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

2017 ANNUAL REPORT

* 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 the International Financial Reporting Standards, where the English version shall prevail.

Definition

Unless the context otherwise requires, the following ters 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.

2017 Annual Report

Contents

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
Fax: (86 731) 85651157
E-mail: 157@zoomlion.com

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")
Room 208, Block B, Huatong Building, B 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,

With the attention grabbing 19th National Congress of the Communist Party of China successfully convened in 2017, it optimized that Socialism with Chinese Characteristics moved forward into a new era. The PRC's economy has transformed from a phase of rapid growth to a stage of high-quality development. 2017 was a year of twists and turns for Zoomlion. With the determination of Zoomlion, we strive to be back on track of growth and to flourish and thrive unprecedentedly.

Looking back to 2017, we actively reallocated our resources to optimize our industry structure, strategically focusing on construction machinery, agricultural machinery and financial services as well as fostering further renewal of momentum. With the weaknesses and strength of construction machinery complementing each other, we became stronger and more solid in our dominating areas. The agricultural machinery market was more stable, which accelerated the adjustment of product structure and upgrade of technologies. Our financial business realized revenue in venture capital which in turn brought the combination between industry and finance to a new level.

Looking back to 2017, we strived to carry out our new development objectives, accumulated momentum for new potential development and achieved the complete transformation of operation. We changed our visions, thoroughly advocating the standards of "being attentive, astute, precise and effective" and fully implementing the requirements of "striving for effectiveness, quality, scale and sustainability". We changed our strategies to focusing on markets, customers and product sales, aiming for quality growth and steady operation. We changed our management control strategy and established a mechanism for internal marketisation so that our operation will return to its value creation nature. We changed our motivation strategy. Our scientific research personnel, technical staff and core staff became one team and worked closely together. Through ups and downs, Zoomlion became more confident and dedicated.

Our responsibilities to our Shareholders, society and staff are the main internal drivers of the people of Zoomlion. Recalling the past, the people of Zoomlion did not only sail through a long and hard path, despite the adversity we went through, we are determined to leverage our strengths to stride forward and continue our pursue for endless excellence.

"What's past is prologue." Standing at the starting point of a new era, we gradually figured that a bright future is just around the corner. In the recently held National Congress and Chinese People's Political Consultative Conference, President Xi Jinping explicitly indicated that in order to promote quality development of the economy, it is important to focus on promoting the transformation and upgrade of industry structure and to consolidate, strengthen and better the real economy. This has given clear indication to the equipment manufacturers in China to deepen their upgrading transformation and achieve stronger development.

Chairman's Statement

At the moment, emerging and revolutionary technologies such as sensor technology, artificial intelligence, Internet and Internet of Things, big data, cloud platform, virtual reality were developed and merged rapidly within the real economy. Innovation has become the utmost driver of high-quality development. In 2018, Zoomlion will stand firm on the fundamentals of "innovation-driven development" and "high-quality development" with the guidelines of "The Thought on Socialism with Chinese Characteristics for a New Era" led by Xi Jinping, uphold the principle of "technologies and products as fundamentals", rely on the existing industry foundations as well as the systems and structures of the Internet and Internet of Things in order to accelerate the adoption or adaption of new technologies, new markets and new economies and thus, boldly move forward to a brand new industry era to create a new future for the enterprise.

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 for their persistent contribution and support for the development of the Company.

Chairman
Zhan Chunxin

31 March 2018

Principal Financial Data and Indicators

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

Unit: RMB

	2017	2016	Change	2015
Operating income	**23,272,893,731.36**	20,022,516,698.58	16.23%	20,753,346,644.02
Net profit/(loss) attributable to shareholders of the Company	**1,331,923,715.27**	-933,697,485.65	242.65%	83,467,424.87
Net loss attributable to equity shareholders of the Company after extraordinary items	**-7,950,379,980.02**	-1,677,731,345.02	-373.88%	-449,019,403.74
Net cash flow from operating income	**2,851,086,469.93**	2,168,560,151.68	31.47%	-3,334,495,101.94
Basic earning per share	**0.17**	-0.12		0.01
Diluted earning per share	**0.17**	-0.12		0.01
Return on net assets	**3.57%**	-2.44%		0.21%

	End of 2017	End of 2016	Change	End of 2015
Total assets	**83,149,067,653.62**	89,141,023,453.16	-6.72%	93,723,020,007.67
Net assets attributable to shareholders of the Company	**37,578,261,818.00**	36,813,562,701.24	2.08%	39,936,600,440.37

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	2017	2016	2015	2014	2013
Revenue	23,273	20,023	20,753	25,851	38,542
Profit/(loss) before taxation	1,252	(1,010)	39	863	4,527
Income tax	6	110	58	(235)	(570)
Profit/(loss) for the year	1,258	(900)	97	628	3,957
Profit/(loss) attributable to:					
Equity shareholders of the Company	1,342	(929)	89	594	3,844
Non-controlling interests	(84)	29	8	34	113
Basic and diluted earnings/(losses) per share (RMB)	0.18	(0.12)	0.01	0.08	0.50
Gearing ratio (%) (Note)	54.05%	57.63%	56.70%	56.03%	53.06%

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	2017	2016	2015	2014	2013
Non-current assets	25,218	23,239	22,667	23,847	24,549
Current assets	57,894	65,862	71,016	69,871	64,948
Current liabilities	24,488	26,876	30,173	25,211	32,725
Net current assets	33,406	38,986	40,843	44,660	32,223
Total assets less current liabilities	58,624	62,225	63,510	68,507	56,772
Non-current liabilities	20,434	24,470	22,941	27,299	14,760
Net assets	38,190	37,755	40,569	41,208	42,012
Total equity attributable to equity shareholders of the Company	37,540	36,773	39,896	40,791	41,579
Non-controlling interest	650	982	673	417	433

Principal Financial Data and Indicators

III. Reconciliation of Financial Data under PRC GAAP and IFRSs

Unit: RMB millions

	Total comprehensive income of the Group		Total equity of the Group	
	Current year	**Last year**	**Current year**	**Last year**
Under PRC GAAP	1,702	(1,569)	38,227	37,795
Items and amounts adjusted under IAS				
Acquisition related costs incurred on prior year business combination(1)	3		(37)	(40)
Special reserve for production safety(2)	6	(4)		
Under IFRSs	1,711	(1,573)	38,190	37,755

(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 total equity of the Group under those two accounting standards; During the year, due to the impairment of goodwill of material handling machinery and systems cash generating unit, the difference between the total equity of the Group under those two accounting standards decreased by RMB3 millions;

(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 is pleased to announce the Report of the Board of Directors for the year ended 31 December 2017 together with the audited financial statements of the Company and the Group.

I. Overview

In 2017, the global economy continued to sustain the momentum of recovery. The growth of China's economy was better than expected, shifting from high-speed growth to high-quality growth. As benefited by the increase in infrastructure investment, environmental protection upgrades and replacement of equipment etc., the sales of all products of the construction machinery industry grew strongly. As affected by the decline in the price of crops and the decrease in purchase subsidy, the growth of the agricultural machinery industry slowed down.

2017 was a turning point for Zoomlion. Through strategic focus, management changes, innovative technologies and products as well as strict control of business risks, the Group intensified business transformation. After five years of adjustment and recovery, the Group's operational quality soared and shifted back to its development direction of pursuing continuous growth and quality. With the overall profitability improved and the operational quality significantly enhanced, our market leading position became more solid.

During the reporting period, the Group achieved operating income of RMB23,273 million, representing a year-on-year increase of 16.23%; net profit attributable to the equity shareholders of the Company of RMB1,342 million, representing a year-on-year increase of 244.46%; operating cash flow of RMB2,453 million, representing a year-on-year increase of 40.17%.

(I) Focusing strategically, creating a new layout of industrial development

The Group carried out strategic adjustments to the industry, actively sold 80% of equity interests in its environmental business, focused on construction machinery and developed agricultural machinery to further intensify the integration of industry and finance.

1. Focusing on construction machinery: With its strong areas becoming more prominent and stable, the construction machinery further manifested its strengths, gradually creating a cluster of sectors of construction machinery with competitive edges. During the reporting period, the Group's revenue on sale of construction machinery amounted to RMB17,921 million, representing a year-on-year increase of 69.79%.

(1) Solid market position of leading products: The domestic market share of crane machinery and concrete machinery products continued to maintain its leading industry position, among which, construction and crane machinery, long-arm concrete pump trucks and stationary equipments of concrete machinery continued to maintain the highest position in the industry. The domestic market share of truck crane machinery maintained the second position in the industry, with its sales growth leading the industry. The domestic market share of pile foundation machinery ranked top three in the industry, with a year-on-year growth of over 200% in sales revenue.

(2) Active layout in potential market: We strengthened the establishment of special sales teams for emerging businesses such as machine-made sand, dry-mixed mortar and spraying robotic arm, continuously implemented comprehensive sales strategies, established benchmark customers in important areas, and significantly enhanced the production rate of key components. We made efforts in areas such as work-at-height platform and earth working machinery, and rapidly advanced the research and development and trial production of the “intelligent and efficient” new generation of excavators and work-at-height machinery products.

2. Developing agricultural machinery: The edges of scale, brand and market position of agricultural machinery was solid. The sales volume of drying machinery ranked first in the domestic market for the fifth consecutive year; the domestic market share of wheat harvester machinery ranked second in the industry; and the domestic market share of rice harvester machinery ranked top three in the industry. We integrated global research and development resources, and speeded up the advancement of product structure adjustment and technological upgrade, transforming into an “agricultural and equipment industry holding company”.

3. Developing financial services: The capability of our financial business was further consolidated. Zoomlion Finance Company has obtained the approval for entering into the interbank leading market and completed direct e-registration in the People’s Bank of China, effectively improving liquidity management and capital efficiency. Zoomlion Capital has cooperated with leading industry groups and professional institutions to set up industry merger and acquisition funds, in order to participate in financial investments and operations, invest in relevant sub-sectors of the industry chain and generate income from venture capital. The integration of industry and finance has reached a new level.

Report of the Board of Directors

(II) Further advancing intelligent manufacturing, innovating business model through "Internet and Internet of Things"

Through the integration of mobile Internet, cloud computing, big data, and Internet of Things etc. with construction machinery and agricultural machinery manufacturing industries, we further promoted intelligent manufacturing through three aspects, namely, intelligent products, intelligent services and intelligent factories.

1. Continuously promoting the engineering of products 4.0: With "module platforms + intelligent products" as the core, products 4.0 fostered the integration of technologies such as sensing and interconnection, enabling "self-diagnosis, self-adjustment and self-adaption" and upgrading to a new level in terms of performance, reliability, intelligence and environmental protection. Intelligent products 4.0 that can "perceive and think" were comprehensively introduced to the market, continuously created new market demands, and were highly praised by customers. The price premium of products gradually increased, and the proportion of the Group's products 4.0 accounted for more than 50% of total products.

2. Further promoting the innovation of intelligence services for products: Products 4.0 and a series of customized mobile applications such as Zoomlion e-Manager (中聯e 管家) and Intelligent Commercial Concrete (智慧商砼) of the "Internet and Internet of Things" has provided impeccable equipment services, including real-time control, sophisticated operation, precise maintenance and predictive maintenance, for construction machinery customers, expanding our services from equipment management to customer operation management. Through collecting information on crops, agronomic conditions and user habits in different regions, the intelligent agricultural machinery cloud platform has provided customized and differentiated strategies on product debugging, maintenance and driving operation for users. The innovative business model has driven the Group to gradually transform from an "equipment manufacturer" to a "manufacturing and service-oriented enterprise".

3. Speeding up the construction of intelligent factories: Through the parallel operation of industrial robots and data processing, the Group's "domestically first-class and internationally leading" tower crane intelligent factories can automatically match materials and produce 10 different specifications of standardized parts by mixed-model flexible assembly, which will become the new benchmark of intelligent factories of the industry. The Group completed the construction of its second high-end agricultural equipment manufacturing base in Kaifeng, which has been put into operation with advanced production equipment such as fully automated assembly lines, assembly robotic arms and ANDON system, leading the industry in terms of intelligent level.

Report of the Board of Directors

(III) Establishing new customer relationships, creating a new platform for win-win development

With "win-win development" as the philosophy, we have jointly formed a customer alliance with excellent enterprises in the industry to create a green and win-win industrial ecosystem.

1. Focusing on core customer base to establish a large customer alliance: We have jointly formed a customer alliance with the first group of more than 40 excellent enterprises in the industry with strong operating capability, long cooperation, high mutual trust, good credit and industry influence to re-establish the upstream and downstream business models.

2. Establishing a long-term cooperative and win-win development platform: In addition to enjoying a series of services for machinery and equipment such as basic business services, inventory equipment upgrades and new product trials, members of the customers' alliance could also obtain services for expansion such as financial support, personnel training and business information sharing, which have promoted the commencement of cooperation for alliance members on major construction projects such as major domestic projects and the One Belt, One Road.

(IV) Market-leading technological innovation with significant innovation results on research and development

During the year, the Group obtained 271 domestic patents for inventions and eight foreign patents for inventions, continued to maintain its industry leading position. The revision of international standards led by the Group has entered a new stage, further consolidating our technological leading position and authority in the industry.

1. Stepping up from delivering products and technologies to delivering standards: The Group led the completion of and published ISO 19720-1:2017 *Construction Machinery and Equipment — Concrete and Mortar Preparation Machinery and Equipment — Part 1: Terminology and Commercial specifications* (《建築施工機械與設備 混凝土及灰漿製備機械與設備 第1 部分：術語和商業規格》), the first international standard of Chinese construction machinery. The Company led the revision of *ISO 10245-3 Cranes — Limiting and Indicating Devices — Part 3: Tower Cranes* (《起重機 限制器和指示器 第3 部分：塔式起重機》), which has successfully passed CD voting and entered the DIS stage.

2. Fruitful accomplishments on self-innovation:

   (1) "Method and system for controlling the bending of high strength steel" (一種控制高強鋼折彎的方法及系統) and "Concrete pump and method for adjusting the driving pressure value of the oscillation actuator in the pump" (混凝土泵及調節該泵中對擺動執行器的驅動壓力值的方法), two patents for inventions, won the excellent award of the 19th China

Report of the Board of Directors

Patent Award. The key technology and application for dry process production of mortar and mechanized construction equipment (砂漿乾法生產及機械化施工設備關鍵技術與應用項目) won the second prize of the China Machinery Industry Science & Technology Award (中國機械工業科學技術獎).

(2) Our high-precision and high-efficiency 56-meter concrete pump truck won the first Product Innovation Award of Hunan Province. It can increase pump distribution efficiency by 5 to 8 % and reduce energy consumption by 2 to 4%. The active arm vibration reduction technology can reduce arm vibration in all aspects of construction by more than 50% and decrease rate of pump distribution blocking by 65%. Our 3,200-ton crawler crane assisted the successful installation of the dome of No. 5 unit of "Hualong One", the heaviest unit which has to be installed at the highest level at nuclear power constructions in the world.

(3) PL2304 tractor and grain dryer won the Gold Product Award and Most Influential Brand Award, respectively, of the 2017 China Agricultural Industry Annual Award (中國農業行業年度大獎). We launched the AS60 crawler sugarcane harvester and broke the monopoly of imported brands. We launched the 3WP-600HA pesticide and fertilizer-spraying products and 100-130 horsepower hydraulically driven crawler tractor products to supplement the shortcoming of full mechanization of paddy fields.

(4) Certain results of common technological research projects have been industrialized. Certain results such as multiple bus valves, fiber composite material metal-lined concrete conveying straight pipes, plasma composite welding system and assisted driving system for tractor have been applied.

3. Intelligent manufacturing projects promoting the intelligent transformation of traditional manufacturing industries: The "Pilot Demonstration of Remote Maintenance Service for Construction Machinery" (工程機械遠端運維服務試點示範) was successfully included into the list of 2017 National Intelligent Manufacturing Pilot Demonstration Projects (國家智慧製造試點示範項目名單). The "Project of Application of New Model of Modern Agricultural Machinery Equipment Operation and Maintenance Services" (現代農機裝備遠端運維服務新模式應用項目) of the Group was approved by the Ministry of Industry and Information Technology as a 2017 National Intelligent Manufacturing New Model Project (國家智慧製造新模式項目).

4. Further developing and expanding innovative platform, innovative resources and innovative results: Eight innovative qualification platforms such as national high-tech enterprises and national key laboratories successfully passed the assessment and review. We have preliminarily completed the patent layout with 4.0 engineering as the core. We achieved breakthrough in patent-pledged financing and opened up a new channel for research and development financing.

Report of the Board of Directors

(V) Speeding up the progress of internationalization, creating a new layout of overseas Development

Following the national "One Belt, One Road" initiative, the Group has intensified the expansion of overseas markets with the concept of "leading, intensifying and penetrating" and formed a "two horizontal and two vertical" global development layout. Our overseas core strategies began to demonstrate results.

1. Following the principle of "localization" and further developing overseas markets: Focusing on key countries along the "One Belt, One Road", we gradually promoted the localized operation and management of personnel, finance, sales, services, and component support for overseas subsidiaries, in order to reinforce the operation of subsidiaries and provide better services for the local market. During the reporting period, exports of the Group's business had a year-on-year increase of 30%, maintaining its leading position in the industry. Six 120-ton movable tower cranes T2850-120 were delivered to Kuwait from China, creating a new record for domestic export tower cranes. RGT-270V truck cranes were delivered to South Korea by batch and the first 150-ton truck crane was delivered to Kuwait, breaking the monopoly of European, American and Japanese brands on local large-tonnage cranes.

2. Speeding up international production capacity cooperation and penetrating overseas markets: We expanded the product lines and upgraded the functions of major overseas bases. CIFA of Italy has expanded from a regional company specializing in concrete machinery to a comprehensive global company covering the production and manufacturing of engineering and construction products in the Middle East and North America. The 25-ton truck cranes of ZOOMLION-MAZ joint venture have been mass produced, and the construction of production base in Belarus was steadily promoted, becoming a comprehensive base covering Eastern Europe, Central Asia and Russian speaking regions. "Light asset" was laid out in the comprehensive production and manufacturing base in South Asia. Our research and development center in North America has become a regional platform integrating research and development, production and sales.

(VI) Intensifying management reform, strictly controlling operational risks

The Group strengthened the establishment and management of its business management platform, management and control model, service upgrade and risk control etc. to promote the overall improvement of operational quality.

1. We have built a common business management platform focusing on big data. In accordance with the strategic concept of "end-to-end connection, data decision-making, efficiency improvement and strict control of risk", we systematically reviewed business rules, integrated disaggregated information, and connected the end-to-end integrated platform from research and development and manufacturing to sales services, risk control, and second-hand equipment, achieving precise management and improvement of operational efficiency.

Report of the Board of Directors

2. We established a market mechanism “based on internal transfer-pricing and focused on profit assessment”, made our business shifting back to its development direction of creating values and guided the business unit shifting from acquiring internal resources to acquiring profit from the market.

3. We have enhanced customer experience through service upgrades. Integrating the service standards, service platform and service hotlines for construction machinery products, we have provided standardized and convenient service support to customers throughout the cycle of equipment delivery to retirement. We issued the first electronic invoice in the industry, significantly enhancing customer experience through the “next-day delivered, low cost and reviewable” electronic invoices. Our agricultural machinery products have fulfilled our earnest promise of “direct delivery to fields with services alongside”, providing faster, high-quality and efficient personalized services to users.

4. We properly solved inventory risks and strictly controlled new business risks. Firstly, to properly resolve historical problems, the Company advanced the “one case, one strategy” management of high-risk customers and speeded up the operation of secondhand equipment. Secondly, the Group continued to tighten its credit policy, checked the quality of each new machinery sales contracts, and voluntarily reject low quality orders. We have installed GPS in 100% of the new manufactured equipment, implemented real-time monitoring on new business through the big data platform, and strictly fulfilled collection responsibility. The operational quality of our new business significantly improved.

(VII) Forming a diversified incentive mechanism of “co-creation of values and benefit sharing”

The Group’s incentives have been transformed from zero to one and to two dimensions, forming a diversified incentive mechanism of “co-creation of values and benefit sharing”.

1. We further improved the reform on incentives for researchers. Our researchers hold “virtual shares” of our products as the sales scale, profitability and quality of products are proportional to their remuneration. With the significant enhancement in market awareness and cost awareness of researchers, the product development efficiency has significantly improved.

2. We fully implemented the reform on time-based remuneration for technicians. The enthusiasm of first-line technicians for learning and promotion has generally risen, which has driven the growth of talents with professional knowledge and work capability, created a favorable system and environment for improving product quality, and significantly enhanced the labor productivity of the Group.

3. We primarily launched the reform of management remuneration. We have established a remuneration system with market competitiveness. Through strict assessment, full incentives and linking performance appraisal to assessment results, we have widen the gap of income to stimulate the vitality of employees and further attract and motivate outstanding employees.

4. We implemented share incentive schemes for core employees. During the reporting period, the Group granted restricted shares and share options to 1,192 senior executives and key technological and management personnel. The shareholders, the Group and incentive targets have mutual interests, which can further promote the development of the Group and improve the long-term incentive mechanism.

II Analysis of Financial position

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

III Outlook for 2018

(I) Industry development trend and market outlook

1. Construction machinery market

In 2018, China will continue to implement proactive fiscal policies and sound monetary policies, promote effective investment, solidly advance the regional coordinative development strategy, introduce the development plan of Guangdong, Hong Kong and Macao Bay Area, establish Xiong'an New District with high-standards, orderly promote the transformation of "villages in cities" and old districts, strengthen the construction of new types of urbanization such as drainage pipe networks and underground integrated pipe corridors, and speed up the construction of beautiful Chinese rural areas etc.. With the speed up of promotion of prefabricated building and stricter restrictions on environmental protection policies, the growth momentum of periodical equipment update is still continuing. The construction machinery industry will continue to grow, and leading enterprises with edges in brand, technology, scale and services will gain greater competitive edges.

With the further stabilization of the global economy and further promotion of the national "One Belt, One Road" initiative, the overseas market will achieve greater growth. Benefiting by the improvement of layout of the Group's overseas production bases, localization and component centers in countries along the "One Belt, One Road", the overseas business of the Group will achieve continuous, quality and stable growth.

2. Agricultural machinery market

The 19th National Congress of CPC has proposed to "implement the strategy for rural development". With the further advancement of structural reform on the agricultural supply side and the speed up of rural land transfer, the level of mechanization in the domestic agricultural industry will further increase, which will drive the continuous expansion of scale of the agricultural machinery industry. The future development of the agricultural machinery industry is favorable. Along with the constant adjustment and improvement of agricultural machinery subsidy policies, the agricultural machinery subsidy funds will focus on large-scale agricultural entities such as rural cooperatives and mid-to-high-end, green and intelligent products. Leading companies with edges in brand, technology, scale and services will seize development opportunities.

Report of the Board of Directors

(II) Main operation direction for 2018

1. Further advancing the engineering of products 4.0: Firstly, we will speed up the application of new technologies of Internet and Internet of Things, significantly improve the level of product intelligence, develop a variety of star products that are connected to the platform of Internet of Things, and continuously enhance the market competitiveness of products. Secondly, we will speed up the integration of global technological resources such as the research and development center in North America and M-TEC of Germany, strengthen the cooperation with external resources, focus on the research and development of common key technologies, key components and systems in relation to intelligent construction, and speed up the achievement of results. Thirdly, we will speed up the realization of 4.0 technology, upgrade the standard of products 4.0, expand the sales coverage of products 4.0, reduce the overall research and development and design costs of the Group, and enhance the profitability of the Group.

2. Building an industrial Internet technological platform to speed up digital transformation: Firstly, through product intelligence, we will intensify the promotion and application of integration of corporate logistics, information flow and capital flow, and establish an end-to-end closed-loop business model based on the Internet of Things and the Internet. Secondly, we will innovate our service system and provide value added services through the application of Internet of Things and Internet. Through the integration of "Intelligence + Manufacturing + Services", we will empower the equipment management, business operation and business decision-making of downstream customers of the industry, promote the transformation of services of the manufacturing industry, and achieve growth in industrial added value. Thirdly, with customer demand, we will drive the construction of intelligent factories and intelligent supply chain, develop a flexible manufacturing and efficient logistics system, form a win-win intelligent manufacturing cluster with suppliers, and enhance the business efficiency of the Group.

3. Strict control of risk: Firstly, we will further strengthen risk awareness and adhereto the fundamental of "risk being the most important". Secondly, through the CRM system and big data platform, we will collect information on customers and first line business in real-time, firmly grasp the key of risk control, and conduct real-time monitoring and rectification on key business processes. Thirdly, we will strengthen the assessment on recovery and overdue payment and strictly implement overdue collection responsibility.

4. Ensuring the completion of target responsibility system: We will fully implement the four virtues, comprehensively promote the implementation of "profit-centered assessment based on internal transfer-pricing", strictly assess and provide sufficient incentives under the new system, stimulate the enthusiasm of all employees, completely control business process, precisely connect production and sales, and ensure the accomplishment of strategic goals and enhancement of operational quality of the Group.

Report of the Board of Directors

5. Strict assessment on all employees: Firstly, we will strengthen ideological and cultural education, strengthen the construction of responsibility system, and ensure the implementation of corporate responsibility culture. Secondly, we will implement strict assessment at all levels of the Group.

