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

* For identification purpose only

2018
Annual Report

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.

Definition

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

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

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

ZOOMLION 中联重科

2018 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 (resignation with effect from 29 March 2019)
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 (cessation with effect from 29 March 2019)
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

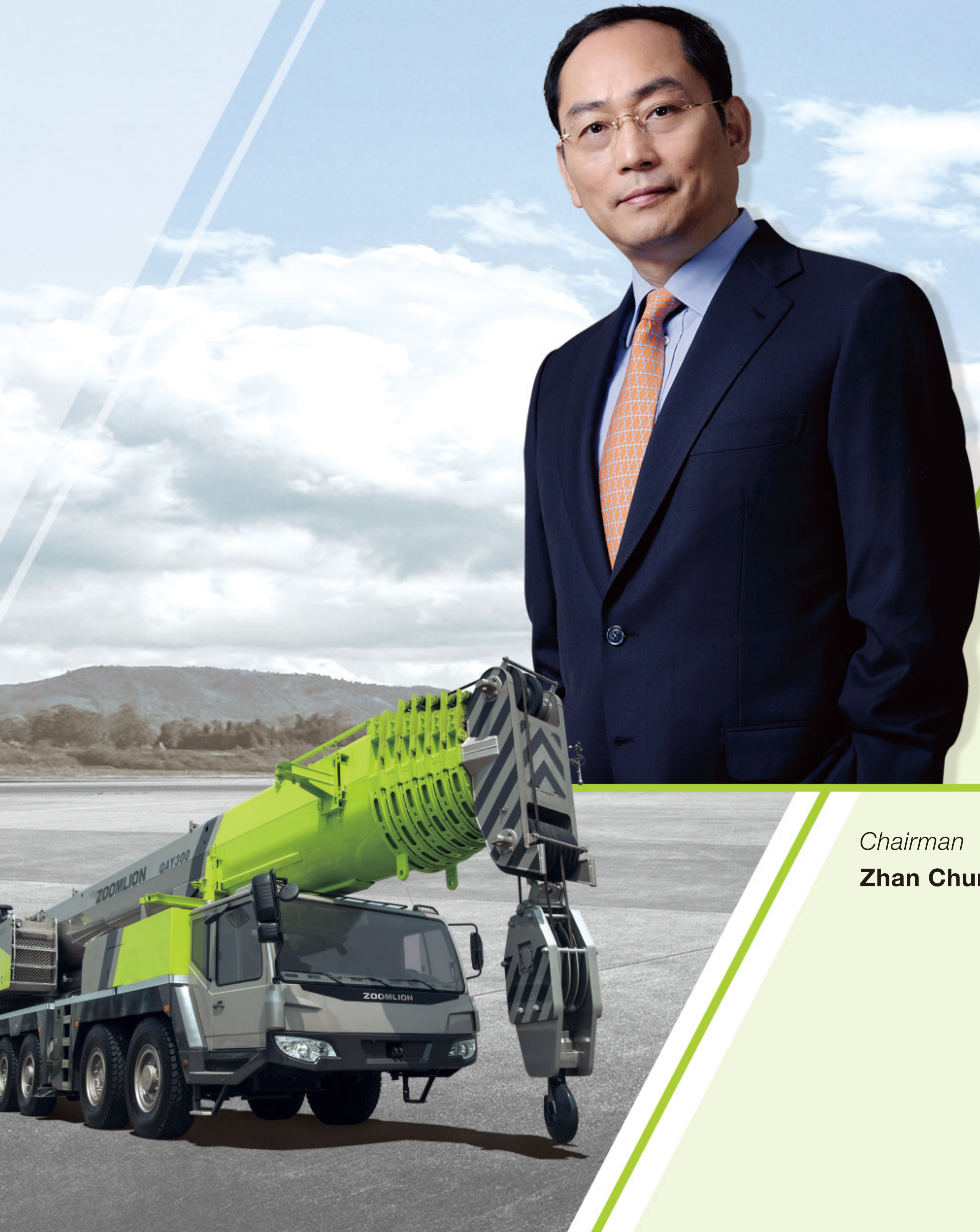
II. Other relevant information

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,

2018 marks the 40th anniversary of China's reform and opening up policy, and is also the first year of the full implementation of the spirit of the 19th National Congress of the Communist Party of China. Zoomlion has adopted new development approaches, unleashed new development momentum, and emerged from the bottom of a U-shaped growth curve, entering a new stage featuring quality development.

Looking back to 2018, we focused on our principal business of equipment manufacturing, and continued to implement our development strategy featuring "equipment manufacturing + Internet" and "industry + finance". In the construction machinery sector, we steadily expanded our business in the existing market segments, accelerated efforts to make up for our deficiencies, established presence in the new market segments, and achieved a rapid improvement in both scale and quality of our main products. In the agricultural machinery sector, we adjusted our business structure, controlled business risks, ramped up efforts to upgrade technologies and products, and promoted smart agriculture to develop into an AI-enabled agricultural equipment maker. In the financial services sector, we focused on integrating industry with finance, and continued to expand our business in the market. We also stepped up efforts to achieve industrial applications of our industrial Internet technological platform to facilitate a full upgrade from traditional manufacturing to intelligent manufacturing.

Looking back to 2018, we focused on intelligence and continued to promote smart products and smart manufacturing. New concepts and new technologies such as human-computer interaction, connectivity and the Internet of things, and intelligent green continually helped enrich the meaning and value of our intelligent products, while streamlined, flexible, automated, intelligent, and environmentally friendly production lines and smart factories helped push equipment manufacturing into a new era of cluster innovation. The Zoomlion Smart Industrial Park, which has become fully operational, is set to become a super-energy and innovation site featuring intelligence, ecosystem and internationalization.

Looking back to 2018, we re-focused on management, closely adhered to the ideas of "precision" and "sophistication", innovated management tools, strengthened management platforms, improved our management capabilities, and achieved consistent, direct, and smooth management. The Company continued to push ahead with digital management and decision-making. Focusing on core business indicators such as scale, profit, risk control and cash flow, we strengthened business process management and monitoring, strengthened the building of systems and culture focusing on quality, deepened our internal market-based mechanisms, established a multi-dimensional incentive system, and achieved quality growth.

As we enter a new era, the future of Zoomlion that we have envisioned using our ideas and wisdom has become increasingly clear. New technologies will be integrated across industries, new industries will emerge, new momentum will form, a harmonious, new ecosystem will prosper, and a future shared by a community of multiple stakeholders is approaching.

Chairman's Statement

It is a future of smart intelligence. Empowered by new technologies, the traditional equipment manufacturing industry has become a smart industry. It is a future of prosperity. The new generation of teams has continued to play their roles at Zoomlion, and craftsmen, masters, and experts have all contributed their talents to the Company's development, with increased company cohesiveness. It is a future of new developments. We are set to usher in new technologies, new economies and new industries. It is a future of Zoomlion and a future of the industry chain comprising of our customers, partners, and upstream and downstream firms. It belongs to our ecosystem and to this new era.

At last, on behalf of the Board, I would like to extend my heartfelt gratitude to all shareholders, customers, partners, the community and all employees of Zoomlion for their contribution and support for the development of the Company.

Chairman
Zhan Chunxin

Principal Financial Data and Indicators

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

Unit: RMB

	2018	2017	Change	2016
Operating income	**28,696,542,909.99**	23,272,893,731.36	23.30%	20,022,516,698.58
Net profit attributable to shareholders of the Company	**2,019,857,001.70**	1,331,923,715.27	51.65%	-933,697,485.65
Net profit/(loss) attributable to equity shareholders of the Company after extraordinary items	**1,490,218,830.05**	-7,950,379,980.02	-118.74%	-1,677,731,345.02
Net cash flow from operating income	**5,064,119,225.01**	2,851,086,469.93	77.62%	2,168,560,151.68
Basic earning per share	**0.26**	0.17	52.94%	-0.12
Diluted earning per share	**0.26**	0.17	52.94%	-0.12
Return on net assets	**5.33%**	3.57%	1.76%	-2.44%

	End of 2018	End of 2017	Change	End of 2016
Total assets	**93,456,651,846.14**	83,149,067,653.62	12.40%	89,141,023,453.16
Net assets attributable to shareholders of the Company	**38,201,194,804.37**	37,578,261,818.00	1.66%	36,813,562,701.24

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	**2018**	2017	2016	2015	2014
Revenue	**28,697**	23,273	20,023	20,753	25,851
Profit/(loss) before taxation	**2,650**	1,252	(1,010)	39	863
Income tax	**(682)**	6	110	58	(235)
Profit/(loss) for the year	**1,968**	1,258	(900)	97	628
Profit/(loss) attributable to:					
Equity shareholders of the Company	**2,031**	1,342	(929)	89	594
Non-controlling interests	**(63)**	(84)	29	8	34
Basic earnings/(losses) per share (RMB)	**0.27**	0.18	(0.12)	0.01	0.08
Diluted earnings/(losses) per share (RMB)	**0.26**	0.18	(0.12)	0.01	0.08
Gearing ratio (%) (Note)	**58.54%**	54.05%	57.63%	56.70%	56.03%

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	**2018**	2017	2016	2015	2014
Non-current assets	**28,657**	25,218	23,239	22,667	23,847
Current assets	**64,762**	57,894	65,862	71,016	69,871
Current liabilities	**39,623**	24,488	26,876	30,173	25,211
Net current assets	**25,139**	33,406	38,986	40,843	44,660
Total assets less current liabilities	**53,796**	58,624	62,225	63,510	68,507
Non-current liabilities	**15,065**	20,434	24,470	22,941	27,299
Net assets	**38,731**	38,190	37,755	40,569	41,208
Total equity attributable to equity shareholders of the Company	**38,164**	37,540	36,773	39,896	40,791
Non-controlling interest	**567**	650	982	673	417

III. Reconciliation of Financial Data under PRC GAAP and IFRSs

Unit: RMB million

	Total comprehensive income of the Group		Total equity of the Group	
	Current year	**Last year**	**Current year**	**Last year**
Under PRC GAAP	1,730	1,702	38,768	38,227
Items and amounts adjusted under IAS				
Acquisition related costs incurred on prior year business combination	–	3	(37)	(37)
Special reserve for production safety (Note)	12	6	–	–
Under IFRSs	1,742	1,711	38,731	38,190

Note: 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 2018 together with the audited financial statements of the Company and the Group.

