	379,211	0	0	0	379,211
Zhang Jianguo	Vice President	incumbent	M	57	29 June 2015	29 June 2018	953,943	0	0	0	953,943
Yin Zhengfu	Vice President	incumbent	M	60	29 June 2015	29 June 2018	692,850	0	0	0	692,850
Xiong Yanming	Vice President	incumbent	M	52	29 June 2015	29 June 2018	504,295	0	0	0	504,295
Su Yongzhuan	Vice President	incumbent	M	44	29 June 2015	29 June 2018	584,175	0	0	0	584,175
Fang Minghua	Vice President	incumbent	M	59	29 June 2015	29 June 2018	503,081	0	0	0	503,081
He Jianming	Chief Taxation Assets Officer	incumbent	M	53	29 June 2015	29 June 2018	69,377	0	5,000	0	64,377
Wang Jinfu	Vice President	incumbent	M	60	29 June 2015	29 June 2018	0	0	0	0	0
Sun Changjun	Chief Legal Officer	incumbent	M	54	29 June 2015	29 June 2018	754,076	0	0	0	754,076
Huang Qun	Vice President	incumbent	F	50	29 June 2015	29 June 2018	423,200	0	0	0	423,200
Chen Peiliang	Vice President	incumbent	M	44	29 June 2015	29 June 2018	495,200	0	0	0	495,200
Guo Xuehong	Vice President	incumbent	M	54	29 June 2015	29 June 2018	737,650	0	0	0	737,650
Li Jiangtao	Vice President	incumbent	M	53	29 June 2015	29 June 2018	571,282	0	0	0	571,282
Wang Yukun	Chief Information Officer	resigned	M	50	29 June 2015	29 June 2018	533,000	0	0	0	533,000
Liu Jie	Vice President	incumbent	F	48	29 June 2015	29 June 2018	0	0	0	0	0
Du Yigang	Vice President	incumbent	F	41	29 June 2015	29 June 2018	0	0	0	0	0
Fu Ling	Chief Engineer	incumbent	F	49	29 June 2015	29 June 2018	50,000	0	0	0	50,000
He Wenjin	Vice President	incumbent	M	46	30 March 2016	29 June 2018	3,000	0	3,000	0	0
Shen Ke	Secretary of the Board of Directors	incumbent	M	45	29 June 2015	29 June 2018	337,500	1,773,100	0	0	2,110,600
Total	–	–	–	–	–	–	13,811,928	1,773,100	8,000		15,577,028

Directors, Supervisors, Senior Management and Employees

II. Biography of directors, supervisors and senior management

Dr. Zhan Chunxin (詹純新), male, born in 1955, is the Chairman and Chief Executive Officer of our Company. Dr. Zhan has been appointed as a director of our Company since the establishment of our Company in 1999, and as the Chairman since 2001. Currently, Dr. Zhan also serves as the chairman of various subsidiaries of our Company, including Zoomlion Powermole Limited, Hunan Teli Hydraulic Co., Ltd. and Hunan Zhongchen Rolled Steel Manufacturing Engineering Co., Ltd., and as the director of various subsidiaries of our Company, including Zoomlion H.K. Holding Co., Ltd., Zoomlion International Trading (H.K.) Co., Limited, and Zoomlion Capital (H.K.) Co., Limited. Dr. Zhan became an expert entitled to special government subsidy granted by the State Council since January 1994, a senior engineer as recognised by the Ministry of Construction in 1995 and a researcher-level senior engineer specialized in management and engineering as recognised by the Ministry of Construction in September 1997. Dr. Zhan has previously served various senior positions in Construction Machinery Research Institute of Changsha, the Ministry of Construction ("Research Institute"), including the deputy head of Research Institute from February 1992 to July 1996 and head of Research Institute from July 1996 to December 2008. Dr. Zhan has been serving various public functions. He was appointed as a representative at the 16th National Congress of the Communist Party of China in 2002, the 10th National People's Congress in 2003, the 17th National Congress of the Communist Party of China in 2007 and the 10th National Congress of the Communist Party of China in Hunan Province in 2011, a member of the 10th session of CPC Hunan Provincial Committee in 2011 and a representative at the 12th National People's Congress in 2013. Dr. Zhan has also served as the deputy chairman of China Entrepreneurs Association and China Enterprise Confederation since September 2008. Dr. Zhan has received various titles and awards, including 1994–1995 Annual Outstanding Leading Cadre of the Ministry of Construction awarded in March 1996, the Young and Middle-Aged Experts in Science, Technology and Management with Outstanding Contribution awarded by the Ministry of Construction in 1995, the National Advanced Worker awarded in April 2000, the winner of the First National Outstanding Entrepreneur in Construction Machinery Industry Award in 2002, the 2003 Top 10 News Figures of China awarded in December 2003, winner of the Third National Outstanding Pioneering Entrepreneur Award in March 2004, the National Star Entrepreneur in Construction Machinery Industry in December 2004, the 2008 China's Most-recognised Entrepreneur awarded in January 2009, and the Yuan Baohua Enterprises Management Gold Award awarded in May 2010 which is the most distinguished award for corporate executives in China, the 2010 Leonardo Award in Italy awarded in January 2011, the 2011 CCTV Chinese Economic Annual Figure awarded in December 2011 and the Most Outstanding Person Award awarded in January 2013. Dr. Zhan graduated from Northwestern Polytechnical University in 1978 and obtained a master's degree in aeronautical engineering from Northwestern Polytechnical University in 2000 and a doctorate degree in system engineering from Northwestern Polytechnical University in December 2005.

Directors, Supervisors, Senior Management and Employees

Mr. Hu Xinbao (胡新保), male, born in 1968, is a non-executive director of our Company. Mr. Hu Xinbao is the general manager of 湖南國有資產經營管理有限公司 since December 2015. Mr. Hu Xinbao was deputy director of the General Office of the State-Owned Assets Supervision and Administration Commission of Hunan Province from September 2004 to October 2006; and member of party committee and chairman of the supervisory committee of Hunan Xingxiang Stateowned Assets Operation Co., Ltd. (湖南興湘國有資產經營有限公司) from October 2006 to June 2008; and member of party committee and deputy general manager of Hunan Province Xing Xiang Investment Holding Group Co., Ltd. (湖南興湘投資控股集團有限公司) (formerly known as Hunan Xingxiang State-owned Assets Operation Co., Ltd.) from June 2008 to December 2015. Mr. Hu Xinbao graduated from Hunan Agricultural College with a bachelor's degree in agricultural and economic management in 1992. Mr. Hu Xinbao has a job title of accountant.

Mr. Zhao John Huan (趙令歡), male, born in 1963, is a director of the Company. Mr. Zhao has extensive experience in corporate management and previously held senior management positions at several companies in the United States and the PRC. Mr. Zhao is currently an executive director and executive vice president of Legend Holdings Corporation, a non-executive director of Lenovo, the chairman of the board of directors of China Glass Holdings Limited, the chairman of the board and chief executive officer of Best Food Holding Company Limited (all listed on the Hong Kong Stock Exchange), the deputy chairman of Shanghai Chengtou Holding Co., Ltd. (上海城投控股股份有限公司), and a non-executive director of Shanghai Jin Jiang International Hotels Development Co., Ltd. (上海錦江國際酒店發展股份有限公司) (both listed on the Shanghai Stock Exchange). He also served as a director of Wumart Stores, Inc., New China Life Insurance Company Ltd., Chinasoft International Limited and CSPC Pharmaceutical Group Limited (all listed on the Hong Kong Stock Exchange), and a director of Fiat Industrial S.p.A. (listed on MTA Italian Stock Exchange). In addition, Mr. Zhao also served as the research & development director and senior manager of Shure Brothers, Inc., vice president of US Robotics Inc. (listed on NASDAQ Stock Market), chairman of the board and president of Vadem, Inc., chairman of the board and president of Infolio Inc. and a managing partner and chief executive officer of eGarden Ventures, Ltd. Mr. Zhao obtained his bachelor's degree in science from Nanjing University in China in 1984 and a master of electronic engineering and science degree from Northern Illinois University in the United States in 1990 and a master of management degree from the J.L. Kellogg Graduate School of Management at Northwestern University in the United States in 1996.

Prof. Lai Kin Keung (黎建強), male, born in 1950, is an independent non-executive director of the Company. Mr. Lai Kin Keung is currently the president of Asia Association on Risk and Crises Management. He was the chair professor of management science at City University of Hong Kong from July 1985 to September 2016. Mr. Lai Kin Keung is also an independent non-executive director of Food Wise Holdings Ltd., which is listed on the Hong Kong Stock Exchange. Mr. Lai Kin Keung is the founding chairman of the Operational Research Society of Hong Kong established in Hong Kong in 1979. He is the certified senior enterprise risk manager of Asia Association of Risk and Crisis Management, a member of the Hong Kong Professionals and Senior Executives Association, a fellow of the Hong Kong Institute of Directors and a fellow of the Asia Pacific Industrial Engineering and Management Society. Lai Kin Keung was the dean of the College of Business Administration at Hunan University from February

Directors, Supervisors, Senior Management and Employees

2005 to February 2008 and a member of the 10th Hunan Provincial Committee of Chinese People's Political Consultative Conference in 2008, and appointed as the Chang Jiang Scholar Chair Professor by the Ministry of Education in 2009. Mr. Lai Kin Keung received the 2009 Joon S.Moon Distinguished International Alumni Award and 2014 Civil and Environmental Engineering (CEE) Distinguished Alumni Award from Michigan State University, US in February 2009 and January 2014, respectively. Lai Kin Keung obtained the Doctor of Philosophy's degree in civil engineering from Michigan State University, US in September 1997.

Prof. Zhao Songzheng (趙嵩正), male, born in 1961, is an independent non-executive director of the Company. Mr. Zhao Songzheng is currently a professor of the Management College at Northwestern Polytechnical University and the Doctor of Philosophy tutor since 1999. During his teaching career, Mr. Zhao Songzheng chaired various scientific research and development projects at state and provincial levels and received two Provincial Science and Technology Advancement Awards (Grade III), Educational Award of Shaanxi Province (Grade I) and (Grade II) each, Science and Technology Advancement Award of Xian City (Grade I), Management Award of Shaanxi Province (Grade I), Science and Technology Advancement Awards in Education of Shaanxi Province (Grade I) and (Grade III) respectively, and obtained six copyrights for national software products and published over 100 academic papers. Currently, Mr. Zhao is an independent director of Xi'an Tianhe Defense Technology Co., Ltd..

Prof. Liu Guiliang (劉桂良), female, born in 1963, is an independent non-executive director of the Company. Ms. Liu is a graduate tutor, certified accountant and certified asset appraiser. Ms. Liu Guiliang has been a professor of Hunan University since May 2007. Ms. Liu Guiliang obtained a bachelor's degree in industrial financial accounting from the industrial economy department of Hunan College of Finance and Economics in July 1983. She then taught in Hunan College of Finance and Economics after graduation. She was deputy secretary of communist youth league committee of Hunan College of Finance and Economics from July 1983 to June 1987, and deputy professor of accounting department at Hunan College of Finance and Economics (which was merged with Hunan University in April 2000) from July 1987 to May 2007. Currently, she serves as an independent director of Sotech Machinery Co., Ltd., Xiandai Investment Co., Ltd and Guangdong Yizumi Precision Machinery Co., Ltd.

Mr. Yang Changbo (楊昌伯), male, born in 1954, is an independent director of the Company. Mr. Yang served as a senior official at the World Bank from August 1986 to August 1998. He then joined China International Capital Corporation as the managing director of the investment banking division. Mr. Yang joined Goldman Sachs Gao Hua as managing director in October 2006 and became partner at Goldman Sachs in 2010. He retired in 2014 and remained as consultant at Goldman Sachs from January 2014 to January 2016. Mr. Yang obtained a PhD in Economics from the University of Texas, Austin, the United States of America in 1986.

Directors, Supervisors, Senior Management and Employees

Ms. Fu Zheng (傅箏), female, born in 1968, is the chairman of supervisory board of the Company. Ms. Fu Zheng has been the chairman of the Supervisory Committee of Stateowned Assets of Hunan Province from July 2013 till now. Ms. Fu Zheng was deputy secretary of party committee and researcher of the State Administration for Science, Technology and Industry for National Defence of Hunan Province from February 2008 to April 2010; and deputy secretary of party committee of the State Administration for Science, Technology and Industry for National Defence of Hunan Province from April 2010 to December 2012; and deputy head of disciplinary inspection unit and director of supervisory office of the State Administration for Science, Technology and Industry for National Defence at provincial level delegated by party disciplinary committee and supervisory department of Hunan Province from December 2012 to July 2013. Ms. Fu Zheng obtained a master's degree in public management from Xiangtan University in 2007.

Mr. Liu Quan (劉權), male, born in 1963, is a vice president of the environmental industry group of the Company. Mr. Liu Quan has become an expert entitled to special government subsidy granted by the State Council since April 1999. Mr. Liu Quan has previously served various senior positions in Research Institute and our Group, including the head of the concrete machinery research institute of Research Institute from 1993 to 1995, deputy general manager of the concrete machinery branch of our Company from 1999 to 2001, and chief engineer and chief researcher of our Company from 2002 to 2005. Mr. Liu Quan has received various titles and awards, including the Science and Technology Advancement Award of Hunan Province (Grade I) and (Grade III) in October 1997 and December 2001 respectively, National Science and Technology Advancement Award (Grade III) in December 1998, National Labour Day Medallion in April 2003, the 2005 Huaxia Construction, Science and Technology Award (Grade II) in January 2006, and Outstanding Leader in National Quality Management Group Activities in September 2006. Mr. Liu Quan received his bachelor's degree in construction machinery from Harbin University of Civil Engineering and Architecture in 1984 and attended the EMBA program of Business School of Hunan University from 2005 to 2008.

Mr. Liu Chi (劉馳), male, born in 1957, is a employee supervisor of the Company. Mr. Liu Chi has become a senior engineer as recognised by the Ministry of Construction in December 1992. Mr. Liu Chi was the head of science research management division of the Science and Technology Department of the Ministry of Construction from 1992 to 2002. Mr. Liu Chi was a member of the 2nd session of the Board of Directors and head of executive office of the Company from October 2002 to September 2004. Mr. Liu Chi was the executive deputy general manager of the environmental and sanitation machinery branch of the Company from 2004 to 2008. Mr. Liu was our employee supervisor from July 2006 to July 2010. Mr. Liu Chi was previously a senior visiting scholar at the University of Queensland, Australia from 1989 to 1992. Mr. Liu Chi received the National Science and Technology Advancement Award (Grade III) in November 1992, and was accredited as the National Advanced Management Officer of Technology Innovation under the 8th National Five-year Plan in March 1997. Mr. Liu Chi graduated from Hunan Agricultural College (currently known as Hunan Agricultural University) with a bachelor's degree in agricultural machinery in July 1982, and received his master's degree in architectural and civil engineering from Chongqing Architecture University (currently known as Chongqing University) in January 2000.

Directors, Supervisors, Senior Management and Employees

Dr. Zhang Jianguo (張建國), male, born in 1959, is a vice president of our Company. He is also the president of the environmental industry group of the Company. He became a senior engineer as recognised by Research Institute in December 1997, and has been an expert entitled to government special subsidy granted by the State Council since July 2001. Dr. Zhang was the deputy head of Research Institute from November 1998 to December 2008. Dr. Zhang was the deputy general manager of our Company from August 1999 to July 2000, secretary to the Board of Directors of our Company from August 1999 to March 2001 and a member of the 1st and 2nd sessions of the board of directors of our Company from August 1999 to July 2006. He was appointed as an executive president of our Company in August 2006, and has become a senior president of our Company since August 2007. Dr. Zhang was also a director of Zoomlion Fire Control Machinery Co., Ltd. from April 2004 to December 2007. Dr. Zhang has received various titles and awards, including Changsha City Science and Technology Advancement Award (Grade I) awarded in December 1996, the Science and Technology Advancement (Grade I) Award of Hunan Province in October 1997, the National Science and Technology Advancement (Grade III) Award in December 1998, and the Young and Middle-Aged Experts in Science, Technology and Management with Outstanding Contribution awarded by the Ministry of Construction in December 1999. Dr. Zhang obtained a master's degree in engineering from Shanghai University of Technology in Shanghai, the PRC in 1991, and a doctorate degree in systems engineering from Northwestern Polytechnical University in Xi'an City, the PRC in 2005.

Mr. Yin Zhengfu (殷正富), male, born in 1956, is a vice president of our Company. Currently, Mr. Yin is also a vice president of the construction machinery group and the general manager of the eastern China branch of the construction machinery group of the Company. Mr. Yin obtained the qualification certificate of senior professional manager of machinery enterprises issued by CMEMA in May 2006. Mr. Yin was previously the head of factory office and deputy factory manager of Hunan Puyuan Machinery Factory from April 1988 to May 1995, factory manager of Changsha Heavy Equipment Factory from June 1995 to August 2001, vice chairman of the board of directors and general manager of Puyuan Group from September 2001 to September 2003, general manager of Hunan Puyuan Construction Machinery Co., Ltd. from September 2003 to September 2004. Mr. Yin was the general manager of our Company and a member of the 2nd session of Board of Directors from September 2004 to July 2006. He was appointed as an executive president of our Company in August 2006, and has become a senior president of our Company since August 2007. Currently, Mr. Yin is a senior chairman of Changsha Entrepreneurs Association and vice chairman of Hunan Association of Machinery Industry. Mr. Yin has received various titles and awards, including the Outstanding Entrepreneur of Hunan Province awarded in 2003, the National Outstanding Entrepreneur in Machinery Systems awarded in 2005 and the Star Entrepreneur of the China Machinery Industry awarded in 2007. Mr. Yin obtained a bachelor's degree in business administration from the College of Management (secondary bachelor's degree class) of China University of Geosciences in Wuhan City, the PRC in 2004.

Directors, Supervisors, Senior Management and Employees

Mr. Fang Minghua (方明華), male, born in 1957, is a vice president of our Company. Mr. Fang is assigned to take charge of the enterprise service system of the Company and acts as the vice president of the construction machinery group, the general manager of the South China branch of the construction machinery group of the Company, a director of Hunan Teli Hydraulic Co., Ltd., and the chairman of the board of directors of Zoomlion Financing and Leasing (Beijing) Co., Ltd. Mr. Fang was a member of the 1st and 2nd sessions of the Board of Directors of our Company from July 2000 to April 2001 and October 2002 to June 2006 respectively. Mr. Fang was a deputy general manager of our Company from February 2000 to April 2001, the general manager of our Company from April 2001 to September 2004. Mr. Fang was appointed as a vice president of our Company in August 2006 and has become a senior president of our Company since September 2008. Mr. Fang has received various titles and awards, including the Ministry of Science and Technology Outstanding Torch Projects (Grade II) awarded in 1998, the Outstanding Entrepreneur of Changsha New & Hi-Tech Industrial Development Zone awarded in February 2001, the 3rd Grand Prize of the Hunan Young Entrepreneur (Kunpeng Award) awarded in October 2006 and the Advanced Worker for the Top Ten Landmark Project Construction in Hunan Province in 2007. Mr. Fang completed a bachelor's program in business administration from Jiangnan University in Wuxi City, the PRC through internet education in 2004.

Mr. He Jianming (何建明), male, born in 1963, is Chief Taxation Asset Officer of our Company. Mr. He has become a senior accountant as recognized by the Department of Personnel of Hunan Province since August 2001. He was previously the deputy chief of the business section I and chief of the general administration office of finance inspectors of the Ministry of Finance in Hunan Province from November 1995 to April 2001. Since Mr. He joined our Group in April 2001, he was the chief financial officer of our Company from April 2001 to August 2004 and from August 2006 to July 2007 respectively. He was also a member of the 2nd session of the Supervisory Board of our Company from September 2004 to July 2006. Mr. He has been serving various other positions. Mr. He was a tutor for master's degree graduate students of the School of Accounting, Hunan University from December 2003 to December 2006. Mr. He has been a member of senior accountant appraisal committee of Hunan Province since August 2003, a member of the executive council of the 3rd session management committee of Hunan Association of Chief Accountants since March 2004 and vice chairman of Listed Company Division of Hunan Association of Chief Accountants since September 2009. Mr. He has been a member of the executive council of Hunan Association of Chief Accountants since April 2012 and a member of the executive council of Hunan Association of Taxation since March 2013. Mr. He obtained a master's degree in business administration for senior management staff from Wuhan University in Wuhan City, the PRC in 2007.

Mr. Xiong Yanming (熊焰明), male, born in 1964, is a vice president of our Company. Currently, Mr. Xiong is assigned to take charge of the overseas business of the Company. Mr. Xiong has become a senior engineer specialized in construction machinery as recognised by the Ministry of Construction since December 1999 and obtained the qualification certificate of senior professional manager of machinery enterprises as conferred by China Machinery Enterprise Management Association in December 2004. He was previously an assistant engineer and engineer of Research Institute from 1985 to 1998. Mr.

Directors, Supervisors, Senior Management and Employees

Xiong was a member of the 1st session of the Supervisory Board of our Company from August 1999 to March 2001, deputy general manager of our Company from April 2001 to July 2002, executive vice president of our Company from August 2002 to July 2006, member of the 2nd session of the Board of Directors of our Company from September 2004 to July 2006. Mr. Xiong has received various awards, including Hunan Province Technology Innovation Advanced Individuals Award in 1999, Changsha City Advancement Award in Technological Development (Grade II) in 1999, Outstanding Entrepreneur Award granted by the Changsha New & Hi-Tech Industrial Development Zone in 2002, the Award of Succeeding Leader for Academics and Technology of Changsha City in 2007 and the Outstanding Leaders' Award in the Hunan Province Quality Group Activity in 2009. He has also received the Outstanding Personage Award by the Dealers Committee of China Construction Machinery — DCCCM 10th Anniversary (Facilitating Advancement of the Dealers System). Mr. Xiong obtained a bachelor's degree in port machinery design and manufacturing from Wuhan Marine Engineering College (currently known as Wuhan University of Technology) in Wuhan City, the PRC in 1985 and a master's degree in executive business administration under the BiMBA project from Peking University in Beijing, the PRC in June 2007.