6. Identifying new markets, developing new main business and entering into the new economy: Firstly, through the acquisition of high-quality enterprises, we will rectify our weaknesses and improve our strengths on the existing manufacturing business. Secondly, we will invest in new technology and strategic emerging industries to improve asset structure and enhance asset returns.

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

1. Uncertainties on macroeconomic situation and industry growth.

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

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

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

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

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

Report of the Board of Directors

IV. Profit Distribution and Bonus Dividend

The Company has emphasised on shareholders' returns. Since its listing in 2000, the Company has distributed cash dividend every year. As at 31 December 2017, the accumulative cash dividend distributed by the Company amounted to RMB10,246 million.

According to the profit distribution plan for 2017 of the Company, based on the total share capital by the time of profit distribution, the Company will pay cash dividend of RMB0.2 (tax inclusive) for every share and will not issue bonus shares by capitalisation of the capital reserve.

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 2017 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 RMB0.18 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 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.

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.

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.

Report of the Board of Directors

VI. Property and Equipment

Movements of the property and equipment of the Company during the reporting period are set out in note 12 to the financial statements prepared under IFRSs.

VII. Major suppliers and customers

Total purchases by the Company from the top five suppliers amounted to RMB1,431,341,778.19, accounting for 11.64% of the aggregate annual purchase of the Company and total purchases by the Company from the largest supplier accounted for 6.81% 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.

Total sales to the top five customers of the Company amounted to RMB816,641,389.20, accounting for 3.51% of the aggregate annual sales of the Company and the total sales to the largest customer of the Company accounted for 1.24% 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.

VIII. Donations

During the reporting period, the charity donations and other donations of the Company amounted to approximately RMB8.4 million in aggregate.

IX. Human Resources

As at 31 December 2017, the Company had employed a total of 13,461 employees. Details of the Company's staff costs, share incentive schemes and employee benefit plans for 2017 are disclosed in notes 5(b), 25 and 27 to the financial statements prepared under IFRSs respectively.

X. Charge on Assets

Details of the Company's charge on assets are set out in note 23 to the financial statements prepared under IFRSs.

Management Discussion and Analysis

The following management discussion and analysis is based on IFRS financial statements data.

Overview

The Group is mainly engaged in the researches, development, manufacturing and sales of construction machineries and agricultural machineries, as well as financial services such as finance leasing. Specifically, the construction machinery segment provides concrete machinery, crane machinery, road construction machinery, infrastructure construction machinery, road building and maintenance machinery, forklift truck and other products mainly for infrastructure and real estate construction. 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. Before the Company sold 80% of its equity interest in Changsha Zoomlion Environmental Industry Co., Ltd on 30 June 2017, the Group was also engaged in research, development, manufacturing and sale of environmental sanitation equipment and the provision of environmental solutions.

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

Results of Operations

The following table sets forth a summary of our consolidated results of operations for 2017.

	Year Ended 31 December	
	2017	2016
	RMB millions	RMB millions (restated)
Continuing operations:		
Revenue	**20,608**	14,416
Cost of sales and services	**(16,303)**	(11,157)
Gross profit	**4,305**	3,259
Other income	**259**	761
Sales and marketing expenses	**(2,180)**	(2,030)
General and administrative expenses	**(10,487)**	(2,777)
Research and development expenses	**(277)**	(269)
Loss from operations	**(8,380)**	(1,056)
Net finance costs	**(1,443)**	(854)
Share of profits less losses of associates	**110**	11
Loss before taxation	**(9,713)**	(1,899)
Income tax	**1,425**	244
Loss from continuing operations	**(8,288)**	(1,655)
Discontinued operation:		
Profit from discontinued operation	**9,546**	755
Profit/(loss) for the year	**1,258**	(900)

Management Discussion and Analysis

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);

Agricultural machinery segment;

Financial services segment; and

Environmental industry segment（discontinued operation).

The following table sets forth the breakdown of our consolidated turnover by our operating segments for 2017:

	Year Ended 31 December	
	2017	2016
	RMB	RMB
	millions	millions
		(restated)
Continuing operations:		
Construction machinery		
— Concrete machinery	**7,335**	4,813
— Crane machinery	**6,805**	3,540
— Others	**3,781**	2,202
Agricultural machinery	**2,295**	3,452
Financial services	**392**	409
	20,608	14,416
Discontinued operation:		
Environmental industry	**2,665**	5,607
	23,273	20,023

In 2017, the global economy continued to sustain the momentum of recovery. The growth of China's economy was better than expected, shifting from high-speed growth to high-quality growth. As benefited by the increase in infrastructure investment, environmental protection upgrades and replacement of equipment etc., the sales of all products of the construction machinery industry grew strongly. As affected by the decline in the price of crops and the decrease in purchase subsidy, the growth of the agricultural machinery industry slowed down.

Management Discussion and Analysis

Our revenue from continuing operations increased by 42.95% from RMB14,416 million for the year ended 31 December 2016 to RMB20,608 million for the year ended 31 December 2017. The increase of revenue was mainly due to the booming of domestic market and increasing demand for the machinery products. The revenue from concrete machinery and crane machinery increased by RMB2,522 million and RMB3,265 million respectively, representing an increase of 52.40%and 92.23% for the year ended 31 December 2017. On the other hand, as affected by the decline in the price of crops and the decrease in purchase subsidy, the revenue from agricultural machinery decreased by RMB1,157 million or 32.52% for the year ended 31 December 2017.

The following table sets forth the breakdown of our turnover by geographic sales location for 2017:

	Year Ended 31 December	
	2017	2016
	RMB	RMB
	millions	millions
Revenue from external customers		
— Mainland PRC (of which RMB2,447 million (2016: RMB5,316 million) relates to discontinued operation)	**20,908**	17,858
— Outside PRC (of which RMB218 million (2016: RMB291 million) relates to discontinued operation)	**2,365**	2,165
Total	**23,273**	20,023

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	
	2017	2016
	RMB	RMB
	millions	millions
		(restated)
Reportable segment profit:		
Continuing operations:		
Construction machinery		
— Concrete machinery	**1,344**	912
— Crane machinery	**1,492**	957
— Others	**757**	374
Agricultural machinery	**320**	607
Financial services	**392**	409
	4,305	3,259
Discontinued operation:		
Environmental industry	**664**	1,519
	4,969	4,778

Our gross profit from continuing operation increased by 32.10% from RMB3,259 million for the year ended 31 December 2016 to RMB4,305 million for the year ended 31 December 2017. Our gross profit margin decreased from 22.61% for the year ended 31 December 2016 to 20.89% for the year ended 31 December 2017, which is mainly due to the increase of the purchase cost of the raw materials and low gross profit margin in selling second-hand machineries.

Other income

Our other income decreased from the net gain of RMB761 million for the year ended 31 December 2016 to a net gain of RMB259 million for the year ended 31 December 2017, which is mainly due to an one-off gain on investment in an associate with land use rights amounting to RMB330 million.

Management Discussion and Analysis

Sales and marketing expenses

Our sales and marketing expenses increased by 7.39% from RMB2,030 million for the year ended 31 December 2016 to RMB2,180 million for the year ended 31 December 2017. Sales and marketing expenses as a percentage of our consolidated revenue decreased from 14.08% for the year ended 31 December 2016 to 10.58% for the year ended 31 December 2017 primarily due to the relatively higher growth in revenue of the Group. The increase of the sales and marketing fee is due to the increase of warranty fee which is in line with the increase of revenue and the increase of expenditures in relation to speeding up the collection of receivables and operation of second-hand equipment.

General and administrative expenses

Our general and administrative expenses increased from RMB2,777 million for the year ended 31 December 2016 to RMB10,487 million for the year ended 31 December 2017 primarily due to the followings: 1) Impairment losses of RMB5,927 million and RMB797 million were provided for trade receivables and receivables under financial lease respectively based on the quoted price in the market. The provision for trade receivables are mainly related to the long-aged trade receivables that have been impaired in previous years; 2) An impairment loss of RMB1,823 million was provided for the inventory, including provision for second-hand machineries of RMB1,582 million for the year ended 31 December 2017 million taking into consideration of expected decrease in net realisable value of the second-hand machineries as a result of changes in sale strategy of second-hand machineries.

Net finance costs

Our net finance costs for the year ended 31 December 2016 was RMB854 million and our net finance costs for the year ended 31 December 2017 was RMB1,443 million, due to the effect of increase in net exchange loss.

Profit from discontinued operation

The Group sold 80% of its interests in Changsha Zoomlion Environmental Industry Co., Ltd on 30 June 2017 and the environmental industry was presented as discontinued operation. The profit from discontinued operation for the year ended 31 December 2017 amounted to RMB9,546 million, including a gain on disposal of the discontinued operation of RMB9,355 million (after-tax).

Profit/Loss for the year

As a result of the foregoing, our profit for the year changed from a loss of RMB900 million for the year ended 31 December 2016 to a profit of RMB1,258 million for the year ended 31 December 2017.

Management Discussion and Analysis

Cash Flow and Capital Expenditure

We financed our operations primarily through cash proceeds from our operations, proceeds from loans and borrowings, including bank borrowings and factored trade receivables, proceeds from the issuance of shares and proceeds from the issuances of guaranteed USD denominated bonds, medium-term notes and commercial papers etc. As of 31 December 2017, we had RMB 7,148 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 2017:

	Year Ended 31 December	
	2017	2016
	RMB millions	RMB millions
Net cash generated from operating activities	**2,453**	1,750
Net cash generated from/(used in) investing activities	**4,036**	(352)
Net cash used in financing activities	**(5,906)**	(6,380)
Net increase/(decrease) in cash and cash equivalents	**583**	(4,982)
Effect of foreign exchange rate changes	**(10)**	70
Cash and cash equivalents at the beginning of the year	**6,575**	11,487
Cash and cash equivalents at the end of the year	**7,148**	6,575

Operating activities

In 2017, net cash generated from operating activities was RMB2,453 million derived primarily from the loss before taxation from continuing and discontinued operations of RMB1,252 million in total, adjusted to reflect interest expenses of RMB1,488 million and depreciation and amortization of RMB968 million, minus gain on sale of 80% equity interest in environmental industry of RMB10,738 million and added back the effect of (i) the decrease in inventories of RMB3,560 million; (ii) the decrease of receivables under finance lease of RMB1,236 million; (iii) the increase in trade and other payables of RMB3,602 million; (iv) the decrease in trade and other receivables of RMB1,639 million; and net of the income tax payment of RMB227 million.

Management Discussion and Analysis

Investing activities

In 2017, net cash generated from investing activities was RMB4,036 million, consisting primarily of: (i) proceeds from disposal of property, plant and equipment, intangible assets and lease prepayment of RMB248 million; (ii) proceeds from sales of 80% interests in Changsha Zoomlion Environmental Industry Co., Ltd. of RMB10,428 million; (iii) a decrease in pledged bank deposits of RMB275 million; (iv) interest income of RMB398 million; and (v) the proceeds from settlement of foreign currency derivative financial instruments of RMB23 million and offset by (i) payments for the purchases of property, plant and equipment, intangible assets and lease prepayment of RMB764 million; (ii) payment for acquisition of available-for-sale financial assets of RMB350 million; and (iii) payment for acquisition of other financial assets measured at fair value through profit or loss of RMB6,260 million.

Financing activities

In 2017, net cash used in financing activities was RMB5,906 million, consisting primarily of: (i) repayments of loans and borrowings of RMB17,257 million; (ii) cash dividends paid to equity shareholders of RMB1,141 million; (iii) interest payments of RMB1,527 million; (iv) dividends paid by subsidiaries to non-controlling interests of RMB11 million; and (v) repayments of guaranteed USD senior notes of RMB2,703 million and added (i) the proceeds from loans and borrowings of RMB16,518 million and (ii) the proceeds from issuance of restricted shares of RMB386 million.

Capital Expenditures

For the year ended 31 December 2017, our capital expenditures on purchase of property, plant and equipment, intangible assets and lease prepayments amounted to RMB676 million.

Commitments and Contingent Liabilities

As at 31 December 2017, our commitment consisted of capital commitments that have been authorised and contracted for in the amount of RMB149 million and operating lease commitments of RMB175 million, of which RMB69 million was payable within one year.

As at 31 December 2017, we had contingent liabilities of RMB2,199 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 2017, due to our customers' default, we paid RMB215 million to the banks under our guarantees.

Since 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 2017, our maximum exposure to such guarantees was RMB274 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 2017, there was no payment made for repossession of machinery incurred under the guarantee arrangement as a result of customer default.

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 2017, our maximum exposure to such guarantees was RMB103 million.

Working Capital and Indebtedness

The table below sets forth the details of our current assets and liabilities as of 31 December 2017:

	31 December	
	2017	2016
	RMB millions	RMB millions
Current assets		
Inventories	**8,886**	12,770
Other current assets	**897**	684
Financial assets at FVTPL	**6,323**	132
Trade and other receivables	**22,661**	31,942
Receivables under finance lease	**10,931**	12,212
Pledged bank deposits	**1,048**	1,547
Cash and cash equivalents	**7,148**	6,575
Total current assets	**57,894**	65,862
Current liabilities		
Loans and borrowings	**9,348**	9,712
Trade and other payables	**14,992**	17,089
Income tax payable	**148**	75
Total current liabilities	**24,488**	26,876

Management Discussion and Analysis

Our net current assets decreased from RMB 38,986 million as at 31 December 2016 to RMB 33,406 million as at 31 December 2017, mainly attributable to the decrease of inventories and trade and other receivables.

Our outstanding loans and borrowings decreased from RMB32,797 million as at 31 December 2016 to RMB28,644 million as at 31 December 2017, mainly attributable to the decrease of long-term borrowings.

	2017 RMB millions	2016 RMB millions
Secured short-term bank loans		
— RMB denominated	50	412
— EUR denominated	6	368
Unsecured short-term bank loans		
— RMB denominated	3,975	2,443
— Gold leasing arrangements	396	—
— EUR denominated	467	1,860
— USD denominated	529	208
— Demand deposits due to an associate	129	—
RMB commercial paper	—	1,200
	5,552	6,491
Add: current portion of long-term loans and borrowings	3,796	3,221
	9,348	9,712

	2017 RMB millions	2016 RMB millions
Secured long-term bank loans		
— EUR denominated	**–**	194
Unsecured long-term bank loans		
— RMB denominated	**8,621**	7,470
— EUR denominated	**1,711**	2,885
RMB medium-term notes	**8,996**	8,995
Guaranteed USD senior notes	**3,764**	6,762
	23,092	26,306
Less: current portion of long-term loans and borrowings	**(3,796)**	(3,221)
	19,296	23,085

As at 31 December 2017, our Euro unsecured short-term loans, Euro secured short-term loans, RMB unsecured short-term loans and RMB unsecured long-term loans amounts of RMB390 million, RMB0 million, RMB1,515 million and RMB2,534 million respectively, are subject to certain restrictive financial covenants. As at 31 December 2017, 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 2017, our facilities from 28 domestic and overseas financial institutions amounted to approximately RMB61, 838 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.

Management Discussion and Analysis

The following table sets out the remaining contractual maturities of the financial liabilities as of 31 December 2017, 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 2017) and the earliest date the Company would be required to repay:

	As at 31 December 2017					
	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	28,644	31,509	10,559	13,885	7,065	–
Trade and other payables	14,992	14,992	14,992	–	–	–
Other non-current liabilities	653	653	–	335	217	101
	44,289	47,154	25,551	14,220	7,282	101
Financial guarantees issued						
Maximum amount guaranteed	35	2,473	2,473	–	–	–

	As at 31 December 2017 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	(910)	–	–	–	(910)
— inflow	914	–	–	–	914

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.

Management Discussion and Analysis

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, wealth management products, 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. Debtors overdue by three months or more are handled by risk management department which is responsible for recovering debts through legal and other actions. 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. Bank deposits and wealth management products 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.

Please refer to notes 19, 20 and 31 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 31 of the financial statements prepared under IFRSs for more quantitative information about the Company's interest rate risk.

Management Discussion and Analysis

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, HK dollars, Japanese Yen and Euro.

Please refer to note 31 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 30 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

Declaration from the Board of Directors

The Board of Directors and all directors of the Company guarantee that there is no false record, misleading statement or major omission in this report and they will bear individual and joint liabilities for the authenticity, accuracy and integrity of the contents.

Basis of Preparation

This report marks the second ESG report issued consecutively by Zoomlion Heavy Industry Science and Technology Co., Ltd.. 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 ("the HKEx Listing Rules"), the report covers a period from 1 January to 31 December, 2017, with some brief reviews on relevant historical activities.

Release Cycle

The report is prepared annually. The Environmental, Social and Governance Report for the next reporting period (2018) is expected to be released in April 2019. 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 and agricultural machinery segment of the Company and its subsidiaries within China during the reporting period.

Definition

To simplify the expression, "Zoomlion Heavy Industry Science and Technology Co., Ltd." will also be referred to as "Zoomlion", "ZHIST", "the Company" or "we" in the report.

This report is available on the website of Hong Kong Stock Exchange, Shenzhen Stock Exchange and the Company. If you have any feedback or suggestion for this report, please contact us at (86 731) 88788432.

2 About Us

Company Business

During the reporting period, the Company is mainly engaged in the researches, development, manufacturing and sales of construction machineries and agricultural machineries, as well as financial services such as finance leasing. Specifically, the construction machinery segment provides concrete machinery, crane machinery, road construction machinery, infrastructure construction machinery, road

Environmental, Social and Governance Report

building and maintenance machinery, forklift truck and other products mainly for infrastructure and real estate construction. 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. We aim to build a high-end equipment manufacturing enterprise which integrates engineering machinery, agricultural machinery and financial services.

Social Responsibility Strategy of the Company

As a company listed on the A-share and H-share market, while actively developing its core businesses to create value for the society, ZHIST keeps deepening the idea of sustainable development and combines the fulfillment of social responsibilities with internal corporate control, so as to build a friendly environment and ensure social harmony, as well as to achieve a balance among corporate development, environmental protection and social efficiency.

Stakeholder Involvement

Key environmental, social and governance stakeholders at the Company level, whether internal or external, include internal personnel (from management to frontline employees), suppliers, clients, shareholders, investors, governments and communities where the Company operate. The report has been prepared mainly on the basis of materiality assessments of the Company's management and internal stakeholders. Based on the materiality assessments in 2016, the dimension of effect on stakeholders has been added in the materiality assessments in 2017. The management reviews and updates the 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. It is recognized that the wider spectrum of stakeholders to be participated in the ESG journey, the better result of materiality assessment to be obtained. So, the Company plans to expand the stakeholder engagement to incorporate external stakeholders in 2018 for the purpose achieving afore-said goal.

Materiality Assessment

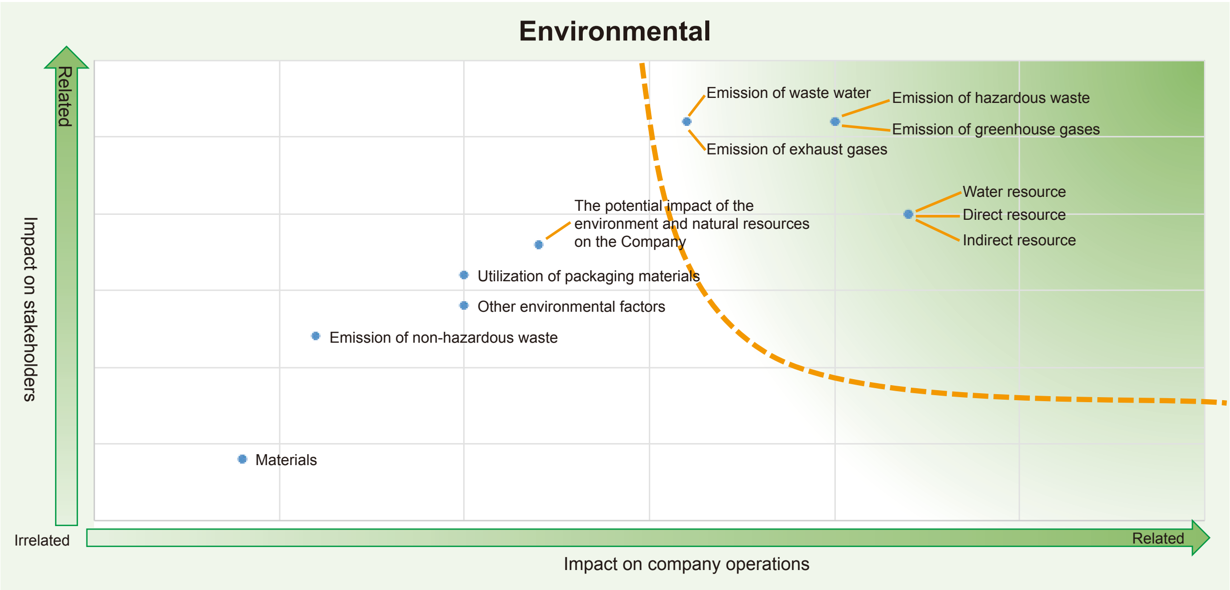
Based on our stakeholder and materiality assessments, we believe that the following issues are important to the Company's sustainable development. Those issues have been identified as the Company's sustainable development focuses.

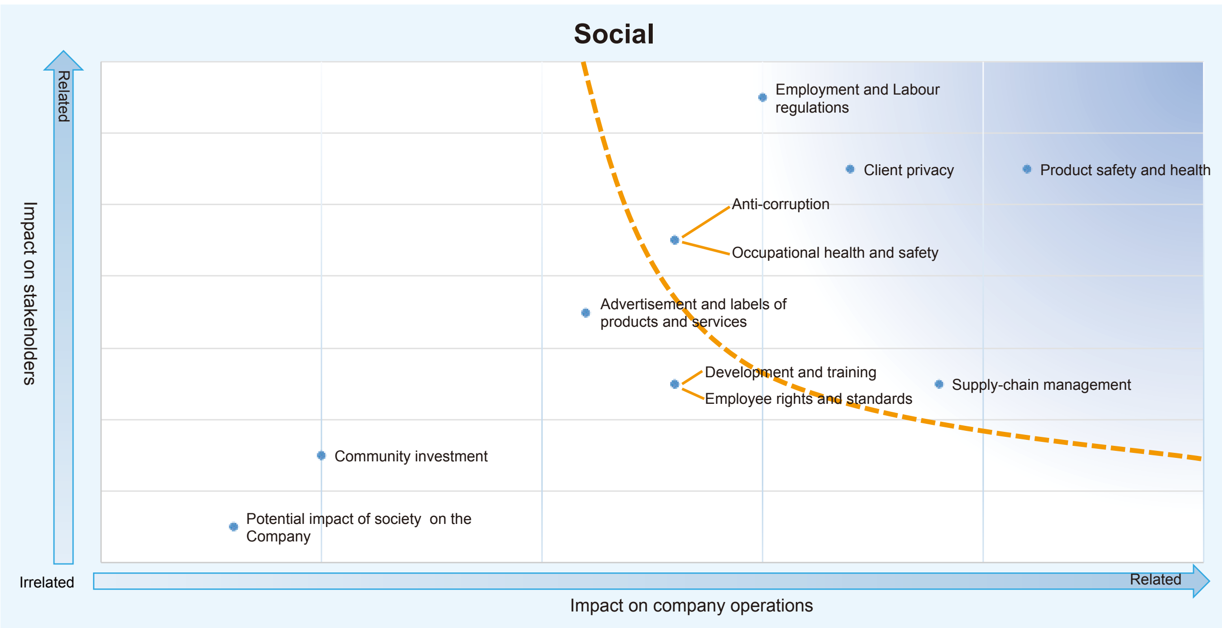
— Emissions
  - Emission of exhaust gases
  - Emission of greenhouse gases
  - Emission of waste water
  - Emission of hazardous waste

— Utilization of Energy
  - Direct energy
  - Indirect energy
  - Water resources

— Employment
— Health and safety
— Product responsibility
  • Product health and safety
  • Client privacy
— Anti-corruption
— Supply chain management

Summary of materiality assessment results





Environmental, Social and Governance Report

3 Environment

Environmental protection is one of the fundamental national policies of China. The intense attention from the central government has resulted in increasingly stringent supervision. As a leading force in the industry, Zoomlion fully implements a safety and management policy stressing the importance of people and the need for green manufacturing and increases the contribution to environmental and ecological protection, so as to realize the coordinated development of environment and economics. We are among the first companies to respond to the call from the government and seek to establish ourselves as a model company in resources conservation and environmental friendliness, determined to pursue clean and low-carbon development. Apart from fulfilling the objective to reduce comprehensive energy consumption by 20% in the 12th five-year plan period, we also engage in the technology R&D for new materials and new products, and launch significant sustainable development projects for the comprehensive utilization and recycling of resources, working to build ourselves as a model company. In 2017, we were awarded as the Model Company of Changsha in Energy Conservation for Major Energy Consuming Companies.

Highly attentive to the possible impacts of machinery manufacturing on the environment, we consider energy conservation and environmental protection a paramount issue in our production and business operation. In 2017, the powering of construction machinery products has fully reached the National V Emission Standard for Motor Vehicles (i.e. the "National V Emission Standard"), and the agricultural machineries have been fully equipped with engines that meet the "National III Emission Standard", raising the combustion efficiency of our engines and further reducing the emission of carbon dioxide, sulfur dioxide and nitrogen oxides. Energy consumption and related emissions are involved in the product assembly and painting process. We are committed to reducing the environmental impact of our business activities 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;

- 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.