I. Operation Review of 2018

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

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

In 2018, the Group achieved revenue of RMB28,697 million, representing a year-on-year increase of 39.25%; profit attributable to equity shareholders of the Company for the year amounted to RMB2,031 million, representing a year-on-year increase of 51.34%; operating cash flow amounted to RMB4,717 million, representing a year-on-year increase of 92.30%. The major work carried out by the Group during the Reporting Period was as follows:

(I) Emerging effect from strategic focus

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

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

   (1) Continuously improved the market position of major products. The Group focused on and strengthened its efforts in segmented markets and fully promoted the extensive development of its customer alliance to build an efficient and sustainable industrial chain

ecosystem. The major products accomplished fruitful results in both production and sales with rise in both volume and prices, achieving an average down payment ratio of 40%. The domestic market shares of crane machinery and concrete machinery products continued to maintain their leading positions, among which construction crane machinery and concrete long-arm pump trucks maintained the first in the industry.

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

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

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

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

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

4. Planned for industrial Internet layout. The Group established ZValley Company, completely entered into the field of industrial Internet and fostered the transformation of traditional manufacturing into intelligent manufacturing. "Intelligent Management (智管)", an equipment

Report of the Board of Directors

management application targeting at construction machinery users, and "Intelligent Leasing (智租)", a leasing business management application, were released in bauma CHINA in November 2018, and ZvalleyOS, an industrial Internet platform, was released in December 2018.

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

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

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

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

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

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

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

2. Achieved fruitful results in independent innovation.

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

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

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

Report of the Board of Directors

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

(IV) Internationalization reaching a new level

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

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

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

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

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

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

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

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

3. Comprehensively enhanced risk management and control capabilities.

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

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

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

II. Analysis of Financial position

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

Report of the Board of Directors

III. Business Outlook of the Group

(I) Industry development trend and market outlook

1. Construction machinery market

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

2. Agricultural machinery market

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

(II) Main operation direction for 2019

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

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

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

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

5. Establishing core competitiveness in services. The Group will continuously promote the transformation of service system, optimize resource allocation and improve service skills and component supply capabilities. Leveraging on industrial Internet technology and mobile application promotion, the Group will constantly provide users with more convenient, personalized and customized services, and extend and enhance the services of the entire value chain, leading and promoting the transformation and upgrade of service-oriented manufacturing in the industry and setting the benchmark for industry services.

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

Report of the Board of Directors

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

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

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

1. Uncertainties on macroeconomic situation and industry growth.

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

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

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

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

IV. Profit Distribution and Bonus Dividend

The Company has emphasised on shareholders' returns. Since its listing in 2000, the Company has distributed cash dividend in every year. As at 31 December 2018, the accumulative cash dividend distributed by the Company amounted to RMB11,805 million.

According to the profit distribution plan for 2018 of the Company, based on the total share capital by the time of profit distribution, the Company will pay cash dividend of RMB0.25 (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 2018 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 RMB0.225 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 2017 of the Company, based on the total share capital of 7,794,048,075 shares, 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 profit distribution plan for 2016 of the Company, based on the total share capital of 7,664,132,250 shares, the Company will pay cash dividend of RMB0.15 (tax inclusive) for every share and will not issue bonus shares by capitalisation of the capital reserve.

Report of the Board of Directors

V. Pre-emptive Rights

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

VI. Property and Equipment

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

VII. Major suppliers and customers

Total purchases by the Company from the top five suppliers amounted to RMB1,925,136,289.46, accounting for 9.90% of the aggregate annual purchase of the Company and total purchases by the Company from the largest supplier accounted for 2.75% 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 RMB1,022,524,323.03, accounting for 3.56% of the aggregate annual sales of the Company and the total sales to the largest customer of the Company accounted for 1.13% 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 RMB5.61 million in aggregate.

IX. Human Resources

As at 31 December 2018, the Company had employed a total of 15,121 employees. Details of the Company's staff costs and employee benefit plans for 2018 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 22 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.

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 2018.

	Year Ended 31 December	
	2018 RMB millions	2017 RMB millions
Continuing operations:		
Revenue	**28,697**	20,608
Cost of sales and services	**(20,923)**	(16,303)
Gross profit	**7,774**	4,305
Other income	**882**	259
Sales and marketing expenses	**(2,379)**	(2,180)
General and administrative expenses	**(2,063)**	(10,487)
Research and development expenses	**(581)**	(277)
Profit/(loss) from operations	**3,633**	(8,380)
Net finance costs	**(1,205)**	(1,443)
Share of profits less losses of associates	**222**	110
Profit/(loss) before taxation	**2,650**	(9,713)
Income tax	**(682)**	1,425
Profit/(loss) from continuing operations	**1,968**	(8,288)
Discontinued operation:		
Profit from discontinued operation	**—**	9,546
Profit for the year	**1,968**	1,258

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 2018:

	Year Ended 31 December	
	2018	2017
	RMB	RMB
	millions	millions
Continuing operations:		
Construction machinery		
— Concrete machinery	**10,165**	7,335
— Crane machinery	**12,472**	6,805
— Others	**4,086**	3,781
Agricultural machinery	**1,477**	2,295
Financial services	**497**	392
	28,697	20,608
Discontinued operation:		
Environmental industry	**—**	2,665
	28,697	23,273

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

The following table sets forth the breakdown of our turnover by geographic sales location for 2018:

	Year Ended 31 December	
	2018	2017
	RMB	RMB
	millions	millions
Revenue from external customers		
— Mainland PRC (of which RMB2,447 million in 2017 relates to discontinued operation)	**25,107**	20,908
— Outside PRC (of which RMB218 million in 2017 relates to discontinued operation)	**3,590**	2,365
Total	**28,697**	23,273

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

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

Other income

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

Sales and marketing expenses

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

General and administrative expenses

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

Net finance costs

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

Profit for the year

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

Management Discussion and Analysis

Cash Flow

As of 31 December 2018, we had RMB8,754 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 2018:

	Year Ended 31 December	
	2018	2017
	RMB	RMB
	millions	millions
Net cash generated from operating activities	**4,717**	2,453
Net cash (used in)/generated from investing activities	**(7,242)**	4,036
Net cash generated from/(used in) financing activities	**4,102**	(5,906)
Net increase in cash and equivalents	**1,577**	583
Effect of foreign exchange rate changes	**29**	(10)
Cash and cash equivalents at the beginning of the period	**7,148**	6,575
Cash and cash equivalents at the end of the period	**8,754**	7,148

Operating activities

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

Investing activities

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

Financing activities

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

Working Capital and Indebtedness

The table below sets forth the details of our current assets and liabilities as of 31 December 2018:

	31 December	
	2018	2017
	RMB	RMB
	millions	millions
Current assets		
Inventories	**9,551**	8,886
Other current assets	**1,097**	897
Financial assets at fair value through profit or loss	**13,787**	6,323
Trade and other receivables	**21,554**	22,661
Receivables under finance lease	**8,835**	10,931
Pledged bank deposits	**1,184**	1,048
Cash and cash equivalents	**8,754**	7,148
Total current assets	**64,762**	57,894
Current liabilities		
Loans and borrowings	**22,044**	9,348
Trade and other payables	**15,786**	14,992
Financial liabilities at fair value through profit or loss	**40**	—
Contract liabilities	**1,602**	—
Income tax payable	**151**	148
Total current liabilities	**39,623**	24,488

Our net current asset decreased from RMB34,406 million as at 31 December 2017 to RMB25,139 million as at 31 December 2018, mainly attributable to the increase of current portion of long-term loans and borrowings.

Management Discussion and Analysis

Liquidity Risk

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

The following table sets out the remaining contractual maturities of the financial liabilities as of 31 December 2018, 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 2018) and the earliest date the Company would be required to repay:

	As at 31 December 2018					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions
Loans and borrowings	35,689	38,793	23,441	5,721	9,190	441
Trade and other payables	15,786	15,786	15,786	–	–	–
Contract liabilities	1,602	1,602	1,602	–	–	–
Other non-current liabilities	991	991	–	261	589	141
	54,068	57,172	40,829	5,982	9,779	582
Financial guarantees issued						
Maximum amount guaranteed	55	3,899	3,899	–	–	–

	As at 31 December 2018 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	(515)	–	–	–	(515)
— inflow	475	–	–	–	475

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

Credit Risk

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

In respect of trade 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. Credit risk in respect of other receivables is limited as the balance mainly includes prepayments to tax authorities and reputable suppliers, deposits to landlord, and debts due from related parties. Bank deposits are placed with financial institutions that have high credit ratings. Given their credit ratings, management does not expect any counterparty to fail to meet its obligations.