Dr. Su Yongzhuan (蘇用專), male, born in 1972, is a vice president of our Company. Dr. Su is currently the executive deputy president of the construction machinery group, the general manager of the financial services branch and the general manager of the North China branch of the construction machinery group of the Company. Dr. Su was qualified as a senior international finance controller as recognised by International Financial Management Association and China Association of Chief Financial Officers in 2006. Dr. Su was the head of supplies office, deputy manager of the sales division, executive deputy manager, the person in charge of financial affairs and deputy general manager of Hunan Province Puyuan Group Co., Ltd. from September 1998 to August 2004, the chief financial officer of our Company from September 2004 to July 2006, and the general manager of the concrete machinery branch of our Company from March 2006 to December 2008. Dr. Su was awarded the Top Ten Outstanding Young Persons of Changsha in December 2005 and the Outstanding Enterprise Management Personnel in Machinery Industry issued by China Machinery Enterprise Management Association in June 2007. Dr. Su is also a vice chairman of Hunan Youth Federation and Hunan Young Entrepreneurs Association. Dr. Su obtained a master's degree in machinery engineering from Wuhan University in Wuhan City, the PRC in June 2004 and a doctorate degree in management science and engineering from Wuhan University of Technology in 2008.

Mr. Wang Jinfu (王金富), male, born in 1956, is a vice president of the Company. Mr. Wang obtained a master degree and is a senior economist. He is also representative of the 11th and 12th People's Congress. Mr. Wang is currently the president of the agricultural machinery group and the general manager of the heavy machinery company of the Company. He was previously the chairman, chief executive officer and secretary of party committee of Foton Lovol International Heavy Industries Co., Ltd. (福田雷沃國際重工股份有限公司), deputy general manger of BeiQi Foton Motor Co., Ltd. (北汽福田汽車股份有限公司), deputy general manager of Chery Holdings Co., Ltd. (奇瑞控股有限公司) and general manager of Zoomlion Heavy Machinery Co., Ltd. (中聯重機股份有限公司). Mr. Wang received recognition such as China Industry Pioneer Award (中國工業先鋒人物)、Top 10 Persons of Merits in the Construction of Agricultural Machinery Circulation System in China (全國農機流通體系建設十大功勛人物) and Persons of Outstanding Contributions to Agricultural Machinery Industry in China (全國農機工作傑出貢獻者). He is the chairman of China Modern Agricultural Equipment Vocational Education Group, deputy president of China Agricultural Machinery Distribution Association and chairman of Anhui Association of Agricultural Machinery Manufacturers. Mr. Wang obtained a master's degree in enterprise management from Capital University of Economics and Business in 2003.

Mr. Guo Xuehong (郭學紅), male, born in 1962, is a vice president of our Company. Currently, Mr. Guo is a vice president of the construction machinery group and the general manager of the northwestern China branch of the construction machinery group of the Company. Mr. Guo was the head of the technological structure section of technology department of Hunan Puyuan Construction Machinery Factory from June 1992 to February 1995, deputy head of technology department of Hunan Puyuan Construction Machinery Factory from February 1995 to January 1996, head of technology research centre of Puyuan Group and deputy manager of crane company of Puyuan Group from January 1996 to July 2000, the executive deputy general manager of Puyuan Holding Company from August 2000 to January 2002, the assistant to general manager and deputy general manager of Puyuan Group from January 2002 to August 2004. Mr. Guo was the general manager of the Puyuan branch of our Company from September 2004 to February 2006. Mr. Guo received a diploma in technology and equipment of machinery manufacturing from Hunan Radio and TV University in Changsha City, the PRC in 1985, completed a postgraduate program in machinery engineering and management science and engineering at Hunan University in Changsha City, the PRC in March 2004. Mr. Guo obtained a master's degree in executive business administration at Wuhan University in Wuhan City, the PRC in June 2007.

Dr. Sun Changjun (孫昌軍), male, born in 1962, is Chief Legal Officer of the Company. Dr. Sun has become a professor as recognised by the Leaders Team of the Working Group on the Titles Reform of Hunan Province since September 2005. Prior to joining us, he had assumed various positions, including the deputy head officer and head officer of the legal and labor affairs committee of Hunan People's Congress from July 1990 to July 1995, director of criminal law research office of Hunan University of Finance and Economics from July 1998 to May 2000, vice-director of the industrial economics office of Hunan University from June 2000 to September 2001, deputy head of the law faculty of Hunan University from October 2001 to December 2004, and general legal counsel of Research Institute from January 2005 to July 2006. Dr. Sun serves various other positions, including chairman of the Criminal Law Research Association of Hunan Province, a member of the expert advisory panel of the People's Procuratorate of Hunan Province, a member of executive council of China Securities Law Research Association (中國證券法學研究會), vice-chairman of the Association for Studies of Conditions in Hunan Province and a representative at the 4th People's Congress of Yuelu District, Changsha. Dr. Sun has won various titles and awards, including the Research Results (Grade I) Prize of Organisation Division of Central Government in October 2001, the 5-Best Project Prize of Hunan Province in October 2001, Social Science Results (Grade I) of Hunan Province in June 2002, Outstanding Achievements (Grade II) of Philosophy and Social Sciences of Hunan Provinces in 2004, the Outstanding Legal Counsel of the

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Provincial Supervisory Corporations in 2008, Outstanding Research Paper (Grade I) of Hunan State-owned Assets Forum in 2010, Innovative Results (Grade I) Prize in Modern Enterprise Management of Hunan Province (湖南省企業管理現代化創新成果一等獎) in 2009, Innovative Results (Grade III) Prize in Modern Enterprise Management of Hunan Province (湖南省企業管理現代化創新成果三等獎) in 2010 and the Annual Outstanding Corporate Counsel in China for 2011 (2011中國律政年度精英公司律師) in December 2011. Dr. Sun graduated from Southwest College of Political Science and Law (currently known as Southwest University of Political Science and Law) in Chongqing, the PRC with a bachelor's degree in law in 1983, and obtained a doctorate degree in law from Wuhan University in Wuhan City, the PRC in 1998.

Mr. Li Jiangtao (李江濤), male, born in 1963, is a vice president of our Company. Mr. Li is currently is currently a vice president of the agricultural machinery group of the Company and the deputy manager of Zoomlion Heavy Machinery Co, Ltd. He has become a senior engineer as recognised by Ministry of Construction since November 2000. Mr. Li was the vice mayor (in charge of science and technology) of Lengshuitan City, Hunan Province from April 1989 to June 1992, deputy general manager and office head of Zoomlion Construction Machinery Industry Company from September 1992 to January 1995, deputy general manager of the production company and manager of the material supply department of Zoomlion Construction Machinery Industry Company from January 1995 to May 1998, deputy general manager of the environmental and sanitation machinery industry branch of Zoomlion Construction Machinery Industry Company from June 1998 to February 1999, and general manager of Zhongbiao Industrial Co., Ltd. from March 1999 to October 2003. Mr. Li was a member of the 1st and 2nd sessions of the Supervisory Board of our Company from August 1999 to August 2004, general manager of Zhongbiao business department of our Company from November 2003 to February 2006, deputy general manager of our Company from December 2004 to July 2006, human resources chief officer of our Company from August 2006 to August 2008. He was also a representative of the 10th and 11th People's Congress of Changsha City from January 1993 to January 2003. Mr. Li was appointed as the deputy chairman of China Association of Urban Environmental and Sanitation from September 2004 to December 2008. Mr. Li has received various titles and awards, including the Outstanding Entrepreneur Award granted by the Changsha New & Hi-Tech Industrial Development Zone in February 2000, and the Model Worker of Changsha City in April 2004. Mr. Li graduated from Chongqing Construction Engineering College (currently known as Chongqing University) in Chongqing City, the PRC with a bachelor's degree in construction machinery in 1986, and China Europe International Business School with a master's degree in executive business administration in Shanghai, the PRC in September 2009.

Mr. Chen Peiliang (陳培亮), male, born in 1972, is a vice president of our Company. Currently, Mr. Chen is an executive vice president of the environmental industry group of the Company. Prior to joining us, Mr. Chen was a manager, deputy general manager and general manager of the import and export department of Hunan Xinhualian International Trade Co., Ltd. from May 1996 to July 2002. Mr. Chen was the general manager of Zoomlion International Trade Co., Ltd. from September 2002 to May 2010. Mr. Chen was also appointed as the assistant to president of the Company in November 2007, and became

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the vice president of our Company in July 2010. Mr. Chen graduated from Hunan University of Finance and Economics (currently merged with Hunan University) in Changsha City, the PRC with a bachelor's degree in international trade in June 1994.

Ms. Huang Qun (黃群), female, born in 1966, is a vice president of the Company. Ms. Huang is currently a vice president of the construction machinery group, the general manager of Central China branch and Southwestern branch of the construction machinery group of the Company. Ms. Huang has been recognised as senior engineer by the Ministry of Construction since October 2000. Ms. Huang was the deputy head of the machinery factory of electrical and mechanical engineering of Zoomlion from August 1999 to December 2001; head of workshop, procurement manager and manager of the manufacturing company of Zoomlion from January 2002 to January 2006; and general manager of the construction and crane machinery branch of Zoomlion from January 2006 to July 2014. She was appointed as the general manager of the crane company, general manager of the crane machinery branch and the general manager of the construction and crane machinery branch of the crane company of the Company in July 2014. Ms. Huang received awards of the Outstanding Workshop Director of Mechanical Manufacturing Division in China (中國機械工業部優秀車間主任) in 2003, Innovative Results (Grade I) Prize in Modern Enterprise Management of Hunan Province (湖南省企業管理現代化創新成果一等獎) in 2012 and the Outstanding Entrepreneur in Hunan Province (湖南省優秀企業家) in 2013. Ms. Huang obtained a bachelor's degree in lifting, transportation and engineering machinery from Dalian University of Technology, the PRC in 1988.

Ms. Liu Jie (劉潔), female, born in 1968, is a vice president of the Company. Ms. Liu has obtained a bachelor's degree and is a senior accountant and certified senior international internal control officer. Ms. Liu is assigned to take charge of the enterprise operation system of the Company and acts as the vice president of the construction machinery group of the Company. Ms. Liu was previously a deputy general manager of Zoomlion Construction Machinery Industry Company, and the head of audit division and chief audit officer of the Company. Ms. Liu received award of the Outstanding Leader of Changsha National Hi-Tech Industrial Development Zone in Hunan Province (湖南省長沙高新區優秀企業家) and Enterprise Economic Performance Management Individuals Award (企業經濟運行管理工作先進個人). She graduated from Hunan University with a bachelor's degree in machinery casting mechanics in 1991. She completed a master programme in accountancy of Hunan University in June 2003 and a MBA programme of the School of Business of Hunan University in June 2009.

Ms. Du Yigang (杜毅剛), female, born in 1975, is a vice president of the Company. Ms. Du has obtained a bachelor's degree and is a senior accountant. She is assigned to take charge of the financial matters of the Company and acts as the director and general manager of Zoomlion Heavy Industry Science and Technology Group Finance Co., Ltd.. Ms. Du received awards of the Outstanding Leader of National Hi-Tech Industrial Development Zone in (長沙高新區優秀企業家) and the First Selection Session of Leading Accounting Talent in Hunan Province (湖南省首屆會計領軍人才) in 2014. Ms. Du was previously the head of the accounting division of Zhuzhou Southern Motor Company Limited (株洲南方摩托股份有限公司), the financial manager of Hunan IIN-Galaxy Software Development Co., Limited (湖南國訊銀河軟件園有限公

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司), Zoomlion Heavy Industry Science and Technology Engineering Crane Company (中聯重科工程起重機公司) and Zoomlion Heavy Industry Science and Technology Concrete Machinery Company (中聯重科混凝土機械公司), the deputy head of the financial management division of Zoomlion, the head of accounting and audit division of Zoomlion and the deputy manager of Zoomlion Heavy Industry Science and Technology Concrete Machinery Company. Ms. Du graduated from Xiangtan University with a bachelor's degree in international accounting, and completed a MBA programme of the School of Business of Hunan University in September 2011.

Dr. Fu Ling (付玲), female, born in 1967, is the Chief Engineer of the Company. Dr. Fu obtained a doctoral degree in mechanics and is a senior engineer in researcher rank and a party representative of the 18th Party Congress of the Communist Party of China. She is currently the head of the central research institute, a vice president of the environmental industry group and the deputy general manager of the environmental industry company of the Company. She was previously the deputy head of the central research institute of the Company. Dr. Fu Ling received awards of the First Prize of China Machinery Industry Science & Technology Award (中國機械工業科學技術獎一等獎) and the First Prize of Science and Technology Advancement Award of Hunan Province (湖南省科學技術進步獎一等獎) etc, and was previously awarded the National Labor Day Medallion (全國五一勞動獎章) and the National woman pacesetter (全國三八紅旗手). She graduated from Shenyang Jianzhu Engineering College (瀋陽建築工程學院), (currently known as Shenyang Jianzhu University) in Shenyang China with a bachelor's degree in transportation and engineering machinery in 1988, Changchun University of Technology (currently known as Jilin University) in Changchun China with a doctorate degree in mechanical design and theory in 1998, and complete postdoctoral research programme at the Agricultural Engineering Institute of China Agricultural University (中國農業大學農業工程學院) in Beijing China in 2002.

Mr. Shen Ke (申柯), male, born in 1971, is the secretary of the board of directors and the company secretary of the Company. Mr. Shen is currently the head of the office of the secretary of the board of directors of the Company. He was the deputy general manager and head of the investment and development division of the Company from July 2003 to August 2008 and the deputy head of the investment and financing management division of the Company from September 2008 to July 2010. Mr. Shen graduated from Shenyang University of Technology in Shenyang City, the PRC with a bachelor's degree in industrial management in July 1993 and Central South University of Technology (currently known as Central South University) in Changsha City, the PRC with a master's degree in management science and engineering in December 1998.

Directors, Supervisors, Senior Management and Employees

III. Remunerations of directors, supervisors, senior management and employees

During the reporting period, the remuneration and assessment committee of the Board carried out performance assessment on the directors, supervisors and senior management pursuant to the assessment standards based on the fulfillment of major financial indicators and operating targets in 2016, scope of work and major responsibilities of directors, supervisors and senior management, and fulfillment of targets in the relevant performance assessment system. The performance assessment was submitted to the Board of the Company for review.

The Board of the Company determined the remuneration standards of directors, supervisors and senior management for the year pursuant to the remuneration management system and the annual performance assessment conducted by the remuneration and assessment committee of the Board. In 2016, remuneration of directors, supervisors and senior management disclosed was in compliance with the remuneration management system of the Company. The remuneration was not in violation or inconsistent with the remuneration management system.

Unit: RMB ten thousand

Name	**Post**	**Sex**	**Age**	**Employment status**	**Total remuneration before tax received from the Company**	**Whether the remuneration was received from a related party of the Company**
Zhan Chunxin	Chairman and Chief Executive Officer	M	61	incumbent	270	No
Hu Xinbao	Director	M	48	incumbent	0	No
Zhao John Huan	Director	M	54	incumbent	0	No
Lai Kin Keung	Independent Director	M	66	incumbent	12	No
Zhao Songzheng	Independent Director	M	55	incumbent	12	No
Liu Guiliang	Independent Director	F	53	incumbent	12	No
YANG Changbo	Independent Director	M	62	incumbent	6	No
Fu Zheng	Chairman of Supervisory Board	F	48	incumbent	0	No
Liu Quan	Supervisor	M	53	incumbent	160	No
Liu Chi	Employee Supervisor	M	59	incumbent	130	No
Zhang Jianguo	Vice President	M	57	incumbent	180	No
Yin Zhengfu	Vice President	M	60	incumbent	160	No
Xiong Yanming	Vice President	M	52	incumbent	180	No

Directors, Supervisors, Senior Management and Employees

Name	Post	Sex	Age	Employment status	Total remuneration before tax received from the Company	Whether the remuneration was received from a related party of the Company
Su Yongzhuan	Vice President	M	44	incumbent	160	No
Fang Minghua	Vice President	M	59	incumbent	150	No
He Jianming	Chief Taxation Assets Officer	M	53	incumbent	150	No
Wang Jinfu	Vice President	M	60	incumbent	260	No
Sun Changjun	Chief Legal Officer	M	54	incumbent	160	No
Huang Qun	Vice President	F	50	incumbent	160	No
Chen Peiliang	Vice President	M	44	incumbent	150	No
Guo Xuehong	Vice President	M	54	incumbent	160	No
Li Jiangtao	Vice President	M	53	incumbent	150	No
Wang Yukun	Chief Information Officer	M	50	resigned	60	No
Liu Jie	Vice President	F	48	incumbent	120	No
Du Yigang	Vice President	F	41	incumbent	120	No
Fu Ling	Chief Engineer	F	49	incumbent	120	No
He Wenjin	Vice President	M	46	incumbent	160	No
Shen Ke	Secretary of the Board of Directors	M	45	incumbent	120	No
Total	—	—	—	—	3,322	—

IV Service Contracts of Directors and Supervisors

None of the directors or supervisors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

V Directors' and Supervisors' Interests in Contracts

No director or supervisor had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

Corporate Governance

The Company has established and improved the structure of its corporate governance to regulate its operation strictly in accordance with the Company Law, Securities Law, the relevant regulations of the CSRC and code provisions of the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 to the Listing Rules of Hong Kong. According to the relevant regulations, the Company improves its internal control, the regulations of shareholders' meeting, board meeting and supervisor meeting so as to implement a comprehensive governance system and disclosure procedures. The Company ensures its sustainable and healthy development to further enhance the corporate value and safeguard the interests of all shareholders and itself.

I. Statement of the Compliance of Corporate Governance Requirements of the PRC Regulatory Authorities and Code on Corporate Governance of Hong Kong

The corporate governance of the Company is substantially the same as required by the regulatory requirements of the CSRC on listing companies. Pursuant to the requirements of the regulatory authorities, the Board of the Company reviewed and refined the structure and implementation of the corporate governance system and the management system for information insider, and external user. It also prepared a report on the insider information and external information users and report to relevant regulatory authority.

Dr. Zhan Chunxin acted as the Chairman and Chief Executive Officer of the Company in 2016. The Board considers that Dr. Zhan Chunxin acting as Chairman and Chief Executive Officer can be more efficient in the planning and implementation of the corporate strategies. Under the supervision of the Board and Independent Non-executive Directors and our effective internal checks-and-balances, such arrangement will not create conflict between the Board and the Company in business operation and will not jeopardise the balance of power.

Save as above, the Company has complied with the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 to the Listing Rules of Hong Kong throughout the year of 2016.

II. Shareholders and Shareholder's General Meeting

The shareholders' general meetings are convened and conducted strictly in accordance with the relevant PRC and overseas statutory requirements and the Articles of Association. Lawyers are invited to attend and witness the meeting. Minutes of shareholders' general meeting are properly maintained to secure the rights of shareholders.

The shareholding structure of the Company are set out in section "Changes in Share Capital and Shareholders" in this annual report.

Corporate Governance

The Company maintains effective communication with its shareholders through disclosures of financial and operating results in annual reports, interim reports and quarterly reports. The Company has set up investor telephone hotline and email account to receive advices from shareholders or allow them to exercise their rights. Website of the Company is updated regularly to allow investors and the public to understand the latest development of the Company. The date, contents, method of delivery and announcement of notice of shareholders' general meetings and the voting conducted at shareholders' general meetings are strictly in compliance with the rules and regulations within and outside China including the Company Law and Securities Law of the PRC and the Company Ordinance of Hong Kong, Listing Rules of Shenzhen and Hong Kong and the Articles of Association to ensure that shareholders are entitled to attend the general meetings.

III. Directors and Board

All Directors have attended board meetings and shareholders' general meetings strictly in accordance with the Articles of Association and Rules of Board Meeting in a bona fide manner. Directors have actively participated in the relevant training programs to understand the requirements of laws and regulations and the rights, obligations and liabilities of Directors to ensure the smooth operation and rational decisions of the Board. The Directors oversee and regulate the operation of the Company for its best interest. They bear joint and several liabilities for the management, supervision and operation of the Company and are accountable to all shareholders.

The number of members and structure of the Board are in compliance with the relevant laws and regulations. Independent Directors represent a majority of the Board. The Board has performed its duties in accordance with the relevant laws and regulations and the Articles of Association. The decisions of the Board are legal, complying with the laws and efficient.

(I) Responsibilities of the Board

The Board shall convene shareholders' general meetings to submit their work report to shareholders and then promptly implement the resolutions passed at shareholders' general meetings. The Board shall also monitor the overall development of business strategies and determine the business plans and investment plans of the Company. In addition, the Board shall supervise and provide guidance to the management of the Company. The Board shall be responsible for the supervision of operation and financial performance and formulation of budget and auditing plans of the Company.

The Directors understand that they have the responsibility to prepare annual financial statements for each financial year to give a true and fair view of the position, results and cash flow of the Company in the relevant period. In preparing the financial statements for the year ended 31 December 2016, the Directors have consistently adopted proper accounting policies and made reasonable estimates and have complied with all applicable accounting standards. Having made proper enquiries, the Directors are satisfied that the Company has adequate resources for its business in the foreseeable future. Therefore, the Company's financial statements have been prepared on a going concern basis.

Corporate Governance

(II) Composition of the Board

The Board of the Company has six members, including a chairman, two Non-executive Directors who have extensive experience in the business and operation of the Company and three Independent Non-executive Directors who have extensive experience and relevant academic and professional qualifications in finance, management, and business strategy. The Independent Non-executive Directors are influential and active in the strict review and supervision of the internal control procedures of the Company to protect the interest of all shareholders, in particular the minority shareholders. The particulars and term of office of all Directors are set out in section "Directors, Supervisors, Senior Management and Employees" in this annual report. There is no significant financial, business, family and other major/relevant relationship among the Directors.