By the end of the reporting period, 10 ZHIST subsidiaries have obtained the Environmental Management System ISO 14001 certification, and formulated and optimized papers for an integrated management system covering quality, environment and occupational health and safety in accordance with the requirements of GB/T19001, GB/T24001 and OHSAS18001. Attaching great importance to the establishment of an environment management system, we has set up a safety committee headed by the Chairman of the Board of Directors. The safety committee leads the Company in establishing the environment improvement system, while the Department for Quality, Safety and Environment collectively organizes, instructs and supervises the Company's effort in association with the environment management system in accordance with environment management system standards.

With regard to management, externally, the Company strictly complies with Chinese laws and regulations and earnestly implements environment management policies issued by local governments at all levels. Internally, we fully follow the requirements set out in our system management papers and perform our environmental and social duties in an active manner. The environmental protection facilities in each industrial park are running normally and effectively, with all of them meeting the design and emission standards, and the environmental contingency plans are prepared according to related requirements. Environmental impact assessment and environmental protection inspection and acceptance on completed projects have been carried out for all new, renovated and expanded projects, with all production parks holding the pollutant discharge license. In addition, we annually entrust qualified technical services agencies with the supervision and inspection on the parks' emission of waste water, exhaust gases and noises, the filing with the local environmental protection authorities and the public disclosure. During 2017, all 33 construction projects from 19 parks of 15 branch companies were cleared, all of which reported a completion of environmental inspection and acceptance.

3.1 Emissions

Help with Energy Conservation and Emission Reduction with Daily Deeds

In response to the call of energy conservation and emission reduction of the 13th Five-year Plan, the Company attaches great importance to and takes the initiative to bear its responsibilities in reducing the emission of greenhouse gases. The company is attentive to the landscaping in the factories, maintaining that the greenery can not only absorb greenhouse gases, adjusting the emission, but also bring delight to the employees, contributing to the environmental construction of the cities. For newly-built industrial parks, the Company sets aside landscaping areas in accordance with a greenery coverage ratio above the national standard with reference to the local environment.

Environmental, Social and Governance Report

For the renovation and expansion of existing parks, greenery coverage is raised by increasing the landscaping areas and greening. In addition, we have set out rules on green space management, maintenance and protection in the *Administrative Rules on Industrial Parks.*

We strengthen the management on energy conservation and emission reduction and promote the idea of green life among our employees to contribute to environmental protection with small gestures in our daily life. For example, we post kind reminders on the wall to remind our employees to turn off the light when leaving, devise regulations to control the air conditioning temperature and urge employees at all levels not to waste electricity to reduce office electricity consumption. With regard to production facility, we reduce the utilization of electricity-intensive and energy (liquid fuels such as gasoline and diesel)-intensive equipment to lower the emission of carbon dioxide, methane and other greenhouse gases. The Company also strengthens the management on the office affairs, production and living within the factories to strive to forge itself into a company featuring energy conservation, emission reduction and green manufacturing.

Disposal of Industrial Waste According to Related Regulations

Due to the special characteristics of industrial companies and technical limitations, we inevitably produce and discharge air pollutants, such as sulfur dioxide and nitrogen oxides, and greenhouse gases, such as Carbon dioxide in the production and manufacturing process. To address this issue, the Company has developed the *Procedures for Identifying, Evaluating and Controlling Environmental Factors* to screen environmental factors relevant to the Company, identify the significant factors and formulate specific plans for controlling such factors.

During 2017, the variety of the air pollutants directly or indirectly produced by the domestic industrial parks of the Company and the related emission data are as follows:

Variety of emission	ton[1]
Sulfur dioxide	0.07
Nitrogen oxides	10.40

In addition, the greenhouse gases are mainly generated from burning of fossil fuels and the use of electricity. The Company generated approximately 94,360.64 tons of greenhouse gases[2].

---

[1] The conversion of air pollutants is according to the Pollutant Discharge Coefficient and Material Balance Method Applicable to Industries Not Included in the Pollutant Discharge Management (Trial Implementation) issued by the Ministry of Environmental Protection of the People's Republic of China.

The calculation method of sulfur dioxide emission:

$P_{SO2} = Q\times\eta\times0.85\times2\times10$

The calculation method of nitrogen oxides emission:

$P_{NOX} = Q\times\mu$

Note: P_{SO2}: Sulfur dioxide emission, kg; Q: Fossil fuels consumption, t; η: sulfur content, %;

P_{NOX}: Nitrogen oxide emission, kg; μ: Sewage coefficient

2 The greenhouse gas emission is according to the Accounting Methods and Reporting Guidelines for Greenhouse Gases Discharged by Machinery Equipment Manufacturers issued by the National Development and Reform Commission of the People's Republic of China.

$E = E_{combustion}+E_{manufacture}+E_{electricity}+E_{thermo}$

Note: E: total greenhouse gas emission, tCO_2e;

$E_{combustion}$: generate from combustion of fossil fuel, tCO2;

$E_{manufacture}$: generate during industrial production process, tCO_2e ;

$E_{electricity}$: generate from use of electricity, tCO2;

E_{thermo}: generate from outsourcing thermal energy, tCO2.

To manage the solid waste produced during the production and manufacturing process, the Company formulated the *Waste Management Measures* which divides waste into recyclable waste, non-recyclable waste and hazardous waste. The Company has devised waste-type-specific disposal approaches. With regard to hazardous waste in particular, we ensure 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 is stored in a location determined in accordance with the *Specifications for Controlling Pollution from Hazardous Waste Storage* (GB18597-2001) that requires separate storage based on the types and properties of hazardous waste, as well as dual-key sealing. The Company strictly abides by state laws and regulations on storage periods, and contact professional disposal institutes for help in a timely manner. Additionally, the Company formulated the *Detailed Rules on Hazardous Waste Practices,* under which the Safety and Environmental Management Department conducted regular supervision and random inspection. During the reporting period, the Company is mainly engaged in the design, production and assembly of industrial vehicles and construction machinery equipment. The solid wastes generated during the period are production-related wasted steal and related wastes. The Company collects and sells these wastes to realize the recycling of the wastes.

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 on exhaust gas, waste water and noises. The Company annually entrusts environmental testing institutes with the testing of environmental contamination factors including waste water, waste gases and noises to reinforce the monitoring of the production process, so as to strictly prevent the outburst of environmental pollution accidents. 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 abides by the *Specifications for Waste Water Disposal* (GB/8978-96), following waste

Environmental, Social and Governance Report

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. In 2017, the Company stepped up the fund for environmental protection and energy conservation to continuously track the pollutant emission of the Company, ensuring compliance with the regulations. The waste water generated by the Company mainly includes production-related cooling water, workshop-related water and daily-use water. In 2017, the Company discharged and disposed of 1,725,038 cubic meters of industrial waste water.

3.2 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 mainly produces industrial vehicles, construction machinery, etc., the process of exiting the factories and transportation of which consumes relatively small amount of packaging materials. Therefore, related statistics about the consumption of packaging materials are unavailable for the time being.

Resources consumed by the Company's domestic industrial parks during 2017 are as follows:

Variety of energy	Unit	Total consumption in 2017
Kerosene	ton	1.32
Un-leaded petrol	ton	321.09
purchased electricity	kwh	114,333,900.00
Freshwater	Cubic meter	2,156,298.00
Natural gas (for cooking)	Cubic meter	3,583,000.00
Diesel (for contingency power-generation equipment)	ton	3,851.47

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. The Company has conducted energy audit of 6 major industrial parks in 2013. The scope of energy audit involves energy consumption, energy-using structure and efficiency. The Company plans to launch next round of energy audit in 2018 and intends to enlarge the scope of energy audit, so as to realize a wider range of energy data collection.

Realize Sustainable Development by Improving Energy Utilization Proficiency

In order to enhance 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.

3.3 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 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.

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. Apart from fulfilling the objective to reduce comprehensive energy consumption by 20% in the 12th five-year plan period, we also actively engage in the technology R&D for new materials and new products, and launch significant sustainable development projects for the comprehensive utilization and recycling of resources, working to build ourselves as a model company in resource conservation and environment protection. 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, with the performance of Changsha industrial park exceeding the energy conservation objective of 5%. We regularly report to the Changsha Development and Reform Commission, the Development and Reform Commission of Hunan Province and other environmental authorities on its energy conservation and emission reduction progress. Currently, the Company has set up a leading group for energy conservation to establish and improve the energy management system in accordance with the *Requirements on Energy Management System* （GB/T23331). We have completed the projects to renovate the transformers and boilers in the industrial parks and promote energy conservation regularly.

Environmental, Social and Governance Report

As a producer of industrial equipment, the Company is devoted to introducing and developing green manufacturing technologies. Revolving around the strategic plan for Made in China 2025, the Company keeps on facilitating the Product 4.0 Project, and continues to consider modularized platforms and intellectual products as the core of company development. We perform in-depth combination of technologies such as sensoring and inter-connection and innovate key intellectual components to enable our products to feel and think, so as to realize the self-diagnosis, self-adjustment, and self-adaptation of our products, improving their performance, reliability, intelligence and environmental-friendliness. During 2017, dozens of intelligent 4.0 products have been fully introduced to the market.

The three new products including the solar-power-mixed clean heat sources and the mobile preparers developed by ZHIST marked as a milestone in developing environmental-friendly agricultural machinery. On April 6, 2017, ZHIST set up the first model base of stalk comprehensive utilization for the agricultural segment, realizing the comprehensive utilization and overall disposal of stalk, which is an important project to dispose of stalks in response to the Blue Sky Campaign launched by the government.

Compliance Statement

During the year, no violation of any environmental regulations that have a significant impact on the Company could be observed within the Company.

4 Social

4.1 Employment

The Company believes that talents are the primary productive force, talent management is critical to corporate development and people should be able to make the best use of their best abilities to realise their full potential under a boundaryless organisational structure. In 2017, the Company continued to improve the satisfaction, cohesion, and core challenging capacity of the employees and support the win-win development for the Company and our employees through optimizing the allocation and incentive model, retaining core personnel and fostering talent resources, cultivating the atmosphere of a professional team, and improving working skills.

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 related laws and regulations, including the *Labour Law of the People's Republic of China,* the *Employment Contract Law of the People's Republic of China,* etc. In accordance with Article 17 of the *Labour Law* which mandates that the conclusion of and amendment to a labour contract shall be in compliance with the principles of equality, voluntary participation and mutual consent, and shall not violate the principles of laws and statutory regulations, we regulated the procedures and processes for signing, amending, cancelling and terminating employment contracts, with the employment contract signing rate reaching 100% during the reporting period. Rules and regulations for employee attendance checking and welfare were devised and revised in accordance with related rules and regulations. We also made timely and full contribution to society insurance and housing provident fund for our employees, realizing the full coverage of the social insurance according to related laws. Apart from complying with the holiday policies released by the government, we also set up a diversified and distinctive leave system, providing a variety of leave choices for our employees, including paternity leave, family planning leave and home leave, half-a-day personal leave (twice a month), Company Founding Day, Lantern Festival, birthday leave, etc. to facilitate employees' work and life.

In addition, we have formulated 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, including Article 12 and Article 13 of the *Labour Law of the People's Republic of China* which respectively mandates that employees shall not be discriminated against on the grounds of nationality, race, sex or religious belief, and that women shall enjoy equal employment rights to men, etc.

Compliance Statement

During the year, no violation of any employment and labour regulations that have a significant impact on the Company could be observed within the Company.

4.2 Health and Safety

Allocate the Safe Production Responsibility to Individuals

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

Environmental, Social and Governance Report

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*.

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.

Compliance Statement

During the year, no violation of any regulations related to occupational health and safety that have a significant impact on the Company could be observed within the Company.

4.3 Labor Standards

Systematic Cultivation to Support Individual Development

During the reporting period, the Company continues 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 provides 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.

The Company emphasizes the fostering of backbone talents and the selecting and cultivating of core executives and associate trainees, with a focus on executive team building and talent resource establishment. We hold the Employee Development Programme (EDP) for our executives, on-board training for new employees, skill improvement trainings, etc. to cultivate the learning atmosphere, boost the morale of our employees and improve their skills. We also introduces an online learning platform called "YiLian Online"which enriches the ways of training and learning for the employees, improves their competence and creation, expands the potential of their career paths and facilitates the building of a professional team of employees.

Diversified Training for Employees with Different Aptitudes

The Company hold various specialised training activities based on the nature and needs of different departments, positions and professions. It provides 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 provides trainings on production management, quality management, manufacturing processes and safety management, as well as coaching for professional skill appraisal. It also hold profession-specific skill competitions, which also serves an educational purpose by involving established technicians to give instructions in person. The activities cultivates competent production management personnel and skilled technicians. With regard to employees at the marketing frontline, the Company adopts on-site and online training programmes on marketing knowledge, product knowledge, marketing skills, internet marketing and other areas.

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. In 2017, the first Zoomlion Cup National Lifting Skill Competition for Construction Industry, to which experienced lifting operators from the industry were invited, was successfully held in Changde, Hunan province. The two-day competition among nearly 140 professional contestants from 31 teams from all over the country helped improve the operation accuracy, stability and speed for the frontline employees, and further promoted the awareness of safe operation and the craftsmanship spirit among the industry frontline.

Employment Freedom and Legal Recruitment

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 in the aspect of recruitment.

Although the Company values encourages employee devotion and commitment, we resolutely prohibit forced labour. We provide adequate and reasonable break and leave for employees in line with relevant laws and regulations. We arrange for voluntary overtime work based on our production

Environmental, Social and Governance Report

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. During the reporting period, the Company strictly observes the *Labour Law of the People's Republic of China and the Employment Contract Law of the People's Republic of China*, and forced labour is absent in all of the Company's factories.

Allocation Based on Performance to Ensure Equality and Fairness

The Company has established a flexible and dimensional remuneration system. On one hand, the remuneration system is mainly based on employee performance, which means that the remuneration of an employee is determined by the positions currently held, and the remuneration may be adjusted with reference to the earnings of the Company and his/her contribution to the Company. On the other hand, market-oriented principles and the relative value of positions are considered in allocating payment to our employees. Specifically, the payment to executives is based on their positions and performance, the payment to sales-related employees on sales commissions, and the payment to technical workers on working hours or piecework. We truly ensure equal pay for equal work and realize equity within the Company.

Diverse Benefit and Human-centered Management

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. 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 terminated. Health examinations during the employment are provided once a year and there are designated personnel in charge of such affairs.

Compliance Statement

During the year, no violation of any labour-standard-related regulations that have a significant impact on the Company could be observed within the Company.

5 Operating Practices

5.1 Supply-chain Management

With the global economy under mild and persistent recovery, the domestic economy improving steadily, and the Belt and Road Initiative experiencing in-depth development, the competition among industry is increasingly determined by the competition of supply-chain. ZHIST has always considered cooperation and win-win as the core ideas of supplier management, and sought mutual development with our suppliers. We have also constructed a supplier management indicator system to deepen our cooperation with the suppliers.

Integrated Platforms under Persistent Optimization

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 implement grade-based 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.

This year, the Company focused on a special campaign to integrate the suppliers, in which advantageous resources are centralized to facilitate the integration of suppliers based on the current production of the Company as well as the comprehensive assessment (from the perspective of quality, delivery, services, etc.) on the suppliers. By screening for premium suppliers and phasing out suppliers not in line with the business development of the Company, we further ensure the stability of our supply-chain and lower the overall cost for the Company and the suppliers. We also founded a supplier management team which effectively reduced the existing supply-chain management pressure, improved the management and policy-making efficiency in this respect, and optimized the supply-chain management system.

Improved Management and Information Sharing

The Company has always been dedicated to the establishment of an efficient supply-chain management platform, and has witnessed persisting improvement in the management and construction of the supply-chain. In 2017, based on the supply-chain management system integrating the existing SAP system, the Company has realized data sharing with the suppliers, which enabled them to learn about purchasing information in the shortest time and ensure the supply of products, thus establishing and maintaining closer relationships with the suppliers.

Environmental, Social and Governance Report

In 2018, the Company plans to set up with its key suppliers a strategic cooperation mechanism, under which a long-term supplier strategic alliance will be formed to establish a stable, reliable, efficient and low-cost supplier system through the re-integration of supply-side resources, collective purchase of materials of general nature and the cultivation of large-scale and professional suppliers.

5.2 Product Responsibility

Quality Serves as the Soul of Products

Zoomlion attaches significant importance to quality, and has been awarded the Nomination of China Quality Award and Province Governor Quality Award. Chairman of Board of Director (or Chairman) Zhan Chunxin has also been awarded Chinese People of Outstanding Quality Award. The Company has given rise to 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. We possess leading quality management ideas and approaches in the industry, with our product and service quality enjoying great reputation.

Cultural-foundation-led: ZHIST introduced the “Zero-defect” quality management idea in 2007, which sped up the rooting of quality culture and creatively established our quality culture system. During the Two Sessions (i.e. the National People’s Congress and the Chinese People’s Political Consultative Conference) in 2015, Chairman Zhan Chunxin proposed the idea of craftsmanship, which further strengthened the quality awareness of the whole company, and realized the excellence in product quality, employee quality and corporate development quality. Year 2017 was the Quality Year of ZHIST, in which increased importance were attached to the quality of development and the objective of forging the Company into a great company of top quality. During 2017, ZHIST actively held quality-oriented activities at all levels of the Company to ensure that we are free of any quality risk.

Strategic-planning-directed: ZHIST closely followed the strategic thinking that regards quality as the soul of a product, and followed the requirements of perfectionism in the whole business process, including product design, supply-chain, manufacturing and client services. With regard to R&D, the remunerations of R&D personnel are directly pegged to the sales of products, which guided personnel in this respect to take responsibility for product quality in designing. As for manufacturing, we improved the technician rating system and based the salary of workers on working hours instead of piecework, which nudged the workers to spontaneously transfer their attention to product quality. Regarding the supply-chain, we stepped up the effort to guide, integrate, optimize and reversely facilitate the implementation of quality management. We also take the Product 4.0 Project as an opportunity to lead the comprehensive improvement of quality. During 2017, the construction machinery group reported a 2% increase in the product qualification rate for new machineries whose delivery and acceptance had been completed for 3 months, a 1.8% decline in the serious failure rate for products whose three-guarantee (guarantee to fix, change and return the product) period had not expired, and a 0.37% decline in the external mass loss rate. The Company strictly complies with the *Product Quality Law of the People's Republic of China*, and there is no violation of consumer rights.

Market-driven: During 2017, as the market transformation evolved, the Company's senior management stayed at the factories to make decisions at the frontline, realizing the rapid response and effective coordination of each session (R&D, manufacturing, sales, service, etc.), building a strong fortress to ensure quality, and effectively raise client satisfaction.

Technology-empowered: Empowered by the national-level innovation platform and corporate innovation platform held by the Company, we integrated three innovation models (i.e. international integration innovation, buyout integration innovation, and top-level independent innovation) and continued to carry out in-depth research on technologies in association with product and key components to ensure the high performance and reliability of products. Innovative R&D such as structural optimization has improved the comprehensive lifting capacity by more than 10% and lowered the oil consumption rate by more than 4% for the new-generation 4.0 truck cranes.

Control based on multi-level matrix: The Company conducted matrix-based control on product quality from three levels, namely the strategy-devising level at the headquarters, the implementation level in business units, and the specific operation level, to realize correlation among quality management at different levels, which is under continuous and comprehensive improvement. We have established a full-process quality control covering early-stage quality planning, in-process quality control, continuous quality improvement and supply-chain quality management with the market as the starting point and products as the carrier. At the same time, we set up a comprehensive management system integrating quality, environment, occupational health and safety, measurement, and CCC (China Compulsory Certification). During 2017, we carried out 4 joint internal quality inspection, 3 quality supervisions on 4.0 products and 2 special examination on paint quality, identifying and correcting 1027 problems, with the problem solving rate reaching 100%.

Optimized Services and Share Innovation

In 2017, Zoomlion further optimized the system and platform and innovated the operation model of the business unit. Closely based on client experience, our service management sought to realize "four breakthroughs". We set up a communication mechanism connecting the headquarters, the product business unit and great regions, and carried out highly-effective interaction and close coordination. We also formed a marketing and operation system that is clearly positioned and structured, and features effective coordination and swift responses, so as to maximize the value for our clients.

Environmental, Social and Governance Report

In order to improve the timeliness of services and satisfy customers' demand for different services to the maximum extent, ZHIST has spared no effort to plan and build service offices. The coverage of our service offices has expanded in breadth and depth, and the offices have become increasingly well-equipped. Currently, the Company has nearly 3,000 full-time service engineers based at various service offices in China which are equipped with a total of more than 1,500 dedicated service vehicles. GPS positioning systems are installed to fully ensure rapid response to customers' call for services. In addition, the coverage of overseas regional market service offices have continued to expand. ZHIST has established nearly 150 service stations in overseas markets, covering over 40 countries and regions including the United States, the United Kingdom, Italy, Netherlands, India, South Korea, Australia, Brazil, and Russia.

In order to better serve our customers, ZHIST reinforced our three major supporting platforms and effectively served the market in 2017. We fully optimized CRM and CC omnimedia platforms to realize the informationization of service business and launched Zoomlion E-Manager to achieve mobility of service business. We also innovated the e-commerce platform for parts and accessories and added the business processes of direct dispatching of accessories, online payment and e-invoicing (the first in the industry) to improve service efficiency.

Zoomlion focuses on providing the customers with full-process and all-round services full-heartedly at any time, allowing them to experience completely satisfactory after-sales service, which enhances customer value and gains extensive appreciation from our customers. The company's after-sales service engineers are fully committed to serving the customers and impressing every customer with the ultimate service spirit.

Zoomlion has successively obtained the Five-star Certificate for After-sales Service accredited by the national standard of Evaluation System for After-sales Service of Commodity for many times. In November 2017, a re-assessment conducted by a third-party accreditation institute confirmed that the Five-star Certification for After-sales Service meets the standard. The company has also been awarded "National After-sales Service Meritorious Enterprise", "China Top Ten After-sales Service Unit", "National Special Contributor to After-sales Service", "Demonstration Unit for Labor Security and Integrity", "Advanced Unit for Consumer Rights Protection" and "Product Appreciated by Customers", "Unit Appreciated by Customers", and other honours.

Compliance Statement

During the year, no violation of any regulations related to product liability that have a significant impact on the Company could be observed within the Company.

5.3 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.

Compliance Statement

During the year, no violation of any anti-corruption-related regulations that have a significant impact on the Company could be observed within the Company.

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.

Carry out Precision Poverty Relief Actively

The Company regards precise poverty relief as one of the important ways and channels to fulfill its social responsibilities and considers the advantages of the construction machinery industry in this respect with reference to the local environment factors to ensure that our poverty relief measures are enforceable and effective.

Shortly after Ningxiang county in Hunan province suffered from the most devastating heavy precipitation in the past 60 years in June 2017, the Company donated 5 million yuan to help the locals rebuild their homes.

In 2017, the company carried out special precision poverty relief projects in Tumogang village (a state-level poverty-stricken village located in Guanzhuang township, Qi county, Kaifeng city, Henan province), and Dongjiangyuan village (a major provincial poverty-stricken village located in Hongtangying Yao ethnic township, Dao county, Hunan province). We helped Tuokougang village raise funds and develop village collective economy. With regard to Dongjiangyuan village, apart from donating transportation vehicles, we helped villagers utilize local resources, develop and strengthen yellow cattle breeding industry, and build brand agriculture.

Environmental, Social and Governance Report

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 RMB 3,000 to RMB 5,000. By 2017, as the sponsor of the programme, the Company has made a total contribution of over RMB 20 million, making us the largest donator in the programme. We also supported more students than any other donors. The programme has 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.

Social Relief to Help Victims of Disasters

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, the 2016 Xiamen hurricane, the Hunan flood in July 2017 and the 7.0-magnitude earthquake in Sichuang in August 2017. In each of the above events, we were always the first team from the public sector to respond and arrive at the disaster-stricken site, making the biggest contribution within our power to rescue and emergency repair efforts.

The Volunteer Association Always Committed to the Society

Founded in May 2008, the ZHIST Youth Volunteer Association joined China Youth Volunteer Association in 2014, and participated in non-for-profit activities including but not limited to social services, poverty relief, offering help to the disabled and orphans, youth assistance, environmental protection.

During the reporting period, under the leadership of the China Youth Volunteer Association and the Youth League Committee of the Company, we successfully held a range of non-for-profit activities, including "Green Travel Makes Changsha Beautiful", "Zhonglian Planting, Happy Zhonglian", "Collecting Youth Power to Support Industry Poverty Relief", the "Send Summer Cooler" activity held in Shangshan Aid Association for the Disabled to donate and install fans for the disabled, and in Lugu Industrial Park to offer condolences to the landscaping workers, the "Love Warms the World" activity held in the Sunshine

Special Child Service Center, the voluntary touring on the Opening Day of Zoomlion Construction Machinery Museum, the housing support activity themed "Support Education, Dream Building and Personal Development" in Xiangxi Care Park, "Share the Sunshine and Work Together" activity at the Fostering and Service Center for the Disabled of YueLu District. We fulfill our commitments to social well-being through actions.