Please refer to notes 18,19 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 and Euro.

Please refer to note 31 of the financial statements prepared under IFRSs for more quantitative information about the Company's currency risk.

Environmental, Social and Governance Report

1 About This Report

Declaration from the Board of Directors

The Board of Directors and all directors of Zoomlion Heavy Industry Science and Technology Co., Ltd. (also referred to as "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 third Environmental, Social and Governance (ESG) report issued consecutively by Zoomlion Heavy Industry Science and Technology Co., Ltd., which has been prepared in accordance with Appendix 27 Environmental, Social and Governance Reporting Guide ("the ESG Guide") to the *Main Board Listing Rules of the Hong Kong Stock Exchange* ("the HKEx Listing Rules"). The report covers a period from 1 January 2018 to 31 December 2018. Previous activities relating to certain reporting aspects are also considered retrospectively.

Release Cycle

The report is prepared annually. The Environmental, Social and Governance Report for the next reporting period (2019) is expected to be released in April 2020. 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 and the Company's official website. If you have any feedback or suggestion for this report, please contact us at (86 731) 88788432.

Environmental, Social and Governance Report

2 About Us

Company Business

During the reporting period, the Company is mainly engaged in the research and development, manufacturing and sales of high-tech equipment, such as construction machineries and agricultural machineries, as well as provision of 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. 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 markets, we firmly believe that corporate value originates from society. In addition to delivering returns for investors and creating huge economic benefits for the country, we are always committed to fulfilling our responsibilities and obligations as a responsible corporate citizen. We actively participate in public welfare undertakings, proactively protect the interests of our employees, suppliers, customers and consumers, and are dedicated to building a resource-conserving, environment-friendly and innovation-driven enterprise, thereby implementing sustainable development strategies with practical actions.

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, which consider two dimensions including the Company's business operation and its stakeholders. The management periodically reviews 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 recognised that the wider spectrum of stakeholders to be participated in the ESG journey, the better result of materiality assessments to be obtained. Therefore, the Company plans to involve more stakeholders to engage in the assessments to enhance stakeholders' participation and representativeness, so as to achieve the aforesaid goal.

Materiality Assessment

Based on our stakeholders and materiality assessments, we believe that the following topics are important to the Company's sustainable development. Those topics 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

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

— Employment

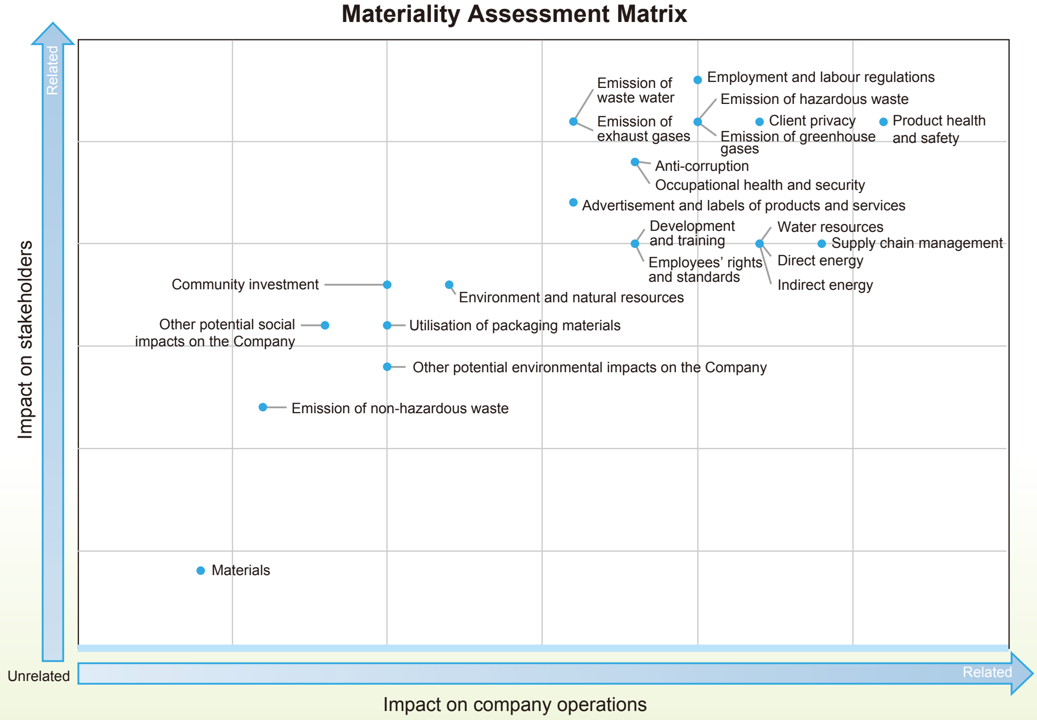
— Health and safety

— Product responsibility
  - Product health and safety
  - Client privacy

— Anti-corruption

— Supply chain management

Materiality Assessment Matrix



Environmental, Social and Governance Report

3 Environment

Guided by the conviction that lucid waters and lush mountains are invaluable assets, Zoomlion, as a leading force in the industry, continues to implement a safety and management policy stressing the importance of people and the need for green manufacturing. We strictly comply with the *Environmental Protection Law of the People's Republic of China* and increase our contribution to environmental and ecological protection, so as to realise the coordinated development of environment and economy. We seek to establish ourselves as a model company in resources conservation and environmental friendliness, and are determined to pursue clean and low-carbon development.

We remain highly attentive to the possible impacts of machinery manufacturing on the environment, and consider energy conservation and environmental protection a paramount issue in our production and business operation. 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". In 2018, the Company actively explored how to manufacture high-end equipment and strived to lead the industry in the green transition through multiple initiatives, such as artificial intelligence and Industry 4.0. Although product assembly and painting inevitably consume energy and give rise to related discharges and emissions, 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.

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. 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, and then submit relevant inspection reports with local environmental protection authorities for public disclosure. To "win the battle for a blue sky", end of pipe treatment of volatile organic compounds (VOCs) was initiated regarding all business segments and subsidiaries in 2018 to further purify exhaust gases originated from painting. During the reporting period, no cases of excessive emissions were found.

3.1 Emissions

Due to the special characteristics of industrial companies and technical limitations, we inevitably produce and discharge air pollutants (such as sulphur dioxide and nitrogen oxides) and greenhouse gases (such as carbon dioxide) in the production and manufacturing process. The painting process also inevitably discharges industrial waste water. 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, to identify significant factors and to formulate specific plans for controlling such factors.

During 2018, the types of air pollutants directly or indirectly produced by the Company's domestic industrial parks and the related emission data are as follows:

Types of air pollutants	**Ton[1]**
Sulphur dioxide	0.08
Nitrous oxides	11.46

In addition, greenhouse gases emitted by the Company in 2018 were mainly generated from the burning of fossil fuels and the consumption of electricity. The Company generated approximately 102,825.34[2] tons of greenhouse gases in 2018 (2017: 94,360.64 tons), with greenhouse gas emission intensity at 3.58 tons per million revenue in Renminbi (2017: 4.05 tons per million revenue in Renminbi), a decrease of 11.6%.

Environmental, Social and Governance Report

To manage the solid waste produced during the production and manufacturing process, the Company has formulated the *Waste Management Measures*, which divides waste into recyclable waste, non-recyclable waste and hazardous waste. The Company has also 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). We 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), which 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 contacts professional disposal institutes for help in a timely manner. Additionally, the Company has formulated the *Detailed Rules on Hazardous Waste Practices*, under which the Safety and Environmental Management Department conducts 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 realise the recycling of the wastes.

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1 The conversion of air pollutants is based on 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 sulphur dioxide emission:

$P_{SO2} = Q \times \eta \times 0.85 \times 2 \times 10$

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 : sulphur content, %;

P_{NOX}: Nitrogen oxide emission, kg; Q: Fossil fuels consumption, t; μ :Sewage coefficient

2 The conversion of greenhouse gases is based on the *Accounting Methods and Reporting Guidelines for Greenhouse Gases Discharged by Machinery Equipment Manufacturers (Trial Implementation)* issued by the National Development and Reform Commission of the People's Republic of China.

The sum of carbon dioxide emissions generated by the consumption of purchased electricity and fossil fuel is calculated as follows: $E = E_{combustion} + E_{manufacture} + E_{electricity} + E_{thermo}$

Note: E: Total greenhouse gas emission, tCO_2e;

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

$E_{electricity}$: Emissions from consumption of net purchased electricity, tCO_2;

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

E_{thermo} : Emissions from consumption of net purchased thermal energy; tCO_2.

In order to control waste water disposal and emissions of exhaust gas, and reduce environmental pollution, the Company has 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 testing of environmental contamination factors, including waste water, waste gases, noises and dust to reinforce 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 maintains 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), and follows waste water isolation and sedimentation processes or subjects waste water to treatment at a water treatment plant until it meets certain standards and is safe to be disposed of. Key waste water sources in the Company's daily business operations include production-related and domestic waste water. In 2018, the Company stepped up the fund for environmental protection and energy conservation, so as to continuously track pollutant emissions and ensure compliance with regulations.

3.2 Utilisation 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., and the process of delivery and transportation of products consumes relatively small amount of packaging materials. Therefore, related statistics about the consumption of packaging materials are unavailable for the time being.