The Company confirms that it has received the annual confirmation of independence from all Independent Non-executive Directors in accordance with Rule 3.13 of the Listing Rules of Hong Kong and the Company is satisfied that all Independent Non-executive Directors are independent according to the independence guidelines under the Listing Rules of Hong Kong.

(III) Appointment and removal of Directors

A Director of the Company shall have a term of office of three years and shall be entitled to be reappointed if so elected provided that the term of office of Independent Non-executive Directors shall not be more than six years. The appointment and removal of Directors shall be approved by shareholders at general meeting. During the year, the changes of Directors of the Company are set out in section "Directors, Supervisors, Senior Management and Employees" in this annual report.

(IV) Board meetings and general meetings

1. According to the Articles of Association, the Board shall hold at least four meetings a year. In the year of 2016, the Board had held eight meetings. The Independent Directors duly perform their duties strictly in accordance with the "Code on Corporate Governance for Listed Companies", "Guidelines for Establishment of Independent Directors System of Listed Companies" and the Articles of Association so as to understand the production, operation and management of the Company. During the reporting period, the Independent Directors attended the board meetings and shareholders' general meetings and used their respective professional knowledge in performing their duties. They have made useful advice in respect of the operation procedures of the Board and made significant contribution to decisions of the Board. Their independent and objective advices have enabled the Board to make rational decisions for the best interest of the Company and its shareholders as a whole. During the reporting period, the Independent Directors have made no objection to the resolutions and proposals raised at boarding meetings and other meetings of the Company in the year.

Corporate Governance

The attendance of all Directors at the Board meetings and general meetings in 2016 was as follows:

	Name of Directors	Number of Board meetings held	Attendance	Number of general meetings held	Attendance
Chairman	Mr. Zhan Chunxin	8	8	1	1
Executive Director	Mr. Liu Quan	8	8	1	1
Non-executive Director	Mr. Hu Xinbao	8	8	1	1
	Mr. Zhao Jhon Huan	8	8	1	1
Independent Non-executive Director	Ms. Liu Guiliang	8	8	1	1
	Mr. Zhao Songzheng	8	8	1	1
	Mr. Lai Kin Keung	8	8	1	1
	Mr. Yang Changbo (appointed as independent non-executive Director on 29 June 2016)	4	4	0	0

2. The Company convened its board meetings by giving 14 days' notice in advance for regular meetings and five days' notice in advance for ad-hoc meetings in accordance with the code provisions of the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 to the Listing Rules of Hong Kong. The secretary to the Board shall deliver all relevant materials of regular board meetings (including reports from all committees of the Board) to all Directors no less than three days before the date of the meetings to ensure all Directors can acquire understanding on the resolutions to be tabled at the meetings in advance.

   For ad-hoc board meetings convened upon requests of management of the Company through means of communication, the relevant meeting materials shall be delivered to all Directors through email or fax and allow the Directors to have adequate time to consider the matters concerned before the meetings. The secretary to the Board shall promptly reply any questions raised by the Directors and take necessary action to ensure that the board meeting is conducted in accordance with the relevant provisions of the Company Law, the Articles of Association and the Listing Rules of Hong Kong.

3. Minutes of each board meeting shall be endorsed by all attending Directors and recorder and shall be kept for at least 10 years. The minutes shall be available for inspection upon request by any Director.

4. When considering connected transactions, Directors who are considered of having significant interest in the relevant transactions should be absent from the meeting and abstained from voting in respect of the matters concerned.

(V) Performance of Independent Directors

The Independent Non-executive Directors duly perform their duties strictly in accordance with the "Code on Corporate Governance for Listed Companies", "Guidelines for Establishment of Independent Directors System of Listed Companies" and the Articles of Association so as to understand the production, operation and management of the Company. During the reporting period, the Independent Non-executive Directors attended the board meetings and shareholders' general meetings and use their respective professional knowledge in performing their duties. They have made useful advice in respect of the operation procedures of the Board and made significant contribution to decisions of the Board. Their independent and objective advices have enabled the Board to make rational decisions for the best interest of the Company and its shareholders as a whole.

During the reporting period, the Independent Non-Executive Directors have made no objection to the resolutions and proposals raised at boarding meetings and other meetings of the Company in the year.

(VI) Measures to ensure that Directors can perform their duties properly

1. Upon appointment of a Director, the Company will provide all necessary materials to the Director to allow him/her to understand the requirement of the Listing Rules of Shenzhen and Hong Kong and other relevant laws and regulations. The Director shall also be provided with the updates of the relevant laws and regulation and internal publications and other information concerning the duties of Directors. Ongoing training will also be provided to allow the Directors to fully understand their duties under the Listing Rules of Shenzhen and Hong Kong and other relevant law and regulations and the operation of the Company in a timely manner. On-site inspections and communications with accounting staff and auditors will also be organised for the Independent Non-executive Directors to facilitate full performance of their duties.

2. In formulating their opinion on guarantee for third parties, appropriation of funds and connected transactions, Directors may seek independent advice from independent auditor and solicitor engaged by the Company to facilitate the performance of their duties.

Corporate Governance

(VII) Responsibilities of the Board and the management

The authorities and responsibilities of the Board and the management have clear separation. The responsibilities of the Board are set out in Article 149 of the Company's Articles of Association. The management shall report to the Board and provide adequate updated information to the Board and its committees to enable them to make informed decisions. Management shall also provide further information upon request by the Directors.

(VIII) Trainings for Directors

The training records of each incumbent Director in 2015 are summarized as follows:

Directors	Type of training
Mr. Zhan Chunxin	ABCD
Mr. Hu Xinbao	BD
Mr. Zhao John Huan	BD
Mr. Lai Kin Keung	ABD
Mr. Zhao Songzheng	BD
Ms. Liu Guiliang	AD
Mr. Yang Changbo	AD

A Attending seminars or forums
B Reading documents relating to general business, development and investment and duties and responsibilities of directors etc.
C Making speeches at external seminars or forums
D Participating in corporate activities or visits

IV. Performance of Duties by Committees of the Board during the Reporting Period

The Board has established four committees, namely the Audit Committee, Remuneration and Appraisal Committee, Nomination Committee and Strategy and Investment Decision-making Committee. The committees have their terms of reference which set out their respective compositions, duties and authority, decision-making procedures and rules of meeting. The Board is charged with duties in corporate governance, procuring the management to establish a compliant organisational structure and regime and to abide by the code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules of Hong Kong and other laws and regulations in day-to-day management. The Board has delegated some of its functions to the board committees, details of which are set out below.

Corporate Governance

(I) Remuneration and Appraisal Committee

1. Role and responsibilities of the Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee shall determine the criteria for and shall conduct the performance appraisal of Directors and senior management. The committee shall also be responsible for considering, reviewing, verifying and formulating the remuneration policies and proposals for Directors and senior management for approval by the Board. The committee shall supervise and procure the implementation of resolutions of the Board in relation to remuneration or performance appraisal of Directors and senior management. It shall perform other duties in relation to the remuneration or performance appraisal of Directors and senior management in accordance with the Articles of Association and as authorised by the Board.

2. Composition and meetings of the Remuneration and Appraisal Committee

During the Report Period, the Remuneration and Appraisal Committee had three members, including two Independent Non-executive Directors and a Non-executive Director. The convener of the Remuneration and Appraisal Committee was Mr. Lai Kin Keung, Independent Non-executive Director. Other members included Mr. Hu Xinbao and Mr. Zhao Songzheng, who was replaced by Mr. Yang Changbo, Independent non-executive Director on 14 July 2016. In 2016, the Remuneration and Appraisal Committee held 1 meeting. During the meeting, the committee reviewed the performance of the Directors, Supervisors and senior management of the Company in 2015 and conducted annual performance appraisal based on the appraisal criteria and remuneration policies and proposals.

	Attendance/ Number of meetings during the Reporting Period
Mr. Lai Kin Keung	1/1
Mr. Hu Xinbao	1/1
Mr. Zhao Songzheng (resigned as a member on 14 July 2016)	0/0
Mr. Yang Changbo (appointed as a member on 14 July 2016)	1/1

3. Determination and the basis of remuneration packages of Directors and senior management

The remuneration of Directors and senior management shall be proposed by the Remuneration and Appraisal Committee based on their individual responsibilities and the remuneration level of other comparable listed companies for approval by the Board according to the Assessment Method for Senior Management of the Company. The remuneration of Directors shall be

Corporate Governance

approved at the shareholders' general meeting. The Remuneration and Appraisal Committee shall review the remuneration and performance appraisal results annually and propose the remuneration packages for the next year. The committee shall conduct annual appraisal of the senior management and determine their remuneration accordingly.

(II) Nomination Committee

1. Role and responsibilities of the Nomination Committee

The Nomination Committee is responsible for the establishment of the criteria and procedures for the election of Directors and senior management. The committee shall consider and discuss the qualifications, the election procedures and term of office of Directors and senior management in accordance with relevant laws and regulations and the Articles of Association with reference to the Company's condition for approval by the Board.

2. Composition and meetings of the Nomination Committee

During the Reporting Period, the Nomination Committee had three members, including two Independent Non-executive Directors and an Executive Director. Mr. Zhao Songzheng, an Independent Non-executive Director, was the chairman of the committee. Other members includes Mr. Zhan Chunxin and Mr. Lai Kin Keung. In 2016, the Nomination Committee did not hold any meeting.

3. Appointment of Directors and senior management

Executive Directors and Non-executive Directors of the Company shall be nominated by shareholders for approval by shareholders at general meeting. The Independent Non-executive Directors shall be nominated by the Board for approval by shareholders at general meeting. The appointment of senior management shall be reviewed by the Nomination Committee and approved by the Board. The nomination, appointment and re-appointment of Directors and senior management are based on the professional knowledge, experience, integrity, commitment, academic qualifications and other relevant standards of the candidates.

(III) Audit Committee

1. Role and responsibilities of the Audit Committee

The Audit committee shall give advice to the Board on the appointment, termination, fee and terms of appointment of external auditors. The committee shall also oversee the internal audit system of the Company. The committee shall examine the integrity and accuracy of financial information and disclosure of the Company, including the financial statements, annual report and accounts, interim report and quarterly report. The committee shall review the material opinions regarding the financial reporting of the Company as set out in the statements and reports. The committee shall review the financial control, internal control and risk management systems of the Company and examine major connected transactions.

2. Composition and meetings of the Audit Committee

During the Reporting Period, the Audit committee had three members, including two Independent Non-executive Directors and one Non-executive Director. The chairman of Audit committee was Ms. Liu Guiliang, an Independent Non-executive Director. Other members included Mr. Zhao Songzheng, an Independent Non-executive Director, and Mr. Hu Xinbao, a Non-executive Director. The composition of the Audit Committee complies with Rule 3.21 of the Listing Rules of Hong Kong.

In 2016, the Audit committee held 4 meetings mainly to review the results for 2015, the interim results for 2016 of the Company and engagement of audit firm, and all members attended the meetings in person. The Audit Committee also reviewed the audited annual results of the Company for the year ended 31 December 2016. It reviewed the accounting principles and practices adopted by the Company and discussed on issues regarding the internal control, risk management and financial reporting. The Board is satisfied that the Company has fully complied with the Corporate Governance Code in respect of internal controls and risk management during the year ended 31 December 2016.

	Attendance/ Number of meetings during the Reporting Period
Ms. Liu Guiliang	4/4
Mr. Zhao Songzheng	4/4
Mr. Hu Xinbao	4/4

(IV) Strategy and Investment Decision-making Committee

1. Role and responsibilities of the Strategy and Investment Decision-making Committee

The committee is mainly responsible for the formulation and provision of advice on long-term development strategies and major investment decisions of the Company.

2. Composition and meeting of the Strategy and Investment Decision-making Committee

During the Reporting Period, the Strategy and Investment Decision-making Committee had three members, including an Executive Director, a Non-executive Director and an Independent Non-executive Director. The chairman of the Strategy and Investment Decision-making

Corporate Governance

Committee is Mr. Zhan Chunxin, an Executive Director, and other members included Mr. Zhao John Huan and Mr. Yang Changbo, who was appointed as a member on 14 July 2016.

In 2016, the Strategy and Investment Decision-making Committee held 1 meeting to review the matters regarding the establishment of 上海綠聯君和產業併購股權投資基金合夥企業 (Shanghai Lulian Junhe Industrial Equity Merger and Acquisition and Investment Fund Partnership*) (a limited partnership) and a fund management company, 上海綠聯君和股權投資管理中心 (Shanghai Lulian Junhe Equity Investment Management Centre*) (a limited partnership).

	Attendance/ Number of meetings during the Reporting Period
Mr. Zhan Chunxin	1/1
Mr. Zhao John Huan	1/1
Mr. Yang Changbo (appointed as a member on 14 July 2016)	1/1

V. Remuneration and Interests of Directors, Supervisors and Senior Management

(I) Remuneration

The remuneration of Directors, Supervisors and senior management of the Company for the year is set out in section headed "Directors, Supervisors, Senior Management and Employees" in this annual report.

Further details regarding the remuneration of the Directors and Supervisors during the year are set out in note 7 to the financial statements prepared under IFRSs.

(II) Interests

Service contract of Directors and Supervisors and their contractual interests

The Company has not entered into any service contract with any of its Directors or Supervisors which is not terminable by the Company in less than one year without payment of compensation (except statutory compensation).

Corporate Governance

Directors and Supervisors' interests in contracts

None of the Directors and Supervisors had any material interest, whether directly or indirectly, in any contract of significance subsisted at the end of the year or at any time during the year of 2016.

Directors, Supervisors and senior management's interests in shares or debentures

The Directors, Supervisors and senior management's interests in shares of the Company as at 31 December 2016 are set out in Section "Directors, Supervisors, Senior Management and Employees" in this annual report.

Directors, Supervisors and senior management's interests or short positions in securities of the Company or its associated corporations under Hong Kong laws and regulations

As at 31 December 2016, the Directors, Supervisors and senior management who have interest or a short position in the shares, underlying shares and debentures of the Company or associated corporation (as defined in Part XV of Securities and Futures Ordinance (the "SFO")) which are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or required to be disclosed to the Company and SEHK pursuant to the Appendix X to the Listing Rules of Hong Kong "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") were as follows:

Name of Directors/ Supervisors	Nature of interest	Class of shares	Number of shares	Percentage of the total share capital of the same class (%)
Zhan Chunxin	Beneficiary owner	A Share	5,152,036 (L)	0.0821
Liu Quan	Beneficiary owner	A Share	1,068,052 (L)	0.0170
Liu Chi	Beneficiary owner	A Share	379,211 (L)	0.0060

Note: L represents long position

As at 31 December 2016, save as disclosed above, none of the Directors, Supervisors or chief executive officer has any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations within the meaning of Part XV of SFO) which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to the Company and SEHK pursuant to the Model Code set out in the Listing Rules of Hong Kong.

Corporate Governance

As at 31 December 2016, none of the Directors, Supervisors, or chief executive officers or their respective spouse or children under 18 years of age has any rights to acquire the shares or debentures of the Company or any of its associated corporations, nor exercise any of these rights.

Dealings in securities by Directors and Supervisors

The Company has adopted the Model Code to regulate the dealing in shares of the Company by Directors. Having made specific enquiry of all Directors and Supervisors, all Directors and Supervisors confirmed that they had complied with the Model Code during 2016. The Company was not aware of any non-compliance of Model Code during the reporting period.

VI. Auditors

Baker Tilly China Certified Public Accountants and KPMG, respectively, were the domestic and international auditors of the Company for 2016.

These two audit firms provide audit services for the Company on its financial statements and other non-audit services, included the audit of the Company's annual financial statements of 2015, the review of interim financial report, internal control audit and the audits of subsidiaries' statutory financial statements, relevant tax consultation and due diligence investigation. The aggregate audit fees paid to these two audit firms were RMB13.30 million (inclusive of disbursements).

The responsibility statements of Baker Tilly China Certified Public Accountants and KPMG on the financial statements of the Company were set out in the Domestic Auditor's Report and International Auditor's Report respectively.

VII. Trainings for Company Secretary

Shen Ke, the Company Secretary, confirmed that he has received no less than 15 hours of relevant professional trainings in 2016.

VIII. Performance Appraisal and Award System of Senior Management

The Remuneration and Appraisal Committee of the Board is responsible for formulating and reviewing remuneration schemes and proposals of the Company, mainly including the performance evaluation criteria and procedures, the major appraisal system, the major award and penalty schemes and systems, based on the terms of reference, responsibilities and importance of the respective positions held by the senior management and the remuneration levels of the relevant positions in the industry. It is also accountable for the establishment of the appraisal standards for senior management of the Company, the review of their performance of duties, and the annual performance appraisal in accordance with the appraisal standards and remuneration policies and schemes of the Company.

Corporate Governance

The Board of the Company determined the remuneration standards of senior management for the year pursuant to the unified remuneration management system and the annual performance assessment conducted by the remuneration and assessment committee of the Board. In 2016, remuneration of senior management was in compliance with the remuneration management system of the Company. The remuneration was not in violation or inconsistent with the remuneration management system.

IX. Control on Appraisal and Award System

The Company determines the remuneration and compensation of the employees based on their respective function, position and performance. The performance and work efficiency of the employees are assessed to determine if they shall be awarded. The appraisal criteria and award mechanism are fair and open. The appointment of employees is conducted in an open and transparent manner and is in compliance with the relevant laws and regulations.

X. Relationship with Shareholders and Investors

(I) Shareholders

The annual general meeting is considered as an important annual event of the Company. The Directors, Supervisors and senior management have attended the meetings and answered enquires from shareholders to maintain direct communication with shareholders.

Shareholders' right to convene an extraordinary general meeting and a meeting of shareholders of a particular class

According to the Articles of Association of the Company, shareholders individually or in aggregate holding 10% or more of the shares of the Company shall have the right to make a written request to the Board to convene an extraordinary general meeting or class meeting. The Board shall reply in writing on whether agree or not to convene an extraordinary general meeting or class meeting within 10 days after receiving the request in accordance with laws, administrative regulations and the Articles of Association.

Where the Board agrees to convene an extraordinary general meeting or class meeting, a notice convening such meeting shall be issued within five days after the resolution made by the Board. Any change to the original proposal in the notice is subject to the approval by relevant shareholders. Once the notice is issued, the Board may not propose new motions or change or postpone the date of such meeting without obtaining approval from the proposing shareholders.

Where the Board does not agree to convene an extraordinary general meeting or class meeting or fails to give response within 10 days after receiving the request, shareholders individually or in aggregate holding 10% or more of the shares of the Company are entitled to make a written request to the Supervisory Board to convene an extraordinary general meeting or class meeting.

Corporate Governance

Where the Supervisory Board agrees to convene an extraordinary general meeting or class meeting, a notice convening such meeting shall be issued within five days after receiving the request. Any change to the original proposal in the notice is subject to the approval by the relevant shareholders.

Where the Supervisory Board fails to issue a notice convening such meeting within the prescribed period, the Supervisory Board is deemed not to convene or preside over the general meeting and shareholders individually or in aggregate holding 10% or more of the shares of the Company for over 90 consecutive days may convene and preside over the general meeting.

Where the proposing shareholders convene and hold a meeting because the Board and the Supervisory Board fail to convene such meeting pursuant to a request as mentioned above, the reasonable expenses incurred by such shareholders shall be borne by the Company and shall be deducted from the sums owed by the Company to the negligent directors.

Shareholders' right to propose resolutions at general meetings

According to the Articles of Association of the Company, any shareholders who hold, individually or in aggregate, 3% or more of shares of the Company shall have the right to propose a new resolution. The matters within the scope of authority of the general meeting in the proposal shall be included in the agenda.

Any shareholders who hold, individually or in aggregate, 3% or more of the shares of the Company shall have the right to propose and submit interim proposals in writing to the convener 10 days prior to the convening of a general meeting. The convener shall issue a supplementary notice of general meeting containing the details of the interim proposals within 2 days after receiving the proposal.

Please refer to the Articles of Association of the Company for details of the rights of shareholders.

Shareholders may send their enquiries or suggestions in writing by post to the Board or the Company Secretary at the registered addresses of the Company or by email to the Company. In addition, if the shareholders have any enquiry regarding their shares or dividends, they may contact Computershare Hong Kong Investor Services Limited, the H Share registrar of the Company. The contact information is set out in the "Company Profile" in this annual report.

(II) Investors

The Company is dedicated to the development of investor relationship. It maintains close relationship with its investors through telephone hotline, email and direct contact.

Looking forward, the Company will enhance the communication with investors so as to increase their understanding about the Company and to seek their continuous support and concern.

XI. Stakeholders

The Company fully respects and protects legal rights of the stakeholders such as creditors, employees and consumers. It also attaches importance to the cooperation with its stakeholders, which helps to jointly promote sustainable and healthy development of the Company.

XII. Connected Transactions

All connected transactions of the Company were conducted in a fair and reasonable way under proper decision-making process. The decision making procedures were in compliance with laws and regulations. The considerations of transaction were determined on the basis of market rates and the basis of determination was fully disclosed. The Company has strictly complied with the relevant regulations on connected transactions under the Listing Rules of Hong Kong since its listing in Hong Kong.

XIII. Information Disclosure and Transparency

The secretary to the Board is responsible for disclosing information, receiving shareholders visits and answering enquiries. The Company is required to disclose relevant information in a true, accurate, complete and timely manner, maintain good relationship with investors and ensure all shareholders received information equally pursuant to the laws, regulations and requirements of the Articles of Association. The Company is cautious about the accuracy of the information disclosed and the relevant officer will be held responsible for any disclosure of inaccurate information. The Company has further improved the quality and transparency of information disclosure in the annual report. The Company also implemented the Management System for Information Insider and External Information User (內幕信息知情人和外部信息使用人管理制度).