7 Reference Table for ESG General Disclosures

ESG aspects	KPIs	Descriptions	Remarks	Relevant Report Section
	Environmental			
A1	Emissions	General Disclosure 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. Note: Air emissions include NOx, SOx, and other pollutants regulated under national laws and regulations. Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. Hazardous wastes are those defined by national regulations.		3.1
	A1.1	The types of emissions and respective emissions data.		3.1
	A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).		3.1

Environmental, Social and Governance Report

ESG aspects	KPIs	Descriptions	Remarks	Relevant Report Section
	A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	The Company is devising a plan for the collection of related data and therefore the related disclosure will be considered in the future.	3.1
	A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	The materiality assessment of this year indicated that relatively speaking, non-hazardous waste is not the most important environmental issue. Therefore, the related disclosure will be considered in the future.	3.1
	A1.5	Description of measures to mitigate emissions and results achieved.		3.1
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.		3.1
A2	Use of Resources	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials. Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.		3.2

ESG aspects	KPIs	Descriptions	Remarks	Relevant Report Section
	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).		3.2
	A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).		3.2
	A2.3	Description of energy use efficiency initiatives and results achieved.		3.2
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.		3.2
	A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	The materiality assessment of this year indicated that relatively speaking, packaging material is not the most important environmental issue. Therefore, the related disclosure will be considered in the future.	3.2
A3	**Environment and Natural Resources**	General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.		3.2 3.2

Environmental, Social and Governance Report

ESG aspects	KPIs	Descriptions	Remarks	Relevant Report Section
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.		3.2
	Society			
B1	Employment	General Disclosure 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.		4.1
B2	Health and Safety	General Disclosure 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.		4.1
B3	Development and Training	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. Note: Training refers to vocational training. It may include internal and external courses paid by the employer.		4.1

ESG aspects	KPIs	Descriptions	Remarks	Relevant Report Section
B4	Labour Standards	General Disclosure 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.		4.1
	Operating practices			
B5	Supply Chain Management	General Disclosure Policies on managing environmental and social risks of the supply chain		5.1
B6	Product Responsibility	General Disclosure 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.		5.2
B7	Anti-corruption	General Disclosure 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.		5.3
	Community			
B8	Community Investment	General Disclosure 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.		5.4

Significant Events

I. Material Connected Transactions of the Company during the Year

(I) Under the Listing Rules of Hong Kong, the continuing connected transactions of the Company during 2017 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 2017, total sales of the Company to Dongfeng Group amounted to approximately RMB472million (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 2017, the total purchases from the Dongfeng Group amounted to approximately RMB733million (excluding VAT).

The Independent Non-executive Directors unanimously confirmed that the continuing connected transactions of the Company for the year 2017 were:

(1) in the ordinary and usual 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;

Significant Events

(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 2017 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) First Grant of Restricted A Shares under the Restricted A Share Incentive Scheme

On 1 November 2017, a restricted A share incentive scheme of the Company (the "Restricted A Share Incentive Scheme") and the first grant of restricted A shares thereunder (the "First Grant of Restricted A Shares") were approved by way of special resolutions at the extraordinary general meeting, the H shares class meeting and the A shares class meeting. On 7 November 2017, during the seventh extraordinary meeting of the fifth session of the Board for 2017, the Board considered and approved the First Grant of Restricted A Shares and confirmed that the date of the First Grant of Restricted A Shares shall be 7 November 2017, pursuant to which 171,568,961 restricted A shares were granted by the Company to 1,231 persons. Breakdown of the allocation is as follows:

Name	Position	Number of the restricted A shares granted	Percentage to the total number of the restricted A shares granted to the total number of the restricted A shares to be granted under the Restricted A Share Incentive Scheme	Percentage of the relevant restricted A shares to the total issued share capital of the Company as at the date of the First Grant of Restricted A Shares
Zhan Chunxin*	Chairman and Chief Executive Officer	2,888,520	1.52%	0.04%
Su Yongjun*	Vice President	2,635,775	1.38%	0.03%
Xiong Yanming*	Vice President	2,599,668	1.36%	0.03%

Significant Events

Name	Position	Number of the restricted A shares granted	Percentage to the total number of the restricted A shares granted to the total number of the restricted A shares to be granted under the Restricted A Share Incentive Scheme	Percentage of the relevant restricted A shares to the total issued share capital of the Company as at the date of the First Grant of Restricted A Shares
Huang Qun*	Vice President	2,383,029	1.25%	0.03%
Liu Jie*	Vice President	2,310,816	1.21%	0.03%
Du Yigang*	Vice President	2,310,816	1.21%	0.03%
Wang Jinfu*	Vice President	2,274,710	1.19%	0.03%
Shen Ke*	Company Secretary	2,238,603	1.17%	0.03%
Guo Xuehong*	Vice President	2,202,497	1.16%	0.03%
Fu Ling	Chief Engineer	2,130,284	1.12%	0.03%
Sun Changjun*	Chief Legal Officer	2,021,964	1.06%	0.03%
He Jianming*	Chief Taxation Assets Officer	2,021,964	1.06%	0.03%
Li Jiangtao*	Vice President	1,672,935	0.88%	0.02%
Fang Minghua*	Vice President	1,492,402	0.78%	0.02%
Yang Zhengfu*	Vice President	1,179,479	0.62%	0.02%
Xiao Zhulan*	Subsidiary Supervisor	618,150	0.32%	0.008%
Peng Yunzhi*	Subsidiary Supervisor	195,950	0.10%	0.002%
Hu Min*	Subsidiary Supervisor	195,950	0.10%	0.002%
Chang Shu*	Subsidiary Director	142,050	0.08%	0.002%
Li Da*	Subsidiary Supervisor	213,850	0.11%	0.003%
Wang Yongxiang*	Subsidiary Supervisor	1,400,000	0.73%	0.02%
Hou Jie*	Subsidiary Supervisor	489,800	0.27%	0.006%
Zou Jianrong*	Subsidiary Supervisor	195,950	0.10%	0.002%
Zhang Chi*	Subsidiary Supervisor	618,150	0.32%	0.008%
Yang Aihua*	Subsidiary Director	195,950	0.10%	0.002%
Chen Liyi*	Subsidiary Supervisor	167,050	0.09%	0.002%
Zhou Yulin*	Subsidiary Director	618,150	0.32%	0.008%
Luo Kai*	Subsidiary Director	1,400,000	0.73%	0.02%
Ouyang Wenzhi*	Subsidiary Director	518,150	0.27%	0.007%
Yu Lekang*	Subsidiary Supervisor	618,150	0.32%	0.008%
Guo Long*	Subsidiary Director	518,150	0.27%	0.007%
Jiang Ming*	Subsidiary Director	293,900	0.15%	0.004%
Zhao Qianrong*	Subsidiary Director	350,000	0.18%	0.005%
Hu Xuejun*	Subsidiary Director	489,800	0.26%	0.006%
Wang Xien*	Subsidiary Director	350,000	0.18%	0.005%
Teng Zhaobin*	Subsidiary Director	350,000	0.18%	0.005%
Liu Hongyan*	Subsidiary Director	489,800	0.26%	0.006%
Shi Yang*	Subsidiary Director	117,050	0.06%	0.002%
Ji Qian*	Subsidiary Director	117,050	0.06%	0.002%
Liu Cuiping*	Subsidiary Supervisor	263,850	0.14%	0.003%
Chen Peimin*	Subsidiary Supervisor	117,050	0.06%	0.002%
Zhang Cheng*	Subsidiary Director	70,200	0.04%	0.001%
Li Jin*	Subsidiary Director	195,950	0.10%	0.002%

Significant Events

Name	Position	Number of the restricted A shares granted	Percentage to the total number of the restricted A shares granted to the total number of the restricted A shares to be granted under the Restricted A Share Incentive Scheme	Percentage of the relevant restricted A shares to the total issued share capital of the Company as at the date of the First Grant of Restricted A Shares
Wu Zhonghui*	Subsidiary Director	195,950	0.10%	0.002%
Pi Gang*	Subsidiary Director	117,050	0.06%	0.002%
Qiu Yihua*	Subsidiary Director	97,950	0.05%	0.001%
Xiong Chuanyu*	Subsidiary Director	97,950	0.05%	0.001%
Peng Shudong*	Subsidiary Director	489,800	0.26%	0.006%
Mao Wei*	Subsidiary Director	117,050	0.06%	0.002%
Jiang Ya*	Subsidiary Director	117,050	0.06%	0.002%
Li Mingjun*	Subsidiary Director	97,950	0.05%	0.001%
Li Xujiong*	Subsidiary Director	518,150	0.27%	0.007%
Yang Hui*	Subsidiary Director	195,950	0.10%	0.002%
Zhang Chunxiang*	Subsidiary Director	117,050	0.06%	0.002%
Key technical and managerial personnel (1,177 Participants)		128,417,381	67.36%	1.68%
Total (1,231 Participants)[(1)]		171,568,961	90.00%	2.25%

* Persons who are connected persons of the Company under the Listing Rules of Hong Kong.

(1) 39 persons waived their right to subscribe for new A shares under the Restricted A Share Incentive Scheme, leaving 1,192 persons to subscribe for an aggregate of 168,760,911 A shares thereunder.

Participants of the Restricted A Share Incentive Scheme included a Director (other than independent non-executive Directors) and directors and supervisors of the subsidiaries of the Company, who are connected persons of the Company. The Restricted A Share Incentive Scheme does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules of Hong Kong and is a discretionary scheme of the Company. Thus, the grant of restricted A shares to such connected person grantees under the First Grant of Restricted A Shares constituted connected transactions of the Company.

The purpose of the Restricted A Share Incentive Scheme is to further refine the corporate structure of the Company, align the interests of the shareholders with that of the management, and enhance the loyalty and sense of responsibilities of the management and the core personnel of the Company for, and to retain talent for, the sound and sustainable development of the Company.

The grant price of the restricted A shares under the First Grant of Restricted A Shares shall be RMB2.29 per A share, which is not less than the nominal value of the shares or the higher of: (i) 50% of the average trading price of the A shares quoted on the Shenzhen Stock Exchange on the last trading day immediately preceding the date of the Company's announcement dated 29 September 2017 (the "Announcement") in relation to, among others, the adoption of the Restricted A Share

Significant Events

Incentive Scheme and the grant thereunder, which was RMB2.24 per A share and (ii) 50% of the average of the trading prices of the A shares quoted on the Shenzhen Stock Exchange for the last 20 trading days immediately preceding the date of the Announcement, which was RMB2.29 per A Share.

The validity period of the Restricted A Share Incentive Scheme commences from the date of grant of the Restricted A Shares, and ends on the date on which all the Restricted A Shares have been unlocked or cancelled, provided that such period must not exceed 48 months. The restricted A shares under the First Grant of Restricted A Shares will be unlocked in three batches with lock-up periods of 12 months, 24 months and 36 months respectively.

The independent non-executive Directors unanimously confirmed that the grant of restricted A shares to the Director and directors and supervisors of the subsidiaries of the Company under the First Grant of Restricted A Shares pursuant to the terms of the Restricted A Share Incentive Scheme is fair and reasonable, and in the interest of the Company and its shareholders as a whole.

II. Material Disposal of a Subsidiary

On 21 May 2017, the Company entered into an equity transfer agreement (the "Equity Transfer Agreement") with Infore Investments Holding Group Co., Ltd.（盈峰投資控股集團有限公司, referred to as "Infore Holding" (which subsequently transfer red all of its rights and obligations under the Equity Transfer Agreement to Ningbo Infore Asset Management Co., Ltd.*（寧波盈峰資產管理有限公司）, a wholly-owned subsidiary of Infore Holding) in 27 May 2017), (Guangzhou Yuemintou Yinglian Investment Partnership (Limited Partnership)*（廣州粵民投盈聯投資合夥企業（有限合夥）), Hony (Shenzhen) Investment Centre (Limited Partnership)*（弘創（深圳）投資中心（有限合夥））and Shanghai Lulian Junhe Industrial Equity Merger and Acquisition and Investment Fund Partnership*（上海綠聯君和資產併購股權投資基金合夥企業）（collectively referred to as "the Purchasers"）to sell 80% of its interests in Changsha Zoomlion Environmental Industry Co., Ltd.* (長沙中聯重科環境產業有限公司) at a total consideration of RMB11,600 million in cash, which has been received during the year. Please refer to the announcement issued by the Company dated 21 May 2017 and the supplemental announcement issued by the Company dated 31 May 2017 for further details.

III. Share Option Scheme

On 1 November 2017, a share incentive scheme of the Company including Share Option Scheme (the "Share Option Scheme") and the first grant of options thereunder (the "First Grant of Options") were approved by way of special resolutions at the extraordinary general meeting, the H shares class meeting and the A shares class meeting of the Company. On 7 November 2017, during the seventh extraordinary meeting of the fifth session of the Board for 2017, the Board considered and approved the First Grant of Options and confirmed that the date of the First Grant of Options shall be 7 November 2017, pursuant to which 171,568,961 options were granted to 1,231 persons. 39 persons waived their right to subscribe for new A shares under the Share Option Scheme, leaving 1,192 persons to subscribe for an aggregate of 168,760,911 A shares thereunder.

The following is a summary of the principal terms of the Share Option Scheme but does not form part of, nor was it intended to be, part of the Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme:

(I) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to further refine the corporate structure of the Company, align the interests of the shareholders with that of the management, and enhance the loyalty and sense of responsibilities of the management and the core personnel of the Company for, and to retain talent for, the sound and sustainable development of the Company.

(II) Participants of the Share Option Scheme

The eligible persons of the Share Option Scheme include the Directors, senior management, key technical and managerial personnel of the Company and such other persons as the Board considers necessary to provide incentives (each a "Participant").

(III) Maximum number of shares available for subscription

The total number of the underlying A shares subject to the options that may be granted under the Share Option Scheme shall be 190,632,179 A shares, representing approximately 2.50% of the existing total issued share capital of the Company. Amongst the options, 171,568,961 options are under the First Grant of Options, representing approximately 2.25% of the existing total issued share capital of the Company, and 19,063,218 options are reserved Options, representing 10% of the total number of options under the Share Option Scheme and 0.25% of the existing total issued share capital of the Company.

Significant Events

(IV) Maximum entitlement of each Participant

The aggregate number of A shares to be issued to a Participant upon the exercise of his options under the Share Option Scheme must not exceed 1% of Company's total share capital.

(V) Vesting period

Options to be granted to the Participants will have different vesting periods. The Options under the First Grant of Options will have vesting periods of 12 months, 24 months and 36 months and the reserved options will have vesting periods of 12 months and 24 months, in each case commencing from the date of grant respectively.

(VI) Time of exercise of option

Options under the First Grant of Options are exercisable in three batches upon expiry of 12 months from the date of grant of such options. Details are as follows:

Exercising arrangement	Exercise period	Proportion
First exercise period	Commencing from the first trading day after expiry of the 12-month period from the date of grant, and ending on the last trading day of the 24-month period from the date of grant	40%
Second exercise period	Commencing from the first trading day after expiry of the 24-month period from the date of grant, and ending on the last trading day of the 36-month period from the date of grant	30%
Third exercise period	Commencing from the first trading day after expiry of the 36-month period from the date of grant, and ending on the last trading day of the 48-month period from the date of grant	30%

Reserved options are exercisable in two batches upon expiry of 12 months from the date of grant of such reserved options. Details are as follows:

Exercising arrangement	Exercise period	Proportion
First exercise period	Commencing from the first trading day after expiry of the 12-month period from the date of grant, and ending on the last trading day of the 24-month period from the date of grant	50%
Second exercise period	Commencing from the first trading day after expiry of the 24-month period from the date of grant, and ending on the last trading day of the 36-month period from the date of grant	50%

The date of the grant of the reserved options shall be the date on which the announcement of resolutions passed at a Board meeting in respect of granting the reserved options is published.

(VII) Exercise price

The exercise price of the options granted pursuant to the First Grant of Options shall be RMB4.57 per A share. The exercise price shall not be less than the nominal value of the shares or the higher of: (i) the average of the trading prices of the A shares (being the total daily trading turnover on the last trading day immediately preceding the date of the Company's announcement dated 29 September 2017 (the "Announcement") in relation to, among others, the adoption of the Share Option Scheme and the grant thereunder, divided by the total daily trading volume on the last trading day immediately preceding the date of the Announcement) quoted on the Shenzhen Stock Exchange on the last trading day immediately preceding the date of the Announcement, which was RMB4.48 per A share; and (ii) the average of the trading prices of the A shares quoted on the Shenzhen Stock Exchange for the last 20 trading days immediately preceding the date of the Announcement, which was RMB4.57 per A Share.

The exercise price of the reserved options shall not be less than the nominal value of the shares of the Company or the higher of: (i) the average of the trading prices of the A shares quoted on the Shenzhen Stock Exchange on the last trading day immediately preceding the date of the announcement in respect of such subsequent grant; and (ii) the average of the trading prices of the A shares quoted on the Shenzhen Stock Exchange for the last 20, 60 or 120 trading days immediately preceding the date of the announcement in respect of such subsequent grant.

(VIII) Validity period of the Share Option Scheme

The Share Option Scheme shall be terminated upon occurrence of any of the following: (i) a Participant has been determined as an unsuitable candidate by a stock exchange in the last 12 months; (ii) he has been determined to be an unsuitable candidate by the China Securities

Significant Events

Regulatory Commission ("CSRC") or any of its dispatched agencies in the last 12 months; (iii) he has been imposed with administrative penalties or measures which prohibit him from entering into the market by the CSRC or its dispatched agencies in the last 12 months due to material non-compliance with laws and regulations; (iv) he is prohibited from acting as a Director or a member of the senior management of the Company under the Company Law of the PRC; (v) he is not allowed to participate in any share incentive scheme of a listed company under laws and regulations; and (vi) there is any other circumstance as determined by the CSRC. In such event, all options exercisable and not yet exercised shall be terminated and all options not yet exercisable shall lapse. Subject to the foregoing, the validity period of the Share Option Scheme commences from the date of grant of the options, and ends on the date on which all the options have been exercised or cancelled, provided that such period must not exceed 48 months.

(IX) Movements in the Share Option Scheme

Details of movement of the options granted under the Share Option Scheme for the year ended 31 December 2017 were as follows:

Name or category of Participant	Date of grant	Vesting period	Exercise period	Exercise price (RMB)	As at 1 January 2017	Granted during the year	Lapsed during the year	Cancelled during the year	Exercised during the year	As at 31 December 2017
Zhan Chunxin (chief executive of the Company)	07/11/2017	07/11/2017 to 06/11/2018	07/11/2018 to 06/11/2019	4.57[1]	–	1,155,408	–	–	–	**1,155,408**
		07/11/2017 to 06/11/2019	07/11/2019 to 06/11/2020	4.57[1]	–	866,556	–	–	–	**866,556**
		07/11/2017 to 06/11/2020	09/11/2020 to 05/11/2021	4.57[1]	–	866,556	–	–	–	**866,556**
Key technical and managerial personnel (1,191 Participants in aggregate)	07/11/2017	07/11/2017 to 06/11/2018	07/11/2018 to 06/11/2019	4.57[1]	–	66,348,957	–	–	–	**66,348,957**
		07/11/2017 to 06/11/2019	07/11/2019 to 06/11/2020	4.57[1]	–	49,761,717	–	–	–	**49,761,717**
		07/11/2017 to 06/11/2020	09/11/2020 to 05/11/2021	4.57[1]	–	49,761,717	–	–	–	**49,761,717**

(1) The closing price of the shares immediately before the date of such grant of options was RMB4.55 per share.

As at 31 December 2017, the Company had 168,760,911 options outstanding under the Share Option Scheme, which represented approximately 2.46% of the Company's shares in issue on that date.

Changes in Share Capital and Shareholders

I. Changes in Share Capital (as at 31 December 2017)

1. Changes in share capital

Unit: share

	Before this change		Increase (+)/ Decrease (-) in this change	After this change	
	Number	Percentage		Number	Percentage
I. Shares subject to sales restriction	11,819,767	0.15%	168,224,161	180,043,928	2.31%
3. Other domestic shares	11,819,767	0.15%	168,224,161	180,043,928	2.31%
Shares held by domestic natural persons	11,819,767	0.15%	168,224,161	180,043,928	2.31%
II. Shares not subject to sales restriction	7,652,312,483	99.85%	-38,308,336	7,614,004,147	97.69%
1. Ordinary shares denominated in RMB	6,264,105,397	81.74%	-38,308,336	6,225,797,061	79.88%
3. Overseas listed foreign invested shares	1,388,207,086	18.11%	0	1,388,207,086	17.81%
III. Total number of shares	7,664,132,250	100.00%	129,915,825	7,794,048,075	100.00%

2. Reasons for changes in share capital

1. As a result of the implementation of the A share repurchase program, the Company repurchased 38,845,086 A shares in total in the year ended 31 December 2017, and completed the cancellation procedures for the repurchased shares in the Shenzhen Branch of China Securities Depository and Clearing Company Limited on 7 July 2017. On the same date, the total number of shares of the Company became 7,625,287,164.

2. As a result of the implementation of the restricted A share incentive scheme, the Company issued 168,760,911 additional restricted A shares on 7 November 2017, and completed the registration procedures for the restricted A shares at the Shenzhen Branch of China Securities Depository and Clearing Company Limited on 28 December 2017. On the same date, the total number of shares of the Company became 7,794,048,075.

Changes in Share Capital and Shareholders

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	17.78%	1,385,730,743	140,260		1,385,730,743		
State-owned Assets Supervision and Administration Commission of Hunan Province People's Government	State-owned legal person	16.08%	1,253,314,876			1,253,314,876		
Changsha Hesheng Science and Technology Investment Co., Ltd	Domestic non state-owned legal person	4.96%	386,517,443			386,517,443	Pledged	184,000,000
China Securities Finance Corporation Limited	State-owned legal person	2.96%	230,408,951			230,408,951		
GOOD EXCEL GROUP LIMITED	Overseas legal person	2.16%	168,635,680			168,635,680		
Real Smart International Limited	Overseas legal person	2.16%	168,635,602			168,635,602	Pledged	168,000,000
Changsha Yifang Science and Technology Investment Co., Ltd	Domestic non state-owned legal person	2.01%	156,864,942			156,864,942		
Central Huijin Asset Management Ltd.	State-owned legal person	1.49%	115,849,400			115,849,400		
Hony Capital Fund I (Tianjin), L.P.	Domestic non state-owned legal person	0.83%	64,600,000			64,600,000		
Guangdong Hengjian Investment Holding Co., Ltd.	State-owned legal person	0.31%	24,000,000			24,000,000		

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

Changes in Share Capital and Shareholders

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

As at 31 December 2017, so far as the Directors and chief executive of the Company were aware, the following persons (other than the Directors, the supervisors and the chief executive 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 owner	A shares	1,253,314,876	19.56	16.08
Changsha Hesheng Science and Technology Investment Co., Ltd.(1)	Beneficial owner	A shares	386,517,443	6.03	4.96
JPMorgan Chase & Co.(2)	Beneficial owner Investment manager	H shares	82,627,451 (L) 10,936,200 (S)	5.95 0.78	1.06 0.14
	Approved lending agent		3,567,145 (P)	0.25	0.05

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

(2) The disclosure is based on the information available on the website of SEHK (www.hkexnews.com.hk). As stated in the form of disclosure of shareholder's interests submitted by JPMorgan Chase & Co. on 28 December 2017 (the date of the relevant event set out in the form was 22 December 2017), these shares were held via affiliates of JPMorgan Chase & Co.. As further stated in the form of disclosure of shareholder's interests submitted by JPMorgan Chase & Co. on 25 January 2018 (the date of the relevant event set out in the form was 22 January 2018), JPMorgan Chase & Co. has since ceased to have a notifiable interest in the shares of the Company.