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Resources consumed by the Company's domestic industrial parks during 2018 are as follows:

Variety of energy	Total consumption in 2018	Unit	Consumption Density in 2018	Unit
Kerosene	0.49	ton	N/A (Note)	—
Un-leaded petrol	239.19	ton	N/A (Note)	—
Purchased electricity	12,638.87	10,000 kWhs	4,404.25	kwhs per million revenue in RMB
Freshwater	175.34	10,000 cubic metres	61.1	tons per million revenue in RMB
Natural gas (for cooking)	368.35	10,000 cubic metres	128.36	Cubic metres per million revenue in RMB
Diesel (for contingency power-generation equipment)	4,247.44	ton	N/A (Note)	—

Note: As the relevant densities are tiny or do no direct link to the principal activities of the Company, the related densities on per million revenue in RMB are not applicable

The Company records its electricity and water consumption and reports it to relevant government authorities. It manages the use of electricity, water and other resources in accordance with the requirements of relevant government authorities.

In order to enhance energy management, reduce consumption of resources and increase energy efficiency, the Company has formulated the *Measures on Energy Management* based on state energy policies and energy management standards, while taking account of the Company's actual production needs and consumption of resources. The Company awards actions that benefit the intensive use of electricity, water and other resources for conservation purposes, as well as actions that put energy and resources to efficient use. We also punish 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 technologies 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 fully implements the safety and management policy stressing the importance of people and the need for green manufacturing. We have strictly complied with national and local laws and regulations, strengthened environmental and ecological protection and increased our contribution to this undertaking, so as to actively fulfil the environmental and social responsibility as an enterprise. In 2018, we have poured over RMB60 million to transform the environmental protection technologies.

We are always committed to introducing and developing green manufacturing technology. Based on "Made in China 2025", we continue to push forward the "Product 4.0" project for strategic deployment. As a manufacture of high-end industrial equipment, we have also incorporated the concept of environmental protection in product design and have achieved fruitful results:

In terms of construction cranes, the ZTC-series is famous for its low fuel consumption, low emission and low noise. The variable pump system enjoys high volumetric efficiency. When the luffing arm is lowered, there is no pressure oil input to the hydraulic system. During the hoisting and lowering operation, the system has low output pressure, resulting in a decrease of 20% in average fuel consumption for the overall operation. In addition, the ZTC-series construction cranes are equipped with a four-valve, low-speed and high-torque engine, plus an overdrive gearbox, which bring about both operational and fuel efficiency and can reduce fuel consumption by 10% compared with traditional engines.

In respect of truck mounted pumps, we are the first in the industry to roll out a truck mounted pump that meets the "National VI Emission Standard".

In terms of construction hoists, BWM-3 series energy-saving hoists utilise two drives and can reduce total power by 21% compared with the widely used hoists with three drives. Single cage consumes 7kW less power and double cages consumes 14kW less power. This series has a longer product life and lower cost in terms of usage and maintenance.

For the aerial work platform (AWP), we have developed a lithium battery power system specific to the AWP, whose unique fast charging technology and high-power charger can shorten charging time by 50%; it also supports heating under lower temperature and can adapt to extremely cold environment below minus 30 degree Celsius.

For agricultural machinery, Zoomlion has established a "1+N" standardised suspension furnace drying centre and developed the HB-series cavings suspension furnaces. The latter uses renewable resources (i.e. rice husk) as main fuel to avoid high energy consumption and high pollution usually caused by traditional fuels such as coal. The suspension furnace can reasonably select heating equipment with different heating power based on the size of the drying centre. It also utilises two technologies at the same time, in. Therefore, it is more energy-saving and environmentally friendly, and can save costs and improve profits for users.

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.

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4 Society

4.1 Employment

In 2018, the Company has transitioned from management and control to empowerment in terms of human resources management. We continued to optimise the allocation and incentive model, train and develop talent resources, and transform and upgrade the human resources management model to improve the satisfaction, cohesion, and core challenging capacity of the employees and support the win-win development of the Company and our employees.

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 "*Labour Law*")*, the *Employment Contract Law of the People's Republic of China*, etc. Article 17 of the *Labour Law* 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. Based on this requirement, 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. In addition, rules and regulations for employee attendance checking and welfare have been 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 to achieve full social insurance coverage according to related laws. Apart from complying with the holiday policies released by the government, we also set up a diversified leave system, providing a variety of leave choices for our employees, including home leave for expatriates, Company Founding Day, birthday leave, etc. We also provided free benefits including free laundry, shuttle bus service, work lunch and well-equipped apartments to facilitate employees' work and life. The Company cares about employees' physical and mental health and has provided free health checks for all its employees, and occupational health examinations at a designated hospital with sufficient qualifications for those who are exposed to occupational hazards. Such examinations are provided before and during the employment, as well as at the time when such employment is ended, and health examinations during the employment are provided once a year, so as to support sustainable development and improve engagement of employees.

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*. We have effectively implemented those policies and measures to ensure equality and justice, motivate employees and maintain our market competitiveness.

The Company adheres to the principle of 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.

Benefited from a solid development, the Group recruited nearly 5000 new employees during this reporting period, serving as a good platform to promote social stability and job creation.

Provision of Multiple Incentives to Arouse Potential

Based on the principle of "activation", "incentive" and "inspiration", we have established a sustainable and competitive incentive mechanism. We have fully implemented incentive measures targeted at scientific research personnel, whose income are linked to product performance and whose product research and development should be based on market and product conditions, and can be shared with the society. We also transformed the time-based compensation system for technical workers and have built a platform to foster "craftsmanship spirit". In addition, we carried out compensation reform for service staff so that they can focus on improving customer satisfaction; and reformed the compensation system for management based on the prevailing market rate. On 7 November 2017, the Company implemented the share incentive scheme and awarded 168,760,911 share options and restricted shares to 1,192 current employees designated by the Company, including directors, senior management and core technical personnel. In September 2018, the Company awarded 18,554,858 restricted shares and share options reserved in the share incentive scheme to 389 key staff. Through the gradual implementation of the incentive mechanism, the Company and our employees can form a community of interests and stand together through thick and thin.

Through compensation reforms, we have managed to inspire employee potential and enhance organisational vitality. We also guided management to focus on improving organisational and individual performance; steered technical personnel to improve research and development capabilities and performance; and guided service personnel to improve skills to provide convenient and efficient services for customers, so as to further strengthen the linkage between sales and service.

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.

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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 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 has formulated the *Control Procedures for Environmental and Occupational Health and Safety Practices*.

The Company adopts decentralised management, in which the headquarter is responsible for development of policy guidelines and indicators, process monitoring, resources allocation and annual review; and all business units are responsible for carrying out specific safety work. To fully fulfil corporate responsibility, the Group and all business units have set up safety production committees, respectively, to form a well-organised safety management network. The Company's chairman serves as the director of the Company's safety production committee, while general manager of each business unit acts as the director of respective safety production committee and is responsible for safety management work of respective business unit.

As early as in 2014, all business units of the Company have been certified as Enterprises with Standardised Safety Production Procedures. Among them, two industrial parks have been awarded Level I Enterprises with Standardised Safety Production Procedures ("Level I"), eight parks have been awarded Level II Enterprises with Standardised Safety Production Procedures ("Level II") and nine parks have been awarded Level III Enterprises with Standardised Safety Production Procedures ("Level III"). In 2018, the Company pushed forward further upgrade and standardisation of all industrial parks and required all business units to be upgraded to a higher level by stages. Currently, three parks have been actively preparing for upgrading from Level II to Level I, and two parks have finished preliminary self-assessment for upgrading from Level III to Level II and are waiting for review and acceptance.

Through standardised management of safety production, the Company gradually converges with international (rather than national) advanced safety management system in terms of forecast and early warning management of safety production, detection and treatment of hidden hazard and accident statistical analysis. In 2018, the Company was awarded as an "Excellent Enterprise" in safety production by Hunan Province and named as an advanced unit in safety production in 2018 by Gaoxin District, Changsha City.

In order to motivate all production and operational units to improve safety management capabilities, we have formulated and implemented the *Measures of Zoomlion Heavy Industry Science and Technology Co., Ltd. for Safety Production Performance Reviews*, which prescribe assessment and incentive policies for this purpose. 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, have improved safety awareness and capabilities of our management personnel and have consolidated the foundation of our safety-related work.

At the same time, the Company attaches great importance to occupational health management, conscientiously implements the requirements of relevant laws and regulations, and strives to improve the working environment of employees to reduce the risk of occupational hazards. We also strengthen daily supervision and inspection, establish a comprehensive prevention and management system for occupational diseases, and advocate the use of labour protection articles. In addition, we conduct testing and evaluation regarding occupational disease hazard factors, provide occupational health examination, monitoring and diagnosis, and ensure the aforesaid process and activities are fully implemented, so as to effectively avoid the risk of occupational hazards that would be faced by our employees.

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 Development & Training

Systematic Cultivation to Support Individual Development

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

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The Company hold various specialised training activities based on the nature and needs of different departments, positions and professions. We provided management personnel with training of various forms, such as team executive ability practices, sand-table simulation, reading workshops, lectures and professional ad hoc exercises that aimed to expand their knowledge and honed their skills through such experiential and interactive activities. For employees at the production frontline, the Company provided trainings on production management, quality management, manufacturing processes and safety management, as well as coaching on professional skill appraisal. We also held profession-specific skill competitions and involved established technicians to give instructions in person. These activities helped cultivate skilled technicians and competent production management personnel. With regard to employees at the marketing frontline, the Company launched on-site and online training programmes on marketing knowledge, product knowledge, marketing skills, internet marketing and other areas.