XIV. Remuneration and Retirement Benefits of Employees

The remuneration package of our employees includes salary, bonuses and allowances. Our employees also enjoy medical insurance, housing subsidies, retirement pension and other benefits. The Company participated in the social insurance scheme administrated by relevant government authorities pursuant to applicable regulations. Under the scheme, the Company is required to contribute social insurance for the staff at specific proportion of the monthly salary of the staff.

Details of staff welfare benefits offered by the Company are set out in note 23 to the financial statements prepared under IFRSs.

Corporate Governance

XV. Material amendments to the Articles of Association

During the year under review, the following amendments were made to the Articles of Association of the Company:

	Before amendment	After amendment
Article 13	According to the registration of the Company, the scope of business of the Company includes: development, manufacturing and sale of concrete machinery, environmental and sanitary machinery, crane machinery and their special chassis, fire engines and their special chassis, other machinery and equipment, metal and non-metal materials and photo-electronic products and the provision of leasing and after-sale services; sale of construction and decoration materials (except silicon rubber), construction vehicles (except passenger vehicles) and metals and chemicals and petrochemical products permitted by the applicable regulatory policies; engage in the import and export business of commercial products and technology (other than business involving stateoperated and managed trading of products; for business involving products subject to quota and licence management, application shall be made in accordance with relevant national regulations); and property investment.	According to the registration of the Company, the scope of business of the Company includes: development, manufacturing and sale of concrete machinery, environmental and sanitary machinery, crane machinery and their special chassis, fire engines and their special chassis, other machinery and equipment, metal and non-metal materials and photo-electronic products and the provision of leasing and after-sale services; sale of construction and decoration materials (except silicon rubber), construction vehicles (except passenger vehicles) and metals and chemicals and petrochemical products permitted by the applicable regulatory policies; engage in the import and export business of commercial products and technology (other than business involving stateoperated and managed trading of products; for business involving products subject to quota and licence management, application shall be made in accordance with relevant national regulations); sale of secondhand cars; dismantling and recycling of obsolete machinery and equipment; and property investment

Corporate Governance

	Before amendment	After amendment
Article 21	After completion of the issue of overseas listed foreign shares (H shares) and before the exercise of the over-allotment options, the Company had 5,797,219,562 ordinary shares in issue, including 4,840,678,482 domestic listed ordinary shares and 956,541,080 H shares (including 86,958,280 H shares held by the National Social Security Fund), representing 83.5% and 16.5% of the total issuable ordinary shares of the Company respectively. After completion of the issue of the overseas listed foreign shares (H shares) and the exercise of the overallotment options, the Company had 5,927,656,962 ordinary shares in issue, including 4,827,634,742 domestic listed ordinary shares and 1,100,022,220 H shares (including 100,002,020 H shares held by the National Social Security Fund), representing 81.4% and 18.6% of the total issuable ordinary shares of the Company respectively. After the implementation of the profits distribution plan of 2010 passed at the annual general meeting and class general meeting of 2010 both held on 3 June 2011, the Company shall have 7,705,954,050 ordinary shares in issue, including 6,275,925,164 domestic listed ordinary shares (including shares subscribed by foreign investors and domestic investors in both cases in RMB) and 1,430,028,886 H shares, representing 81.4% and 18.6% of the total issued ordinary shares of the Company respectively.	After completion of the issue of overseas listed foreign shares (H shares) and before the exercise of the over-allotment options, the Company had 5,797,219,562 ordinary shares in issue, including 4,840,678,482 domestic listed ordinary shares and 956,541,080 H shares (including 86,958,280 H shares held by the National Social Security Fund), representing 83.5% and 16.5% of the total issuable ordinary shares of the Company respectively. After completion of the issue of the overseas listed foreign shares (H shares) and the exercise of the overallotment options, the Company had 5,927,656,962 ordinary shares in issue, including 4,827,634,742 domestic listed ordinary shares and 1,100,022,220 H shares (including 100,002,020 H shares held by the National Social Security Fund), representing 81.4% and 18.6% of the total issuable ordinary shares of the Company respectively. After the implementation of the profits distribution plan of 2010 passed at the annual general meeting and class general meeting of 2010 both held on 3 June 2011, the Company shall have 7,705,954,050 ordinary shares in issue, including 6,275,925,164 domestic listed ordinary shares (including shares subscribed by foreign investors and domestic investors in both cases in RMB) and 1,430,028,886 H shares, representing 81.4% and 18.6% of the total issued ordinary shares of the Company respectively.

Corporate Governance

	Before amendment	After amendment
		After the implementation of the repurchase of a portion of H Shares passed at the annual general meeting and class general meeting of 2014 both held on 29 June 2015, the Company shall have 7,664,132,250 ordinary shares in issue, including 6,275,925,164 domestic listed ordinary shares (including shares subscribed by foreign investors and domestic investors in both cases in RMB) and 1,388,207,086 H shares, representing 81.9% and 18.1% of the total issued ordinary shares of the Company respectively.
Article 24	The registered capital of the Company is RMB7,705,954,050.	The registered capital of the Company is RMB7,664,132,250.

Note: The amendments to the Articles were originally drafted in Chinese and the English translation is for reference only. In case of any inconsistencies between the Chinese and the English version, the Chinese version shall prevail.

The above amendments to the Articles of Association were passed and approved by the Shareholders at the annual general meeting held on 29 June 2016.

Independent Auditor's Report

KPMG

To the shareholders of Zoomlion Heavy Industry Science and Technology Co., Ltd.
(Incorporated in the People's Republic of China)

Opinion

We have audited the consolidated financial statements of Zoomlion Heavy Industry Science and Technology Co., Ltd. ("the Company") and its subsidiaries ("the Group") set out on pages 97 to 204 which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the People's Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><td colspan="2">Revenue recognition on sale of construction machinery</td></tr>
<tr><td colspan="2">Refer to Notes 3 and 10 to the consolidated financial statements and the accounting policies on pages 123 to 125 and page 129.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The Group's revenue is principally derived from the sale of construction machinery, sanitation and environmental machinery and agricultural machinery to a significant number of customers.

Revenue from the sale of the Group's machinery is recognised when the Group transfers the significant risks and rewards of ownership of the machinery to its customers and when the Group retains neither continuing managerial involvement nor effective control over the machinery sold, which generally coincides with the time when the machinery is delivered to and accepted by the customer.

Sales of construction machinery contributed more than half of the Group's revenue for the year ended 31 December 2016.

The construction machinery sector In Mainland China is suffering from the impact of a decrease in investment in the construction industry which has put pressure on sales volumes and pricing.

We identified the recognition revenue on sale of construction machinery as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there may be an incentive for management to manipulate revenue to meet expectation or targets, particularly when sales of construction machinery are depressed.</td><td>Our audit procedures to assess the recognition of revenue on sale of construction machinery included the following:

• obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition from sales of construction machinery;

• inspecting key customer contracts to identify terms and conditions relating to goods acceptance and the right of return and assessing the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards;

• selecting a sample of sales recorded during the year and inspecting the underlying goods delivery and acceptance notes ("交接單"), to assess whether the related revenue was recognised in accordance with the Group's accounting policies;

• comparing, on a sample basis, specific revenue transactions recorded just before and after the financial year end date with the underlying goods delivery and acceptance notes, to assess whether the related revenue had been recognised in the appropriate financial period;

• inspecting relevant underlying documentation for journal entries relating to revenue raised during the year which were considered to be material or met other specific risk-based criteria; and

• confirming, on a sample basis, debtor balances as at the financial year end date and the value of sales transactions for the year ended 31 December 2016 directly with customers.</td></tr>
</table>

Independent Auditor's Report

Recoverability of trade debtors	
Refer to Notes 16, 17 and 27(b)(ii) to the consolidated financial statements and the accounting policies on pages 116 to 118.	
The Key Audit Matter	**How the matter was addressed in our audit**
Trade debtors include trade receivables and receivables under finance lease arrangements. As of 31 December 2016, the Group's gross trade receivables and gross receivables under finance lease arrangements totalled RMB32,687 million and RMB14,872 million, respectively, against which provisions for doubtful debts of RMB2,853 million and RMB765 million, respectively, were recorded. The Group's provisions for doubtful debts are based on management's estimate of the expected credit losses to be incurred, which is estimated by taking into account the credit history of the Group's customers, the current fair value of any collateral held and current market and customer-specific conditions, all of which involve a significant degree of management judgement. The Group's provisions for doubtful debts include a specific element based on individual debtors and a collective element based on historical experience adjusted for certain current factors. We identified the recoverability of trade debtors as a key audit matter because the Group's customers are principally involved in the construction industry in Mainland China which is facing challenges in terms of profitability and liquidity which increase the risk that individual trade debtors may not be recoverable.	Our audit procedures to assess the recoverability of trade debtors included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to credit control, including implementation of the Group's credit policy, monitoring of credit exposure, collection of outstanding debts and collateral and making provisions for doubtful debts; • assessing the classification of trade debtors in the trade debtor ageing report by comparison of individual items with sales invoices, customer contracts and other relevant underlying documentation, on a sample basis; • obtaining an understanding of the basis of management's judgements about the recoverability of individual trade debtor balances and evaluating the provisions for doubtful debts made by management for these individual balances with reference to the debtors' financial condition, the industry in which the debtors are operating, the ageing of balances, historical and post year-end payment records, the value of any collateral held, which included properties, third party guarantees and reprocessed machinery, and correspondence files to assess if there were any disputes or delayed payment arrangements; • assessing the value of collateral held at the reporting date by comparison with third party valuation reports, court verdicts which indicated the value of collateral and machine value assessment reports and assessing the credentials, experience and competence of the third party valuers, where applicable; • evaluating the assumptions and estimates made by management for the provisions for doubtful debts calculated based on a collective assessment by performing a retrospective review of the historical accuracy of these estimates and recalculating the Group's provisions for doubtful debts with reference to the Group's policy for collective assessment; and • inspecting cash receipts on a sample basis from customers after the financial year end relating to trade debtors balances as of 31 December 2016.

Independent Auditor's Report

<table>
<tr><td colspan="2">Valuation of reprocessed machinery</td></tr>
<tr><td colspan="2">Refer to Notes 15 and 31(c) to the consolidated financial statements and the accounting policies on page 119.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The Group's reprocessed machinery is stated at the lower of its carrying value and its net realisable value at the reporting date.

Reprocessed machinery is normally subject to rebuilding and is expected to be either resold or leased to third parties under operating leases. However, due to the time required for rebuilding and the complicated revision procedures for vehicle registration after reprocessing, reprocessed machinery tends to remain longer in inventories than newly produced finished goods, which increases the risk of diminution in value which may require management to make provisions.

Management judgement is required when assessing the net realisable value of reprocessed machinery, particularly in forecasting future selling prices, the expected costs to be incurred to complete the reprocessing activities, selling expenses and the time value of money.

We identified assessing the valuation of reprocessed machinery as a key audit matter because of the inherent risk that some reprocessed machinery may be carried at a value higher than its net realisable value and because of the significant management judgement required in estimating future market conditions and selling prices which could be subject to potential management bias.</td><td>Our audit procedures to assess the valuation of reprocessed machinery included the following:

• obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to the management and valuation of reprocessed machinery;

• obtaining an understanding of management's methodology for estimating the net realisable value of reprocessed machinery and challenging the methodology and significant judgements and assumptions adopted by comparison with industry averages, market conditions and historical sales records;

• comparing the estimated selling prices adopted by management with the latest actual selling prices for all models of reprocessed machinery and other observable market information, which included pricing strategies of competitors, market trends and available sector statistics, which may impact the selling prices of reprocessed machinery; and

• assessing the net realisable value calculated by management for all models of reprocessed machinery by referring to the latest actual selling prices for similar types of machinery and the actual incurred costs for completion of the reprocessing, including refurbishment costs and the costs necessary to make the sale, including freight costs, to assess whether any further write-down of reprocessed machinery should be recorded.</td></tr>
</table>

Independent Auditor's Report

Assessing potential impairment of goodwill and the trademarks

Refer to Notes 12 and 13 to the consolidated financial statements and the accounting policies on pages 110 to 111 and pages 118 to 119.

The Key Audit Matter	How the matter was addressed in our audit
"As at 31 December 2016, the aggregate carrying value of the Group's goodwill and trademarks with an indefinite useful life totalled RMB3,252 million which represented 3.65% of the total assets of the Group at that date. These assets have been recognised in the consolidated statement of financial position as a result of the acquisitions of various business in previous years. Management performs annual impairment assessments of the cash-generating units ("CGUs") to which goodwill and the trademarks have been allocated to estimate their recoverable amounts by preparing discounted cash flow forecasts. This involves significant management judgement and estimation, particularly in estimating the following: • future revenue growth rates; • future operating margins; and • the discount rates applied. We identified assessing potential impairment of goodwill and the trademarks as a key audit matter because of the inherent level of complex and subjective management judgement required in assessing the variable factors and assumptions in the valuation process and because of the potential for management bias in considering the variable factors and assumptions.	Our audit procedures to assess the potential impairment of goodwill and the trademarks included the following: • assessing and challenging management's impairment assessment models and the allocation of goodwill and the trademarks to the relevant CGUs, which included assessing whether the impairment assessment models were prepared in accordance with the requirements of the prevailing accounting standards; • comparing the most significant inputs used in the discounted cash flow forecasts, including future revenue growth rates, future operating margins, future changes in working capital and future capital expenditure with the historical performance of the relevant CGUs; • comparing forecast revenue, operating margins and capital expenditure in the discounted cash flows forecasts with the approved financial budget; • comparing forecast sales volumes with the publicly available market forecasts, assessing the expected operating margin with reference to the trends for selling prices and forecast steel and labour costs and assessing whether forecast capital expenditure was consistent with the Group's plans for asset retirement and replacement in the forecast period; • performing alternative discounted cash flow calculations using the revenue growth rate of the industry in which the Group operates to assess the sensitivity of revenue figures in the forecast; • engaging our internal valuation specialists to assist us in assessing the discount rates applied in the cash flow forecasts by benchmarking against other companies in the same industry; • performing sensitivity analyses of the key assumptions adopted in the discounted cashflow forecasts, including the discount rates and future revenue growth rates, and considering the resulting impact on the impairment assessments and whether there were any indicators of potential management bias; and • considering the disclosures in the consolidated financial statements in respect of the impairment assessment of goodwill and the trademarks, including the key assumptions adopted, with reference to the requirements of the prevailing accounting standards.

Independent Auditor's Report

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditor's Report

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tse, Wong Pui.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March 2017

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

(Expressed in RMB)

	Note	**2016 RMB millions**	2015 RMB millions
Revenue	3	**20,023**	20,753
Cost of sales and services		**(15,245)**	(15,146)
Gross profit		**4,778**	5,607
Other income	4	**764**	676
Sales and marketing expenses		**(2,446)**	(2,502)
General and administrative expenses		**(2,949)**	(2,271)
Research and development expenses		**(297)**	(320)
(Loss)/profit from operations		**(150)**	1,190
Net finance costs	5(a)	**(871)**	(1,182)
Gain on disposal of associates		**—**	30
Share of profits less losses of associates		**11**	1
(Loss)/profit before taxation	5	**(1,010)**	39
Income tax	6	**110**	58
(Loss)/profit for the year		**(900)**	97
Other comprehensive income for the year (after tax)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside PRC		**(672)**	(470)
Change in fair value of available-for-sale financial assets		**(1)**	—
Total other comprehensive income for the year		**(673)**	(470)
Total comprehensive income for the year		**(1,573)**	(373)

The notes on pages 104 to 204 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

(Expressed in RMB)

	Note	2016 RMB millions	2015 RMB millions
(Loss)/profit attributable to:			
Equity shareholders of the Company		**(929)**	89
Non-controlling interests		**29**	8
(Loss)/profit for the year		**(900)**	97
Total comprehensive income attributable to:			
Equity shareholders of the Company		**(1,602)**	(381)
Non-controlling interests		**29**	8
Total comprehensive income for the year		**(1,573)**	(373)
Basic and diluted earnings per share (RMB)	9	**(0.12)**	0.01

The notes on pages 104 to 204 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2016

(Expressed in RMB)

	Note	2016 RMB millions	2015 RMB millions
Non-current assets			
Property, plant and equipment	11	**8,069**	8,520
Lease prepayments		**2,201**	2,375
Intangible assets	12	**2,682**	2,358
Goodwill	13	**2,076**	1,993
Interests in associates	14	**604**	208
Available-for-sale financial assets		**1,407**	181
Trade and other receivables	16	**3,032**	3,504
Receivables under finance lease	17	**1,895**	2,484
Pledged bank deposits	18	**72**	189
Other non-current assets		**64**	—
Deferred tax assets	22(b)	**1,137**	855
Total non-current assets		**23,239**	22,667
Current assets			
Inventories	15	**12,770**	14,083
Other current assets		**684**	449
Trade and other receivables	16	**32,074**	30,493
Receivables under finance lease	17	**12,212**	12,644
Pledged bank deposits	18	**1,547**	1,860
Cash and cash equivalents	19	**6,575**	11,487
Total current assets		**65,862**	71,016
Total assets		**89,101**	93,683
Current liabilities			
Loans and borrowings	20(a)	**9,712**	13,273
Trade and other payables	21	**17,089**	16,813
Income tax payable	22(a)	**75**	87
Total current liabilities		**26,876**	30,173
Net current assets		**38,986**	40,843
Total assets less current liabilities		**62,225**	63,510

The notes on pages 104 to 204 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2016

(Expressed in RMB)

	Note	**2016 RMB millions**	2015 RMB millions
Non-current liabilities			
Loans and borrowings	20(b)	**23,085**	21,881
Other non-current liabilities	24	**583**	621
Payable for acquisition of non-controlling interests	13	**265**	—
Deferred tax liabilities	22(b)	**537**	439
Total non-current liabilities		**24,470**	22,941
NET ASSETS		**37,755**	40,569
CAPITAL AND RESERVES			
Share capital	25(a)	**7,664**	7,664
Reserves	25(b)	**29,109**	32,232
Total equity attributable to equity shareholders of the Company		**36,773**	39,896
Non-controlling interests		**982**	673
TOTAL EQUITY		**37,755**	40,569

Approved and authorised for issue by the board of directors on 30 March 2017.

Zhan Chunxin
Chairman and Chief Executive Officer

Du Yigang
Vice-president

The notes on pages 104 to 204 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

(Expressed in RMB)

	Attributable to equity shareholders of the Company								
	Share capital (Note 25(a)) RMB millions	Capital reserve (Note 25(b)(i)) RMB millions	Statutory surplus reserve (Note 25(b)(ii)) RMB millions	Exchange reserve (Note 25(b)(iii)) RMB millions	Other reserve (Note 25(b)(iv)) RMB millions	Retained earnings RMB millions	Total RMB millions	Non-controlling interests RMB millions	Total equity RMB millions
Balance at 1 January 2015	7,706	13,153	2,906	(320)	5	17,341	40,791	417	41,208
Changes in equity for 2015									
Profit for the year	–	–	–	–	–	89	89	8	97
Other comprehensive income	–	–	–	(470)	–	–	(470)	–	(470)
Total comprehensive income	–	–	–	(470)	–	89	(381)	8	(373)
Appropriation for surplus reserve (Note 25(b)(ii))	–	–	11	–	–	(11)	–	–	–
Cash dividends (Note 25(c))	–	–	–	–	–	(385)	(385)	–	(385)
Safety production fund (Note 35(b))	–	–	–	–	6	(6)	–	–	–
Repurchase of own shares	(42)	(86)	–	–	–	–	(128)	–	(128)
Business combination	–	–	–	–	–	–	–	899	899
Acquisition of non-controlling interests	–	(1)	–	–	–	–	(1)	(611)	(612)
Dividends declared by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	(40)	(40)
Balance at 31 December 2015	7,664	13,066	2,917	(790)	11	17,028	39,896	673	40,569
Balance at 1 January 2016	**7,664**	**13,066**	**2,917**	**(790)**	**11**	**17,028**	**39,896**	**673**	**40,569**
Changes in equity for 2016									
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(929)**	**(929)**	**29**	**(900)**
Other comprehensive income	**–**	**–**	**–**	**(672)**	**(1)**	**–**	**(673)**	**–**	**(673)**
Total comprehensive income	**–**	**–**	**–**	**(672)**	**(1)**	**(929)**	**(1,602)**	**29**	**(1,573)**
Appropriation for surplus reserve (Note 25(b)(ii))	**–**	**–**	**21**	**–**	**–**	**(21)**	**–**	**–**	**–**
Cash dividends (Note 25(c))	**–**	**–**	**–**	**–**	**–**	**(1,150)**	**(1,150)**	**–**	**(1,150)**
Safety production fund (Note 35(b))	**–**	**–**	**–**	**–**	**4**	**(4)**	**–**	**–**	**–**
Business combination (Note 13)	**–**	**(265)**	**–**	**–**	**–**	**–**	**(265)**	**248**	**(17)**
Decrease in non-controlling interests on disposal of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(21)**	**(21)**
Acquisition of non-controlling interests (Note 32)	**–**	**(106)**	**–**	**–**	**–**	**–**	**(106)**	**63**	**(43)**
Dividends declared by a subsidiary to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(10)**	**(10)**
Balance at 31 December 2016	**7,664**	**12,695**	**2,938**	**(1,462)**	**14**	**14,924**	**36,773**	**982**	**37,755**

The notes on pages 104 to 204 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2016
(Expressed in RMB)