Save as disclosed above, as at 31 December 2017, so far as the Directors and the chief executive of the Company were aware, no persons (other than the Directors, the supervisors and the chief executive 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 Shares by the Company and its Subsidiaries

During the year ended 31 December 2017, the Company repurchased a total of 169,923,581 ordinary shares at an aggregate consideration of RMB169,923,581 on the Shenzhen Stock Exchange as follows:

Date/month/year	Number of A shares repurchased	Highest price paid per share RMB	Lowest price paid per share RMB	Aggregate price paid RMB
May 2017	31,760,616	4.45	4.21	138,877,045
June 2017	7,084,470	4.41	4.36	31,046,536
	38,845,086			169,923,581

All the repurchased shares were cancelled as of 7 July 2017. The repurchases were made for the benefit of the Company and its shareholders as a whole with a view to improving the earnings per share of the Company and thereby boosting investors' confidence. Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

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	62	2 April 2001	29 June 2018	5,152,036	0	0	2,888,520	8,040,556
Hu Xinbao	Director	incumbent	M	49	29 June 2015	29 June 2018	0	0	0	0	0
Zhao John Huan	Director	incumbent	M	55	29 June 2015	29 June 2018	0	0	0	0	0
Lai Kin Keung	Independent Director	incumbent	M	67	29 June 2015	29 June 2018	0	0	0	0	0
Zhao Songzheng	Independent Director	incumbent	M	56	29 June 2015	29 June 2018	0	0	0	0	0
Liu Guiliang	Independent Director	incumbent	F	54	29 June 2015	29 June 2018	0	0	0	0	0
YANG Changbo	Independent Director	incumbent	M	63	29 June 2016	29 June 2018	0	0	0	0	0
Fu Zheng	Chairman of Supervisory Board	incumbent	F	49	29 June 2015	29 June 2018	0	0	0	0	0
Liu Quan	Supervisor	resigned	M	54	29 June 2015	28 June 2017	1,068,052	0	0	0	1,068,052
Liu Chi	Employee Supervisor	incumbent	M	60	29 June 2015	29 June 2018	379,211	0	0	0	379,211
Zhang Jianguo	Vice President	resigned	M	58	29 June 2015	28 June 2017	953,943	0	0	0	953,943
Yin Zhengfu	Vice President	incumbent	M	61	29 June 2015	29 June 2018	692,850	0	0	1,179,479	1,872,329
Xiong Yanming	Vice President	incumbent	M	53	29 June 2015	29 June 2018	504,295	0	0	2,599,668	3,103,963
Su Yongzhuan	Vice President	incumbent	M	45	29 June 2015	29 June 2018	584,175	0	0	2,635,775	3,219,950
Fang Minghua	Vice President	incumbent	M	60	29 June 2015	29 June 2018	503,081	0	0	1,492,402	1,995,483
He Jianming	Chief Taxation Assets Officer	incumbent	M	54	29 June 2015	29 June 2018	64,377	0	0	2,021,964	2,086,341
Wang Jinfu	Vice President	incumbent	M	61	29 June 2015	29 June 2018	0	0	0	2,274,710	2,274,710
Sun Changjun	Chief Legal Officer	incumbent	M	55	29 June 2015	29 June 2018	754,076	0	0	2,021,964	2,776,040
Huang Qun	Vice President	incumbent	F	51	29 June 2015	29 June 2018	423,200	0	0	2,383,029	2,806,229
Chen Peiliang	Vice President	resigned	M	45	29 June 2015	28 June 2017	495,200	0	0	0	495,200
Guo Xuehong	Vice President	incumbent	M	55	29 June 2015	29 June 2018	737,650	0	0	2,202,497	2,940,147
Li Jiangtao	Vice President	incumbent	M	54	29 June 2015	29 June 2018	571,282	0	0	1,672,935	2,244,217
Liu Jie	Vice President	incumbent	F	49	29 June 2015	29 June 2018	0	0	0	2,310,816	2,310,816
Du Yigang	Vice President	incumbent	F	42	29 June 2015	29 June 2018	0	0	0	2,310,816	2,310,816
Fu Ling	Chief Engineer	incumbent	F	50	29 June 2015	29 June 2018	50,000	0	0	2,130,284	2,180,284
He Wenjin	Vice President	resigned	M	47	30 March 2016	30 March 2017	0	0	0	0	0
Shen Ke	Secretary of the Board of Directors	incumbent	M	46	29 June 2015	29 June 2018	2,110,600	0	0	2,238,603	4,349,203
Li Bo	Vice President	resigned	M	42	30 August 2017	27 December 2017	0	0	0	0	0
Total	–	–	–	–	–	–	15,044,028	0	0	32,363,462	47,407,490

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. He was elected as a representative of the 19th National Congress of the Communist Party of China in 2017 and a member of the 13th CPPCC National Committee in 2018. 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 deputy secretary of the CPC Committee, director and general manager of Hunan State-owned Assets Management Co., Ltd.（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 State-owned 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, a non-executive director of our Company. Mr. Zhao currently serves as an executive director and executive vice president of Legend Holdings Corporation, non-executive director of Lenovo Group Ltd., chairman of the board of directors and chief executive officer of Best Food Holding Company Limited, chairman of the board of directors of Hospital Corporation of China Limited, non-executive director of China Glass Holdings Limited, vice chairman of Shanghai Environment Group Co., Ltd. and non-executive director of Shanghai Jin Jiang International Hotels Development Co., Ltd.. Mr. Zhao is also member of the national Thousand Talents Program, Vice Chairman of Asset Management Association of China (AMAC) and Chairman of the private equity & buyout fund committee under AMAC; board member of the China Development Research Foundation (CDRF), governor of Our Hong Kong Foundation, and governing board member of China-United States Exchange Foundation. Mr. Zhao holds an MBA degree from the Kellogg School of Management at Northwestern University, dual Master's degrees in Electronic Engineering and Physics from Northern Illinois University, and a Bachelor's degree in Physics from Nanjing University.

Mr. 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 and chair professor of management science at City University of Hong Kong. Mr. Lai Kin Keung is also an independent non-executive director of Hanbo Enterprises 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 Pacifi c Industrial Engineering and Management Society. Lai Kin Keung was the dean of the College of Business Administration at Hunan University from February 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

Directors, Supervisors, Senior Management and Employees

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.

Mr. 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. Mr. Zhao currently serves as an independent director of Xi'an Tianhe Defense Technology Co., Ltd. and Aecc Aero Engine Control Co., Ltd..

Ms. 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. She served as the director and deputy head of Hunan Yingte CPA Co., Ltd. (湖南英特會計師事務所) from May 1995 to December 1998 and financial director of Hunan Xiangcai Industrial Corporation (湖南湘財實業總公司) from September 2000 to September 2002. Currently, she serves as an independent director of Hunan Er-kang Pharmaceutical Co., Ltd., 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 non-executive director of the Company. Mr. Yang Changbo has served as the vice chairman of Corporate and Institutional Banking of Greater China and North Asia of Standard Chartered Bank since September 2017. Mr. Yang served as a senior officer of the World Bank from August 1986 to August 1998. He then joined China International Capital Corporation Limited as a managing director of the Investment Banking Department. Mr. Yang joined Goldman Sachs Gao Hua as a managing director in October 2006 and became a Goldman Sachs partner in 2010. He retired in 2014 and served as an advisory director of Goldman Sachs from January 2014 to January 2016. Mr. Yang received his doctoral degree in economics from the University of Texas at Austin 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 supervisor of the Company. Mr. Liu Quan has been appointed as a director of our Company since August 1999. Mr. Li Quan currently serves as a vice president of Changsha Zoomlion Environmental Industry Co., Ltd.. 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 been a supervisor of the Company since July 2010. Mr. Liu Chi is currently the deputy secretary of party committee and secretary of disciplinary committee 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

Directors, Supervisors, Senior Management and Employees

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.

Mr. Yin Zhengfu (殷正富), male, born in 1956, is a vice president of our 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.

Mr. Xiong Yanming (熊焰明), male, born in 1964, is a vice president of our Company. 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. 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.

Directors, Supervisors, Senior Management and Employees

Dr. Su Yongzhuan (蘇用專), male, born in 1972, is a vice president of our Company. Dr. Su is the general manager of the financial services branch 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. 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. 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. Currently, Mr. He also serves as the chairman of Zoomlion Heavy Machinery Co., Ltd.. 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

Directors, Supervisors, Senior Management and Employees

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. 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 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 manager 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勳人物) 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.

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 Provincial Supervisory Corporations in 2008, Outstanding Research Paper (Grade I) of Hunan State-

Directors, Supervisors, Senior Management and Employees

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. 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 an executive director of Guangdong Zoomlion South Construction Machinery Co., Ltd. and a director of Zoomlion Finance and Leasing (China) Co., Ltd. and Hunan Zoomlion Hardware Co., Ltd. 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.

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

Directors, Supervisors, Senior Management and Employees

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.

Ms. Huang Qun (黃群), female, born in 1966, is a vice president of the Company. Currently, Ms. Huang also serves as the general manager of the operational asset management company 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 obtained a bachelor's degree and is an accountant and certified senior international internal control officer. Ms. Liu Jie is assigned to take charge of the enterprise operation system of the Company and acts as the deputy general manager of the operational asset management company of the Company. She was previously a deputy general manager, head of audit division and chief audit officer of Zoomlion Construction Machinery Industry 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.

Directors, Supervisors, Senior Management and Employees

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 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. 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. 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 2017, 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 for review.

The Board 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 2017, 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	62	incumbent	270	No
Hu Xinbao	Director	M	49	incumbent	0	No
Zhao John Huan	Director	M	55	incumbent	0	No
Lai Kin Keung	Independent Director	M	67	incumbent	12	No
Zhao Songzheng	Independent Director	M	56	incumbent	12	No
Liu Guiliang	Independent Director	F	54	incumbent	12	No
Yang Changbo	Independent Director	M	63	incumbent	12	No
Fu Zheng	Chairman of Supervisory Board	F	49	incumbent	0	No
Liu Quan	Supervisor	M	54	resigned	80	No
Liu Chi	Employee Supervisor	M	60	incumbent	130	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
Zhang Jianguo	Vice President	M	58	resigned	90	No
Yin Zhengfu	Vice President	M	61	incumbent	160	No
Xiong Yanming	Vice President	M	53	incumbent	180	No
Su Yongzhuan	Vice President	M	45	incumbent	160	No
Fang Minghua	Vice President	M	60	incumbent	150	No
He Jianming	Chief Taxation Assets Officer	M	54	incumbent	150	No
Wang Jinfu	Vice President	M	61	incumbent	215	No
Sun Changjun	Chief Legal Officer	M	55	incumbent	160	No
Huang Qun	Vice President	F	51	incumbent	160	No
Chen Peiliang	Vice President	M	45	resigned	75	No
Guo Xuehong	Vice President	M	55	incumbent	160	No
Li Jiangtao	Vice President	M	54	incumbent	150	No
Liu Jie	Vice President	F	49	incumbent	120	No
Du Yigang	Vice President	F	42	incumbent	120	No
Fu Ling	Chief Engineer	F	50	incumbent	120	No
Shen Ke	Secretary of the Board of Directors	M	46	incumbent	120	No
Li Bo	Vice President	M	42	resigned	53	No
Total	—	—	—	—	2,871	—

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 2017. 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 2017.

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.

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 2017, 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 seven members, including a chairman, two Non-executive Directors who have extensive experience in the business and operation of the Company and four 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 2017, the Board had held nine 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 2017 was as follows:

	Name of Directors	Number of Board meetings held	Attendance	Number of general meetings held	Attendance
Chairman	Mr. Zhan Chunxin	9	9	2	2
Non-executive Director	Mr. Hu Xinbao	9	9	2	2
	Mr. Zhao John Huan	9	9	2	2
Independent Non-executive Director	Mr. Lai Kin Keung	9	9	2	2
	Mr. Zhao Songzheng	9	9	2	2
	Ms. Liu Guiliang	9	9	2	2
	Mr. Yang Changbo	9	9	2	2

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.

Corporate Governance

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.

(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 2017 are summarized as follows:

Directors	Type of training
Mr. Zhan Chunxin	ABCD
Mr. Hu Xinbao	BD
Mr. Zhao John Huan	BCD
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. Yang Changbo. In 2017, 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 2016 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. Yang Changbo	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 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 2017, the Nomination Committee held 1 meeting.

	Attendance/ Number of meetings during the Reporting Period
Mr. Zhao Songzheng	1/1
Dr. Zhan Chunxin	1/1
Mr. Lai Kin Keung	1/1

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.

Corporate Governance

(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 2017, the Audit committee held 4 meetings mainly to review the results for 2016, the interim results for 2017 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 2017. 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 2017.

	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 Committee is Mr. Zhan Chunxin, an Executive Director, and other members included Mr. Zhao John Huan and Mr. Yang Changbo.

In 2017, the Strategy and Investment Decision-making Committee held 1 meeting to review the matters regarding the sale of 80% of the equity interest in Changsha Zoomlion Environmental Industry Co., Ltd.

	Attendance/ Number of meetings during the Reporting Period
Ms. Zhan Chunxin	1/1
Mr. Zhao John Huan	1/1
Mr. Yang Changbo	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 8 to the financial statements prepared under IFRSs.

Corporate Governance

(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).

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 2017.

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 2017 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 2017, 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	8,040,556 (L)	0.1255
Liu Quan	Beneficiary owner	A Share	1,068,052 (L)	0.0167
Liu Chi	Beneficiary owner	A Share	379,211 (L)	0.0059

Note: L represents long position

As at 31 December 2017, 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.

As at 31 December 2017, 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 2017. 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 2017.

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 2017, the review of interim financial report, internal control audit and the audits of subsidiaries' statutory financial statements, relevant financial consultation and due diligence investigation. The aggregate audit fees paid to these two audit firms were RMB12.66 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 2017.

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,

Corporate Governance

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.

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 2017, 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.

Corporate Governance

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.

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.

Corporate Governance

(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 27 to the financial statements prepared under IFRSs.

Independent Auditor's Report

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 114 to 236 which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017 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><th colspan="2">Revenue recognition on sale of construction machinery</th></tr>
<tr><td colspan="2">Refer to Notes 3 and 11 to the consolidated financial statements and the accounting policies on pages 142 to 144 and page 148.</td></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></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. In June 2017, the Group sold 80% of its equity interest in its environmental industry business which has been deconsolidated since then.

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 70% of the Group's revenue for the year ended 31 December 2017.

We identified revenue recognition 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 advance or delay the timing of revenue recognition to the incorrect accounting period to meet performance expectations or targets.</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, 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

• obtaining external confirmation of, 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 2017 directly with customers.</td></tr>
</table>

Independent Auditor's Report

Recoverability of trade debtors	
Refer to Notes 19, 20 and 31(b)(ii) to the consolidated financial statements and the accounting policies on pages 134 to 136.	
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 2017, the Group's gross trade receivables and gross receivables under finance lease arrangements totalled RMB26,917 million and RMB14,361 million, respectively, against which provisions for doubtful debts of RMB5,937 million and RMB1,560 million, respectively, were recorded. The Group's provisions for doubtful debts are based on management's estimate of the credit losses, 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 faced challenges in previous years 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; and • 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;

Independent Auditor's Report

Recoverability of trade debtors	
Refer to Notes 19, 20 and 31(b)(ii) to the consolidated financial statements and the accounting policies on pages 134 to 136.	
The Key Audit Matter	**How the matter was addressed in our audit**
	• 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; • challenging the key parameters and assumptions used in management's assessments on the recoverability of trade debtors with reference to the actual loss incurred from recent sale of certain trade debtors; and • inspecting cash receipts on a sample basis from customers after the financial year end relating to trade debtors balances as of 31 December 2017.

Independent Auditor's Report

Valuation of reprocessed machinery	
Refer to Notes 17 and 35(c) to the consolidated financial statements and the accounting policies on page 137.	
The Key Audit Matter	**How the matter was addressed in our audit**
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 that 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.	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.

Independent Auditor's Report

<table>
<tr><th colspan="2">Assessing potential impairment of goodwill and trademarks</th></tr>
<tr><td colspan="2">Refer to Notes 13 and 14 to the consolidated financial statements and the accounting policies on pages 128 to 130 and pages 136 to 137.</td></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>As at 31 December 2017, the aggregate carrying value of the Group's goodwill and trademarks with an indefinite useful life totalled RMB3,304 million which represented 3.98% 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 businesses in previous years.

Management performs annual impairment assessments of the cash-generating units ("CGUs") to which goodwill and 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 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.</td><td>Our audit procedures to assess the potential impairment of goodwill and trademarks included the following:

• assessing and challenging management's impairment assessment models and the allocation of goodwill and trademarks to 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; and

• comparing forecast revenue, operating margins and capital expenditure in the discounted cash flows forecasts with the Group's the approved financial budget;

• comparing forecast sales volumes with 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;

• engaging our internal valuation specialists to assist us in assessing the discount rates applied in the cash flow forecasts by benchmarking against other comparable companies in the same industry;</td></tr>
</table>

Independent Auditor's Report

Assessing potential impairment of goodwill and trademarks	
Refer to Notes 13 and 14 to the consolidated financial statements and the accounting policies on pages 128 to 130 and pages 136 to 137.	
The Key Audit Matter	**How the matter was addressed in our audit**
	• 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 trademarks, including the key assumptions adopted, with reference to the requirements of the prevailing accounting standards.

Independent Auditor's Report

<table>
<tr><td colspan="2">Accounting for the sale of 80% equity interest in Changsha Zoomlion Environmental Industry Co. Ltd.</td></tr>
<tr><td colspan="2">Refer to Notes 7, 11 and 15 to the consolidated financial statements and the accounting policies on pages 125 to 128.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>On 21 May 2017, the Company entered into an Equity Transfer Agreement with Infore Investments Holding Group Co.,Ltd. (referred to as "Infore Holding"), Guangzhou Yuemintou Yinglian Investment Partnership (Limited Partnership), Hony (Shenzhen) Investment Centre (Limited Partnership) and Shanghai Lulian Junhe Industrial Equity Merger and Acquisition and Investment Fund Partnership (collectively referred to as "the Purchasers") to sell 80% of its equity interest in Changsha Zoomlion Environmental Industry Co., Ltd. (referred to as "ZEI") at a total consideration of RMB11,600 million in cash(referred to as "the Transaction").

Infore Holding became the controlling shareholder of ZEI upon the completion of the Transaction on 30 June 2017, and the Group retained significant influence over ZEI. A gain of RMB10,738 million has been recognised in the Group's consolidated statement of comprehensive income. The remaining 20% equity interest in ZEI was accounted for as an associate at fair value upon initial recognition from the date when control was lost.</td><td>Our audit procedures to assess accounting for the sale of 80% equity interest in ZEI included the following:

• inspecting the equity transfer agreement, shareholders' agreement signed among the Company and the Purchasers, the revised articles of association of ZEI, the board meeting minutes of the Company, as well as the third party legal opinion relating to the sale of ZEI, and challenging management's judgement on whether the control over ZEI was lost and the timing of losing control with reference to the requirements of the prevailing Company Law in China and accounting standards;

• comparing, on a sample basis, specific revenue transactions recorded just before and after the date of losing control with the underlying goods delivery and acceptance notes, to assess whether the related revenue of the environmental industry business had been recognised in the appropriate financial period;</td></tr>
</table>

Independent Auditor's Report

Accounting for the sale of 80% equity interest in Changsha Zoomlion Environmental Industry Co. Ltd.	
Refer to Notes 7, 11 and 15 to the consolidated financial statements and the accounting policies on pages 125 to 128.	
The Key Audit Matter	**How the matter was addressed in our audit**
We identified accounting for the Transaction as a key audit matter because of its financial significance to the Group and the complexity of the Transaction which involved significant management judgement in determining certain critical factors, such as the timing of losing control of ZEI and the initially recognised fair value of the retained 20% equity interest in ZEI.	• evaluating the appropriateness of accounting treatment relating to the Transaction and the initial recognition of retained equity interest in ZEI with reference to the requirements of the prevailing accounting standards; • engaging our internal valuation specialists to assist us in assessing the methodology adopted and the reasonableness of the inputs used in determining the fair value of the retained 20% equity interest in ZEI; and • considering the disclosures in the consolidated financial statements in respect of the Transaction with reference to the requirements of the prevailing accounting standards.

Independent Auditor's Report

<table>
<tr><th colspan="2">De-recognition of the trade and bill receivables</th></tr>
<tr><td colspan="2">Refer to Note 19 to the consolidated financial statements and the accounting policies on pages 131 to 133.</td></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>The Group from time to time factored receivables to financial institutions, endorsed bank acceptance bills to suppliers or discounted them to banks.

In year 2017, the Group sold certain impaired trade receivables with a gross face value of RMB4,142 million to a third-party financial institution at a total consideration of RMB1,654 million.

The determination of whether the receivables sold or factored and the bills endorsed can be de-recognised requires significant management judgment mainly in the following areas:

• Whether the Group has transferred substantially all the risks and rewards of ownership of these receivables or bills;

• If the Group neither transfers nor retains substantially all the risks and rewards of ownership, the Group further assesses whether it retains control of these receivables or bills.

We identified the de-recognition of the factored receivables and endorsed bills as a key audit matter because it involves significant judgement from management.</td><td>Our audit procedures to assess the de-recognition of the trade and bills receivables transferred included the following:

• Inspecting the key terms in relevant asset transfer agreements and other related legal documents to evaluate whether the transfer of the assets met the de-recognition criteria in accordance with the requirements of the prevailing accounting standards;

• Challenging key parameters and assumptions used in management's assessment of the retained risks and rewards based on our industry knowledge and available market information;

• Inspecting the subsequent bank records after transfer of the trade and bill receivables to assess whether the Group made any compensation to the buyers of these factored receivables if there was further credit loss arising from these transferred trade and bill receivables; and

• Considering the disclosure in the consolidated financial statements in respect of the de-recognition of the trade and bill receivables with reference to the requirements of the prevailing accounting standards.</td></tr>
</table>

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.

Independent Auditor's Report

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 skepticism 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

29 March 2018

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017
(Expressed in RMB)

	Note	2017 RMB millions	2016 RMB millions (restated)
Continuing operations:			
Revenue	3	**20,608**	14,416
Cost of sales and services		**(16,303)**	(11,157)
Gross profit		**4,305**	3,259
Other income	4	**259**	761
Sales and marketing expenses		**(2,180)**	(2,030)
General and administrative expenses		**(10,487)**	(2,777)
Research and development expenses		**(277)**	(269)
Loss from operations		**(8,380)**	(1,056)
Net finance costs	5(a)	**(1,443)**	(854)
Share of profits less losses of associates		**110**	11
Loss before taxation	5	**(9,713)**	(1,899)
Income tax	6	**1,425**	244
Loss from continuing operations		**(8,288)**	(1,655)
Discontinued operation:			
Profit from discontinued operation	7	**9,546**	755
Profit/(loss) for the year		**1,258**	(900)

The notes on pages 122 to 236 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

(Expressed in RMB)

	Note	**2017 RMB millions**	2016 RMB millions (restated)
Profit/(loss) attributable to:			
Equity shareholders of the Company			
– continuing operations		**(8,212)**	(1,683)
– discontinued operation		**9,554**	754
		1,342	(929)
Non-controlling interests			
– continuing operations		**(76)**	28
– discontinued operation		**(8)**	1
		(84)	29
Profit/(loss) for the year		**1,258**	(900)
Basic and diluted earnings/(losses) per share (RMB)	10		
– continuing operations		**(1.07)**	(0.22)
– discontinued operation		**1.25**	0.10
		0.18	(0.12)

The notes on pages 122 to 236 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017
(Expressed in RMB)

	Note	2017 RMB millions	2016 RMB millions (restated)
Profit/(loss) for the year		**1,258**	(900)
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		**408**	(672)
Change in fair value of available-for-sale financial assets		**45**	(1)
Total other comprehensive income for the year		**453**	(673)
Total comprehensive income for the year		**1,711**	(1,573)
Total comprehensive income attributable to:			
Equity shareholders of the Company			
– continuing operations		**(7,810)**	(2,356)
– discontinued operation		**9,575**	754
		1,765	(1,602)
Non-controlling interests			
– continuing operations		**(61)**	28
– discontinued operation		**7**	1
		(54)	29
Total comprehensive income for the year		**1,711**	(1,573)

The notes on pages 122 to 236 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2017
(Expressed in RMB)

	Note	2017 RMB millions	2016 RMB millions
Non-current assets			
Property, plant and equipment	12	**6,274**	8,069
Lease prepayments		**1,935**	2,201
Intangible assets	13	**2,250**	2,682
Goodwill	14	**2,088**	2,076
Interests in associates	15	**3,123**	604
Available-for-sale financial assets	16	**2,154**	1,407
Trade and other receivables	19	**4,106**	3,032
Receivables under finance lease	20	**1,870**	1,895
Pledged bank deposits	21	**60**	72
Other non-current assets		**—**	64
Deferred tax assets	26(b)	**1,358**	1,137
Total non-current assets		**25,218**	23,239
Current assets			
Inventories	17	**8,886**	12,770
Other current assets		**897**	684
Financial assets at FVTPL	18	**6,323**	132
Trade and other receivables	19	**22,661**	31,942
Receivables under finance lease	20	**10,931**	12,212
Pledged bank deposits	21	**1,048**	1,547
Cash and cash equivalents	22	**7,148**	6,575
Total current assets		**57,894**	65,862
Total assets		**83,112**	89,101
Current liabilities			
Loans and borrowings	23(a)	**9,348**	9,712
Trade and other payables	24	**14,992**	17,089
Income tax payable	26(a)	**148**	75
Total current liabilities		**24,488**	26,876
Net current assets		**33,406**	38,986
Total assets less current liabilities		**58,624**	62,225

The notes on pages 122 to 236 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2017

(Expressed in RMB)

	Note	**2017 RMB millions**	2016 RMB millions
Non-current liabilities			
Loans and borrowings	23(b)	**19,296**	23,085
Payable for acquisition of non-controlling interests	14	**—**	265
Deferred tax liabilities	26(b)	**485**	537
Other non-current liabilities	28	**653**	583
Total non-current liabilities		**20,434**	24,470
NET ASSETS		**38,190**	37,755
CAPITAL AND RESERVES			
Share capital	29(a)	**7,794**	7,664
Reserves	29(b)	**29,746**	29,109
Total equity attributable to equity shareholders of the Company		**37,540**	36,773
Non-controlling interests		**650**	982
TOTAL EQUITY		**38,190**	37,755

Approved and authorised for issue by the board of directors on 29 March 2018.