The Company continued to carry out diversified corporation with colleges and universities to provide employment opportunities for graduates and to cultivate talents with practical skills. The Company has established Zoomlion College of Construction Engineering jointly with Hunan Industry Polytechnic to corporate on areas, such as discipline design and curriculum development of construction machinery manufacturing, training base construction and overseas training. The Company also offered electrical courses together with Hengyang Technician College, designated technicians and management experts to participate in the curriculum design and teaching, and jointly set up a research project team of experts to discuss and explore teaching forms and methods with vocational feature.

At the same time, the Company further improved the qualification management system and kept smooth the career development channels for employees. We also promoted the cultivation of scientific talents, technical workers and professionals, and sought to comprehensively enhance employees' competence and performance from multi-channels to support the Company's sustainable development.

4.4 Labor Standards

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 labour 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 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 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.

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

ZHIST has always considered cooperation and win-win as the core ideas of supplier management and sought mutual development with our suppliers. Therefore, we have constructed a supplier management indicator system to deepen our cooperation with the suppliers. Faced with a complicated and challenging macro situation, the Company continued to focus on equipment manufacturing and resources allocation optimisation to strengthen competitiveness of the construction machinery and agricultural machinery business to realise solid and high-quality growth. ZHIST always attached importance to sharing opportunities and working together with suppliers to achieve sustainable development.

The Company formulated the *Measures for Supplier Access Scoring and Supplier Management* to evaluate proposed new suppliers and 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 as 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 cost reduction and efficiency improvement, and adopted classified management for suppliers. The Company conducted performance evaluation on suppliers based on dimensions such as quality, cost, delivery, services and development, and optimised supplier classification based on the assessment results to realise dynamic control and management. The Company also formulated management measures for the allocation of procurement quotas. According to the measures, the Company calculates quotas allocated to each supplier and then assigns orders automatically based on the calculation results. This contributes to building an honest

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and transparent trading environment and reducing suppliers' selling costs. We also assisted suppliers in scaling up and further reducing operation costs through business integration. In addition, we have signed strategic cooperation agreements with high-quality suppliers and clarified the rights and obligations of both parties to strengthen win-win cooperative relationship with suppliers.

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 2018, based on the supply-chain management system integrating the existing SAP system, the Company established a standardised bidding platform to clarify the procurement rules and bidding procedures, standards and methods. Through this measure, the Company realised close engagement with suppliers and substantially improved efficiency in tendering and procurement.

In 2019, the Company will speed up the localisation of key components (especially key imported components) and coordinate strategic development goals of the Company and suppliers to shift the original supply-support transaction relationship to a long-term, strategic alliance with mutual benefits and win-win results.

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. Zoomlion always adheres to the quality management concept of "pursuit of excellent quality, and conformity of profession and conduct", and strives to become an industry model in terms of quality, innovation and creation. Based on customer demands, the Company keeps improving product quality and management level. The Company also fully implements prevailing national, local and industry standards and sets a higher standard based on such benchmark in terms of product manufacturing.

The Company has continued to develop a quality culture. In 2018, the Company carried out various measures to raise quality awareness of all employees, including providing trainings to promote excellent performance management and quality awareness, offering advanced quality research and study courses, holding quality-oriented activities, advocating and adopting a more stringent quality policy, and exposing quality issues. The Company also conducted quality assessment on technicians based on coefficient K, and performed comprehensive cost management in accordance with internal and external quality losses to further strengthen accountability of each department and individual.

The Company has strengthen the integrated management system of operation and maintenance. We have always valued system building and has set up a comprehensive management system integrating quality, environment, occupational health and safety, measurement, and CCC (China Compulsory Certification) after years of integration and optimisation. In 2018, the Company organised reviews, internal audits, and engaged external certification agencies to conduct third-party reviews on the integrated management system to ensure compliance with laws and regulations, system criterion and requirements of all parties in terms of quality, environment and occupational health and safety.

The Company has further improved the quality management model. In 2018, the Company continued to strengthen the matrix-based quality control and management model. The Company's quality department has adopted a macro- and micro-based management approach involving guidance and assessment, acceptance and resolution. The Company also established integrated and unified mechanisms regarding areas such as management of quality indexes and objectives, closed-loop management of quality improvement, and quality inspection and assessment. Such measures have facilitated the coordination of quality management on multiple areas and the overall improvement of quality. For the business units, they were responsible for analysing quality objectives, developing a detailed quality working plan and rolling out responsibility-based assessment to monitor the whole process and preform quality management effectively and fully. In addition, The Group's quality department held a quality management meeting each month to check the monthly progress of various quality-related key tasks. During 2018, we carried out 11 quality management monthly meetings, 8 quality-specific workshops, 3 on-site inspection on paint quality, 4 quality assessments and scoring (season-based), and seminar-annual comprehensive quality inspection on all business units. These measures have made quality management more quantitative and meticulous, and more scientific and reasonable.

The Company has optimised the quality improvement mechanism. The Company adheres to the customer-orientated principle and continues to improve quality. In 2018, the Company carried out various quality special work, including quality assessment based on coefficient K and amendment of product delivery standards, so as to identify and rectify issues within factories in a timely manner. We also organised several activities across the company, like setting up quality control teams, encouraging employees to actively participate in quality improvement and offering appropriate awards for those who have put forward reasonable suggestions and constructive proposals. This contributed to creating a good atmosphere where the whole staff participated in quality improvement.

Optimised Services and Value Creation

In 2018, the Company fully optimised relevant platforms and systems, and implemented an integrated matrix management model based on three dimensions (i.e. the Company, business units and the parks). The Company fully implemented a market-oriented marketing system, and designed organisational setting and project management structure that would be suitable for international development, so as to optimise process, improve efficiency and maximise value for customers.

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We have improved service networks and service management and enhanced customer satisfaction in 2018. Zoomlion always considers customer satisfaction as a key assessment target and adopts a customer- and market-orientated business policy. The Company has established a comprehensive marketing and service network, and conducted market and service field research to fully enhance customer satisfaction from multi-levels. In order to improve the timeliness of services and satisfy customers' demand for different services to the maximum extent, ZHIST continued to expand the breadth and depth of our service network, 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. 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 50 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 continued to optimise our three major supporting platforms (i.e. CRM platform of each business division, CC omnimedia platform and the big data monitoring platform) to achieve real-time monitoring of service business. We optimised Zoomlion E-Manager to strengthen interaction with customers, and have achieved intelligent management of equipment and mobility of service business. We have put into operation a service desk to offer after-sales services in a timely and effective manner. Zoomlion's online shopping mall operates steadily, which ensures a multi-channel contact between Zoomlion and customers, and greatly satisfies customers' demand for speed and convenience.

We have strengthened service skills training and hardware configuration to improve service level. ZHIST has long been committed to biding a "golden" service team. Most of our existing service engineers have college, bachelor degrees or above in mechanical and related majors, with proven skills and relevant qualifications. They have undergone systematic and professional trainings, passed strict exams and obtained relevant certificates. In addition, ZHIST provides each service engineer with common tool kits, and equips service vehicles, service offices and supporting centres with corresponding standard tools. To conduct comprehensive inspection and maintenance on customer equipment on a regular basis, the Company is equipped with dedicated service vehicles for emergency repair and inspection. These vehicles are equipped with advanced detection instruments, such as hydraulic system digital detector, quality detector for hydraulic oil and material flaw detector, which will speed up fault diagnosis and shorten the time for troubleshooting.

We continued to upgrade our service brand to efficiently serve our customers. In 2018, the Company launched the initiative of providing free equipment inspection services for customers across China. We upgraded and adjusted the service system, and have developed systems based on customer satisfaction in areas such as evaluation and assessment, compensation management and rating, so that our service engineers can return to the nature of service and provide customers with full-process and all-round services full-heartedly at any time.

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. 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 Labour 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 has 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 strives 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.

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6 Community Investment

We firmly believe that corporate value originates from society, and thus consider 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 fulfil its social responsibilities and exploits advantages of the construction machinery industry based on local environment factors to ensure that our poverty relief measures are enforceable and effective.

Zhutang Village is a relatively poor and mountainous village located in Guanling Town, Changning City of Hunan Province. In order to improve the village's environment and achieve common prosperity, Zoomlion donated 6 excavators worth over RMB3 million to the local economic development cooperative to help develop local vegetable industry and build an agricultural brand. This initiative is in line with the strategic plan of rural vitalisation put forward by the Party Central Committee and the State Council to accelerate the pace of new rural construction.

Zoomlion is also a staunch support of the 3-year precise poverty alleviation programme of Hunan Province. This year, the Company took targeted property alleviation measures through financial contribution to Dongcangpu Village located in Cuijiaqiao Town, Hanshou County, Changde City. Zoomlion provided local poor villagers with technical trainings to broaden their channels of employment and helped construct rural highways and other infrastructure that directly benefited more than 1000 villagers.

In addition, Zoomlion provided support and assistance for many charities, such as Shangshan Disability Service Centre, Exceptional Children Sunshine Service Centre in Changsha City, Hunan Province, as well as Welfare Home for Children in Huhu City, Anhui Province, where Zoomlion donated computers, books and other daily necessities to the disabled and left-behind children of poor families. The Company also carried out education aid programmes in Hunan Province to provide financial aids or stationery, school uniforms, books and other materials for secondary schools, such as the High School Attached to Hunan Normal University, Puyuan Experimental Middle School in Dingcheng District, Changde City, and Hongqi Middle School in Qingshanqiao Town, Xiangtan County.