	Note	2016 RMB millions	2015 RMB millions
Operating activities			
(Loss)/profit before taxation		**(1,010)**	39
Adjustments for:			
Depreciation of property, plant and equipment		**746**	625
Amortisation of lease prepayments		**53**	54
Amortisation of intangible assets		**186**	150
Share of profits less losses of associates		**(11)**	(1)
Interest income		**(419)**	(956)
Interest expense		**1,619**	1,706
Gain on repurchase of guaranteed USD senior notes	20(b)(v)	**(1)**	—
Gain on disposal of property, plant and equipment, intangible assets and lease prepayments		**(612)**	(111)
Gain on disposal of associates		**—**	(30)
Gain on remeasurement of derivative financial instruments at fair value		**(121)**	(14)
Impairment loss of goodwill		**—**	20
		430	1,482
Decrease in inventories		**3,296**	2,221
Increase in trade and other receivables		**(2,661)**	(2,657)
Decrease in receivables under finance lease		**667**	1,550
Increase/(decrease) in trade and other payables		**220**	(6,468)
Cash generated from/(used in) operations		**1,952**	(3,872)
Income tax paid		**(202)**	(140)
Net cash generated from/(used in) operating activities carried forward		**1,750**	(4,012)

The notes on pages 104 to 204 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2016

(Expressed in RMB)

	Note	2016 RMB millions	2015 RMB millions
Net cash generated from/(used in) operating activities brought forward		**1,750**	(4,012)
Investing activities			
Payment for purchase of property, plant and equipment		**(223)**	(386)
Lease prepayments		**(63)**	(16)
Payment for purchase of intangible assets		**(196)**	(281)
Payment for investments in associates		**(29)**	—
Payment for available-for-sale financial assets		**(1,220)**	(1,000)
Acquisition of Zoomlion Heavy Machinery Co., Ltd., net of cash acquired		**—**	1,018
Acquisition of Ladurner Ambiente S.p.A., net of cash paid	13	**(74)**	—
Acquisition of other subsidiaries, net of cash (paid)/acquired	13	**(86)**	28
Disposal of a subsidiary, net of cash paid		**(31)**	—
Proceeds from disposal of property, plant and equipment, intangible assets and lease prepayments		**319**	37
Proceeds from transfer of partial interests in Changsha Zhongjian Zhonglian Machinery Equipment Leasing Co., Ltd.		**400**	—
Proceeds from disposal of available-for-sale financial assets		**10**	1,352
Payment for settlement of foreign currency derivatives		**(35)**	—
Entrusted loan repayments received		**27**	900
Interest received		**419**	678
Dividends received from associates		**—**	16
Decrease in pledged bank deposits		**430**	724
Net cash (used in)/generated from investing activities		**(352)**	3,070
Financing activities			
Proceeds from loans and borrowings		**22,834**	19,924
Repayments of loans and borrowings		**(26,420)**	(19,085)
Payments on repurchase of guaranteed USD senior notes	20(b)(v)	**(131)**	—
Interest paid		**(1,533)**	(1,674)
Dividends paid to equity shareholders		**(1,158)**	(378)
Dividends paid by subsidiaries to non-controlling interests		**(10)**	(40)
Contributions from non-controlling shareholders		**90**	—
Payment for acquisition of non-controlling interests	32	**(52)**	(661)
Repurchase of own shares		**—**	(128)
Net cash used in financing activities		**(6,380)**	(2,042)
Net decrease in cash and cash equivalents		**(4,982)**	(2,984)
Cash and cash equivalents at beginning of year		**11,487**	14,483
Effect of foreign exchange rate changes		**70**	(12)
Cash and cash equivalents at end of year	19	**6,575**	11,487

The notes on pages 104 to 204 form part of these financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2016

1 Principal activities of reporting entity, organisation and basis of preparation

(a) Principal activities of reporting entity

Zoomlion Heavy Industry Science and Technology Co., Ltd. (the "Company") and its subsidiaries (collectively, referred to as the "Group") are principally engaged in the research, development, manufacturing and sale of construction machinery, environmental sanitation equipment and agricultural machinery, as well as the provision of environmental solutions and finance lease services.

(b) Organisation

The Company was incorporated in the People's Republic of China on 31 August 1999 by six founding shareholders with registered and issued share capital of 100 million ordinary shares with a par value of RMB1 per share. Upon the Company's incorporation, Construction Machinery Research Institute of Changsha, the Ministry of Construction ("Research Institute"), a state-owned entity, held 74.7% equity interest in the Company and the other five founding shareholders held 25.3% equity interest in the Company in aggregate. These founding shareholders are hereinafter referred to as the non-public shareholders.

On 12 October 2000, the Company completed an initial public offering of 50 million newly issued A Shares with a par value of RMB1 per share to public shareholders in the Shenzhen Stock Exchange of China ("SZSE"). Upon the initial public offering, the public shareholders owned 33.3% of the equity interest in the Company. The equity interest of Research Institute and the other five non-public shareholders in the Company was then reduced to 49.8% and 16.9%, respectively.

During the years from 2001 to 2009, the Company completed several stock splits in the form of bonus shares to achieve wider distribution and improve marketability of the ordinary shares. As a result, the Company's share capital increased from RMB150 million to RMB1,673 million.

In July 2006, the public shareholders accepted the share reform proposal offered by the non-public shareholders whereby the non-public shareholders transferred a total of 54 million A Shares to the public shareholders, in exchange for the approval for the listing of all shares held by the non-public shareholders. After the share transfer, the equity interest in the Company held by Research Institute and the other five non-public shareholders was reduced from 49.8% and 16.9% to 41.9% and 14.1%, respectively, while the public shareholders' equity interest in the Company was increased from 33.3% to 44.0%.

In December 2008, Research Institute was deregistered and the 41.9% equity interest of the Company held by Research Institute was transferred to Research Institute's shareholders, consisting of 25.0% equity interest transferred to Hunan State-owned Assets Supervision and Administration Commission of the People's Government of Hunan Province ("Hunan SASAC"), and 16.9% equity interest transferred to the four other shareholders of Research Institute.

Notes to the consolidated financial statements

For the year ended 31 December 2016

1 Principal activities of reporting entity, organisation and basis of preparation (continued)

(b) Organisation (continued)

In February 2010, the Company completed a Non-public Offering of 297,954,705 A Shares to nine institutional investors. In August 2010, the Company further conducted a stock split in the form of bonus shares. Following the stock split, the Company's share capital was increased to approximately RMB4,928 million comprising 4,927,636,762 A Shares, among which Hunan SASAC held 21.4% equity interest.

On 23 December 2010, the Company completed a Global Offering of 869,582,800 newly issued H Shares with a par value of RMB1 per share to institutional and public shareholders in The Stock Exchange of Hong Kong Limited. In this connection, Hunan SASAC and Hunan Development Group, the Company's state-owned shareholders, transferred a total of 86,958,280 A Shares to the National Council for Social Security Fund of the PRC ("NSSF"), which were converted into H Shares on a one-for-one basis. Upon the completion of the Global Offering, the share capital of the Company was increased to approximately RMB5,797 million, comprising 4,840,678,482 A Shares and 956,541,080 H Shares. After the Global Offering, Hunan SASAC held 16.77% equity interest in the Company.

On 5 January 2011, the underwriters of the Global Offering exercised the over-allotment option in full. As a result, 130,437,400 H Shares with a par value of RMB1 per share were additionally issued by the Company. In this connection, Hunan SASAC and Hunan Development Group transferred a total of additional 13,043,740 A Shares to the NSSF, which were converted into H Shares on a one-for-one basis. Upon completion of the issuance of new H Shares and conversion of A Shares into H Shares, the share capital of the Company was increased to approximately RMB5,928 million, comprising 4,827,634,742 A Shares and 1,100,022,220 H Shares.

On 3 June 2011, the Company further conducted a stock split in the form of bonus shares. Following the stock split, the Company's share capital was increased to approximately RMB7,706 million, comprising 6,275,925,164 A Shares and 1,430,028,886 H Shares, among which Hunan SASAC held 16.19% equity interest.

During the period from July to September 2015, the Company repurchased 41,821,800 H Shares of its own share capital with an aggregate consideration of approximately RMB128 million. These H Shares were then cancelled during the year. As a result of the repurchase and cancellation of the H Shares, the share capital of the Company was decreased to approximately RMB7,664 million, comprising 6,275,925,164 A Shares and 1,388,207,086 H Shares, and the Company's equity interest held by Hunan SASAC was increased to 16.35%.

Notes to the consolidated financial statements

For the year ended 31 December 2016

1 Principal activities of reporting entity, organisation and basis of preparation (continued)

(c) Basis of preparation

(i) Statement of compliance

These 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. Significant accounting policies adopted by the Group are disclosed in Note 2.

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

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

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

(ii) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as "the Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for the re-measurement of available-for-sale equity securities, except for those stated at cost less impairment losses, and derivative financial instruments (Note 2(h)) to fair value.

1 Principal activities of reporting entity, organisation and basis of preparation (continued)

(c) Basis of preparation (continued)

(ii) Basis of preparation of the financial statements (continued)

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and the major sources of estimation uncertainty are disclosed in Note 31.

2 Significant accounting policies

(a) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (Note 2(b)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (Note 2(i)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities (Note 2(h)).

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

Notes to the consolidated financial statements

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(b) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented financial liabilities in the consolidated statement of financial position depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interest, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(h)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (Note 2(c)).

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (Note 2(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

The details of the Group's principal subsidiaries are set out in Note 32.

2 Significant accounting policies (continued)

(c) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (Notes 2(d) and 2(i)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees, any impairment losses for the year and the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(h)).

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses (Note 2(i)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

Notes to the consolidated financial statements

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(d) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (Note 2(i)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(e) Intangible assets (other than goodwill)

The Group enters certain public-to-private service concession arrangement with the government authorities for waste collection and treatment, which the Group provides waste treatment facility construction services to the government authorities in exchange for an operating right for a specified period of time. The related facilities will be transferred to the government authorities at the end of the arrangement, often for no additional considerations. The Group recognises the operating right as an intangible assets when it has a right to charge for use of the waste treatment facility. The operating right received as consideration for providing construction services in the service concession arrangement is measured at fair value on initial recognition with reference to the fair value of the services provided. Subsequent to initial recognition, the operating right is measured at cost, which includes capitalised borrowing costs (Note 2(p)), less accumulated amortisation and impairment losses (Note 2(i)).

2 Significant accounting policies (continued)

(e) Intangible assets (other than goodwill) (continued)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (Note 2(p)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (Note 2(i)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (Note 2(i)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— technical know how	10 to 15 years
— software, patents, operating and similar rights	2 to 25 years
— customer relationships	8 to 15 years
— capitalised development costs	3 to 10 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

The Group's intangible asset that is determined to have an indefinite useful life consists of trademarks.

Notes to the consolidated financial statements

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(f) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses (Note 2(i)). The cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Subsequent expenditure relating to an item of property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that the future economic benefits, in excess of the original assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in profit or loss in the period in which it is incurred.

Construction in progress represents buildings and various machinery, plant and equipment under construction and pending installation, and is stated at cost less impairment losses (Note 2(i)). Cost comprises direct costs of construction as well as interest charges and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the periods of construction.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment, are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised as income or expense on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

— buildings	25 to 35 years
— machinery, plant and equipment	5 to 30 years
— motor vehicles	10 years
— office equipment	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reassessed annually.

2 Significant accounting policies (continued)

(g) Lease prepayments

Lease prepayments represent cost paid to the relevant government authorities for land use rights. Land use rights are carried at cost less the accumulated amount charged to expense and impairment losses (Note 2(i)). The cost of lease prepayments is charged to profit or loss on a straight-line basis over the respective periods of the rights, which range from 20 to 50 years.

(h) Financial instruments

(i) Non-derivative financial instruments

The Group classifies non-derivative financial assets into the following categories: investments in available-for-sale securities, receivables (trade and other receivables, receivables under finance lease), cash and cash equivalents, loans and borrowings and trade and other payables.

The Group initially recognises loans and receivables issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial assets when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred, or it neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the consolidated financial statements

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(h) Financial instruments (continued)

(i) Non-derivative financial instruments (continued)

Investments in available-for-sale securities

Investments in available-for-sale securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. At the end of each reporting period the fair value is re-measured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in available-for sale securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (Note 2(i)). Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss. When the investments are derecognised or impaired, the cumulative gain or loss is reclassified from equity to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

Receivables

Receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (Note 2(i)) except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment doubtful debts.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

2 Significant accounting policies (continued)

(h) Financial instruments (continued)

(i) Non-derivative financial instruments (continued)

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of borrowings, together with any interest and fees payable, using the effective interest method.

Trade and other payables

Trade and other payables are initially recognised at fair value, except for financial guarantee liabilities measured in accordance with Note 2(m)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(ii) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

Notes to the consolidated financial statements

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(i) Impairment of assets

(i) Impairment of investments in equity securities and receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investments in associates accounted for under the equity method in the consolidated financial statements (Note 2(c)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 2(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 2(i)(ii).

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

2 Significant accounting policies (continued)

(i) Impairment of assets (continued)

(i) Impairment of investments in equity securities and receivables (continued)

— For receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at an initial recognition of these assets), where the effect of discounting is material. The Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant. The assessment is then made collectively for financial assets carried at amortised cost which are not individually significant but share similar credit risk characteristics, and have not been individually assessed as impaired. Future cash flows of financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective asset group, and ageing profile of the collective asset group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— For available-for-sale equity securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Notes to the consolidated financial statements

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(i) Impairment of assets (continued)

(i) Impairment of investments in equity securities and receivables (continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— lease prepayments;

— intangible assets;

— goodwill; and

— investments in subsidiaries, associates in the Company's statement of financial position

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2 Significant accounting policies (continued)

(i) Impairment of assets (continued)

(ii) **Impairment of other assets** (continued)

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Notes to the consolidated financial statements

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(k) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values. Further information of the Group's retirement plans is set out in Note 23.

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(l) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

2 Significant accounting policies (continued)

(l) Income tax (continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

Notes to the consolidated financial statements

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(m) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 2(m)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 Significant accounting policies (continued)

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and is after deduction of any trade discounts.

(ii) Finance income under finance lease

Where the Group provides finance leasing of its machinery products to customers, the Group recognises profit or loss equivalent to the profit or loss resulting from an outright sale of the machinery products being leased at normal selling prices and finance income over the period of the lease. Finance income implicit in finance lease is recognised over the period of the lease so as to produce an approximately constant periodic rate of return on the outstanding net investment in the lease for each accounting period. Commission paid to dealers for acquisition of finance lease contract is included in the carrying value of the assets and amortised to the profit or loss over the expected life of the lease as an adjustment to finance income.

(iii) Rental income from operating lease

Rental income receivable under operating lease is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Rendering of services

The Group recognised revenue from rendering of services including maintenance services, waste collection, technical consultation services and etc. in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed based on a surveys of work performed.

Notes to the consolidated financial statements

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(n) Revenue recognition (continued)

(v) Contract revenue

When the outcome of a construction contract can be estimated reliably:

— revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract; and

— revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total fee, measured by reference to the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(vi) Service concession arrangement

Revenue relating to construction services under a service concession arrangement is recognised based on the stage of completion of the contract as stated in Note 2(n)(v). Operation or service revenue is recognised in the period in which services are provided by the Group. When the Group provides more than one service in a service concession arrangement, the consideration received is allocated by reference to the relative fair values of the services delivered when the amounts are separately identifiable.

(vii) Dividends

— Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

— Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(viii) Interest income

Interest income is recognised as it accrues using the effective interest method.

2 Significant accounting policies (continued)

(n) Revenue recognition (continued)

(ix) Government grants

Government grants are recognised in the statement of financial position initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as other revenues in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset consequently are effectively recognised as other revenues in profit or loss on a systematic basis over the useful life of the asset.

(o) Translation of foreign currencies

The presentation currency of the Group is Renminbi ("RMB"). The functional currency of the Company and its subsidiaries in the mainland PRC is RMB and the functional currency of the Company's subsidiaries in Europe is Euro ("EUR"). The functional currency of the Company's subsidiaries in the Hong Kong Special Administrative Region ("HKSAR") is United States Dollars ("USD") as the major operating and financing activities of these entities are transacted in USD.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss and are reported in net finance costs on a net basis.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of the Company's subsidiaries outside the mainland PRC are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside mainland PRC, the cumulative amount of the exchange differences relating to that operation is reclassified from equity to the profit or loss when the profit or loss on disposal is recognised.

Notes to the consolidated financial statements

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(p) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and re-measurement of derivative financial instruments at fair value. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date. Finance income under finance lease is included in the Group's revenue (Note 2(n)(ii)).

Finance costs comprise interest expense on loans and borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Costs relating to factoring of receivables under finance lease is considered to be direct cost of finance lease income and is therefore recorded in cost of services.

Capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(q) Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification

Leases that transfer substantially all the risks and rewards of ownership to the lessee are classified as finance leases. Leases that do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases.

(ii) Finance lease

Where the Group provides finance lease of its machinery products to customers, an amount representing the net investment in the lease is included in the statement of financial position as receivables under finance lease. Finance income earned under finance lease is accounted for in accordance with accounting policy as set out in Note 2(n)(ii). Impairment losses of receivables under finance lease are accounted for in accordance with the accounting policy as set out in Note 2(i).

2 Significant accounting policies (continued)

(q) Leases (continued)

(iii) Operating lease

Where the Group provides operating lease of its machinery products to customers, it presents assets subject to operating lease in the statement of financial position as property, plant and equipment. Lease income earned under operating lease is accounted for in accordance with accounting policy as set out in Note 2(n)(iii). Initial direct costs incurred by the Group in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income. The depreciation policy for depreciable leased assets is consistent with the Group's normal depreciation policy for similar assets. Impairment losses of leased assets are accounted for in accordance with the accounting policy as set out in Note 2(i)(ii). The Group does not recognise any selling profit on entering into an operating lease because it is not the equivalent of a sale.

As lessee, where the Group has the use of assets held under operating lease, payments made under the lease are charged to profit or loss in equal instalments over the accounting periods covered by the lease term.

(r) Profit distributions

Distributions of profit proposed in the profit appropriation plan to be approved after the end of the reporting period are not recognised as a liability at the end of the reporting period but are disclosed in the notes separately.

(s) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in Note 2(n)(vii). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the statement of financial position as the "Inventories" (as an asset) or the "Trade and other payables" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "Trade and other receivables". Amounts received before the related work is performed are presented as "Receipt in advance" under "Trade and other payables".

Notes to the consolidated financial statements

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(t) Related parties

For the purposes of these financial statements, a related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) both entities are joint ventures of the same third party.

(iv) one entity is a joint venture of a third party and the other entity is an associate of the third party.

(v) the entity is a post-employment benefit plan for the benefit of employees of the Group or an entity related to the Group.

(vi) the entity controlled or jointly controlled by a person identified in (a).

(vii) the person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 Significant accounting policies (continued)

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 Revenue

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

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

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2016

4 Other income

	2016 RMB millions	2015 RMB millions
Government grants (Note)	**206**	525
Gain on disposal of property, plant and equipment, intangible assets and lease prepayments	**612**	111
Cost of factoring trade receivables without recourse	**(45)**	—
Gain on repurchase of guaranteed USD senior notes (Note 20(b)(v))	**(1)**	—
Others	**(8)**	40
	764	676

Note: Government grants mainly represent operating subsidies and other grants. There were no unfulfilled conditions and other contingencies attached to these grants.

5 (Loss)/profit before taxation

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

(a) Net finance costs:

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

Notes to the consolidated financial statements

For the year ended 31 December 2016

5 (Loss)/profit before taxation (continued)

(b) Staff costs:

	2016 RMB millions	2015 RMB millions
Salaries, wages and other benefits	**1,907**	2,163
Contributions to retirement schemes (Note 23)	**290**	273
	2,197	2,436

(c) Other items:

	2016 RMB millions	2015 RMB millions
Cost of inventories sold	**14,921**	15,134
Depreciation of property, plant and equipment (Note 11)	**746**	625
Amortisation of lease prepayments	**53**	54
Amortisation of intangible assets (Note 12)	**186**	150
Operating lease charges	**177**	189
Auditors' remuneration:		
— audit services	**13**	14
— non-audit services	**6**	—
Product warranty costs (Note 21(b))	**105**	112
Impairment losses recognised/(reversal):		
— trade receivables (Note 16(c))	**764**	559
— receivables under finance lease (Note 17(c))	**129**	(3)
— inventories	**380**	141
— goodwill (Note 13)	**—**	20

Notes to the consolidated financial statements

For the year ended 31 December 2016

6 Income tax

Income tax in the consolidated statement of comprehensive income represents:

	2016 RMB millions	2015 RMB millions
Current tax — PRC income tax		
Provision for the year	**169**	177
Current tax — Income tax in other tax jurisdictions		
Provision for the year	**4**	5
Deferred taxation (Note 22(b))		
Origination and reversal of temporary differences	**(283)**	(127)
Reversal of previously recognised taxable temporary differences	**—**	(113)
Income tax credit	**(110)**	(58)

6 Income tax (continued)

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

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

Notes:

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

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

The Company's overseas subsidiaries are subject to income tax at rates ranging from 19.0% to 31.4% (2015: 19.0% to 31.4%).