Zhan Chunxin
Chairman and Chief Executive Officer

Du Yigang
Vice-president

The notes on pages 122 to 236 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

(Expressed in RMB)

		Attributable to equity shareholders of the Company								
	Note	Share capital RMB millions (Note 29(a))	Capital reserve RMB millions (Note 29(b)(i))	Statutory surplus reserve RMB millions (Note 29(b)(ii))	Exchange reserve RMB millions (Note 29(b)(iii))	Other reserves RMB millions (Note 29(b)(iv))	Retained earnings RMB millions	Total RMB millions	Non-controlling interests RMB millions	Total equity RMB millions
Balance at 1 January 2016		7,664	13,066	2,917	(790)	11	17,028	39,896	673	40,569
Changes in equity for 2016										
Loss for the year		–	–	–	–	–	(929)	(929)	29	(900)
Other comprehensive income		–	–	–	(672)	(1)	–	(673)	–	(673)
Total comprehensive income		–	–	–	(672)	(1)	(929)	(1,602)	29	(1,573)
Appropriation for surplus reserve	29(b)(ii)	–	–	21	–	–	(21)	–	–	–
Cash dividends	29(c)	–	–	–	–	–	(1,150)	(1,150)	–	(1,150)
Safety production fund	39(b)	–	–	–	–	4	(4)	–	–	–
Business combination	14	–	(265)	–	–	–	–	(265)	248	(17)
Decrease in non-controlling interests on disposal of a subsidiary		–	–	–	–	–	–	–	(21)	(21)
Acquisition of non-controlling interests	36	–	(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
Balance at 1 January 2017		**7,664**	**12,695**	**2,938**	**(1,462)**	**14**	**14,924**	**36,773**	**982**	**37,755**
Changes in equity for 2017										
Profit for the year		–	–	–	–	–	1,342	1,342	(84)	1,258
Other comprehensive income		–	–	–	378	45	–	423	30	453
Total comprehensive income		–	–	–	378	45	1,342	1,765	(54)	1,711
Appropriation for surplus reserve		–	–	26	–	–	(26)	–	–	–
Cash dividends	29(c)	–	–	–	–	–	(1,141)	(1,141)	–	(1,141)
Repurchase of own shares	29	(39)	(131)	–	–	–	–	(170)	–	(170)
Dividends declared by subsidiaries to non-controlling interests		–	–	–	–	–	–	–	(11)	(11)
Share incentive scheme	25									
– Share option scheme		–	9	–	–	–	–	9	–	9
– Restricted share scheme		169	(133)	–	–	–	–	36	–	36
Acquisition of non-controlling interests in a subsidiary		–	(7)	–	–	–	–	(7)	5	(2)
Contribution from non-controlling shareholders in a subsidiary		–	–	–	–	–	–	–	1	1
Disposal of interests in subsidiaries	7	–	265	–	–	–	–	265	(273)	(8)
Dilution of interest in an associate		–	10	–	–	–	–	10	–	10
Safety production fund	39(b)	–	–	–	–	6	(6)	–	–	–
Balance at 31 December 2017		**7,794**	**12,708**	**2,964**	**(1,084)**	**65**	**15,093**	**37,540**	**650**	**38,190**

Consolidated Cash Flow Statement

For the year ended 31 December 2017
(Expressed in RMB)

	Note	2017 RMB millions	2016 RMB millions
Operating activities			
Profit/(loss) before taxation		**1,252**	(1,010)
Adjustments for:			
Depreciation of property, plant and equipment		**691**	746
Amortisation of lease prepayments		**56**	53
Amortisation of intangible assets		**221**	186
Impairment loss on property, plant and equipment		**149**	—
Share of profits less losses of associates		**(90)**	(11)
Interest income		**(398)**	(419)
Interest expense		**1,488**	1,619
Gain on repurchase of guaranteed USD senior notes	23(b)(v)	**—**	(1)
Gain on sale of 80% equity interest in Changsha Zoomlion Environmental Industry Co. Ltd.	7	**(10,738)**	—
Gain on disposal of property, plant and equipment, intangible assets and lease prepayments		**(25)**	(612)
Gain on remeasurement of financial assets at FVTPL		**(32)**	(121)
Impairment loss on goodwill		**24**	—
Share incentive scheme expenses		**45**	—
		(7,357)	430
Decrease in inventories		**3,560**	3,296
Decrease/(increase) in trade and other receivables		**1,639**	(2,661)
Decrease in receivables under finance lease		**1,236**	667
Increase in trade and other payables		**3,602**	220
Cash generated from operations		**2,680**	1,952
Income tax paid		**(227)**	(202)
Net cash generated from operating activities carried forward		**2,453**	1,750

The notes on pages 122 to 236 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2017

(Expressed in RMB)

	Note	2017 RMB millions	2016 RMB millions
Net cash generated from operating activities brought forward		**2,453**	1,750
Investing activities			
Payment for purchase of property, plant and equipment		**(321)**	(223)
Lease prepayments		**(287)**	(63)
Payment for purchase of intangible assets		**(156)**	(196)
Payment for investments in associates		**(8)**	(29)
Payment for available-for-sale financial assets		**(350)**	(1,220)
Payment for financial assets at FVTPL		**(6,260)**	—
Net proceeds from sale of 80% equity interest in Changsha Zoomlion Environmental Industry Co., Ltd.	7	**10,428**	—
Acquisition of subsidiaries, net of cash paid		**—**	(160)
Proceeds from disposal of interest in an associate		**6**	—
Disposal of subsidiaries, net of cash paid		**—**	(31)
Dividends from an associate		**5**	—
Proceeds from disposal of property, plant and equipment, intangible assets and lease prepayments		**248**	319
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
Proceeds from/(payment for) settlement of foreign currency derivatives		**23**	(35)
Proceeds from financial assets at FVTPL		**35**	—
Entrusted loan repayments received		**—**	27
Interest received		**398**	419
Decrease in pledged bank deposits		**275**	430
Net cash generated from/(used in) investing activities		**4,036**	(352)
Financing activities			
Proceeds from loans and borrowings		**16,518**	22,834
Repayments of loans and borrowings		**(17,257)**	(26,420)
Repayments of guaranteed USD senior notes	23(b)(v)	**(2,703)**	(131)
Proceeds from issuance of restricted shares	25	**386**	—
Interest paid		**(1,527)**	(1,533)
Dividends paid to equity shareholders		**(1,141)**	(1,158)
Dividends paid by subsidiaries to non-controlling interests		**(11)**	(10)
Contributions from non-controlling shareholders		**1**	90
Payment for acquisition of non-controlling interests		**(2)**	(52)
Payment on repurchase of own shares		**(170)**	—
Net cash used in financing activities		**(5,906)**	(6,380)
Net increase/(decrease) in cash and cash equivalents		**583**	(4,982)
Cash and cash equivalents at beginning of year		**6,575**	11,487
Effect of foreign exchange rate changes		**(10)**	70
Cash and cash equivalents at end of year	22	**7,148**	6,575

The notes on pages 122 to 236 form part of these financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2017

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 and agricultural machinery, as well as the provision of finance lease services. Before sale of 80% equity interest in the environmental industry in June 2017, it was also engaged in the manufacturing and sales of environmental sanitation equipment, and the provision of environmental solutions.

(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 2017

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%.

During the period from May to June 2017, the Company repurchased 38,845,086 A Shares of its own share capital with a total consideration of approximately RMB170 million, which were then cancelled in July 2017. As a result of the repurchase and cancellation of the A Shares, the share capital of the Company was decreased to approximately RMB7,625 million, comprising 6,237,080,078 A Shares and 1,388,207,086 H Shares.

Notes to the consolidated financial statements

For the year ended 31 December 2017

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

(b) Organisation (continued)

In November 2017, the Company adopted a share option and restricted share scheme (the "Share Incentive Scheme"). Pursuant to this scheme, it issued 168,760,911 restricted A shares, which will be unlocked for trading upon completion of certain period of services and meeting the performance target, and the share capital of the Company was increased to approximately RMB7,794 million, comprising 6,405,840,989 A Shares and 1,388,207,086 H Shares. The Company's equity interest held by Hunan SASAC was correspondingly decreased to 16.08%.

(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:

- Amendments to IAS 7, *Statement of cash flows: Disclosure Initiative*
- Amendments to IAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*
- Annual Improvements to IFRSs 2014–2016 Cycle

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. However, additional disclosure has been included in Note 22 to satisfy the new disclosure requirements introduced by the amendments to IAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Notes to the consolidated financial statements

For the year ended 31 December 2017

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

The consolidated financial statements for the year ended 31 December 2017 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, financial assets at fair value through profit or loss and derivative financial instruments (Note 2(h)) to fair value.

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 35.

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.

Notes to the consolidated financial statements

For the year ended 31 December 2017

2 Significant accounting policies (continued)

(a) Business combinations (continued)

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.

(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.

2 Significant accounting policies (continued)

(b) Subsidiaries and non-controlling interests (continued)

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 36.

(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.

Notes to the consolidated financial statements

For the year ended 31 December 2017

2 Significant accounting policies (continued)

(c) Associates (continued)

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).

(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.

2 Significant accounting policies (continued)

(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)).

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.

Notes to the consolidated financial statements

For the year ended 31 December 2017

2 Significant accounting policies (continued)

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

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.

(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.

Notes to the consolidated financial statements

For the year ended 31 December 2017

2 Significant accounting policies (continued)

(f) Property, plant and equipment (continued)

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.

(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: financial assets at FVTPL, 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.

Notes to the consolidated financial statements

For the year ended 31 December 2017

2 Significant accounting policies (continued)

(h) Financial instruments (continued)

(i) **Non-derivative financial instruments** (continued)

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.

Financial assets at FVTPL

Financial assets at FVTPL 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. These investments are subsequently accounted for as follows, depending on their classification:

Financial assets at FVTPL are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 2(n)(vii) and (viii).

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.

2 Significant accounting policies (continued)

(h) Financial instruments (continued)

(i) Non-derivative financial instruments (continued)

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.

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 2017

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 2017

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 2017

2 Significant accounting policies (continued)

(k) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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 27.

(ii) Share-based payment

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date, taking into account the terms and conditions upon which the share options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the share options will vest.

The fair value of the selected current employee services received in exchange for the grant of the restricted shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the granted shares measured as of the grant date less the proceeds received from the employees, and recorded in the capital reserve until each unlocking date and record it under reserves attributable to equity shareholders of the Company. The proceeds received from the employees is firstly recorded as other payables.

During the vesting period, the number of share options and restricted share that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options and restricted share that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the share option or restricted share is exercised or released (when it is included in the amount recognised in share capital for the shares issued) or the share option or restricted share expires or is forfeited or cancelled (when it is released directly to retained profits) after the end of vesting period.

Notes to the consolidated financial statements

For the year ended 31 December 2017

2 Significant accounting policies (continued)

(k) Employee benefits (continued)

(iii) Termination benefits

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.

Notes to the consolidated financial statements

For the year ended 31 December 2017

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.

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.

Notes to the consolidated financial statements

For the year ended 31 December 2017

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.

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.

Notes to the consolidated financial statements

For the year ended 31 December 2017

2 Significant accounting policies (continued)

(n) Revenue recognition (continued)

(ix) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income 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 are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(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.

2 Significant accounting policies (continued)

(p) Finance income and finance costs

Finance income comprises interest income on funds invested, 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).

Notes to the consolidated financial statements

For the year ended 31 December 2017

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".

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.

Notes to the consolidated financial statements

For the year ended 31 December 2017

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2017

3 Revenue (continued)

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

	2017 RMB millions	2016 RMB millions (restated)
Continuing operations:		
Construction machinery		
— Concrete machinery	**7,335**	4,813
— Crane machinery	**6,805**	3,540
— Others	**3,781**	2,202
Agricultural machinery	**2,295**	3,452
Financial services	**392**	409
	20,608	14,416
Discontinued operation:		
Environmental industry	**2,665**	5,607
	23,273	20,023

Notes to the consolidated financial statements

For the year ended 31 December 2017

4 Other income

	2017 RMB millions	2016 RMB millions (restated)
Continuing operations:		
Government grants (Note)	197	206
Gains from changes in fair value of the wealth management products	59	—
Gain on disposal of property, plant and equipment, intangible assets and lease prepayments	25	612
Others	(22)	(57)
	259	761
Discontinued operation:		
Others	2	3
	261	764

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

Notes to the consolidated financial statements

For the year ended 31 December 2017

5 Profit before taxation

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

(a) Net finance costs:

	2017 RMB millions	2016 RMB millions (restated)
Continuing operations:		
Interest income	**(392)**	(414)
Loss/(gain) on re-measurement of derivative financial instruments at fair value	**26**	(124)
Interest on loans and borrowings	**1,479**	1,596
Net exchange loss/(gain)	**330**	(204)
	1,443	854
Discontinued operation:		
Interest income	**(6)**	(5)
(Gain)/loss on re-measurement of derivative financial instruments at fair value	**(3)**	3
Interest on loans and borrowings	**9**	23
Net exchange loss/(gain)	**19**	(4)
	19	17
	1,462	871

Notes to the consolidated financial statements

For the year ended 31 December 2017

5 Profit before taxation (continued)

(b) Staff costs:

	2017 RMB millions	2016 RMB millions (restated)
Continuing operations:		
Salaries, wages and other benefits	**1,744**	1,601
Share incentive scheme expenses (Note 25)	**45**	–
Contributions to retirement schemes (Note 27)	**284**	271
	2,073	1,872
Discontinued operation:		
Salaries, wages and other benefits	**159**	306
Contributions to retirement schemes (Note 27)	**16**	19
	175	325
	2,248	2,197

5 Profit before taxation (continued)

(c) Other items:

	2017 RMB millions	2016 RMB millions (restated)
Continuing operations:		
Cost of inventories sold (Note 17)	**16,303**	11,157
Depreciation of property, plant and equipment (Note 12)	**664**	701
Amortisation of lease prepayments	**54**	53
Amortisation of intangible assets (Note 13)	**206**	169
Gain on disposal of property, plant and equipment, intangible assets and lease prepayments	**25**	612
Operating lease charges	**143**	151
Auditors' remuneration:		
– audit services	**9**	10
– non-audit services	**–**	6
Product warranty costs (Note 24(b))	**128**	102
Impairment losses:		
– property, plant and equipment (Note 12)	**149**	–
– trade receivables (Note 19(c))	**5,927**	749
– receivables under finance lease (Note 20(c))	**797**	129
– inventories (Note 17)	**1,823**	380
– goodwill (Note 14)	**24**	–
Discontinued operation:		
Cost of inventories sold (Note 17)	**1,803**	3,764
Depreciation of property, plant and equipment (Note 12)	**27**	45
Amortisation of lease prepayments	**2**	–
Amortisation of intangible assets (Note 13)	**15**	17
Operating lease charges	**6**	26
Auditors' remuneration:		
– audit services	**1**	3
Product warranty costs (Note 24(b))	**2**	3
Impairment losses		
– trade receivables (Note 19(c))	**10**	15

Notes to the consolidated financial statements

For the year ended 31 December 2017

6 Income tax

Income tax in the consolidated statement of comprehensive income represents:

(a) Continuing operations

(i) Taxation credited to profit or loss:

	2017 RMB millions	2016 RMB millions (restated)
Current tax – PRC income tax	**(1,130)**	24
Current tax – Income tax in other tax jurisdictions	**10**	4
Deferred taxation	**(305)**	(272)
Tax credits on continuing operations	**(1,425)**	(244)

(ii) Reconciliation between tax credit and accounting loss at applicable tax rates:

	2017 RMB millions	2016 RMB millions (restated)
Loss before taxation	**(9,713)**	(1,899)
Notional tax on profit before taxation, calculated at the statutory income tax rate applicable to the jurisdictions concerned (note (a))	**(2,428)**	(475)
Tax effect of non-deductible expenses	**153**	197
Current year loss for which no deferred tax assets was recognised	**81**	30
Tax effect of non-taxable income (note (a))	**(116)**	(137)
Tax effect of tax concessions (note (b))	**920**	172
Additional deduction for qualified research and development expenses (note (c))	**(35)**	(31)
Actual income tax credits	**(1,425)**	(244)

Notes to the consolidated financial statements

For the year ended 31 December 2017

6 Income tax (continued)

(b) Discontinued operation

(i) Taxation charged to profit or loss:

	2017 RMB millions	2016 RMB millions (restated)
Current tax – PRC income tax	**1,396**	145
Deferred taxation	**23**	(11)
Tax expenses on discontinued operations	**1,419**	134

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

	2017 RMB millions	2016 RMB millions (restated)
Profit before taxation	**10,965**	889
Notional tax on profit before taxation, calculated at the statutory income tax rate applicable to the jurisdictions concerned (note (a))	**2,741**	222
Tax effect of non-deductible expenses	**–**	6
Tax effect of non-taxable income (note (a))	**(347)**	(1)
Tax effect of tax concessions (note (b))	**(975)**	(91)
Additional deduction for qualified research and development expenses (note (c))	**–**	(2)
Actual income tax expenses	**1,419**	134

Notes to the consolidated financial statements

For the year ended 31 December 2017

6 Income tax (continued)

(b) Discontinued operation (continued)

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

Notes:

(a) The PRC statutory income tax rate is 25% (2016: 25%).

The Company's subsidiaries in the HKSAR are subject to Hong Kong Profits Tax at 16.5% (2016: 16.5%) in respect of assessable profits arising in or derived from Hong Kong. In 2017, the Group did not derive any income chargeable to Hong Kong Profits Tax on the basis that all the income was offshore sourced, all the expenses incurred by the subsidiaries in Hong Kong have been disallowed.

The Company's overseas subsidiaries are subject to income tax at rates ranging from 19.0% to 31.4% (2016: 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 2017 and accordingly are subject to income tax at 15% for the years from 2017 to 2019. 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.

The 15% preferential tax rate applicable to high-technology enterprises is subject to renewal approval jointly by the relevant authorities, upon expiry of the three-year grant period, according to the then prevailing income tax regulations. The Company and certain of its subsidiaries have begun the renewal approval process. It is probable that they are qualified as high-technology enterprises. Management therefore believes 15% represents the best estimate of the annual tax rate of these entities for the year ending 31 December 2018.

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

7 Discontinued operation

In 2017, the Company spun-off and transferred its environmental sanitation machinery business, related assets, including certain land use rights, and liabilities into its wholly-owned subsidiary, Changsha Zoomlion Environmental Industry Co., Ltd. (referred to as "ZEI"). After the transfer, all business of environmental industry of the Group was undertaken by ZEI and its subsidiaries, which are mainly engaged in research and development of environmental sanitation machines and equipment; research, development, production and sales of solid waste treatment equipment and equipment for preventing and controlling water pollution and provision of the related technical services; production and sales of equipment and parts for maintaining highways, bridges, tunnels and parks; as well as systematic solutions and technologies for urban waste collection and disposal, rural waste collection and disposal, recycling of household waste and recycling of food waste.

7 Discontinued operation (continued)

On 21 May 2017, the Company entered into an Equity Transfer Agreement with Infore Investments Holding Group Co.,Ltd.(referred to as "Infore Holding", which subsequently transfer all of its rights and obligations under the Equity Transfer Agreement to Ningbo Infore Asset Management Co., Ltd., a wholly-owned subsidiary of Infore Holding), Guangzhou Yuemintou Yinglian Investment Partnership (Limited Partnership), Hony (Shenzhen) Investment Centre (Limited Partnership) and Shanghai Lulian Junhe Industrial Equity Merger and Acquisition and Investment Fund Partnership (collectively referred to as "the Purchasers") to sell 80% of its interests in ZEI at a total consideration of RMB11,600 million in cash, which has been received during the year. Infore Holding became the controlling shareholder of ZEI upon the completion of this transaction on 30 June 2017, and Zoomlion retained significant influence over ZEI. The Company remeasured the remaining 20% interests in ZEI to its fair value, amounting to RMB2,465 million, at the completion date. A gain of RMB10,738 million has been recognised in profit or loss during the year, representing the sum of the fair value of the retained 20% interest in ZEI and the cash consideration less the then carrying cost of ZEI.

In accordance with the shareholders' agreement in relation to the above transaction, if ZEI fails to obtain the qualification of manufacturing environmental sanitation vehicles by 30 June 2018, the Purchasers may require, by written notice at any time thereafter, the Group to repurchase all the registered capital of and the corresponding equity interest in ZEI held by the Purchasers or any part thereof. The repurchase price is equal to the valuation of ZEI under the disposal, plus the amounts of payment representing a rate of return (compound interest) of 10% per annum. By the end of 2017, ZEI has obtained the qualification of manufacturing environmental sanitation vehicles.

The environmental industry was not previously classified as held-for-sale or a discontinued operation. The comparative consolidated statement of comprehensive income has been re-presented to show the discontinued operation separately from continuing operations.

Notes to the consolidated financial statements

For the year ended 31 December 2017

7 Discontinued operation (continued)

(a) Results of discontinued operation

	Six months from 1 January 2017 to 30 June 2017 RMB millions	2016 RMB millions
Revenue	**2,665**	5,607
Cost of sales and services	**(2,001)**	(4,088)
Other income	**2**	3
Sales and marketing expenses	**(272)**	(416)
General and administrative expenses	**(99)**	(172)
Research and development expenses	**(29)**	(28)
Net finance costs	**(19)**	(17)
Share of profits less losses of associates	**(20)**	—
Result from operating activities	**227**	889
Income tax	**(36)**	(134)
Result from operating activities, net of tax	**191**	755
Gain on sale of discontinued operation	**10,738**	—
Income tax on gain on sale of discontinued operation	**(1,383)**	—
Profit from discontinued operation for the year	**9,546**	755

Notes to the consolidated financial statements

For the year ended 31 December 2017

7 Discontinued operation (continued)

(b) Cash flows (used in)/generated from discontinued operation

	Six months from 1 January 2017 to 30 June 2017 RMB millions	2016 RMB millions
Net cash (used in)/generated from operating activities	**(294)**	637
Net cash generated from/(used in) investing activities	**356**	(838)
Net cash (used in)/generated from financing activities	**(156)**	376
Net cash flow for the year	**(94)**	175

Notes to the consolidated financial statements

For the year ended 31 December 2017

7 Discontinued operation (continued)

(c) Effect of disposal on the financial position of the Group

	At 30 June 2017 RMB millions
Property, plant and equipment	705
Intangible assets	432
Lease prepayments	439
Goodwill	46
Interest in associates	42
Available-for-sale financial assets	21
Other non-current assets	65
Deferred tax assets	49
Inventories	1,162
Other current assets	123
Trade and other receivables	5,457
Cash and cash equivalents	1,172
Pledged bank deposits	236
Trade and other payables	(5,506)
Loans and borrowings	(689)
Other current liabilities	(48)
Payable for acquisition of non-controlling interests	(294)
Deferred tax liabilities	(87)
Net assets and liabilities	**3,325**
Consideration received	11,600
Net cash and cash equivalents disposed of	(1,172)
Net cash inflows	**10,428**

Notes to the consolidated financial statements

For the year ended 31 December 2017

8 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	Contributions to retirement scheme RMB thousands	Share incentive scheme RMB thousands	Total RMB thousands
For the year ended 31 December 2017						
Executive director						
ZHAN Chunxin	–	1,342	1,342	16	879	3,579
Non-executive directors						
HU Xinbao	–	–	–	–	–	–
ZHAO John Huan	–	–	–	–	–	–
Independent non-executive directors						
LIU Guiliang	120	–	–	–	–	120
LAI Kin Keung	120	–	–	–	–	120
YANG Changbo*	120	–	–	–	–	120
ZHAO Songzheng	120	–	–	–	–	120
Supervisors						
FU Zheng	–	–	–	–	–	–
LIU Chi	–	642	642	16	–	1,300
LIU Quan	–	392	392	16	–	800
	480	2,376	2,376	48	879	6,159

Notes to the consolidated financial statements

For the year ended 31 December 2017

8 Directors' and supervisors' emoluments (continued)

	Directors'/ supervisors' fee RMB thousands	Salaries, allowances and other benefits RMB thousands	Discretionary bonuses RMB thousands	Contributions to retirement scheme 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
	420	2,776	2,776	48	6,020

* Mr. Yang Changbo was appointed as independent non-executive director of the Company on 14 July 2016.

None of these directors and supervisors received any inducements or compensation for loss of office, or waived any emoluments during the year (2016: Nil).

Notes to the consolidated financial statements

For the year ended 31 December 2017

9 Individuals with highest emoluments

Of the five highest paid individuals of the Group, one (2016: two) individuals were directors or supervisors of the Company, whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the remaining four (2016: three) individuals are as follows:

	2017 RMB thousands	2016 RMB thousands
Salaries, allowances and other benefits in kind	**7,086**	6,152
Share incentive scheme expenses	**2,458**	—
Contributions to retirement scheme	**64**	48
	9,608	6,200

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

	2017 Number	2016 Number
RMB500,001 – RMB1,500,000	**–**	—
RMB1,500,001 – RMB3,000,000	**4**	3

None of these employees received any inducements or compensation for loss of office, or waived any emoluments during the year (2016: Nil).

10 Basic and diluted earnings per share

The calculation of basic and diluted earnings/(loss) per share is based on the profit attributable to equity shareholders of the Company of RMB1,342 million (2016: loss attributable to equity shareholders of the Company of RMB929 million), and the weighted average number of shares of 7,642 million in issue during the year (2016: 7,664 million shares).

The calculation of diluted earnings per share amount for the year ended 31 December 2017 has not included the potential effect of deemed issuance of shares and unlocking of restricted shares, as the share option has an anti-dilutive effect on the basic earnings per share amount for the year, and the restricted shares are subject to the unlocking conditions including certain performance conditions.