As a sponsor of the "Love-Changes-Destiny" charity events organised by the Hunan Charity Federation, Zoomlion has made donations to the programme for 16 consecutive years to help alleviate poverty through education. The Company donated RMB2 million in 2018 and has made a total contribution of more than 24 million over the past 16 years, making us the largest contributor in the programme. We also supported more students than any other donors. The programme has helped over 45,000 underprivileged freshmen gain access to higher education.

The Volunteer Association Always Committed to the Society

Founded in May 2008, the ZHIST Youth Volunteer Association ("the Association") has mobilised more than 2,000 employees and their families, as well as the public over the past decade to participate in public welfare activities in areas such as poverty relief, offering help to the disabled and students, environmental protection, emergency rescue and cultural publicity. The Association cares for and provides assistance for left-behind children, lonely elderly people, disabled people, poor families and vulnerable groups. It has won universal praise from all walks of life through unremitting efforts.

During the reporting period, the Association carried out many public welfare activities, which have greatly enriched our employees' amateur cultural life and fully demonstrated the values and responsibilities of modern youth. These included donating books to Mawang Primary School in Baojing County, Xiangxi Autonomous Prefecture, as well as Hongqi Middle School in Qingshanqiao Town, Xiangtan County to provide support and assistance for left-behind children; paying visits to and providing daily necessities for Shangshan Disability Service Centre and Exceptional Children Sunshine Service Centre in Changsha City. Many of our customers and suppliers have been inspired to join the Association to provide voluntary services, which has made the Association not only a great and well-accepted stage for everyone to participate in social practice and become useful for the society, but also an important carrier for implementing socialist core values.

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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
	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

ESG aspects	KPIs	Descriptions	Remarks	Relevant Report Section
	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
	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

Environmental, Social and Governance Report

ESG aspects	KPIs	Descriptions	Remarks	Relevant Report Section
	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
	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

ESG aspects	KPIs	Descriptions	Remarks	Relevant Report Section
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
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

Environmental, Social and Governance Report

ESG aspects	KPIs	Descriptions	Remarks	Relevant Report Section
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

Material Connected Transactions of the Company during the Year

(I) The Company had no material related party transactions according to the relevant domestic regulations.

(II) Under the Listing Rules of Hong Kong, the continuing connected transactions of the Company during 2018 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 2018, total sales of the Company to Dongfeng Group amounted to approximately RMB438 million (excluding value-added tax).

Dongfeng Purchase Renewal Agreement with Dongfeng Motor Corporation

The Company entered into a framework purchase agreement (the "Dongfeng Framework Purchase Agreement") dated 13 August 2013 with Dongfeng Motor and such agreement was expired on 31 December 2015. On 30 March 2016, the Company entered into the Dongfeng Purchase Renewal Agreement to renew the terms and conditions set out in the Dongfeng Framework Purchase Agreement. The Dongfeng Purchase Renewal Agreement has taken effect from 1 January 2016 and has a term of three years. Pursuant to the Dongfeng Purchase Renewal Agreement, the Company will purchase steel springs, chassis, engines and other auto components from the Dongfeng Group from time to time. In 2018, the total purchases from the Dongfeng Group amounted to approximately RMB62.81 million (excluding VAT).

Significant Events

The Independent Non-executive Directors unanimously confirmed that the continuing connected transactions of the Company for the year 2018 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;

(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.

The international auditor of the Company has reviewed those continuing connected transactions and confirmed with the Board of the Company that:

(1) those continuing connected transactions were approved by the Board;

(2) those continuing connected transactions were conducted according to the pricing policy of the Company;

(3) those continuing connected transactions were conducted according to the terms of relevant agreements governing the transactions;

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

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

Changes in Share Capital and Shareholders

I. Changes in Share Capital (as at 31 December 2018)

1. Changes in share capital

Unit: share

	Before this change		Increase/Decrease in this change		After this change	
	Number	**Percentage**	**Other**	**Sub-total**	**Number**	**Percentage**
I. Shares subject to sales restriction	180,043,928	2.31%	-47,621,621	-47,621,621	132,422,307	1.70%
Shares held by domestic natural persons	180,043,928	2.31%	-47,621,621	-47,621,621	132,422,307	1.70%
II. Shares not subject to sales restriction	7,614,004,147	97.69%	62,110,179	62,110,179	7,676,114,326	98.30%
Ordinary shares denominated in RMB	6,225,797,061	79.88%	62,110,179	62,110,179	6,287,907,240	80.52%
Overseas listed foreign invested shares	1,388,207,086	17.81%	0	0	1,388,207,086	17.78%
III. Total number of shares	7,794,048,075	100.00%	14,488,558	14,488,558	7,808,536,633	100.00%

Reasons for changes in shares

As a result of the implementation of its equity incentive scheme, the total number of shares of the Company became 7,808,536,633, with some restricted shares granted and newly added and some restricted shares deregistered.

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

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 pledge of lock-up	
							Condition of shares	Number
HKSCC NOMINEES LIMITED	Overseas legal person	17.74%	1,385,568,439	-162,304		1,385,568,439		
State-owned Assets Supervision and Administration Commission of Hunan Province People's Government	State-owned legal person	16.05%	1,253,314,876			1,253,314,876		
Changsha Hesheng Science and Technology Investment Co., Ltd.	Domestic non state-owned legal person	4.95%	386,517,443			386,517,443	Pledged	350,000,000
China Securities Finance Corporation Limited	State-owned legal person	2.98%	233,042,928	2,633,977		233,042,928		
Real Smart International Limited	Overseas legal person	2.16%	168,635,602			168,635,602	Pledged	168,635,602
Changsha Yifang Science and Technology Investment Co., Ltd.	Domestic non state-owned legal person	2.01%	156,864,942			156,864,942		
AVIC Trust Co., Ltd. — AVIC Trust Tianshun [2018] No. 220 Zoomlion Single Capital Trust	Other	1.78%	138,819,479			138,819,479		
Central Huijin Asset Management Ltd.	State-owned legal person	1.48%	115,849,400			115,849,400		
Hong Kong Securities Clearing Company Limited	Overseas legal person	1.19%	93,062,217			93,062,217		
Hony Capital Fund I (Tianjin), L.P.	Domestic non state-owned legal person	0.83%	64,600,000			64,600,000		

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

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

As at 31 December 2018, 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 would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("**SFO**"), or as recorded in the register required to be kept by the Company pursuant to section 336 of the 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 (L)	19.52	16.05
Changsha Hesheng Science and Technology Investment Co., Ltd.	Beneficial owner	A shares	386,517,443 (L)	6.02	4.95
JP Morgan Chase & Co.	Beneficial owner	H shares	68,748,678 (L)	4.95	0.88
	Investment manager		11,037,600 (S)	0.80	0.14
	Approved lending agent		3,567,145 (P)	0.26	0.05

(1) L represents long position
S represents short position
P represents lending pool

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

(3) The disclosure is based on the information available on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.com.hk). As stated in the form of disclosure of shareholder's interests submitted by JPMorgan Chase & Co., on 28 December 2017, these shares were being held via its affiliates. As further stated in the form of disclosure of shareholder's interests submitted by JPMorgan Chase & Co. on 25 January 2018, it has since ceased to have a notifiable interest in the shares of the Company.

Save as disclosed above, as at 31 December 2018, no other 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 would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to section 336 of SFO.

Changes in Share Capital and Shareholders

Purchase, Sale or Redemption of Shares by the Company and its Subsidiaries

During the year ended 31 December 2018, the Company repurchased a total of 4,066,300 ordinary shares at an aggregate consideration of RMB8,498,567off market as follows:

Month/year	Number of shares repurchased	Purchase price per share (RMB)	Aggregate price paid (RMB)
September 2018	2,024,500 A shares[1]	2.09	4,231,205
November 2018	2,041,800 A shares[2]	2.09	4,267,362
	4,066,300 A shares		8,498,567

(1) On 30 August 2018, the Board resolved to repurchase and cancel 2,024,500 restricted A shares granted to but not yet unlocked by 24 participants of the Company's restricted A share incentive scheme who had ceased employment with the Group, as they no longer qualified as participants within the meaning of the scheme.

(2) On 6 November 2018, the Board resolved to repurchase and cancel 2,041,800 restricted A shares granted to but not yet unlocked by 7 participants of the Company's restricted A share incentive scheme who had ceased employment with the Group, as they no longer qualified as participants within the meaning of the scheme.

All the repurchased shares were cancelled as of 29 November 2018. 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 2018.