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2016

7 Directors' and supervisors' emoluments

Directors' and supervisors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors'/ supervisors' fee RMB thousands	Salaries, allowances and other benefits RMB thousands	Discretionary bonuses RMB thousands	Retirement scheme contributions RMB thousands	Total RMB thousands
For the year ended 31 December 2016					
Executive director					
ZHAN Chunxin	–	1,342	1,342	16	2,700
Non-executive directors					
HU Xinbao	–	–	–	–	–
ZHAO John Huan	–	–	–	–	–
Independent non-executive directors					
LIU Guiliang	120	–	–	–	120
LAI Kin Keung	120	–	–	–	120
YANG Changbo*	60	–	–	–	60
ZHAO Songzheng	120	–	–	–	120
Supervisors					
FU Zheng	–	–	–	–	–
LIU Chi	–	642	642	16	1,300
LIU Quan	–	792	792	16	1,600
Total	420	2,776	2,776	48	6,020

Notes to the consolidated financial statements

For the year ended 31 December 2016

7 Directors' and supervisors' emoluments (continued)

	Directors'/ supervisors' fee RMB thousands	Salaries, allowances and other benefits RMB thousands	Discretionary bonuses RMB thousands	Retirement scheme contributions RMB thousands	Total RMB thousands
For the year ended 31 December 2015					
Executive directors					
ZHAN Chunxin	–	667	667	16	1,350
Non-executive directors					
HU Xinbao	–	–	–	–	–
ZHAO John Huan	–	–	–	–	–
QIU Zhongwei	–	–	–	–	–
Independent non-executive directors					
LIU Guiliang	60	–	–	–	60
LAI Kin Keung	60	–	–	–	60
ZHAO Songzheng	60	–	–	–	60
QIAN Shizheng	60	–	–	–	60
WANG Zhile	60	–	–	–	60
Supervisors					
FU Zheng	–	–	–	–	–
LIU Chi	–	342	342	16	700
LIU Quan	–	417	417	16	850
CAO Yonggang	–	–	–	–	–
LUO Anping	–	132	132	16	280
Total	300	1,558	1,558	64	3,480

* Mr. Yang Changbo was appointed as independent non-executive director of the Company on 29 June 2016.

None of these directors and supervisors received any inducements or compensation for loss of office, or waived any emoluments during the year (2015: Nil).

Notes to the consolidated financial statements

For the year ended 31 December 2016

8 Individuals with highest emoluments

Of the five highest paid individuals of the Group, two (2015: two) individuals were directors or supervisors of the Company, whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the remaining three (2015: three) individuals are as follows:

	2016 RMB thousands	2015 RMB thousands
Salaries, allowances and other benefits in kind	**6,152**	2,952
Retirement scheme contributions	**48**	48
	6,200	3,000

The emoluments of the non-director/supervisor employees among the five highest paid individuals are within the following bands:

	2016 Number	2015 Number
RMB500,001–RMB1,500,000	**–**	3
RMB1,500,001–RMB3,000,000	**3**	—

None of these employees received any inducements or compensation for loss of office, or waived any emoluments during the year (2015: Nil).

9 Basic and diluted earnings per share

The calculation of basic earnings per share is based on the loss attributable to equity shareholders of the Company of RMB929 million (2015: profit attributable to equity shareholders of the Company of RMB89 million), and the weighted average number of shares of 7,664 million in issue during the year (2015: 7,689 million shares).

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

10 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 graperformance assessment, the Group has presented the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

(i) Construction machinery segment consists of the following sub-segments:

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

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

Others primarily research, develop, manufacture and sell of other machinery products, including road construction and pile foundation machinery, earth working machinery, material handling machinery and systems, specialised vehicles and vehicle axles. None of these segments met any of the quantitative thresholds for determining reportable segments for the years ended 31 December 2016 and 2015.

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

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2016

10 Segment reporting (continued)

(a) Segment results, assets and liabilities

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

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2016 is set out below:

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

10 Segment reporting (continued)

(b) Reconciliation of segment profit

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

Notes to the consolidated financial statements

For the year ended 31 December 2016

10 Segment reporting (continued)

(c) Geographic information

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

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2016

11 Property, plant and equipment

	Buildings RMB millions	Machinery, plant and equipment RMB millions	Motor vehicles and office equipment RMB millions	Construction in progress RMB millions	Total RMB millions
Cost:					
Balance at 1 January 2015	4,538	2,934	814	714	9,000
Additions	28	76	53	1,071	1,228
Transferred from construction in progress	68	910	87	(1,065)	–
Disposals	(236)	(144)	(73)	(42)	(495)
Acquisition from business combination (Note 13)	940	427	98	42	1,507
Effect of exchange rate difference	(11)	(18)	(5)	–	(34)
Balance at 31 December 2015	5,327	4,185	974	720	11,206
Balance at 1 January 2016	**5,327**	**4,185**	**974**	**720**	**11,206**
Additions	**23**	**34**	**52**	**243**	**352**
Transferred from construction in progress	**57**	**327**	**13**	**(397)**	**–**
Disposals	**(26)**	**(297)**	**(81)**	**–**	**(404)**
Acquisition from business combination (Note 13)	**–**	**97**	**19**	**52**	**168**
Effect of exchange rate difference	**12**	**10**	**2**	**–**	**24**
Balance at 31 December 2016	**5,393**	**4,356**	**979**	**618**	**11,346**
Accumulated depreciation and impairment:					
Balance at 1 January 2015	(705)	(1,122)	(392)	–	(2,219)
Depreciation charge for the year	(187)	(319)	(119)	–	(625)
Written back on disposals	50	53	36	–	139
Effect of exchange rate difference	4	13	2	–	19
Balance at 31 December 2015	(838)	(1,375)	(473)	–	(2,686)
Balance at 1 January 2016	**(838)**	**(1,375)**	**(473)**	**–**	**(2,686)**
Depreciation charge for the year	**(190)**	**(411)**	**(145)**	**–**	**(746)**
Written back on disposals	**8**	**95**	**63**	**–**	**166**
Effect of exchange rate difference	**(2)**	**(8)**	**(1)**	**–**	**(11)**
Balance at 31 December 2016	**(1,022)**	**(1,699)**	**(556)**	**–**	**(3,277)**
Net book value:					
Balance at 31 December 2016	**4,371**	**2,657**	**423**	**618**	**8,069**
Balance at 31 December 2015	4,489	2,810	501	720	8,520

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For the year ended 31 December 2016

11 Property, plant and equipment (continued)

As at 31 December 2016, the carrying amount of machinery, plant and equipment leased out under operating leases is RMB699 million (31 December 2015: RMB741 million), which mainly represents machinery reprocessed from customers. The lease term generally ranges from 1 to 5 years (2015: 1 to 3 years). These operating leases does not contain contingent lease rentals. The future minimum lease payments under non-cancellable operating lease in the aggregate are receivable as follows:

	2016 RMB millions	2015 RMB millions
Within 1 year	**83**	50
After 1 year but within 2 years	**43**	19
After 2 years but within 3 years	**32**	16
Thereafter	**62**	3
	220	88

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12 Intangible assets

	Trademarks RMB millions	Technical know how RMB millions	Software, Patents, operating and similar rights RMB millions	Customer relationships RMB millions	Capitalised development costs RMB millions	Total RMB millions
Cost:						
Balance at 1 January 2015	762	193	350	382	93	1,780
Additions	–	6	81	–	194	281
Acquisition from business combination (Note 13)	458	–	13	176	272	919
Disposals	–	–	(4)	–	–	(4)
Effect of exchange rate difference	(29)	(1)	(2)	(12)	(3)	(47)
Balance at 31 December 2015	1,191	198	438	546	556	2,929
Balance at 1 January 2016	**1,191**	**198**	**438**	**546**	**556**	**2,929**
Additions	**–**	**–**	**95**	**–**	**128**	**223**
Acquisition from business combination (Note 13)	**–**	**–**	**216**	**–**	**35**	**251**
Disposals	**–**	**(1)**	**–**	**–**	**(1)**	**(2)**
Effect of exchange rate difference	**23**	**7**	**2**	**14**	**3**	**49**
Balance at 31 December 2016	**1,214**	**204**	**751**	**560**	**721**	**3,450**
Accumulated amortisation and impairment:						
Balance at 1 January 2015	(37)	(42)	(117)	(170)	(67)	(433)
Amortisation for the year	(1)	(19)	(41)	(49)	(40)	(150)
Effect of exchange rate difference	–	1	1	8	2	12
Balance at 31 December 2015	(38)	(60)	(157)	(211)	(105)	(571)
Balance at 1 January 2016	**(38)**	**(60)**	**(157)**	**(211)**	**(105)**	**(571)**
Amortisation for the year	**–**	**(16)**	**(57)**	**(50)**	**(63)**	**(186)**
Effect of exchange rate difference	**–**	**(2)**	**(1)**	**(6)**	**(2)**	**(11)**
Balance at 31 December 2016	**(38)**	**(78)**	**(215)**	**(267)**	**(170)**	**(768)**
Net book value:						
Balance at 31 December 2016	**1,176**	**126**	**536**	**293**	**551**	**2,682**
Balance at 31 December 2015	1,153	138	281	335	451	2,358

Notes to the consolidated financial statements

For the year ended 31 December 2016

13 Goodwill and business combination

	2016 RMB millions	2015 RMB millions
Balance at 1 January	1,993	1,661
Additions	44	413
Impairment loss	–	(20)
Effect of exchange rate difference	39	(61)
Balance at 31 December	2,076	1,993

The goodwill arose from the acquisition of the following entities:

		Carrying amount	
Name of entity	**Date of acquisition**	**2016 RMB millions**	2015 RMB millions
CIFA S.p.A ("CIFA")	September 2008	1,428	1,391
Shaanxi Zoomlion Earth Working Machinery Co., Ltd. (formerly "Shaanxi Xinhuanggong Machinery Co., Ltd.")	June 2008	115	115
Hunan Zoomlion Axle Co., Ltd.	June 2008	12	12
Zoomlion Material Handling Equipment Co., Ltd. (formerly "Huatai Machinery Manufacturing Co., Ltd.")	July 2008	24	24
m-tec mathis technik GmbH ("m-tec")	April 2014	40	38
Zoomlion Heavy Machinery Co., Ltd. (formerly "Chery Heavy Industry Co., Ltd.")	January 2015	413	413
Ladurner Ambiente S.p.A.("Ladurner")	April 2016	44	—
		2,076	1,993

Notes to the consolidated financial statements

For the year ended 31 December 2016

13 Goodwill and business combination (continued)

(a) Business combination in 2016

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

The acquisition was accounted for under the acquisition method. The Company allocated the purchase price to identifiable assets acquired and liabilities assumed based on their estimated fair values. Management determined the fair values of the identifiable assets acquired and liabilities assumed based on valuation performed by an independent appraiser.

Pursuant to the Shareholders Agreement signed between Zoomlion and other minority shareholders, put option has been provided to minority shareholders to sell part or all of their shares to Changsha Zoomlion Environmental Industry Co., Ltd. between 2019 and 2021 at a price making reference to the post-acquisition earnings and the equity value of Ladurner Group at the time of redemption. The financial liability arising from the put option was recognised initially at the present value of the redemption amount and debited to "capital reserve" in the consolidated financial statement of Zoomlion. Subsequent to initial recognition, the changes in the carrying amount of the financial liability would be adjusted to capital reserve at the end of each reporting period.

Notes to the consolidated financial statements

For the year ended 31 December 2016

13 Goodwill and business combination (continued)

(a) Business combination in 2016 (continued)

The following table summarises the purchase price allocation of the fair value of the identifiable assets acquired and liabilities assumed in respect of the above acquisition of Ladurner Group at the acquisition date.

Property, plant and equipment	168
Intangible assets	175
Other non-current assets	62
Interests in associates	21
Deferred tax assets	27
Inventories	202
Trade and other receivables	778
Available-for-sale financial assets	20
Cash and cash equivalents	10
Total assets acquired	**1,463**
Short-term loans and borrowings	(307)
Trade and other payables	(271)
Long-term loans and borrowings	(219)
Deferred tax liabilities	(86)
Other non-current liabilities	(7)
Total liabilities assumed	**(890)**
Non-controlling interests	(248)
Goodwill	44
Total cost of acquisition	**369**
Contributions to Ladurner Ambiente S.p.A.	(285)
Cash paid to previous shareholders	**84**
Cash acquired	(10)
Net cash outflow	**74**

13 Goodwill and business combination (continued)

(a) Business combination in 2016 (continued)

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

The following table summarises the purchase price allocation of the fair value of the identifiable assets acquired and liabilities assumed in respect of the above acquisition of the Chinese company at the acquisition date.

Intangible assets	76
Trade and other receivables	28
Total assets acquired	**104**
Deferred tax liabilities	(14)
Trade and other payables	(4)
Total liabilities assumed	**(18)**
Total cost of acquisition	**86**
Cash acquired	—
Net cash outflow	**86**

From the acquisition date of the above companies to 31 December 2016, they contributed a total of RMB330 million to the consolidated revenue and a profit of RMB2 million, including the impact of the amortisation of purchase price allocation to the consolidated loss of the Group for the year ended 31 December 2016.

Notes to the consolidated financial statements

For the year ended 31 December 2016

13 Goodwill and business combination (continued)

(a) Business combination in 2016 (continued)

Goodwill impairment test

The recoverable amount of the respective cash-generating units has been determined by a value-in-use calculation, which used cash flow projections based on financial budgets approved by management. The cash flow projections covered a period of five years and adopted pre-tax discount rates ranging from approximately 10.45% to 17.91% (2015: 10.8% to 15.1%). The discount rates were determined based on the applicable weighted average cost of capital of the acquirees, which reflects the time value of money and the specific risks relating to the respective acquirees' businesses. The cash flow projections have taken into account the historical financial performance, expected sales growth rates and profit margins of the respective acquirees, market conditions and other available information. The assumptions used are based on management's past experience of the specific market, having made reference to external sources of information. Cash flows beyond the five-year period are extrapolated using estimated growth rate of 3% (2015: 3%), which does not exceed the long-term average growth rate for the business in which the respective cash-generating units operate.

(b) Business combination in 2015

On 4 January 2015, the Company completed the acquisition of 67.51% interests in Zoomlion Heavy Machinery Co., Ltd., formerly known as Chery Heavy Industry Co., Ltd. and its subsidiaries (collectively "Zoomlion Heavy Machinery Group") with a cash consideration of RMB2,349 million. Zoomlion Heavy Machinery Group is engaged in the manufacturing of agricultural machinery with its sales primarily made in China. The purpose of the business combination was to broaden the Group's business segment.

The acquisition was accounted for under the acquisition method. The Company allocated the purchase price to identifiable assets acquired and liabilities assumed based on their estimated fair values. Management determined the fair values of the identifiable assets acquired and liabilities assumed based on valuation performed by an independent appraiser.

On 5 February 2015, the board of directors of Zoomlion Heavy Machinery Co., Ltd. resolved to reduce its paid-in capital by RMB1,300 million, among which RMB422 million were paid to its non-controlling shareholders.

Notes to the consolidated financial statements

For the year ended 31 December 2016

13 Goodwill and business combination (continued)

(b) Business combination in 2015 (continued)

The following table summarises the purchase price allocation of the fair value of the identifiable assets acquired and liabilities assumed in respect of the above acquisition of Zoomlion Heavy Machinery Group at the acquisition date.

Property, plant and equipment	1,475
Lease prepayments	511
Intangible assets	915
Interests in an associate	3
Deferred tax assets	104
Inventories	1,380
Trade and other receivables	2,602
Pledged bank deposits	363
Cash and cash equivalents	1,279
Total assets acquired	**8,632**
Short-term loans and borrowings	(1,241)
Trade and other payables	(4,041)
Income tax payable	(21)
Long-term loans and borrowings	(369)
Deferred tax liabilities	(127)
Total liabilities assumed	**(5,799)**
Non-controlling interests	(897)
Goodwill	413
Total cost of acquisition (paid in 2014: RMB2,088 million, paid in 2015: RMB261 million)	**2,349**
Cash acquired	(1,279)
Net cash outflow (2014: outflow RMB2,088 million; 2015: inflow RMB1,018 million)	**1,070**

Notes to the consolidated financial statements

For the year ended 31 December 2016

13 Goodwill and business combination (continued)

(b) Business combination in 2015 (continued)

Apart from the above, the Company completed the acquisitions of certain entities where the Company used to have significant influence with a total cash consideration of RMB29 million to expand its crane machinery sales agent network. On 1 July 2015, the Company completed the acquisition of a domestic company with a consideration of RMB46 million to broaden the Group's business in the environmental solutions. No goodwill was resulted from these acquisitions.

14 Interests in associates

The principal associates of the Group includes Changsha Zhongjian Zhonglian Machinery Equipment Leasing Co.,Ltd., Bichamp Cutting Technology (Hunan) Co., Ltd., Chongqing Zhonglian Shenghong Investment Management Co., Ltd., Raxtar B.V., TOP Carbon S.r.l., Ecoprogetto Milano S.r.l. and other associates acted as crane machinery sales agents. None of these associates was individually material to the Group's financial condition or results of operations for the reporting year. All of the associates are accounted for using the equity method in the consolidated financial statements.

Aggregate information of associates that are not individually material:

	2016 RMB millions	2015 RMB millions
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**604**	208
Aggregate amounts of the Group's share of those associates'		
Profit from operations	**11**	1
Other comprehensive income	**—**	—
Total comprehensive income	**11**	1

15 Inventories

(a) Inventories in the consolidated statement of financial position comprise:

	2016 RMB millions	2015 RMB millions
Raw materials	**2,233**	2,479
Work in progress	**1,159**	1,062
Finished goods (Note)	**9,378**	10,542
	12,770	14,083

Note: The Group takes various measures to recover overdue debtors including repossession of sold machinery. These reprocessed machinery are normally subject to rebuild and are expected to be either resale or leased out under operating leases.

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss was presented in Note 5(c).

Notes to the consolidated financial statements

For the year ended 31 December 2016

16 Trade and other receivables

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

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2016

16 Trade and other receivables (continued)

(a) Trading terms and factoring of trade receivables (continued)

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

(b) Ageing analysis of trade receivables

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

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

Trade receivables under credit sales arrangement are generally due within 1 to 3 months from the date of billing, and customers are normally required to make an upfront payment ranging from 20% to 30% of the product price (2015: 20% to 30%). For sales under instalment payment method that has instalment payment periods generally ranging from 6 to 42 months (2015: 6 to 42 months), customers are normally required to make an upfront payment ranging from 15% to 30% of the product price (2015: 15% to 30%).

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

Notes to the consolidated financial statements

For the year ended 31 December 2016

16 Trade and other receivables (continued)

(c) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (Note 2(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	Note	**2016 RMB millions**	2015 RMB millions
Balance at 1 January		**2,316**	1,780
Impairment losses recognised		**764**	559
Reclassification from impairment of receivables under finance lease	17(c)	**9**	6
Uncollectible amounts written off		**(236)**	(29)
Balance at 31 December		**2,853**	2,316

During the year ended 31 December 2016, the Group recognised RMB764 million impairment losses (2015: RMB559 million) on its trade receivables. This mainly related to those receivables within the ageing more than two years and certain customers facing financial difficulties as a result of the prolonged economic downturn in the construction sector.

16 Trade and other receivables (continued)

(d) 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 endorse bills receivable to suppliers in order to settle trade payables.

As at 31 December 2016, 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 2016, 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 RMB332 million (31 December 2015: RMB292 million).

During the year ended 31 December 2016, bills receivable of RMB1,159 million (31 December 2015: RMB4,311 million) were discounted to banks or other financial institutions, 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.

Notes to the consolidated financial statements

For the year ended 31 December 2016

17 Receivables under finance lease

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

The Group provides equipment finance lease services to customers purchasing machinery products of the Group or other vendors through its leasing subsidiaries. Under the finance lease arrangement, the collectability of the minimum lease payments is reasonably predictable, there is no significant uncertainty surrounding the amount of un-reimbursable cost yet to be incurred by the Group under the lease arrangement. The finance lease contracts entered into by the Group typically are for a period ranging from 2 to 5 years (2015: 2 to 5 years). Customers are normally required to make an upfront payment ranging from 5% to 25% of the product price (2015: 5% to 25%) and pay a security deposit ranging from 1% to 10% of the product price (2015: 1% to 10%). At the end of the lease term, the lessee has an option to purchase the leased machinery at nominal value and the ownership of the leased machinery is then transferred to the lessee. The leases do not provide any guarantee of residual values.

Notes to the consolidated financial statements

For the year ended 31 December 2016

17 Receivables under finance lease (continued)

(a) Ageing analysis of receivables under finance lease

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2016

17 Receivables under finance lease (continued)

(b) Overdue analysis

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

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2016

17 Receivables under finance lease (continued)

(c) Impairment of receivables under finance lease

Impairment losses in respect of receivables under finance lease are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against the receivables directly (Note 2(i)).

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

	Note	**2016 RMB millions**	2015 RMB millions
Balance at 1 January		**645**	654
Impairment losses recognised/(reversed)		**129**	(3)
Reclassification to impairment of trade receivables	16(c)	**(9)**	(6)
Balance at 31 December		**765**	645

(d) The Group monitors the credit risk arising from finance lease arrangement through various control measures as set out in Note 27(b)(ii). 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 as set out in Note 2(n)(ii).

18 Pledged bank deposits

The pledged bank deposits primarily represent cash maintained at banks as security for guarantees of payment relating to the issuance of bills payable to certain vendors of the Group, for guarantees given by the Group to banks in respect of loans provided by such banks to certain customers for purchase of the Group's products (Note 29(a)) and for receivables that have been factored to banks. Upon maturity of the bills payable, which generally range from 3 to 6 months, or upon full repayment of the customers' loans or receivables, the restriction on the bank deposits is released.

Notes to the consolidated financial statements

For the year ended 31 December 2016

19 Cash and cash equivalents

	2016 RMB millions	2015 RMB millions
Cash at bank and on hand		
— RMB denominated	**4,968**	10,900
— USD denominated	**1,026**	252
— EUR denominated	**425**	228
— HKD denominated	**16**	14
— Other currencies	**140**	93
	6,575	11,487

20 Loans and borrowings

(a) Short-term loans and borrowings

	Note	2016 RMB millions	2015 RMB millions
Secured short-term bank loans			
— RMB denominated	(i)	**412**	148
— EUR denominated	(ii)	**368**	4
Unsecured short-term bank loans			
— RMB denominated	(iii)	**2,443**	200
— EUR denominated	(iv)	**1,860**	3,980
— USD denominated	(v)	**208**	3,491
RMB commercial paper	(vi)	**1,200**	—
		6,491	7,823
Add: current portion of long-term loans and borrowings	20(b)	**3,221**	5,450
		9,712	13,273

20 Loans and borrowings (continued)

(a) Short-term loans and borrowings (continued)

Notes:

(i) As at 31 December 2016, RMB denominated secured short-term bank loan of RMB412 million (31 December 2015: Nil) bore interest from 4.18% to 4.35% per annum were secured by certain land, properties and receivables under finance lease, and will be repayable in full in 2017.