Notes to the consolidated financial statements

For the year ended 31 December 2017

11 Segment reporting

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

Continuing reportable segment:

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

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

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

Others primarily research, develop, manufacture and sell of other machinery products, including road construction and pile foundation machinery, earth working machinery, material handling machinery and systems, specialised vehicles and vehicle axles. None of these segments met any of the quantitative thresholds for determining reportable segments for the years ended 31 December 2017 and 2016.

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

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

Discontinued reportable segment:

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

11 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 2017 is set out below:

	2017 RMB millions	2016 RMB millions (restated)
Reportable segment revenue:		
Continuing operations:		
Construction machinery		
– Concrete machinery	**7,335**	4,813
– Crane machinery	**6,805**	3,540
– Others	**3,781**	2,202
Agricultural machinery	**2,295**	3,452
Financial services	**392**	409
	20,608	14,416
Discontinued operation:		
Environmental industry	**2,665**	5,607
	23,273	20,023

Notes to the consolidated financial statements

For the year ended 31 December 2017

11 Segment reporting (continued)

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

	2017 RMB millions	2016 RMB millions (restated)
Reportable segment profit:		
Continuing operations:		
Construction machinery		
– Concrete machinery	**1,344**	912
– Crane machinery	**1,492**	957
– Others	**757**	374
Agricultural machinery	**320**	607
Financial services	**392**	409
	4,305	3,259
Discontinued operation:		
Environmental industry	**664**	1,519
	4,969	4,778
Reconciliation of segment loss:		
Total reportable segment profit	**4,969**	4,778
Elimination of discontinued operation	**(664)**	(1,519)
Gross profit from continuing operations	**4,305**	3,259
Other income	**259**	761
Sales and marketing expenses	**(2,180)**	(2,030)
General and administrative expenses	**(10,487)**	(2,777)
Research and development expenses	**(277)**	(269)
Net finance costs	**(1,443)**	(854)
Share of profits less losses of associates	**110**	11
Loss before taxation from continuing operations	**(9,713)**	(1,899)

11 Segment reporting (continued)

(b) 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.

	2017 RMB millions	2016 RMB millions
Revenue from external customers		
— Mainland PRC (of which RMB2,447 million (2016: RMB5,316 million) relates to discontinued operation)	**20,908**	17,858
— Outside PRC (of which RMB218 million (2016: RMB291 million) relates to discontinued operation)	**2,365**	2,165
Total	**23,273**	20,023

	2017 RMB millions	2016 RMB millions
Specified non-current assets		
— Mainland PRC	**7,981**	9,891
— Outside PRC	**228**	379
Total	**8,209**	10,270

Notes to the consolidated financial statements

For the year ended 31 December 2017

12 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 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 14)	–	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
Balance at 1 January 2017	**5,393**	**4,356**	**979**	**618**	**11,346**
Additions	**19**	**67**	**28**	**138**	**252**
Transferred from construction in progress	**63**	**62**	**10**	**(135)**	**–**
Disposals	**(48)**	**(563)**	**(137)**	**(70)**	**(818)**
Disposal of discontinued operation	**(353)**	**(221)**	**(85)**	**(151)**	**(810)**
Effect of exchange rate difference	**8**	**28**	**9**	**3**	**48**
Balance at 31 December 2017	**5,082**	**3,729**	**804**	**403**	**10,018**
Accumulated depreciation and impairment:					
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)
Balance at 1 January 2017	**(1,022)**	**(1,699)**	**(556)**	**–**	**(3,277)**
Depreciation charge for the year	**(188)**	**(371)**	**(132)**	**–**	**(691)**
Impairment losses	**–**	**(123)**	**(26)**	**–**	**(149)**
Written back on impairment provision	**–**	**82**	**8**	**–**	**90**
Written back on disposals	**12**	**137**	**67**	**–**	**216**
Written back on disposal of discontinued operation	**29**	**44**	**32**	**–**	**105**
Effect of exchange rate difference	**(8)**	**(23)**	**(7)**	**–**	**(38)**
Balance at 31 December 2017	**(1,177)**	**(1,953)**	**(614)**	**–**	**(3,744)**
Net book value:					
Balance at 31 December 2017	**3,905**	**1,776**	**190**	**403**	**6,274**
Balance at 31 December 2016	4,371	2,657	423	618	8,069

Notes to the consolidated financial statements

For the year ended 31 December 2017

12 Property, plant and equipment (continued)

As at 31 December 2017, the carrying amount of machinery, plant and equipment leased out under operating leases is RMB178 million (31 December 2016: RMB699 million), which mainly represents machinery reprocessed from customers. The lease term generally ranges from 1 to 4 years (2016: 1 to 5 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:

	2017 RMB millions	2016 RMB millions
Within 1 year	**49**	83
After 1 year but within 2 years	**21**	43
After 2 years but within 3 years	**18**	32
Thereafter	**39**	62
	127	220

Notes to the consolidated financial statements

For the year ended 31 December 2017

13 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 2016	1,191	198	438	546	556	2,929
Additions	–	–	95	–	128	223
Acquisition from business combination (Note 14)	–	–	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
Balance at 1 January 2017	1,214	204	751	560	721	3,450
Additions	–	10	16	–	130	156
Disposal of discontinued operation	–	(58)	(328)	–	(80)	(466)
Effect of exchange rate difference	41	16	2	16	16	91
Balance at 31 December 2017	1,255	172	441	576	787	3,231
Accumulated amortisation and impairment:						
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)
Balance at 1 January 2017	(38)	(78)	(215)	(267)	(170)	(768)
Amortisation for the year	(1)	(34)	(37)	(54)	(95)	(221)
Written back on disposal of discontinued operation	–	7	12	–	15	34
Effect of exchange rate difference	–	(6)	(1)	(12)	(7)	(26)
Balance at 31 December 2017	(39)	(111)	(241)	(333)	(257)	(981)
Net book value:						
Balance at 31 December 2017	1,216	61	200	243	530	2,250
Balance at 31 December 2016	1,176	126	536	293	551	2,682

14 Goodwill and business combination

	2017 RMB millions	2016 RMB millions
Balance at 1 January	2,076	1,993
Additions	—	44
Disposal (Note 7)	(46)	—
Impairment loss (Note)	(24)	—
Effect of exchange rate difference	82	39
Balance at 31 December	2,088	2,076

Note: The impairment loss recognised during the year ended 31 December 2017 related to the Group's material handling machinery and systems cash generating unit, considering of the weak market demand and likelihood of recovery.

The goodwill arose from the acquisition of the following entities:

		Carrying amount	
Name of entity	**Date of acquisition**	**2017 RMB millions**	2016 RMB millions
CIFA S.p.A ("CIFA")	September 2008	1,515	1,428
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
m-tec mathis technik GmbH ("m-tec")	April 2014	33	40
Zoomlion Heavy Machinery Co., Ltd. (formerly "Chery Heavy Industry Co., Ltd.")	January 2015	413	413
Ladurner Ambiente S.p.A. ("Ladurner")	April 2016	—	44
		2,088	2,076

Notes to the consolidated financial statements

For the year ended 31 December 2017

14 Goodwill and business combination (continued)

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) through ZEI. 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.

As at 31 December 2017, the Group deconsolidated Ladurner Group as the Group sold 80% of its interest in ZEI in 2017.

14 Goodwill and business combination (continued)

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**

Notes to the consolidated financial statements

For the year ended 31 December 2017

14 Goodwill and business combination (continued)

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**

For 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 to the Group's results. If the above acquisition had occurred on 1 January 2016, management estimated that the consolidated revenue would have been RMB20,133 million, and consolidated loss for the year would have been RMB915 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2016.

14 Goodwill and business combination (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 11.32% to 18.07% (2016: 10.45% to 17.91%). 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 rates from 2.5% to 3.0% (2016: 3.0%), which does not exceed the long-term average growth rate for the business in which the respective cash-generating units operate.

15 Interests in associates

The following list contains only the particulars of a material associate, which is an unlisted corporate entity whose quoted market price is not available:

				Proportion of ownership interest		
Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital (millions)	Group's effective interest	Held by the Company	Principal activities
Changsha Zoomlion Environmental Industry Co., Ltd.	Incorporated	China	RMB2,352	20%	20%	Environmental construction and project operation

The above associate is accounted for using the equity method in the consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2017

15 Interests in associates (continued)

Summarised financial information of the material associates, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	31 December 2017 RMB millions
Gross amounts of the associate	
Current assets	8,726
Non-current assets	1,874
Current liabilities	(5,947)
Non-current liabilities	(623)
Total equity attributable to equity shareholders of ZEI	(3,788)
Non-controlling interests	(242)

	Six months from 1 July 2017 to 31 December 2017 RMB millions
Revenue	4,261
Profit attributable to equity shareholders	534
Other comprehensive income	—
Total comprehensive income	534
Dividend received from the associate	—
Reconciled to the Group's interests in the associate	
Gross amounts of net assets of the associate	3,788
Group's effective interest	20%
Group's share of net assets of the associate	758
Goodwill	1,814
Carrying amount in the consolidated financial statements	2,572

Notes to the consolidated financial statements

For the year ended 31 December 2017

15 Interests in associates (continued)

Aggregate information of associates that are not individually material:

	2017 RMB millions	2016 RMB millions
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**551**	604
Aggregate amounts of the Group's share of those associates'		
(Loss)/profit from operations	**(17)**	11
Other comprehensive income	**—**	—
Total comprehensive income	**(17)**	11

16 Available-for-sale financial assets

	2017 RMB millions	2016 RMB millions
At fair value:		
– Funds	**1,560**	1,151
– Equity securities	**14**	8
At cost:		
– Equity securities	**580**	248
Less: Impairment losses	**—**	—
Total	**2,154**	1,407

The Company has entered into the agreement with Shenzhen Dingxi Fund Management Co.,Ltd ('Dingxi'), Shanghai Lulian Genharmony Industrial Merger and Acquisition Equity Investment Fund Partnership (Limited Partnership) ('Lulian'), contributed RMB1,151 million in 2016 and RMB350 million in 2017, respectively. As at 31 December 2017, considering the purpose and special feature of this investment, including the investment and divestment decision-making processes, the management consider that there is no objective evidence of impairment due to the significant or non-temporary decrease in fair value. As at 31 December 2017, the fair value of the Company's contribution recognised was RMB1,560 million (2016: 1,151 million).

Notes to the consolidated financial statements

For the year ended 31 December 2017

16 Available-for-sale financial assets (continued)

The fair value of the Group's investments in listed equity securities are determined with reference to their quoted prices as at reporting date.

The equity interest in unlisted securities held by the Group are issued by private companies. As the reasonable range of fair value estimation is so significant that the directors of the Company are of the opinion that for those of which the fair value cannot be measured reliably, the value of the securities is measured at cost less impairment at the reporting date.

17 Inventories

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

	2017 RMB millions	2016 RMB millions
Raw materials	**1,935**	2,233
Work in progress	**1,147**	1,159
Finished goods (Note)	**5,804**	9,378
	8,886	12,770

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. The Group estimated the net realisable value of these machinery taking into account the expected selling price in the current second-hand machinery market, and made RMB1,582 million provision during the year ended 31 December 2017.

(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 2017

18 Financial assets at fair value through profit or loss

	2017 RMB millions	2016 RMB millions
Financial assets designated at fair value through profit or loss:		
— Wealth management products (Note)	6,319	—
Derivative financial instruments	4	132
	6,323	132

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

19 Trade and other receivables

	2017 RMB millions	2016 RMB millions
Trade receivables (Notes (a) and (b))	26,917	32,687
Less: allowance for doubtful debts (Note (c))	(5,937)	(2,853)
	20,980	29,834
Less: trade receivables due after one year	(4,106)	(3,032)
	16,874	26,802
Bills receivable (Note (d))	2,237	2,197
	19,111	28,999
Amounts due from related parties (Note 34(b))	1,175	312
Prepayments for purchase of raw materials	210	205
Prepaid expenses	465	408
VAT recoverable	885	849
Deposits	141	264
Others	674	905
	22,661	31,942

Notes to the consolidated financial statements

For the year ended 31 December 2017

19 Trade and other receivables (continued)

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 2017, the weighted average discount rate was approximately 4.75% (2016: 4.75%) per annum. As at 31 December 2017, trade receivables due after one year of RMB4,106 million (31 December 2016: RMB3,032 million) were presented net of unearned interest of RMB419 million (31 December 2016: RMB239 million).

In 2017, the Group sold impaired trade receivables with a gross face value of RMB4,142 million to a third-party financial institution at a total consideration of RMB1,654 million, 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:

	2017 RMB millions	2016 RMB millions
Within 1 month	**3,089**	2,911
Over 1 month but less than 3 months	**2,555**	2,837
Over 3 months but less than 1 year	**5,961**	7,772
Over 1 year but less than 2 years	**4,810**	8,909
Over 2 years but less than 3 years	**3,775**	5,610
Over 3 years but less than 5 years	**790**	1,795
	20,980	29,834

Notes to the consolidated financial statements

For the year ended 31 December 2017

19 Trade and other receivables (continued)

(b) Ageing analysis of trade receivables (continued)

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 30% to 40% of the product price (2016: 20% to 30%). For sales under instalment payment method that has instalment payment periods generally ranging from 6 to 42 months (2016: 6 to 42 months), customers are normally required to make an upfront payment ranging from 20% to 40% of the product price (2016: 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.

(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	**2017 RMB millions**	2016 RMB millions
Balance at 1 January		**2,853**	2,316
Impairment losses recognised		**5,937**	764
Reclassification from impairment of receivables under finance lease	20(c)	**2**	9
Written off upon disposal of discontinued operation	7	**(63)**	—
Written off upon sale of trade receivables		**(2,488)**	—
Uncollectible amounts written off		**(304)**	(236)
Balance at 31 December		**5,937**	2,853

Notes to the consolidated financial statements

For the year ended 31 December 2017

19 Trade and other receivables (continued)

(c) Impairment of trade receivables (continued)

During the year ended 31 December 2017, the Group recognised RMB5,937 million and RMB797 million impairment losses for trade receivables and receivables under financial lease respectively, which mainly related to the long-aged trade receivables that have been impaired in previous years. Due to the complexity and deterioration of the financial status of these customers, it is not practicable to make a reasonably reliable direct estimate of the present value of future cash flow expected from these receivables. As a practical expedient, the carrying amount of these impaired receivables were determined based on the quoted price to dispose of these receivables in a bulk sale.

(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 endorses bills receivable to suppliers in order to settle trade payables.

As at 31 December 2017, 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 2017, 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 RMB1,031 million (31 December 2016: RMB332 million).

During the year ended 31 December 2017, bills receivable of RMB148 million (31 December 2016: RMB1,159 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.

20 Receivables under finance lease

	2017 RMB millions	2016 RMB millions
Gross investment	**14,715**	15,220
Unearned finance income	**(354)**	(348)
	14,361	14,872
Less: allowance for doubtful debts (Note (c))	**(1,560)**	(765)
	12,801	14,107
Less:receivables under finance lease due after one year	**(1,870)**	(1,895)
Receivables under finance lease due within one year	**10,931**	12,212

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 (2016: 2 to 5 years). Customers are normally required to make an upfront payment ranging from 5% to 30% of the product price (2016: 5% to 25%) and pay a security deposit ranging from 1% to 10% of the product price (2016: 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 2017

20 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:

	2017 RMB millions	2016 RMB millions
Present value of the minimum lease payments		
Within 1 year	12,283	12,711
Over 1 year but less than 2 years	1,008	1,054
Over 2 years but less than 3 years	649	628
Over 3 years	421	479
	14,361	14,872
Unearned finance income		
Within 1 year	286	283
Over 1 year but less than 2 years	40	37
Over 2 years but less than 3 years	19	18
Over 3 years	9	10
	354	348
Gross investment		
Within 1 year	12,569	12,994
Over 1 year but less than 2 years	1,048	1,091
Over 2 years but less than 3 years	668	646
Over 3 years	430	489
	14,715	15,220

Notes to the consolidated financial statements

For the year ended 31 December 2017

20 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:

	2017 RMB millions	2016 RMB millions
Not yet due	**7,466**	7,414
Within 1 year past due	**2,879**	3,988
Over 1 year but less than 2 years past due	**1,702**	2,335
Over 2 years past due	**2,314**	1,135
Total past due	**6,895**	7,458
	14,361	14,872
Less: allowance for doubtful debts	**(1,560)**	(765)
	12,801	14,107

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

(c) Impairment of receivables under finance lease

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

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

	Note	**2017 RMB millions**	2016 RMB millions
Balance at 1 January		**765**	645
Impairment losses recognised		**797**	129
Reclassification to impairment of trade receivables	19(c)	**(2)**	(9)
Balance at 31 December		**1,560**	765

Notes to the consolidated financial statements

For the year ended 31 December 2017

20 Receivables under finance lease (continued)

(d) The Group monitors the credit risk arising from finance lease arrangement through various control measures as set out in Note 31(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).

21 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 33(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.

22 Cash and cash equivalents

	2017 RMB millions	2016 RMB millions
Cash at bank and on hand		
— RMB denominated	**5,727**	4,968
— USD denominated	**603**	1,026
— EUR denominated	**667**	425
— HKD denominated	**6**	16
— Other currencies	**145**	140
	7,148	6,575

Notes to the consolidated financial statements

For the year ended 31 December 2017

22 Cash and cash equivalents (continued)

Reconciliation of liabilities arising from financing activities

The table below details changes in the group's liabilities from financing activities. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the group's consolidated cash flow statement as cash flows from financing activities.

	Note	Bank loans and other borrowings RMB million (Note 23)	RMB commercial paper RMB million (Note 23)	Demand deposits due to an associate RMB million (Note 23)	Total RMB million
At 1 January 2017		31,597	1,200	–	32,797
Changes from financing cash flows:					
Proceeds from loans and borrowings		14,306	–	2,212	16,518
Repayments of loans and borrowings		(13,974)	(1,200)	(2,083)	(17,257)
Payments on repurchase of guaranteed USD senior notes		(2,703)	–	–	(2,703)
Interest paid		(1,527)	–	–	(1,527)
Total changes from financing cash flows		(3,898)	(1,200)	129	(4,969)
Exchange adjustments		(33)	–	–	(33)
Other changes:					
Discontinued operation	7	(689)	–	–	(689)
Change in interest payable		46	–	–	46
Capitalised borrowing costs		4	–	–	4
Interest on loans and borrowings	5(a)	1,488	–	–	1,488
Total other changes		849	–	–	849
At 31 December 2017		28,515	–	129	28,644

Notes to the consolidated financial statements

For the year ended 31 December 2017

23 Loans and borrowings

(a) Short-term loans and borrowings

	Note	**2017 RMB millions**	2016 RMB millions
Secured short-term bank loans			
— RMB denominated	(i)	**50**	412
— EUR denominated	(ii)	**6**	368
Unsecured short-term bank loans			
— RMB denominated	(iii)	**3,975**	2,443
— Gold leasing arrangements	(iv)	**396**	—
— EUR denominated	(v)	**467**	1,860
— USD denominated	(vi)	**529**	208
— Demand deposits due to an associate	(vii)	**129**	—
RMB commercial paper	(viii)	**—**	1,200
		5,552	6,491
Add: current portion of long-term loans and borrowings	23(b)	**3,796**	3,221
		9,348	9,712

Notes:

(i) As at 31 December 2017, RMB denominated secured short-term bank loan of RMB50 million (31 December 2016: RMB412 million) bore interest at a fixed rate of 4.39% per annum were secured by certain land and, properties, and will be repayable in full in 2018.

(ii) As at 31 December 2017, EUR denominated secured short-term bank included a loan of RMB6 million (31 December 2016: RMB368 million) bore interest at a fixed rate of 2.25% per annum and will be repayable in full in 2018.

(iii) As at 31 December 2017, RMB denominated unsecured short-term bank loan of RMB1,515 million (31 December 2016: RMB1,320 million) bore interest rate from 4.00% to 4.35% per annum and will repayable in full in 2018. Such short-term loan was subject to the fulfilment of certain financial covenants of the Group. As at 31 December 2017, the Group was in compliance with these financial covenants.

As at 31 December 2017, the remaining RMB denominated unsecured short-term bank loans of RMB2,460 million (31 December 2016: RMB1,123 million) will be repayable in full in 2018.

Notes to the consolidated financial statements

For the year ended 31 December 2017

23 Loans and borrowings (continued)

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

(iv) In October and November 2017, the Group entered into two gold leasing agreements and two gold purchase agreements with ICBC, pursuant to which the Company developed gold leasing for working capital financing purposes. Under the arrangements, the Group leased from ICBC standard gold with fineness of Au99.99 from 7 to 12 months with annual lease fee rates of 2.01%. Then the Group sold the leased gold back through ICBC and received cash of RMB396 million. Upon the expiry of the leasing term, the Group shall purchase the same amount of gold with fineness of Au99.99 through ICBC at the predetermined price pursuant to the gold purchase agreements, and return the standard gold with same quality as those under the gold leasing agreements.

The directors of the Company are of the view that the gold leasing agreements and the gold purchase agreements are planned, determined and held as an integrated transaction, through which the Group is free from the risks of gold price fluctuations, and therefore, should be accounted for as loans from ICBC with fixed interest rates.

(v) As at 31 December 2017, EUR denominated unsecured short-term bank loan of RMB390 million (31 December 2016: RMB365 million) bore interest rate from rate of 0.95% to 2.64% per annum and will repayable in full in 2018. Such short-term loan was subject to the fulfilment of certain financial covenants of the Group. As at 31 December 2017, the Group was in compliance with these financial covenants.

As at 31 December 2017, EUR denominated unsecured short-term bank loan of RMB77 million (31 December 2016: RMB1,495 million) bore interest rate from rate of 1.27% to 1.60% per annum and will repayable in full in 2018.

(vi) As at 31 December 2017, USD denominated unsecured short-term bank loans of RMB529 million (31 December 2016: RMB208 million) bore interest from 0.60% to 1.90% per annum and will be repayable in full in 2018.

(vii) As at 31 December 2017, the demand deposits due to an associate which bore interest at a fixed rate of 0.35% per annum were unsecured.

(viii) 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 has matured in April 2017.

Notes to the consolidated financial statements

For the year ended 31 December 2017

23 Loans and borrowings (continued)

(b) Long-term loans and borrowings

	Note	2017 RMB millions	2016 RMB millions
Secured long-term bank loans			
— EUR denominated	(i)	–	194
Unsecured long-term bank loans			
— RMB denominated	(ii)	8,621	7,470
— EUR denominated	(iii)	1,711	2,885
RMB medium-term notes	(iv)	8,996	8,995
Guaranteed USD senior notes	(v)	3,764	6,762
		23,092	26,306
Less: current portion of long-term loans and borrowings	23(a)	(3,796)	(3,221)
		19,296	23,085

Notes:

(i) RMB194 million EUR denominated secured long-term bank loans have been all repaid in 2017.

(ii) As at 31 December 2017, RMB denominated unsecured long-term bank loans of RMB400 million (31 December 2016: RMB710 million) bore interest at a fixed rate of 4.28% per annum and will be repayable in full in 2018. Such long-term loan was subject to the fulfilment of certain financial covenants of the Group. As at 31 December 2017, the Group was in compliance with these financial covenants.

As at 31 December 2017, RMB denominated unsecured long-term bank loan of RMB5,887 million (31 December 2016: RMB4,020 million) bore interest at a fixed rate of 4.31% per annum and will be repayable by half-yearly instalments from 2018 to 2020.

As at 31 December 2017, RMB denominated unsecured long-term bank loan of RMB200 million (31 December 2016: RMB200 million) bore interest at a fixed rate of 4.37% per annum and will be repayable in full in 2018.

As at 31 December 2017, RMB denominated unsecured long-term bank loans of RMB2,134 million (31 December 2016: RMB2,540 million) bore interest at a fixed rate of 4.37% per annum and will be repayable from 2018 to 2020. Such long-term loan was subject to the fulfilment of certain financial covenants of the Group. As at 31 December 2017, the Group was in compliance with these financial covenants.

Notes to the consolidated financial statements

For the year ended 31 December 2017

23 Loans and borrowings (continued)

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

(iii) As at 31 December 2017, EUR denominated unsecured long-term bank loans of RMB137 million (31 December 2016: RMB1,533 million) bore interest from 1.75% to 2.00% per annum and will be repayable from 2018 to 2019.

As at 31 December 2017, EUR denominated unsecured long-term bank loans of RMB1,574 million (31 December 2016: RMB1,352 million) bore interest from 0.67% to 1.33% per annum and will be repayable in full in 2019.

(iv) In October 2014, the Company issued 5-year RMB medium-term notes with principal amount of RMB8,996 million. The notes bore interest at a fixed rate of 5.80% 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, bore interest at a fixed rate of 6.88% per annum and matured in April 2017.

In December 2012, Zoomlion H.K. SPV Co., Limited issued 10-year senior notes with principal amount of USD581 million (RMB equivalent 3,764 million). The senior notes were guaranteed by the Company, bear interest at a fixed rate of 6.13% 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 USD 19.2 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 for the year ended 31 December 2016.