Directors, Supervisors, Senior Management and Employees

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

Name	Post	Employment Status	Gender	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 Office	incumbent	M	63	2 April 2001	28 January 2022	8,040,556	0	0	0	8,040,556
Hu Xinbao	Director	resigned	M	50	29 June 2015	29 January 2019	0	0	0	0	0
Zhao John Huan	Director	incumbent	M	56	29 June 2015	28 January 2022	0	0	0	0	0
Lai Kin Keung	Independent Director	incumbent	M	68	29 June 2015	28 January 2022	0	0	0	0	0
Zhao Songzheng	Independent Director	incumbent	M	57	29 June 2015	28 January 2022	0	0	0	0	0
Liu Guiliang	Independent Director	incumbent	F	55	29 June 2015	28 January 2022	0	0	0	0	0
Yang Changbo	Independent Director	incumbent	M	64	29 June 2016	28 January 2022	0	0	0	0	0
Fu Zheng	Chairman of Supervisory Board	resigned	F	50	29 June 2015	29 January 2019	0	0	0	0	0
Liu Chi	Employee Supervisor	resigned	M	61	29 June 2015	29 January 2019	379,211	0	0	0	379,211
Yin Zhengfu	Vice President	resigned	M	62	29 June 2015	29 January 2019	1,872,329	0	0	0	1,872,329
Xiong Yanming	Vice President	incumbent	M	54	29 June 2015	28 January 2022	3,103,963	0	0	0	3,103,963
Su Yongzhuan	Vice President	resigned	M	46	29 June 2015	29 January 2019	3,219,950	0	0	0	3,219,950
Fang Minghua	Vice President	resigned	M	61	29 June 2015	29 January 2019	1,995,483	0	0	0	1,995,483
He Jianming	Supervisor	incumbent	M	55	29 June 2015	28 January 2022	2,086,341	0	0	0	2,086,341
Wang Jinfu	Vice President	resigned	M	62	29 June 2015	29 January 2019	2,274,710	0	0	0	2,274,710
Sun Changjun	Vice President	incumbent	M	56	29 June 2015	28 January 2022	2,776,040	0	0	0	2,776,040
Huang Qun	Vice President	resigned	F	52	29 June 2015	29 January 2019	2,806,229	0	0	0	2,806,229
Guo Xuehong	Vice President	incumbent	M	56	29 June 2015	28 January 2022	2,940,147	0	0	0	2,940,147
Li Jiangtao	Vice President	resigned	M	55	29 June 2015	29 January 2019	2,244,217	0	0	0	2,244,217
Liu Jie	Vice President	resigned	F	50	29 June 2015	29 January 2019	2,310,816	0	0	0	2,310,816
Du Yigang	Vice President	incumbent	F	43	29 June 2015	28 January 2022	2,310,816	0	0	0	2,310,816
Fu Ling	Vice President	incumbent	F	51	29 June 2015	28 January 2022	2,180,284	0	0	0	2,180,284
Shen Ke	Investment Director	incumbent	M	47	29 June 2015	28 January 2022	4,349,203	0	0	0	4,349,203
Total	–	–	–	–	–	–	44,890,295	0	0	0	44,890,295

Directors, Supervisors, Senior Management and Employees

II. Changes in Directors, Supervisors and Senior Management

Name	Post	Type	Date	Reason
Hu Xinbao	Director	Departure upon expiration of term	29 January 2019	Reshuffle of the board of directors
Fu Zheng	Chairman of Supervisory Board	Departure upon expiration of term	29 January 2019	Reshuffle of the board of supervisors
Liu Chi	Employee Supervisor	Departure upon expiration of term	29 January 2019	Reshuffle of the board of supervisors
Yin Zhengfu	Vice President	Departure upon expiration of term	29 January 2019	Reshuffle of the board of directors
Su Yongzhuan	Vice President	Departure upon expiration of term	29 January 2019	Reshuffle of the board of directors
Fang Minghua	Vice President	Departure upon expiration of term	29 January 2019	Reshuffle of the board of directors
Wang Jinfu	Vice President	Departure upon expiration of term	29 January 2019	Reshuffle of the board of directors
Huang Qun	Vice President	Departure upon expiration of term	29 January 2019	Reshuffle of the board of directors
Li Jiangtao	Vice President	Departure upon expiration of term	29 January 2019	Reshuffle of the board of directors
Liu Jie	Vice President	Departure upon expiration of term	29 January 2019	Reshuffle of the board of directors
He Liu	Director	Appointment and removal	29 January 2019	Reshuffle of the board of directors
Wang Minghua	Chairman of Supervisory Board	Appointment and removal	29 January 2019	Reshuffle of the board of supervisors
He Jianming	Supervisor	Appointment and removal	29 January 2019	Reshuffle of the board of supervisors
Liu Xiaoping	Employee Supervisor	Appointment and removal	29 January 2019	Reshuffle of the board of supervisors
Sun Changjun	Vice President	Appointment and removal	29 January 2019	Reshuffle of the board of directors, post change
Fu Ling	Vice President	Appointment and removal	29 January 2019	Reshuffle of the board of directors, post change

Name	Post	Type	Date	Reason
Huang Jianbing	Assistant President	Appointment and removal	29 January 2019	Reshuffle of the board of directors, appointed as a senior management member
Qin Xiuhong	Assistant President	Appointment and removal	29 January 2019	Reshuffle of the board of directors, appointed as a senior management member
Wang Yongxiang	Assistant President	Appointment and removal	29 January 2019	Reshuffle of the board of directors, appointed as a senior management member
Luo Kai	Assistant President	Appointment and removal	29 January 2019	Reshuffle of the board of directors, appointed as a senior management member
Tian Bing	Assistant President	Appointment and removal	29 January 2019	Reshuffle of the board of directors, appointed as a senior management member
Tang Shaofang	Assistant President	Appointment and removal	29 January 2019	Reshuffle of the board of directors, appointed as a senior management member
Shen Ke	Investment Director	Appointment and removal	29 January 2019	Reshuffle of the board of directors, post change
Yang Duzhi	Board Secretary	Appointment and removal	29 March 2019	Reshuffle of the board of directors, appointed as a senior management member

Directors, Supervisors, Senior Management and Employees

III. Biography of directors, supervisors and senior management

Mr. Zhan Chunxin (詹純新), male, born in 1955, is the Chairman and Chief Executive Officer of our Company. Mr. 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, Mr. Zhan also serves as the chairman of various subsidiaries of our Company, including Zoomlion Finance Co., Ltd. and Hunan Zhicheng Finance Guarantee Co., Ltd., and as a 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. Mr. Zhan became an expert entitled to special government subsidy granted by the State Council since January 1994, a senior engineer recognised by the Ministry of Construction in 1995 and a researcher-level senior engineer specialized in management and engineering recognised by the Ministry of Construction in September 1997. Mr. Zhan has previously served various senior positions in the Construction Machinery Research Institute of Changsha (the "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. Mr. 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, a representative at the 12th National People's Congress in 2013 and the 19th National Congress of the Communist Party of China in 2017 and a member of the 13th CPPCC National Committee in 2018. Currently, Mr. Zhan also serves as the deputy chairman of China Entrepreneurs Association, China Enterprise Confederation and China Association for Public Companies. Mr. Zhan has received various titles and awards, including 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 China Outstanding Quality Model awarded in January 2013. Mr. 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.

Mr. He Liu (賀柳), male, born in 1970, is a non-executive director of our Company. Mr. He has served as a member of the party committee and the deputy general manager of Hunan Xing Xiang Investment Holding Group Co., Ltd. since June 2010. Mr. He served as the head of audit and legal department of Hunan Nonferrous Metals Corporation Limited from July 2005 to September 2005, a supervisor and the head of human resources department of Hunan Nonferrous Metals Corporation Limited from September 2005 to August 2006 and a member of the party committee and the deputy general manager of Hunan Xing Xiang State-owned Assets Operation Co., Ltd. from August 2006 to June 2010. Mr. He obtained a bachelor's degree in economics from the College of Finance and Statistics of Hunan University (formerly known as Hunan University of Finance and Economics) and a master's degree in business administration from Changsha University of Science and Technology.

Mr. Zhao John Huan (趙令歡), male, born in 1963, is a non-executive director of our Company. Mr. Zhao currently serves as the chairman and president of Hony Capital, an executive director and executive vice president of Legend Holdings Corporation, a non-executive director of Lenovo Group Ltd., a non-executive director of China Glass Holdings Limited, the chairman of the board of directors and chief executive officer of Best Food Holding Company Limited, the chairman of the board of directors of Hospital Corporation of China Limited, the vice chairman of Shanghai Environment Group Co., Ltd., a non-executive director of Shanghai Jin Jiang International Hotels Development Co., Ltd. (a company listed on the Shanghai Stock Exchange), a director of ENN Ecological Holdings Co., Ltd. and a director of Shanghai Jin Jiang International Hotels Development Co., Ltd.. Mr. Zhao obtained a bachelor's degree in physics from Nanjing University, dual master's degrees in electronic engineering and physics from Northern Illinois University, USA and a master's degree in business administration from the Kellogg School of Management at Northwestern University.

Mr. Lai Kin Keung (黎建強), male, born in 1950, is an independent director of our Company. Mr. Lai is currently the president of Asia Association on Risk and Crises Management and a chair professor of management science at City University of Hong Kong. Mr. Lai is also an independent non-executive director of Hanbo Enterprises Holdings Ltd., a company listed on the Hong Kong Stock Exchange. Mr. Lai is the founding chairman of the Operational Research Society of Hong Kong, the certified senior enterprise risk manager of Asia Association of Risk and Crisis Management, a member of the Hong Kong Professionals and Senior Executives Association, a fellow of the Hong Kong Institute of Directors and a fellow of the Asia Pacific Industrial Engineering and Management Society. Mr. Lai 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 received the 2009 Joon S. Moon Distinguished International Alumni Award and 2014 Civil and Environmental Engineering (CEE) Distinguished Alumni Award from Michigan State University, USA in February 2009 and January 2014, respectively. Mr. Lai obtained a doctor of philosophy degree in civil engineering from Michigan State University, USA in September 1997.

Mr. Zhao Songzheng (趙嵩正), male, born in 1961, is an independent director of our Company. Mr. Zhao is currently a professor of the Management College at Northwestern Polytechnical University and has been a doctor of philosophy tutor since 1999. During his teaching career, Mr. Zhao chaired various scientific research and development projects at state and provincial levels, received two Provincial Science and Technology Advancement Awards (Grade III), Educational Awards of Shaanxi Provinces (Grade I) and (Grade II) respectively, a Science and Technology Advancement Award of Xi'an City (Grade I), a Management Award of Shaanxi Province (Grade I) and Science and Technology Advancement Awards in Education of Shaanxi Province (Grade I) and (Grade III) respectively, 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..