(ii) As at 31 December 2016, EUR denominated secured short-term bank loan of RMB139 million (31 December 2015: Nil) bore interest at a fixed rate at 0.8% per annum was secured by certain bank deposits, and will be repayable in full in 2017. Such short-term loan was subject to the fulfilment of certain financial covenants of the Group. As at 31 December 2016, the Group was in compliance with these financial covenants.

As at 31 December 2016, EUR denominated secured short-term bank loan of RMB229 million (31 December 2015: Nil) bore interest from 0.26% to 1.4% per annum were secured by certain bank deposits and trade receivables, and will be repayable in full in 2017.

(iii) As at 31 December 2016, RMB denominated unsecured short-term bank loan of RMB1,320 million (31 December 2015: Nil) bore interest at a fixed rate of 4% per annum and will repayable in full in 2017. Such short-term loan was subject to the fulfilment of certain financial covenants of the Group. As at 31 December 2016, the Group was in compliance with these financial covenants.

As at 31 December 2016, the remaining RMB denominated unsecured short-term bank loans of RMB1,123 million (31 December 2015: Nil) will be repayable in full in 2017.

(iv) As at 31 December 2016, EUR denominated unsecured short-term bank loan of RMB365 million (31 December 2015: Nil) bore interest at a fixed rate at 0.25% per annum and will be repayable in full in 2017. Such short-term loan was subject to the fulfilment of certain financial covenants of the Group. As at 31 December 2016, the Group was in compliance with these financial covenants.

As at 31 December 2016, the remaining EUR denominated unsecured short-term bank loans of RMB1,495 million (31 December 2015: Nil) bore interest from 0.55% to 5.5% per annum will be repayable in full in 2017.

(v) As at 31 December 2016, USD denominated unsecured short-term bank loans of RMB208 million (31 December 2015: Nil) bore interest at a fixed rate of 2.5% per annum and will be repayable in full in 2017.

(vi) In July 2016, the Company issued 270-day RMB commercial paper of RMB1,200 million, which bore interest at a fixed rate of 3.58% per annum and would mature in April 2017.

Notes to the consolidated financial statements

For the year ended 31 December 2016

20 Loans and borrowings (continued)

(b) Long-term loans and borrowings

	Note	2016 RMB millions	2015 RMB millions
Secured long-term bank loans			
— EUR denominated	(i)	194	—
Unsecured long-term bank loans			
— RMB denominated	(ii)	7,470	3,836
— EUR denominated	(iii)	2,885	1,651
— USD denominated		—	5,317
Unsecured RMB bond		—	1,099
RMB medium-term notes	(iv)	8,995	8,993
Guaranteed USD senior notes	(v)	6,762	6,435
		26,306	27,331
Less: current portion of long-term loans and borrowings	20(a)	(3,221)	(5,450)
		23,085	21,881

Notes:

(i) As at 31 December 2016, EUR denominated secured long-term bank loans of RMB194 million (31 December 2015: Nil) bore interest from 1.85% to 5.5% per annum were secured by certain properties, equipments and subsidiary equity and will be repayable from 2018 to 2029.

(ii) As at 31 December 2016, RMB denominated unsecured long-term bank loans of RMB245 million (31 December 2015: RMB550 million) bore interest from 2.65% to 3.35% per annum and will be repayable by half-yearly instalments from 2017 to 2018. Such loans were subject to the fulfilment of certain financial covenants of the Group. As at 31 December 2016, the Group was in compliance with these financial covenants.

As at 31 December 2016, RMB denominated unsecured long-term bank loan of RMB465 million (31 December 2015: Nil) bore interest at 4.37% per annum and will be repayable by half-yearly instalments from 2017 to 2019. Such loan was subject to the fulfilment of certain financial covenants of the Group. As at 31 December 2016, the Group was in compliance with these financial covenants.

As at 31 December 2016, RMB denominated unsecured long-term bank loan of RMB4,020 million (31 December 2015: Nil) bore interest from 3.85% to 4.37% per annum and will be repayable by half-yearly instalments from 2017 to 2019.

Notes to the consolidated financial statements

For the year ended 31 December 2016

20 Loans and borrowings (continued)

(b) Long-term loans and borrowings (continued)

As at 31 December 2016, RMB denominated unsecured long-term bank loan of RMB200 million (31 December 2015: Nil) bore interest at a fixed rate of 4.37% per annum and will be repayable in full in 2018.

The remaining RMB denominated unsecured long-term bank loans of RMB2,540 million (31 December 2015: RMB2,600 million) will be repayable from 2017 to 2018.

(iii) As at 31 December 2016, EUR denominated unsecured long-term bank loans of RMB1,533 million (31 December 2015: Nil) bore interest from 0.68% to 1.28% per annum and will be repayable in full in 2019.

As at 31 December 2016, EUR denominated unsecured long-term bank loans of RMB1,203 million (31 December 2015: RMB210 million) bore interest from 1.86% to 4.14% per annum and will be repayable by half-yearly instalments from 2017 to 2022.

The remaining EUR denominated unsecured long-term bank loans of RMB149 million (31 December 2015: Nil) bore interest from 1.3% to 5.5% will be repayable in full from 2018 to 2025.

(iv) In October 2014, the Company issued 5-year RMB medium-term notes with principal amount of RMB9,000 million. The notes bore interest at a fixed rate of 5.8% per annum and will mature in October 2019. Interest on the notes will be payable yearly in arrears in October, beginning from October 2015.

(v) In April 2012, Zoomlion H.K. SPV Co., Limited, a wholly-owned subsidiary of the Company issued 5-year senior notes with principal amount of USD400 million (RMB equivalent 2,521 million). The senior notes were guaranteed by the Company, bear interest at a fixed rate of 6.875% per annum and will mature in April 2017. Interest on the notes will be payable half-yearly in arrears in April and October of each year, beginning from October 2012.

In December 2012, Zoomlion H.K. SPV Co., Limited issued 10-year senior notes with principal amount of USD600 million (RMB equivalent 3,773 million). The senior notes were guaranteed by the Company, bear interest at a fixed rate of 6.125% per annum and will mature in December 2022. Interest on the notes will be payable half-yearly in arrears in June and December of each year, beginning from June 2013.

In December 2016, senior notes with the carrying amount of USD19.2 million (RMB equivalent 132 million) was repurchased at the quoted market price of USD19.1 million (RMB equivalent 131 million) and the difference of RMB1 million between the purchase price and the carrying amount was charged to the income statement.

(c) Except as disclosed in Notes 20(a)(ii), 20(a)(iii), 20(a)(iv) and 20(b)(ii) above, none of the Group's loans and borrowings contains any financial covenants.

Notes to the consolidated financial statements

For the year ended 31 December 2016

21 Trade and other payables

	2016 RMB millions	2015 RMB millions
Trade creditors	**6,579**	6,378
Bills payable	**5,601**	5,674
Trade creditors and bills payable (Note (a))	**12,180**	12,052
Amounts due to related parties (Note 30(b))	**49**	15
Amounts due to non-controlling shareholders of certain subsidiaries	**468**	477
Receipts in advance	**847**	838
Payable for acquisition of property, plant and equipment	**436**	608
Accrued staff costs	**328**	293
Product warranty provision (Note (b))	**72**	74
VAT payable	**211**	146
Sundry taxes payable	**114**	126
Security deposits (Note 24)	**568**	525
Interest payable	**187**	236
Other accrued expenses and payables	**1,629**	1,423
	17,089	16,813

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

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

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For the year ended 31 December 2016

21 Trade and other payables (continued)

(b) Product warranty provision

	RMB millions
Balance at 1 January 2015	93
Assumed through business combination	36
Provision for the year	112
Utilisation during the year	(167)
Balance at 31 December 2015	74
Balance at 1 January 2016	**74**
Provision for the year	**105**
Utilisation during the year	**(107)**
Balance at 31 December 2016	**72**

A provision for warranties is recognised when the underlying products are sold. Under the terms of the Group's sales agreements, the Group will rectify any product defects arising within predominantly 3 to 12 months from the date of sale. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of products sold which are still within the warranty period. The amount of provision takes into account the Group's recent claim experience, historical warranty data and a weighting of all possible outcomes against their associated probabilities.

22 Income tax in the consolidated statement of financial position

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

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

Notes to the consolidated financial statements

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22 Income tax in the consolidated statement of financial position (continued)

(b) Deferred tax assets and liabilities recognised:

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

Year ended 31 December 2016

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

Notes to the consolidated financial statements

For the year ended 31 December 2016

22 Income tax in the consolidated statement of financial position (continued)

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

Year ended 31 December 2015

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

As at 31 December 2016, deferred tax assets in respect of asset impairment losses and tax losses totalling RMB347 million (31 December 2015: RMB317 million) were not recognised by certain subsidiaries of the Company, as it is not probable that sufficient future taxable profits will be available to utilise such tax benefits.

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For the year ended 31 December 2016

23 Employee benefits plans

As stipulated by the regulations of the PRC, the Company and its subsidiaries in the PRC participate in various defined contribution retirement plans organised by municipal and provincial governments for the Group's PRC employees. These entities are required to make contributions to the retirement plans at 20% of the salaries, bonuses and certain allowances of the employee, subject to certain salary limits. A member of the above plans is entitled to a pension equal to a fixed percentage of the salary prevailing at his or her retirement date. In addition, pursuant to Italian Law, CIFA, Ladurner and their Italian subsidiaries are required to contribute to a government-mandated pension fund at 13.5% of the employee's salary each month. Pursuant to Germany Law, m-tec is required to contribute to a government-mandated pension fund at 9.5% of the employee's salary each month. Contributions to these retirement plans are charged to profit or loss as the related employee service is provided (Note 5(b)). The Group has no other material obligation for the payment of benefits associated with these plans beyond the contributions described above.

24 Other non-current liabilities

Other non-current liabilities primarily represent security deposits received from customers that finance their purchase of the Group's machinery products through finance lease arrangement and deferred income of government grants related to assets. The Group requires such customers to pay deposits as part of the credit risk control measures. The security deposits will be refunded to customers upon receipt of the final lease payment. The amount of security deposits expected to be refunded after one year are classified as non-current liabilities, and the amounts expected to be refunded within one year are classified as current liabilities under the caption "Trade and other payables".

25 Capital and reserves

(a) Share capital

	2016 RMB millions	2015 RMB millions
Ordinary shares issued and fully paid:		
At 1 January	**7,664**	7,706
Own shares repurchased and cancelled	**–**	(42)
At 31 December	**7,664**	7,664
6,275,925,164 A Shares of RMB1.00 each 1,388,207,086 H Shares of RMB1.00 each (2015: 6,275,925,164 A Shares of RMB1.00 each 1,388,207,086 H Shares of RMB1.00 each)	**7,664**	7,664

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Notes to the consolidated financial statements

For the year ended 31 December 2016

25 Capital and reserves (continued)

(b) Reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated reserves is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual component of reserves between the beginning and the end of the year are as follows:

	The Company	
	2016 RMB millions	2015 RMB millions
Capital reserve		
Balance at 1 January	**14,562**	14,648
Repurchase of own shares	**—**	(86)
Balance at 31 December	**14,562**	14,562
Statutory surplus reserve		
Balance at 1 January	**2,916**	2,905
Appropriation (Note 25(b)(ii))	**21**	11
Balance at 31 December	**2,937**	2,916
Other reserve		
Balance at 1 January	**1**	1
Other comprehensive income	**(2)**	—
Balance at 31 December	**(1)**	1
Retained earnings		
Balance at 1 January	**13,909**	14,181
Appropriation (Note 25(b)(ii))	**(21)**	(11)
Cash dividends (Note 25(c))	**(1,150)**	(385)
Profit for the year	**346**	124
Balance at 31 December	**13,084**	13,909
Total		
Balance at 1 January	**31,388**	31,735
Balance at 31 December	**30,582**	31,388

25 Capital and reserves (continued)

(b) Reserves (continued)

(i) Capital reserve

Under PRC rules and regulations, capital reserve is non-distributable other than in liquidation and may be utilised for business expansion or converted into ordinary shares by the issuance of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by the shareholders.

(ii) Statutory surplus reserve

Under PRC rules and regulations, the Company and its PRC subsidiaries are required to set aside 10% of the net income determined in accordance with the PRC accounting rules and regulations to a statutory surplus reserve until such reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of any dividend to shareholders. For the year ended 31 December 2016, the Company transferred RMB21 million (2015: RMB11 million), being 10% of the current year's net profit as determined in accordance with PRC accounting rules and regulations, to this reserve.

The statutory surplus reserve is non-distributable other than in liquidation and can be used to make good previous years' losses, if any, and may be utilised for business expansion or converted into ordinary shares by the issuance of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by the shareholders, provided that the balance after such issuance is not less than 25% of the registered capital. No such statutory surplus reserve is required for the Group's subsidiaries outside the mainland PRC.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Group's subsidiaries outside the mainland PRC which are dealt with in accordance with the accounting policies set out in Note 2(o).

(iv) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale equity securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in Notes 2(h)(i) and 2(i)(i).

Notes to the consolidated financial statements

For the year ended 31 December 2016

25 Capital and reserves (continued)

(c) Cash dividends

Pursuant to the shareholders' approval at the Annual General Meeting held on 29 June 2016, a final cash dividend of RMB0.15 per share based on 7,664 million ordinary shares totalling RMB1,150 million in respect of the year ended 31 December 2015 was declared, and was fully paid by the end of 2016.

Pursuant to the shareholders' approval at the Annual General Meeting held on 29 June 2015, a final cash dividend of RMB0.05 per share based on 7,706 million ordinary shares totalling RMB385 million in respect of the year ended 31 December 2014 was declared, of which RMB377 million was paid by the end of 2015, and the remaining balance of RMB8 million was paid in 2016.

26 Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide investment returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

Management regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Management monitors its capital structure on the basis of the debt-to-equity ratio. For this purpose, the Group defines debt as total loans and borrowings and defines equity as all components of equity attributable to equity shareholders of the Company.

During 2016, the Group's strategy, which was unchanged from 2015, was to maintain the debt-to-equity ratio at less than 100%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

26 Capital management (continued)

As at 31 December 2016, the Group's debt-to-equity ratio was as follows:

	2016 RMB millions	2015 RMB millions
Short-term loans and borrowings	**9,712**	13,273
Long-term loans and borrowings	**23,085**	21,881
Total debt	**32,797**	35,154
Total equity attributable to equity shareholders	**36,773**	39,896
Debt-to-equity ratio	**89%**	88%

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27 Financial Instruments — Fair values and risk management

(a) Accounting classifications and fair values

(i) Financial instruments measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis was categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

— Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

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For the year ended 31 December 2016

27 Financial Instruments — Fair values and risk management (continued)

(a) Accounting classifications and fair values (continued)

(i) **Financial instruments measured at fair value** (continued)

— Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value at 31 December 2016	**Fair value measurements as at 31 December 2016**		
		Level 1	**Level 2**	**Level 3**
Recurring fair value measurements				
Financial assets:				
Held-for-sale listed equity securities	**9**	**9**	**—**	**—**
Available-for-sale investment in fund	**1,150**	**—**	**1,150**	**—**
Derivative financial instrument	**132**	**—**	**132**	**—**
Financial liabilities:				
Derivative financial instrument	**5**	**—**	**5**	**—**

	Fair value at 31 December 2015	Fair value measurements as at 31 December 2016		
		Level 1	Level 2	Level 3
Recurring fair value measurements				
Financial assets:				
Held-for-sale listed equity securities	9	9	—	—
Available-for-sale investment in fund	10	—	10	—
Derivative financial instrument	16	—	16	—
Financial liabilities:				
Derivative financial instrument	41	—	41	—

Notes to the consolidated financial statements

For the year ended 31 December 2016

27 Financial Instruments — Fair values and risk management (continued)

(a) Accounting classifications and fair values (continued)

(i) Financial instruments measured at fair value (continued)

During the years ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period in which they occur.

(ii) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2016 and 2015 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	Carrying amount at 31 December 2016	**Fair value at 31 December 2016 categorised into Level 1**	Carrying amount at 31 December 2015	Fair value at 31 December 2015 categorised into Level 1
Guaranteed USD senior notes	**6,762**	**6,651**	6,435	5,831
RMB medium-term notes	**8,995**	**9,154**	8,993	9,809

The Group's investments in unlisted equity securities have no quoted market prices and accordingly, a reasonable estimate of their fair values could not be made without incurring excessive costs. Such securities are stated at cost less impairment losses.

(b) Financial risk management

The Group has exposure to the following risks arising from financial instruments:

— credit risk (Note 27(b)(ii))
— liquidity risk (Note 27(b)(iii))
— interest rate risk (Note 27(b)(iv))
— currency risk (Note 27(b)(v))

27 Financial Instruments — Fair values and risk management (continued)

(b) Financial risk management (continued)

(i) Risk management framework

The Company's board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Management of the Company have established a risk management committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the board of directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's deposits placed with financial institutions and receivables from customers.

The Group's credit risk is primarily attributable to bank deposits, trade and other receivables, receivables under finance lease, financial guarantees and endorsed bills with full recourse which were derecognised by the Group. The maximum exposure to credit risk is represented by the carrying amount of these financial assets and guarantee obligations as disclosed in Note 29(a).

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27 Financial Instruments — Fair values and risk management (continued)

(b) Financial risk management (continued)

(ii) Credit risk (continued)

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's background and financial strengths, past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as the economic environment in which the customer operates. Trade receivables under credit sales arrangement are normally due within 1 to 3 months from the date of billing, and an upfront payment ranging from 20% to 30% (2015: 20% to 30%) of the product price is normally required from the customer. For sales under instalment payment method that has instalment payment periods generally ranging from 6 to 42 months (2015: 6 to 42 months), customers are normally required to make an upfront payment ranging from 15% to 30% (2015: 15% to 30%) of the product price. Collaterals such as properties, machinery or third party guarantees are generally required for customers with lower credit ratings. In addition, credit insurance coverage is required for overseas sales. Certain customers are required to pay by letters of credit.

In respect of receivables under finance lease, individual credit evaluations are performed which are similar to those of credit and instalment sales. The risk management committee is responsible for the establishment of credit risk management policies, the supervision on the implementation of such policies and determination of the key terms of the lease contracts, including interest rate, lease period and percentage of deposit, etc. The risk management committee members are also responsible for approval of each leasing transaction within their respective authority. Credit review department, legal department, finance department and information technology department are collectively responsible for credit risk management and monitoring of settlement of receivables under finance lease. The Group's credit risk management procedures include pre-lease investigation, lease approval, lease payment collection and management, as well as recovery measures in case of customer default.

As at 31 December 2016, trade and other receivables aged over two years amounted to RMB7,405 million (31 December 2015: RMB3,249 million) and overdue receivables under finance lease for more than two years amounted to RMB1,135 million (31 December 2015: RMB1,258 million) represents an increase of RMB4,156 million (2015: an increase of RMB1,223 million) and a decrease of RMB123 million (2015: an increase of RMB1,055 million), respectively. Debtors overdue by 3 months or more are handled by risk management department which is responsible for recovering debts through legal and other actions, including repossession and subsequent sale of machineries in case of customer default. Action taken to various overdue debts are assessed by taking into consideration of the customers' current financial position, future business plan, the fair value of pledged assets and possibility of additional collateral.

27 Financial Instruments — Fair values and risk management (continued)

(b) Financial risk management (continued)

(ii) Credit risk (continued)

Bank deposits are placed with financial institutions that have high credit ratings. Given their credit ratings, management does not expect any counterparty to fail to meet its obligations.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. As at 31 December 2016, 0.1% (31 December 2015: 0.1%) of the total trade and bills receivables was due from the Group's largest customer and 0.8% (31 December 2015: 0.8%) of the total trade and bills receivables was due from the Group's five largest customers respectively. As at 31 December 2016, 94.3% and 96.1% (31 December 2015: 93.7% and 96.3%) of total impaired trade receivables and receivables under finance lease was due from the Group's customers located in Mainland PRC.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 16. Overdue analysis of the Group's receivables under finance lease is set out in Note 17.

In the normal course of business, certain customers of the Group may finance their purchase of the Group's machinery products through bank loans or leasing arrangements provided by third party financial institutions. The Group provides guarantees to banks and other financial institutions for such bank loans and financing provided to the customers. Pursuant to the guarantee arrangements, the Group agrees to pay any outstanding loan principal and interest due to the banks and other financial institutions should such customers default.

Details of the Group's exposure and credit control policy in respect of such guarantees provided are disclosed in Note 29(a).

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient cash and committed lines of funding from financial institutions to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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27 Financial Instruments — Fair values and risk management (continued)

(b) Financial risk management (continued)

(iii) Liquidity risk (continued)

The following table sets out the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current prevailing rates at the end of the reporting period) and the earliest date the Group would be required to repay, other than endorsed bills with full recourse which were derecognised by the Group (Note 16(d) for details).