(c) Except as disclosed in Notes 23(a)(iii), 23(a)(v) and 23(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 2017

24 Trade and other payables

	2017 RMB millions	2016 RMB millions
Trade creditors	**5,700**	6,579
Bills payable	**3,394**	5,601
Trade creditors and bills payable (Note (a))	**9,094**	12,180
Amounts due to related parties (Note 34(b))	**50**	49
Amounts due to non-controlling shareholders of certain subsidiaries	**468**	468
Receipts in advance	**1,330**	847
Payable for acquisition of property, plant and equipment	**249**	436
Accrued staff costs	**488**	328
Product warranty provision (Note (b))	**75**	72
VAT payable	**261**	211
Sundry taxes payable	**171**	114
Security deposits (Note 28)	**504**	568
Interest payable	**141**	187
Locked restricted share (Note 25)	**386**	—
Other accrued expenses and payables	**1,775**	1,629
	14,992	17,089

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

	2017 RMB millions	2016 RMB millions
Due within 1 month or on demand	**4,254**	5,154
Due after 1 month but within 3 months	**2,103**	2,923
Due after 3 months but within 6 months	**2,542**	3,485
Due after 6 months but less than 12 months	**195**	618
	9,094	12,180

24 Trade and other payables (continued)

(b) Product warranty provision

	RMB millions
Balance at 1 January 2016	74
Provision for the year	105
Utilisation during the year	(107)
Balance at 31 December 2016	72
Balance at 1 January 2017	**72**
Provision for the year	**130**
Utilisation during the year	**(127)**
Balance at 31 December 2017	**75**

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.

Notes to the consolidated financial statements

For the year ended 31 December 2017

25 Share incentive scheme

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

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

	Number of instruments	Vesting conditions	Contractual life of option
Options granted to directors: — on 1 November 2017	2,288,520	The first exercise period shall commence from trading day after expiry of the 12-month period from the date of grant. The share options shall be exercisable separately in the subsequent 3 exercise periods, whose percentages of options exercisable are 40%, 30% and 30% respectively, subject to the Company's performance as the conditions of exercise.	2.73 years
Options granted to employees: — on 1 November 2017	166,472,391	The first exercise period shall commence from trading day after expiry of the 12-month period from the date of grant. The share options shall be exercisable separately in the subsequent 3 exercise periods, whose percentages of options exercisable are 40%, 30% and 30% respectively, subject to the Company's performance as the conditions of exercise.	2.73 years
	168,760,911		

There were 168,760,911 shares outstanding at 31 December 2017 with an exercise price of RMB4.57 per share.

25 Share incentive scheme (continued)

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

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

	First	Second	Third
Fair value at measurement date	0.45	0.58	0.65
Share price	4.55	4.55	4.55
Exercise price	4.57	4.57	4.57
Volatility	19.0443%	19.0443%	19.0443%
Risk-free interest rate	2.10%	2.75%	2.75%
Demission rate	3.02%	3.02%	3.02%

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

(b) Restricted share

The total proceeds received for the issuance of restricted shares were RMB386 million. The unlocking period terms and conditions of restricted shares are the same as share option. There were 168,760,911 restricted shares outstanding at 31 December 2017.

The fair value of restricted share is RMB2.26 per share, which is the difference between the market price of the ordinary share at the grant date and the proceeds received from the employees.

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

Management estimates the expected yearly percentage of the Participants that will leave with the Group at the end of the vesting period /locking period in order to determine the amount of share incentive scheme expenses to be recognised in the consolidated income statement. As at 31 December 2017, the expected demission rate of the Participants was assessed to be 3.02%. In 2017, share incentive scheme expenses of RMB45 million were recognised in the consolidated statement of comprehensive income.

Notes to the consolidated financial statements

For the year ended 31 December 2017

26 Income tax in the consolidated statement of financial position

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

	2017 RMB millions	2016 RMB millions
Provision for PRC income tax	**140**	66
Provision for income tax in other tax jurisdictions	**8**	9
	148	75

(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 2017

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

Notes to the consolidated financial statements

For the year ended 31 December 2017

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

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

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)

As at 31 December 2017, deferred tax assets in respect of asset impairment losses and tax losses totalling RMB362 million (31 December 2016: RMB347 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.

Notes to the consolidated financial statements

For the year ended 31 December 2017

27 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 and its 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.

28 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".

Notes to the consolidated financial statements

For the year ended 31 December 2017

29 Capital and reserves

(a) Share capital

	2017 RMB millions	2016 RMB millions
Ordinary shares issued and fully paid:		
At 1 January	**7,664**	7,664
Own shares repurchased and cancelled (Note 1)	**(39)**	—
Share incentive scheme (Note 25)	**169**	—
At 31 December	**7,794**	7,664
6,405,840,989 A Shares of RMB1.00 each 1,388,207,086 H Shares of RMB1.00 each (2016: 6,275,925,164 A Shares of RMB1.00 each 1,388,207,086 H Shares of RMB1.00 each)	**7,794**	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. The restricted shares issued are subject to the unlocking conditions as detailed in Note 25. The recalled restricted shares will not be entitled to the declared dividends.

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 2017

29 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	
	2017	2016
	RMB millions	RMB millions
Capital reserve		
Balance at 1 January	**14,562**	14,562
Repurchase of own shares (Note 1)	**(131)**	—
Share incentive scheme (Note 25)		
— Share option scheme	**9**	—
— Restricted share scheme	**(133)**	—
Dilution of interest in an associate	**10**	—
Balance at 31 December	**14,317**	14,562
Statutory surplus reserve		
Balance at 1 January	**2,937**	2,916
Appropriation (Note 29(b)(ii))	**26**	21
Balance at 31 December	**2,963**	2,937
Other reserve		
Balance at 1 January	**(1)**	1
Other comprehensive income	**9**	(2)
Balance at 31 December	**8**	(1)

Notes to the consolidated financial statements

For the year ended 31 December 2017

29 Capital and reserves (continued)

(b) Reserves (continued)

	The Company	
	2017	2016
	RMB millions	RMB millions
Retained earnings		
Balance at 1 January	**13,084**	13,909
Appropriation (Note 29(b)(ii))	**(26)**	(21)
Safety production fund	**(4)**	—
Cash dividends (Note 29(c))	**(1,141)**	(1,150)
Profit for the year	**107**	346
Balance at 31 December	**12,020**	13,084
Total		
Balance at 1 January	**30,582**	31,388
Balance at 31 December	**29,308**	30,582

(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 2017, the Company transferred RMB26 million (2016: RMB21 million), being 10% of the current year's net profit as determined in accordance with PRC accounting rules and regulations, to this reserve.

Notes to the consolidated financial statements

For the year ended 31 December 2017

29 Capital and reserves (continued)

(b) Reserves (continued)

(ii) **Statutory surplus reserve** (continued)

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).

(c) Cash dividends

Pursuant to the shareholders' approval at the Annual General Meeting held on 27 June 2017, a final cash dividend of RMB0.15 per share based on 7,625 million ordinary shares totalling RMB1,141 million in respect of the year ended 31 December 2016 was declared, and was fully paid by the end of 2017.

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.

30 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 2017, the Group's strategy, which was unchanged from 2016, 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.

As at 31 December 2017, the Group's debt-to-equity ratio was as follows:

	2017 RMB millions	2016 RMB millions
Short-term loans and borrowings	**9,348**	9,712
Long-term loans and borrowings	**19,296**	23,085
Total debt	**28,644**	32,797
Total equity attributable to equity shareholders	**37,540**	36,773
Debt-to-equity ratio	**76%**	89%

Notes to the consolidated financial statements

For the year ended 31 December 2017

31 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 categorized 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.

— Level 3 valuations: Fair value measured using significant unobservable inputs.

Notes to the consolidated financial statements

For the year ended 31 December 2017

31 Financial Instruments — Fair values and risk management (continued)

(a) Accounting classifications and fair values (continued)

(i) Financial instruments measured at fair value (continued)

	Fair value at 31 December 2017	Fair value measurements as at 31 December 2017		
		Level 1	Level 2	Level 3
Recurring fair value measurements				
Financial assets:				
Held-for-sale listed equity securities	14	14	—	—
Available-for-sale investment in fund	1,560	—	1,560	—
Wealth management products	6,319	—	6,319	—
Derivative financial instruments	4	—	4	—

	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	8	8	—	—
Available-for-sale investment in fund	1,151	—	1,151	—
Derivative financial instruments	132	—	132	—
Financial liabilities:				
Derivative financial instruments	5	—	5	—

Notes to the consolidated financial statements

For the year ended 31 December 2017

31 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 2017 and 2016, 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 2017 and 2016 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 2017	**Fair value at 31 December 2017 categorised into Level 1**	Carrying amount at 31 December 2016	Fair value at 31 December 2016 categorised into Level 1
Guaranteed USD senior notes	**3,764**	**3,916**	6,762	6,651
RMB medium-term notes	**8,996**	**8,962**	8,995	9,154

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 31(b)(ii))
- liquidity risk (Note 31(b)(iii))
- interest rate risk (Note 31(b)(iv))
- currency risk (Note 31(b)(v))

31 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, wealth management products, 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 33(a).

Notes to the consolidated financial statements

For the year ended 31 December 2017

31 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 30% to 40% (2016: 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 (2016: 6 to 42 months), customers are normally required to make an upfront payment ranging from 20% to 40% (2016: 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 2017, trade and other receivables aged over two years amounted to RMB4,565 million (31 December 2016: RMB7,405 million) and overdue receivables under finance lease for more than two years amounted to RMB2,314 million (31 December 2016: RMB1,135 million) represents an decrease of RMB2,840 million (2016: an increase of RMB4,165 million) and a increase of RMB1,179 million (2016: an decrease of RMB123 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.

31 Financial Instruments — Fair values and risk management (continued)

(b) Financial risk management (continued)

(ii) Credit risk (continued)

Bank deposits and wealth management products 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 2017, 0.2% (31 December 2016: 0.1%) of the total trade and bills receivables was due from the Group's largest customer and 1.0% (31 December 2016: 0.8%) of the total trade and bills receivables was due from the Group's five largest customers respectively. As at 31 December 2017, 93.6% and 95.8% (31 December 2016: 94.3% and 96.1%) 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 19. Overdue analysis of the Group's receivables under finance lease is set out in Note 20.

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 33(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.

Notes to the consolidated financial statements

For the year ended 31 December 2017

31 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 19(d) for details).

	As at 31 December 2017					
	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	28,644	31,509	10,559	13,885	7,065	–
Trade and other payables	14,992	14,992	14,992	–	–	–
Other non-current liabilities	653	653	–	335	217	101
	44,289	47,154	25,551	14,220	7,282	101
Financial guarantees issued						
Maximum amount guaranteed	35	2,473	2,473	–	–	–

31 Financial Instruments — Fair values and risk management (continued)

(b) Financial risk management (continued)

(iii) Liquidity risk (continued)

	As at 31 December 2017 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	(910)	–	–	–	(910)
— inflow	914	–	–	–	914

	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 2017

31 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

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 2017

31 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 2017.

	2017		2016	
	Weighted average interest rate %	**Amount RMB millions**	Weighted average interest rate %	Amount RMB millions
Fixed rate financial instruments:				
Short-term loans and borrowings	**3.8%**	**(8,215)**	4.8%	(7,825)
Long-term loans and borrowings	**5.5%**	**(17,721)**	5.3%	(20,372)
		(25,936)		(28,197)
Variable rate financial instruments:				
Pledged bank deposits	**0.4%**	**1,110**	0.4%	1,619
Bank deposits	**1.1%**	**7,145**	1.0%	6,574
Receivables under finance lease	**5.6%**	**12,827**	5.3%	14,107
Short-term loans and borrowings	**2.0%**	**(1,133)**	1.2%	(1,887)
Long-term loans and borrowings	**0.7%**	**(1,575)**	1.3%	(2,713)
		18,374		17,700
Net amount		**(7,562)**		(10,497)

Notes to the consolidated financial statements

For the year ended 31 December 2017

31 Financial Instruments — Fair values and risk management (continued)

(b) Financial risk management (continued)

(iv) Interest rate risk (continued)

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:

	Profit or loss		Retained profits	
Effect in millions of RMB	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
31 December 2017				
Variable rate financial instruments	**156**	**(156)**	**156**	**(156)**
31 December 2016				
Variable rate financial instruments	150	(150)	150	(150)

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 2016.

31 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)

	2017					2016				
	USD	**EUR**	**YEN**	**HKD**	**CHF**	USD	EUR	YEN	HKD	CHF
Trade debtors	**9,842**	**2,811**	**–**	**4**	**–**	6,226	2,654	–	1,100	–
Cash and cash equivalents	**603**	**667**	**–**	**6**	**–**	853	113	–	4	150
Trade creditors	**(144)**	**(1,679)**	**–**	**–**	**–**	(96)	(2,610)	(3)	(1,078)	–
Loans and borrowings	**(4,293)**	**(2,184)**	**–**	**–**	**–**	(208)	(3,288)	–	–	–
Notional amounts of forward exchange contracts used as economic hedges	**(133)**	**137**	**–**	**–**	**–**	2,983	170	–	–	(150)
Net exposure arising from recognised assets and liabilities	**5,875**	**(248)**	**–**	**10**	**–**	9,758	(2,961)	(3)	26	–

Notes to the consolidated financial statements

For the year ended 31 December 2017

31 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 2017				
USD (5% movement)	**250**	**(250)**	**250**	**(250)**
EUR (5% movement)	**(11)**	**11**	**(11)**	**11**
JPY (5% movement)	**—**	**—**	**—**	**—**
HKD (5% movement)	**—**	**—**	**—**	**—**
CHF (5% movement)	**—**	**—**	**—**	**—**
31 December 2016				
USD (5% movement)	415	(415)	415	(415)
EUR (5% movement)	(126)	126	(126)	126
JPY (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.

31 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 2016.

32 Commitments

(a) Capital commitments

As at 31 December 2017, the Group had capital commitments as follows:

	2017 RMB millions	2016 RMB millions
Authorised and contracted for		
— property, plant and equipment	**149**	339
	149	339
Authorised but not contracted for		
— property, plant and equipment	**–**	8
	–	8

Notes to the consolidated financial statements

For the year ended 31 December 2017

32 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 2017, the future minimum lease payments under operating lease are as follows:

	2017 RMB millions	2016 RMB millions
Within 1 year	**69**	67
After 1 year but within 2 years	**52**	49
After 2 years but within 3 years	**32**	18
After 3 years but within 4 years	**13**	16
After 4 years but within 5 years	**7**	10
Thereafter	**2**	3
	175	163

33 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 2017, the Group's maximum exposure to such guarantees was RMB2,199 million (31 December 2016: RMB3,740 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 2017, the Group made payments of RMB215 million (2016: RMB240 million) to the banks for repossession of machinery under the guarantee arrangement as a result of customer default.

33 Contingent liabilities (continued)

(a) Financial guarantee issued (continued)

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 2017, the Group's maximum exposure to such guarantees was RMB274 million (31 December 2016: 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 2017, there was no payment made for repossession of machinery incurred (2016: Nil) under the guarantee arrangement as a result of customer default.

Certain customers of the Group finance their purchase of the Group's agricultural machinery products through cargo-backed loans in the form of bank acceptance notes provided by the banks. The Group undertakes the joint liability guarantee for the customers. In the event of customer default, the Group is required to make payments to the banks for the outstanding amount due from the customers when the bank acceptance notes are due. As at 31 December 2017, the Group's maximum exposure to such guarantees was RMB103 million (31 December 2016: RMB123 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.

Notes to the consolidated financial statements

For the year ended 31 December 2017

34 Related party transactions

(a) Transactions with related parties

	2017 RMB millions	2016 RMB millions
Transactions with associates:		
Sales of products	281	166
Purchase of raw materials and finished goods	8	1
Payment for acquisition of receivables under commercial factoring	16	—
Payment for acquisition of finance lease assets	25	—
Interest income	2	—
Guarantees provided	13	—
Proceeds from borrowings	2,212	—
Repayments of borrowings	2,083	—

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.

(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:

	2017 RMB thousands	2016 RMB thousands
Short-term employee benefits	28,390	32,884
Retirement scheme contributions	320	336
Share incentive scheme	9,848	—
	38,558	33,220

Total emoluments are included in "staff costs" as disclosed in Note 5(b).

34 Related party transactions (continued)

(d) Contributions to retirement plans

The details of the Group's employee benefit plans are disclosed in Note 27.

35 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 14 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.

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, quoted selling price 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.

Notes to the consolidated financial statements

For the year ended 31 December 2017

35 Accounting estimates and judgements (continued)

(b) Warranty provision

As explained in Note 24(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.

35 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.

(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.

Notes to the consolidated financial statements

For the year ended 31 December 2017

35 Accounting estimates and judgements (continued)

(f) Depreciation and amortisation (continued)

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 2017

36 Investments in subsidiaries

The following list contains particulars of subsidiaries as at 31 December 2017 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 a subsidiary**	**Principal activities**
Zoomlion Heavy Machinery Co., Ltd.	RMB1,200	67.51%	67.51%	–	Manufacture of agriculture machinery
CIFA S.p.A	EUR15	100%	–	100%	Manufacture of concrete machinery
Shaanxi Zoomlion Earth Working Machinery Co., Ltd.	RMB474	100%	100%	–	Manufacture of earth working machinery
Hunan Zoomlion Axle Co., Ltd.	RMB466	88.86%	88.86%	–	Manufacture of motor vehicle components
Zoomlion Material Handling Equipment Co., Ltd.	RMB100	100%	100%	–	Manufacture of material handling machinery
Zoomlion Finance and Leasing(Beijing) Co., Ltd.	RMB1,502	100%	100%	–	Leasing of equipment and machinery
Hunan Zoomlion International Trade Co., Ltd.	RMB50	100%	100%	–	Trading of equipment and machinery
Hunan Teli Hydraulic Co., Ltd.	RMB180	77.61%	77.61%	–	Manufacture of hydraulic products
Hunan Zoomlion Special Vehicles Co., Ltd.	RMB69	100%	100%	–	Manufacture of specialised vehicles
Zoomlion Finance and Leasing (China) Co., Ltd.	RMB280	100%	–	100%	Leasing of equipment and machinery
Hunan Zoomlion Crawling Crane Ltd.	RMB360	100%	100%	–	Manufacture of crawling cranes
Hunan Zoomlion Hardware Co., Ltd.	RMB100	100%	100%	–	Manufacture of components

Notes to the consolidated financial statements

For the year ended 31 December 2017

36 Investments in subsidiaries (continued)

Name of company	Particulars of issued and paid up capital (millions)	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Shanghai Zoomlion Pile Foundation Machinery Co., Ltd.	RMB50	100%	100%	–	Manufacture of pile foundation Machinery
Hunan Zoomlion Intelligent Technology Co., Ltd.	RMB50	100%	100%	–	Research and manufacture of machine software
Hunan Zoomlion Concrete Machinery Site Equipment Co., Ltd.	RMB451	100%	100%	–	Manufacture of concrete machinery
Zoomlion H.K. SPV Co., Limited	USD25	100%	–	100%	Bond issuance
m-tec mathis technik GmbH	EUR3	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 earth working machinery
Zoomlion Finance Co., Ltd.	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 and m-tec which are incorporated and operate in Italy and Germany, respectively. All of the above subsidiaries are limited liability companies.

Notes to the consolidated financial statements

For the year ended 31 December 2017

37 Company-level statement of financial position

	Note	2017 RMB millions	2016 RMB millions
Non-current assets			
Property, plant and equipment		**3,131**	4,469
Lease prepayments		**773**	1,069
Intangible assets		**242**	333
Investments in subsidiaries		**14,168**	16,257
Interests in associates		**1,037**	432
Available-for-sale financial assets		**414**	233
Trade and other receivables		**3,737**	2,817
Pledged bank deposits		**60**	72
Deferred tax assets		**664**	526
Total non-current assets		**24,226**	26,208
Current assets			
Inventories		**4,095**	9,879
Other current assets		**897**	684
Other financial assets		**6,323**	132
Trade and other receivables		**36,570**	38,251
Pledged bank deposits		**202**	778
Cash and cash equivalents		**3,674**	4,685
Total current assets		**51,761**	54,409
Total assets		**75,987**	80,617
Current liabilities			
Loans and borrowings		**10,486**	6,948
Trade and other payables		**14,006**	17,916
Income tax payable		**64**	—
Total current liabilities		**24,556**	24,864

Notes to the consolidated financial statements

For the year ended 31 December 2017

37 Company-level statement of financial position (continued)

	Note	2017 RMB millions	2016 RMB millions
Net current assets		**27,205**	29,545
Total assets less current liabilities		**51,431**	55,753
Non-current liabilities			
Loans and borrowings		**13,957**	17,287
Other non-current liabilities		**362**	200
Deferred tax liabilities		**10**	20
Total non-current liabilities		**14,329**	17,507
Net assets		**37,102**	38,246
Capital and reserves			
Share capital	29(a)	**7,794**	7,664
Reserves	29(b)	**29,308**	30,582
Total equity		**37,102**	38,246

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
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
Amendments to IAS 40, *Investment property: Transfers of investment property*	1 January 2018
IFRIC 22, *Foreign currency transactions and advance consideration*	1 January 2018
IFRS 16, *Leases*	1 January 2019
IFRIC 23, *Uncertainty over income tax treatments*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations 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. The actual impacts upon the initial adoption of the standards may differ as the assessment to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

Notes to the consolidated financial statements

For the year ended 31 December 2017

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017 (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, including the measurement of impairment for financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and de-recognition of financial instruments and the classification and measurement of financial liabilities.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI):

— The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.

— For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Group has assessed that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of IFRS 9.

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017 (continued)

IFRS 9, Financial instruments (continued)

(a) Classification and measurement (continued)

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group has the option to irrevocably designate as FVTOCI (without recycling) on transition to IFRS 9. The Group plans not to elect this designation option for any of the investments held on 1 January 2018 and will recognise any fair value changes in respect of these investments in profit or loss as they arise. This will give rise to a change in accounting policy as currently the Group recognises the fair value changes of available-for-sale equity investments in other comprehensive income until disposal or impairment, when gains or losses are recycled to profit or loss in accordance with the Group's policies set out in note 2(i). This change in policy will have no impact on the Group's net assets and total comprehensive income, but will increase volatility in profit or loss. Upon the initial adoption of IFRS 9, fair value gains of RMB44 million related to the available-for-sale investments will be transferred from the fair value reserve to retained profits at 1 January 2018.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of IFRS 9.

(b) Impairment

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 either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. However, a more detailed analysis is required to determine the extent of the impact.

Notes to the consolidated financial statements

For the year ended 31 December 2017

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017 (continued)

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.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(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.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from construction contracts.

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017 (continued)

IFRS 15, Revenue from contracts with customers (continued)

(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.

Instalment payments are common in the Group's arrangements with its customers. In this situation, the Group may offer customers a right to defer payment over one year.

In assessing whether such instalment payments schemes include a significant financing component, the Group has considered the difference between the present value and the cash selling price, and the length of time between the payment date and the completion date of legal assignment (i.e. the date when the customers obtain control of the properties) based on the typical arrangements entered into with the customers.

Where such instalment payment schemes include a significant financing component, the transaction price will need to be adjusted to present value. Such adjustment will result in interest income being recognised to reflect the effect of the financing benefit provided to the customers during the period between the payment date and the completion date of legal assignment, with a corresponding decrease to revenue on sale of properties recognised when control of the completed property is transferred to the customer. The Group has assessed that new revenue standard is not likely to have impact on how it recognises revenue from instalment arrangement.

As allowed by IFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. Since the difference between revenue recognised under IFRS15 and IAS18 is limited, the Group expects that the transition adjustment to be made upon the initial adoption of IFRS 15 will not be material. Besides, the expected changes in accounting policies as described above is not likely to have a material impact on the Group's financial results from 2018 onwards.

Notes to the consolidated financial statements

For the year ended 31 December 2017

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017 (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 32(b), at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB172 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.

Notes to the consolidated financial statements

For the year ended 31 December 2017

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017 (continued)

IFRS 16, Leases (continued)

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment.

39 Reconciliation of financial information prepared under PRC GAAP to IFRSs

(a) Reconciliation of total equity of the Group

	2017 RMB millions	2016 RMB millions
Total equity reported under PRC GAAP	**38,227**	37,795
— Acquisition-related costs incurred on prior year business combination	**(37)**	(40)
Total equity reported under IFRSs	**38,190**	37,755

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

	2017 RMB millions	2016 RMB millions
Total comprehensive income for the year reported under PRC GAAP	**1,702**	(1,569)
— Safety production fund (Note 1)	**6**	(4)
— Impairment of goodwill (Note 2)	**3**	—
Total comprehensive income for the year reported under IFRSs	**1,711**	(1,573)

Notes to the consolidated financial statements

For the year ended 31 December 2017

39 Reconciliation of financial information prepared under PRC GAAP to IFRSs (continued)

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

Note 1: Under PRC GAAP, safety production fund should be accrued and recognised in profit or loss with a corresponding credit in reserve according to relevant PRC regulations. Such reserve is reduced for expenses incurred for safety production purposes or, when safety production related equipment are purchased, is reduced by the purchase cost with a corresponding increase in the accumulated depreciation. Such fixed assets are not depreciated thereafter. Under IFRSs, expense is recognised in profit or loss when incurred, and fixed assets are capitalised and depreciated in accordance with applicable accounting policies.

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

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

40 Non-adjusting event after the reporting period

Pursuant to a resolutions passed at the directors' meeting on 29 March 2018, a final dividend in respect of the year ended 31 December 2017 of RMB0.20 (2016: RMB0.15) per share totaling RMB1,559 million (2016: 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.

ZOOMLION
中联重科