	As at 31 December 2016					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions
Loans and borrowings	32,797	37,961	11,017	4,982	16,818	5,144
Trade and other payables	17,089	17,089	17,089	–	–	–
Other non-current liabilities	583	583	–	352	159	72
Payable for acquisition of non-controlling interests	265	413	–	–	413	–
Interest rate swap (net settled)	1	2	–	–	1	1
	50,735	56,048	28,106	5,334	17,391	5,217
Financial guarantees issued Maximum amount guaranteed	66	4,694	4,694	–	–	–

Notes to the consolidated financial statements

For the year ended 31 December 2016

27 Financial Instruments — Fair values and risk management (continued)

(b) Financial risk management (continued)

(iii) Liquidity risk (continued)

	As at 31 December 2016 Contractual undiscounted cash inflow/(outflow)				
	Within 1 year or on demand RMB millions	**More than 1 year but less than 2 years RMB millions**	**More than 2 years but less than 5 years RMB millions**	**More than 5 years RMB millions**	**Total RMB millions**
Forward foreign exchange contracts:					
— outflow	**(7,911)**	**—**	**—**	**—**	**(7,911)**
— inflow	**8,022**	**—**	**—**	**—**	**8,022**

	As at 31 December 2015					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions
Loans and borrowings	35,154	39,589	14,613	8,201	13,697	3,078
Trade and other payables	16,813	16,813	16,813	—	—	—
Other non-current liabilities	621	621	—	189	216	216
Interest rate swap (net settled)	25	25	25	—	—	—
	52,613	57,048	31,451	8,390	13,913	3,294
Financial guarantees issued Maximum amount guaranteed	144	10,475	10,475	—	—	—

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For the year ended 31 December 2016

27 Financial Instruments — Fair values and risk management (continued)

(b) Financial risk management (continued)

(iii) Liquidity risk (continued)

	As at 31 December 2015				
	Contractual undiscounted cash inflow/(outflow)				
	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions	Total RMB millions
Forward foreign exchange contracts:					
— outflow	(2,696)	(1,266)	—	—	(3,962)
— inflow	2,704	1,275	—	—	3,979

Management believes that the Group's current cash on hand, expected cash flows from operations and available standby credit facilities from financial institutions will be sufficient to meet the Group's working capital requirements and repay its borrowings and obligations when they become due.

Notes to the consolidated financial statements

For the year ended 31 December 2016

27 Financial Instruments — Fair values and risk management (continued)

(b) Financial risk management (continued)

(iv) Interest rate risk

The Group's interest rate risk exposure arises primarily from bank deposits, receivables under finance lease, short-term and long-term loans and borrowings. These financial instruments bearing interest at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk, respectively. The following table sets out the interest rate profile of the Group's bank deposits, receivables under finance lease and short-term and long-term loans and borrowings as at 31 December 2016.

	2016		2015	
	Weighted average interest rate %	**Amount RMB millions**	Weighted average interest rate %	Amount RMB millions
Fixed rate financial instruments:				
Short-term loans and borrowings	**4.8%**	**(7,825)**	3.8%	(2,984)
Long-term loans and borrowings	**5.3%**	**(20,372)**	5.8%	(18,766)
		(28,197)		(21,750)
Variable rate financial instruments:				
Pledged bank deposits	**0.4%**	**1,619**	0.4%	2,049
Bank deposits	**1.0%**	**6,574**	1.2%	11,486
Receivables under finance lease	**5.3%**	**14,107**	4.9%	15,128
Short-term loans and borrowings	**1.2%**	**(1,887)**	2.2%	(10,289)
Long-term loans and borrowings	**1.3%**	**(2,713)**	3.0%	(3,115)
		17,700		15,259
Net amount		**(10,497)**		(6,491)

The following table indicates the change in the Group's profit or loss and retained earnings and other components of consolidated equity that would arise if it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant:

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For the year ended 31 December 2016

27 Financial Instruments — Fair values and risk management (continued)

(b) Financial risk management (continued)

(iv) Interest rate risk (continued)

	Profit or loss		Retained profits	
	100 bp	100 bp	100 bp	100 bp
Effect in millions of RMB	**increase**	**decrease**	**increase**	**decrease**
31 December 2016				
Variable rate financial instruments	**150**	**(150)**	**150**	**(150)**
31 December 2015				
Variable rate financial instruments	130	(130)	130	(130)

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and the change was applied to the Group's debts outstanding at the end of the reporting period which had exposure to interest rate risk. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the year until the next reporting period end. The analysis is performed on the same basis for 2015.

Notes to the consolidated financial statements

For the year ended 31 December 2016

27 Financial Instruments – Fair values and risk management (continued)

(b) Financial risk management (continued)

(v) Currency risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, loans and borrowings and cash balances that are denominated in a foreign currency, that is, a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily US dollars, Euro, Japanese Yen, HK dollars and Swiss franc.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the end of the reporting period. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	Exposure to foreign currencies risk (expressed in equivalent RMB millions)									
	2016					2015				
	USD	EUR	YEN	HKD	CHF	USD	EUR	YEN	HKD	CHF
Trade debtors	6,226	2,654	–	1,100	–	2,393	73	13	19	–
Cash and cash equivalents	853	113	–	4	150	95	76	–	14	–
Trade creditors	(96)	(2,610)	(3)	(1,078)	–	(38)	(52)	(2)	(1)	–
Loans and borrowings	(208)	(3,288)	–	–	–	(6,409)	(4,157)	–	–	–
Notional amounts of forward exchange contracts used as economic hedges	2,983	170	–	–	(150)	(20)	(72)	–	–	–
Net exposure arising from recognised assets and liabilities	9,758	(2,961)	(3)	26	–	(3,979)	(4,132)	11	32	–

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27 Financial Instruments – Fair values and risk management (continued)

(b) Financial risk management (continued)

(v) Currency risk (continued)

The following table indicates the change in the Group's profit or loss after taxation and retained earnings and other components of consolidated equity that would arise if foreign exchange rates to which the Group's financial assets and liabilities have significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant:

	Profit or loss		Retained profits	
Effect in millions of RMB	**Strengthening**	**Weakening**	**Strengthening**	**Weakening**
31 December 2016				
USD (5% movement)	**415**	**(415)**	**415**	**(415)**
EUR (5% movement)	**(126)**	**126**	**(126)**	**126**
Yen (5% movement)	**—**	**—**	**—**	**—**
HKD (5% movement)	**1**	**(1)**	**1**	**(1)**
CHF (5% movement)	**—**	**—**	**—**	**—**
31 December 2015				
USD (5% movement)	(169)	169	(169)	169
EUR (5% movement)	(176)	176	(176)	176
Yen (5% movement)	—	—	—	—
HKD (5% movement)	1	(1)	1	(1)
CHF (5% movement)	—	—	—	—

Other than the amounts as disclosed above, the amounts of other financial assets and liabilities of the Group are substantially denominated in the functional currency of the respective entity within the Group.

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit or loss after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the end of the reporting period for presentation purposes.

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For the year ended 31 December 2016

27 Financial Instruments – Fair values and risk management (continued)

(b) Financial risk management (continued)

(v) Currency risk (continued)

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2015.

28 Commitments

(a) Capital commitments

As at 31 December 2016, the Group had capital commitments as follows:

	2016 RMB millions	2015 RMB millions
Authorised and contracted for		
— property, plant and equipment	**339**	208
— intangible assets	**—**	10
— equity investment	**—**	356
	339	574
Authorised but not contracted for		
— property, plant and equipment	**8**	—
	8	—

Notes to the consolidated financial statements

For the year ended 31 December 2016

28 Commitments (continued)

(b) Operating lease commitments

The Group leases business premises and equipment through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments.

As at 31 December 2016, the future minimum lease payments under operating lease are as follows:

	2016 RMB millions	2015 RMB millions
Within 1 year	**67**	99
After 1 year but within 2 years	**49**	58
After 2 years but within 3 years	**18**	42
After 3 years but within 4 years	**16**	17
After 4 years but within 5 years	**10**	16
Thereafter	**3**	13
	163	245

29 Contingent liabilities

(a) Financial guarantee issued

Certain customers of the Group from time to time may finance their purchase of the Group's machinery products through bank loans, and the Group provides guarantees to the banks for the amount drawn by customers. Under the guarantee arrangement, in the event of customer default, the Group is required to repossess the machinery collateralising the bank loans, and is entitled to sell the machinery and retain any net proceeds in excess of the guarantee payments made to the banks. As at 31 December 2016, the Group's maximum exposure to such guarantees was RMB3,740 million (31 December 2015: RMB8,186 million). The terms of these guarantees coincide with the tenure of bank loans which generally range from 1 to 5 years. The Group, when called upon by the banks to fulfil its guarantee obligations, has historically been able to sell the repossessed machinery for proceeds that are not significantly different from the amount of the guarantee payments. For the year ended 31 December 2016, the Group made payments of RMB240 million (2015: RMB947 million) to the banks for repossession of machinery under the guarantee arrangement as a result of customer default.

Starting from 1 January 2013, certain customers of the Group finance their purchase of the Group's machinery products through finance leases provided by third-party leasing companies. Under the third party leasing arrangement, the Group provides guarantee to the third-party leasing companies that in the event of customer default, the Group is required to make payment to the leasing companies for the outstanding lease payments due from the customer. At the same time, the Group is entitled to repossess and sell the leased machinery, and retain any net proceeds in excess of the guarantee payments made to the leasing companies. As at 31 December 2016, the Group's maximum exposure to such guarantees was RMB954 million (31 December 2015: RMB2,089 million). The terms of these guarantees coincide with the tenure of the lease contracts which generally range from 2 to 5 years. For the year ended 31 December 2016, there was no payment made for repossession of machinery incurred (2015: Nil) under the guarantee arrangement as a result of customer default.

Notes to the consolidated financial statements

For the year ended 31 December 2016

29 Contingent liabilities (continued)

(a) Financial guarantee issued (continued)

Certain customers of the Group finance their purchase of the Group's agricultural machinery products through cargo-backed loans in the form of bank acceptance notes provided by the banks. The Group undertakes the joint liability guarantee for the customers. In the event of customer default, the Group is required to make payments to the banks for the outstanding amount due from the customers when the bank acceptance notes are due. As at 31 December 2016, the Group's maximum exposure to such guarantees was RMB123 million (31 December 2015: RMB117 million).

(b) Contingent liability in respect of legal claims

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. Management has assessed the likelihood of any unfavourable outcome of such contingencies, lawsuits or other proceedings and believes that any resulting liabilities will not have a material adverse effect on the financial position, operating results or cash flows of the Group.

30 Related party transactions

(a) Transactions with related parties

	2016 RMB millions	2015 RMB millions
Transactions with associates:		
Sales of products	**166**	236
Purchase of raw materials and finished goods	**1**	6

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and in accordance with the agreements governing such transactions which are comparable to normal commercial terms.

(b) Outstanding balances with related parties

Amounts due from/to related parties are arising in the Group's normal course of business and are included in the account captions of trade and other receivables and trade and other payables, respectively. These balances bear no interest, are unsecured and are repayable in accordance with the agreements governing such transactions which are comparable to credit period with third-party customers/suppliers.

Notes to the consolidated financial statements

For the year ended 31 December 2016

30 Related party transactions (continued)

(c) Key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and supervisors of the Group. The key management personnel compensation are as follows:

	2016 RMB thousands	2015 RMB thousands
Short-term employee benefits	**32,884**	17,914
Retirement scheme contributions	**336**	416
	33,220	18,330

Total emoluments are included in "staff costs" as disclosed in Note 5(b).

(d) Contributions to retirement plans

The details of the Group's employee benefit plans are disclosed in Note 23.

31 Accounting estimates and judgements

The Group's financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the consolidated financial statements. Management bases the assumptions and estimates on historical experience and on other factors that the management believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of significant accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the consolidated financial statements. The significant accounting policies are set forth in Note 2 to the financial statements. Note 13 contains information about significant assumptions and their risk factors relating to goodwill impairment.

Management reviews estimations and underlying assumptions ongoing basis. Revisions to accounting estimations are recognised in the period in which the estimations are revised and in any future periods affected.

Notes to the consolidated financial statements

For the year ended 31 December 2016

31 Accounting estimates and judgements (continued)

Other key sources of estimation uncertainty are as follows:

(a) Impairment of receivables

Management estimates impairment losses of receivables (which are recorded in an allowance account for doubtful debts) resulting from the inability of the customers to make the required payments. Management bases its estimates on the ageing of the receivable balance, customer credit-worthiness, estimated fair value of collateral assets and historical write-off experience. If the financial condition of the customers or fair value of collateral assets were to deteriorate, actual write-offs may be higher than expected and could significantly affect the results of future periods.

(b) Warranty provision

As explained in Note 21(b), the Group makes product warranty provision based on its best estimate of the expected settlement under the sales agreements in respect of products sold which are still within the warranty period. The amount of provision takes into account the Group's recent claim experience, historical warranty data and a weighting of all possible outcomes against their associated probabilities. As the Group is continually upgrading its product designs and launching new models, it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

(c) Write-down of inventories

As described in Note 2(j), the Group writes down the cost of inventories to net realisable value when the net realisable value of inventories is lower than the cost. The Group estimates the net realisable value of inventories by taking into account the recent selling prices and forecasted market demand. However, the actual realised value of the inventories may be significantly different from the estimated amount at the end of the reporting period.

(d) Construction contracts

As explained in accounting policy of Notes 2(n)(v) and 2(s), revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the amounts due from customers for contract work will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

31 Accounting estimates and judgements (continued)

(e) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered “impaired”, and an impairment loss would be recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 2(i)(ii). The carrying amounts of the Group’s long-lived assets, including property, plant and equipment, intangible assets and investments in subsidiaries and associates are reviewed periodically to determine whether there is any indication of impairment. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. For goodwill and trademarks with indefinite useful lives, the impairment testing is performed at least annually at the end of each year. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and the fair value less costs to sell. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. It is difficult to precisely estimate selling price of the Group’s long-lived assets because quoted market prices for such assets may not be readily available. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of revenue, amount of operating costs and applicable discount rate. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

Notes to the consolidated financial statements

For the year ended 31 December 2016

31 Accounting estimates and judgements (continued)

(f) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual value, if any. Management reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and take into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Amortisation of intangible assets is recognised on a straight-line basis over the respective intangible assets' estimated useful lives. Management reviews the estimated useful lives annually in order to estimate the amount of amortisation expense to be recorded during any reporting period. The estimated useful lives are based on the estimated periods over which future economic benefits will be received by the Group and take into account the level of future competition, the risk of technological or functional obsolescence and the expected changes in the regulatory and social environment. The amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

Notes to the consolidated financial statements

For the year ended 31 December 2016

32 Investments in subsidiaries

The following list contains particulars of subsidiaries as at 31 December 2016 which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

		Proportion of ownership interest			
Name of company	Particulars of issued and paid up capital (millions)	Group's effective interest	held by the Company	held by subsidiary	Principal activities
Zoomlion Heavy Machinery Co., Ltd.	RMB 1,200	67.51%	67.51%	–	Manufacture of agriculture machinery
CIFA S.p.A	EUR 15	100%	–	100%	Manufacture of agriculture machinery
Ladurner Ambiente S.p.A. (Note 13)	EUR 28	57%	–	57%	Construction and Management of plants
Changsha Zoomlion and Environmental Industry Co., Ltd.	RMB 2,100	100%	100%	–	Construction Management of plants
Shaanxi Zoomlion Earth Working Machinery Co., Ltd.	RMB 474	100%	100%	–	Manufacture of earth working machinery
Hunan Zoomlion Axle Co., Ltd.	RMB 466	88.86%	88.86%	–	Manufacture of motor vehicle components
Zoomlion Material Handling Equipment Co., Ltd.	RMB 100	100%	100%	–	Manufacture of material handling machinery
Zoomlion Finance and Leasing (Beijing) Co., Ltd.	RMB 1,502	100%	100%	–	Leasing of equipment and machinery
Hunan Zoomlion International Trade Co., Ltd.	RMB 50	100%	100%	–	Trading of equipment and machinery
Hunan Teli Hydraulic Co., Ltd.	RMB 180	77.61%	77.61%	–	Manufacture of hydraulic products
Hunan Zoomlion Special Vehicles Co., Ltd.	RMB 69	100%	100%	–	Manufacture of specialized vehicles
Zoomlion Finance and Leasing (China) Co., Ltd.	USD 280	100%	–	100%	Leasing of equipment and machinery

Notes to the consolidated financial statements

For the year ended 31 December 2016

32 Investments in subsidiaries (continued)

Name of company	Particulars of issued and paid up capital (millions)	Proportion of ownership interest			Principal activities
		Group's effective interest	held by the Company	held by subsidiary	
Hunan Zoomlion Crawling Crane Ltd.	RMB 360	100%	100%	–	Manufacture of crawling cranes
Hunan Zoomlion Hardware Co., Ltd.	RMB 100	100%	100%	–	Manufacture of components
Shanghai Zoomlion Pile Foundation Machinery Co., Ltd.	RMB 50	100%	100%	–	Manufacture of pile foundation Machinery
Hunan Zoomlion Intelligent Technology Co., Ltd.	RMB 50	100%	100%	–	Research and manufacture of machine software
Hunan Zoomlion Concrete Machinery Site Equipment Co., Ltd.	RMB 451	100%	100%	–	Manufacture of concrete machinery
Zoomlion H.K. SPV Co., Limited	USD 25	100%	–	100%	Bond issuance
m-tec mathis technik GmbH	EUR 3	100%	–	100%	Manufacture of concrete machinery
Zoomlion Commercial Factoring (China) Co., Ltd.	USD100	100%	–	100%	Commercial factoring services
Anhui Zoomlion Earth Working Machinery Co., Ltd.	RMB500	100%	100%	–	Manufacture of machinery earth working
Zoomlion Finance	RMB1,500	100%	75%	25%	Financial services

In 2016, the Group completed the acquisition of equity interests from non-controlling interests of Zoomlion Heavy Machinery Jilin Co., Ltd. and Henan Ruichuang General Machinery Manufacturing Co.,Ltd. with a cash consideration of RMB52 million. The difference of RMB106 million between the carrying amount of non-controlling interests and the cash consideration was recorded in equity as capital reserve.

All of the above subsidiaries are incorporated and operate in the PRC, except for CIFA, m-tec and Ladurner which is incorporated and operates in Italy, Germany and Italy, respectively. All of the above subsidiaries are limited liability companies. The following table lists out the information relating to Ladurner, the only subsidiary of the Group which has a material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

Notes to the consolidated financial statements

For the year ended 31 December 2016

32 Investments in subsidiaries (continued)

	2016 RMB millions	2015 RMB millions
NCI percentage	43%	—
Current assets	856	—
Non-current assets	467	—
Current liabilities	(409)	—
Non-current liabilities	(365)	—
Net assets	549	—
Carrying amount of NCI	236	—
Revenue	325	—
Profit for the year	3	—
Total comprehensive income	3	—
Profit allocated to NCI	1	—
Cash flows from operating activities	(97)	—
Cash flows from investing activities	(29)	—
Cash flows from financing activities	309	—

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For the year ended 31 December 2016

33 Company-level statement of financial position

	Note	2016 RMB millions	2015 RMB millions
Non-current assets			
Property, plant and equipment		**4,469**	4,920
Lease prepayments		**1,069**	1,278
Intangible assets		**333**	313
Investments in subsidiaries		**16,257**	16,064
Interests in associates		**432**	124
Available-for-sale financial assets		**233**	178
Trade and other receivables		**2,817**	3,264
Pledged bank deposits		**72**	180
Deferred tax assets		**526**	340
Total non-current assets		**26,208**	26,661
Current assets			
Inventories		**9,879**	10,873
Other current assets		**684**	450
Trade and other receivables		**38,383**	34,075
Pledged bank deposits		**778**	1,107
Cash and cash equivalents		**4,685**	6,309
Total current assets		**54,409**	52,814
Total assets		**80,617**	79,475
Current liabilities			
Loans and borrowings		**6,948**	7,331
Trade and other payables		**17,916**	18,078
Total current liabilities		**24,864**	25,409

Notes to the consolidated financial statements

For the year ended 31 December 2016

33 Company-level statement of financial position (continued)

	Note	2016 RMB millions	2015 RMB millions
Net current assets		**29,545**	27,405
Total assets less current liabilities		**55,753**	54,066
Non-current liabilities			
Loans and borrowings		**17,287**	14,796
Other non-current liabilities		**200**	215
Deferred tax liabilities		**20**	3
Total non-current liabilities		**17,507**	15,014
Net assets		**38,246**	39,052
Capital and reserves			
Share capital	25(a)	**7,664**	7,664
Reserves	25(b)	**30,582**	31,388
Total equity		**38,246**	39,052

Notes to the consolidated financial statements

For the year ended 31 December 2016

34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2016

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting period beginning on or after
Amendments to IAS 7, *Statement of cash flows: Disclosure Initiative*	1 January 2017
Amendments to IAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, Revenue from contracts with customers	1 January 2018
Amendments to IFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2016 (continued)

IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, Financial instruments: Recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities.

Besides, the new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting IFRS 15 on its consolidated financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

Notes to the consolidated financial statements

For the year ended 31 December 2016

34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2016 (continued)

IFRS 15, Revenue from contracts with customers (continued)

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in Note 2(n). Currently, revenue arising from construction contracts and the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

(b) Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2016 (continued)

IFRS 16, Leases

As disclosed in Note 2(q), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in Note 28(b), as at 31 December 2016 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB160 million and RMB3 million for properties and other assets respectively, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

The Group is considering whether to adopt IFRS 16 before its effective date of 1 January 2019. However, early adoption of IFRS 16 is only permitted if this is no earlier than the adoption of IFRS 15. It is therefore unlikely that IFRS 16 will be adopted before the effective date of IFRS 15, being 1 January 2018.

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35 Reconciliation of financial information prepared under PRC GAAP to IFRSs

(a) Reconciliation of total equity of the Group

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

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

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

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

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

36 Non-adjusting event after the reporting period

Pursuant to a resolutions passed at the directors' meeting on 30 March 2017, a final dividend in respect of the year ended 31 December 2016 of RMB0.15 (2015: RMB0.15) per share totalling RMB1,150 million (2015: RMB1,150 million) was proposed for shareholders' approval at the Annual General Meeting. The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

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