Directors, Supervisors, Senior Management and Employees

Mr. Yang Changbo (楊昌伯), male, born in 1954, is an independent director of our Company. Mr. Yang 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 a doctorate degree in economics from the University of Texas at Austin in 1986.

Ms. Liu Guiliang (劉桂良), female, born in 1963, is an independent director of our Company. Ms. Liu is a master's tutor, certified accountant and certified asset appraiser. Ms. Liu has been a professor of the School of Business Administration at Hunan University since June 2007. Ms. Liu 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 the deputy secretary of communist youth league committee of Hunan College of Finance and Economics from July 1983 to June 1987 and a 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 the financial director of Hunan Xiangcai Industrial Corporation (湖南湘財實業總公司) from September 2000 to September 2002. Currently, Ms. Liu also serves as an independent director of Sotech Machinery Co., Ltd., Xiandai Investment Co., Ltd. and Hunan Tyen Machinery Co., Ltd..

Mr. Wang Minghua (王明華), male, born in March 1964, is the chairman of the supervisory board of the Company and a member of the communist party. He obtained a bachelor's degree and is a senior accountant. Since August 2006, Mr. Wang has served as a member of the party committee, deputy general manager and chief accountant of Hunan Xing Xiang Investment Holding Group Co., Ltd. and also a member of senior accountant appraisal committee of Hunan Province, an expert on assessment of the Special Capital Projects of Financial Corporates of Hunan and a member of the second session of Expert Review Committee for Writing-off of Non-Performing Assets of Hunan. From May 1993 to January 2002, he served as the deputy head and head of the financial department of Hunan Nonferrous Metals Geological Exploration Bureau of the State Administration of Nonferrous Metal Industry (during such period, he served as the chief accountant of Hunan Xin Xiang Metal Group from November 1999 to December 2001 and chief accountant of Central and Southern China Municipal Engineering Construction Group from January 2001 to December 2002). From January 2002 to August 2006, Mr. Wang served as the director of the third office of the Supervisory Board of State-owned Enterprise of Hunan and was delegated to Valin Group, Xiang Gang Group, Lin Gang Group, Hengyang Steel Tube Group, Hailea Group, Zhuzhou Chemical Industry Group and Xiangtou Holdings Group as a supervisor, respectively. From April 2004 to August 2006, Mr. Wang served as a member of the first session of the party committee of the departments of the State-owned Assets Supervision and Administration Commission of Hunan.

Mr. He Jianming (何建明), male, born in 1962, is a supervisor of the Company and currently serves as the chairman of Zoomlion Heavy Machinery Co., Ltd.. He obtained a master's degree and is a senior accountant. He was 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 Zoomlion 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 at Hunan University from December 2003 to December 2006 and is currently a master's tutor in accounting of the School of Management at Hunan Normal University. Mr. He is currently a member of senior accountant appraisal committee of Hunan Province, the vice chairman of Hunan Association of Chief Accountants, the vice chairman of the Listed Company Division of Hunan Association of Accountants, the vice chairman of the Accounting Society of Hunan Province and a member of executive council of Hunan Association of Taxation. Mr. He obtained a master's degree in business administration for senior management professionals from Wuhan University in 2007.

Mr. Liu Xiaoping (劉小平), male, born in 1963, is a supervisor of the Company and an engineer and currently the director of the engineering machinery centre of Zoomlion. Since joining Zoomlion in 1995, Mr. Liu has served as the director of the Guangdong office, the general manager of Zoomlion Siwei Company (中聯重科四維公司), a manager of the engineering and development department, the general manager of Zoomlion Zhongchen Company (中聯重科中宸公司), a director of the brand management centre, the deputy director of the marketing department, an assistant to chairman and the director of the brand promotion department and an assistant to general manager of the heavy machinery division. Mr. Liu was also engaged by the Ministry of Industry and Information Technology as the first batch of branding experts of industrial enterprises in May 2012. Mr. Liu graduated from Hunan University in 1984 majoring in mechanical manufacturing. In August 2006, he completed the professional program for CEO at Tsinghua University's major course of innovation administration (MIA). In March 2012, he completed the professional course for CEO in the program of executive master of business administration at Shanghai Jiao Tong University.

Mr. Xiong Yanming (熊焰明), male, born in 1964, is an executive director and the chief executive officer of Zoomlion Heavy Machinery Co., Ltd. Mr. Xiong has become a senior engineer specialised in construction machinery recognised by the Ministry of Construction since December 1999 and obtained the qualification certificate of senior professional manager of machinery enterprises 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, the deputy general manager of our Company from April 2001 to July 2002, an executive vice president of our Company from August 2002 to July 2006, a member of the 2nd session of the Board of Directors of our Company from September 2004 to July 2006. He has served as a vice president of our Company since August 2006 and served as the general manager of the engineering crane branch of our Company from August 2006 to June 2014. Mr. Xiong has

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received various awards, including Hunan Province Technology Innovation Advanced Individuals Award in 1999, Changsha City Advancement Award in Technological Development (Grade II) in 1999, the Award of Succeeding Leader for Academics and Technology of Changsha City in 2007 and the Outstanding Leaders' Award in 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) in 2013. 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.

Mr. Sun Changjun (孫昌軍), male, born in 1962, is a vice president of our Company. Mr. Sun has become a professor recognised by the Leaders Team of the Working Group on Titles Reform of Hunan Province since September 2005. Mr. Sun served as the deputy secretary of the youth league committee, the deputy director of the business teaching and research section and the deputy director of the training department of Hunan Provincial People's Police School (currently known as Hunan Police College) from November 1985 to July 1990 respectively, a senior member of the legal and labour affairs committee of Hunan People's Congress from July 1990 to July 1995, the director of criminal law research office of Hunan University of Finance and Economics from July 1998 to May 2000, the vice director of the industrial economics office of Hunan University from June 2000 to September 2001, the deputy head of the law faculty of Hunan University from October 2001 to December 2004, the general legal counsel of Research Institute from January 2005 to July 2006, a vice president of our Company from July 2006 to June 2015 and the Chief Legal Officer of our Company from July 2015 to January 2018. Mr. Sun serves various other positions, including the chairman of the Criminal Law Research Association of Hunan Province, the chairman of the Risk Management Research Association of Hunan Province, the vice chairman of the Legislative Research Association of Hunan Province, the vice chairman of the State-owned Assets Supervision and Management Research Association of Hunan Province, the vice chairman of the Provincial Condition 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) and the vice chairman of Changsha City Federation of Industry and Commerce. Mr. 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, the Social Science Results (Grade I) Prize of Hunan Province in June 2002, the Outstanding Achievements (Grade II) Prize of Philosophy and Social Sciences of Hunan Province in 2004, the Outstanding Legal Counsel of Provincial Supervisory Corporations in 2008, the 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 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. Mr. 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 (full-time) 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. Mr. Guo is currently the general manager of general marketing branch of our Company. Mr. Guo was the head of the technological structure section of technology department of Hunan Puyuan Construction Machinery Factory from June 1992 to February 1995, the deputy head of technology department of Hunan Puyuan Construction Machinery Factory from February 1995 to January 1996, the head of technology research centre of Puyuan Group and the 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 and the assistant to general manager and deputy general manager of Puyuan Group from January 2002 to August 2004. Mr. Guo has served as the general manager of the Puyuan branch of our Company from September 2004 to February 2006, a vice president of our Company since February 2006 and the general manager of the earth working machinery branch of our Company from January 2009 to December 2011. 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 and obtained a master's degree in executive business administration at Wuhan University in Wuhan City, the PRC in June 2007.

Ms. Fu Ling (付玲), female, born in 1967, is a vice president of our Company. Ms. Fu obtained a doctorate degree in mechanics and is a researcher-level senior engineer. She is currently the Chief Engineer of our Company, the head of the central research institute and the general manager of the earth working machinery branch of our Company. Ms. Fu received awards such as the First Prize of China Machinery Industry Science and Technology Award (中國機械工業科學技術獎一等獎) 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), and was previously awarded the National Labour Day Medallion (全國五一勞動獎章) and the title of National woman pacesetter (全國三八紅旗手). She was a representative of the 18th National Congress of the Communist Party of China in 2012. She graduated from Shenyang Jianzhu Engineering College (瀋陽建築工程學院) (currently known as Shenyang Jianzhu University) in Shenyang, the PRC with a bachelor's degree in construction and crane transportation machinery in 1988, graduated from Jilin University of Technology (currently known as Jilin University) in Changchun, the PRC with a doctorate degree in mechanical design and theory in 1998 and completed a 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, the PRC in 2002.

Ms. Du Yigang (杜毅剛), female, born in 1975, is a vice president of our Company. Ms. Du is a senior accountant. Ms. Du was awarded the titles of the Outstanding Entrepreneur of National Hi-Tech Industrial Development Zone in Changsha (長沙高新區優秀企業家) in 2014 and the First Selection Session of Leading Accounting Talent in Hunan Province (湖南省首屆會計領軍人才). 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

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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 general 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 master's in business administration programme of the School of Business of Hunan University in September 2011.

Mr. Huang Jianbing (黃建兵), male, born in 1971, is an assistant president of our Company. Mr. Huang previously served as the head of loader research institute, general manager of business department, executive vice president of the institute, director of strategy and investment, assistant to president and vice president of Guangxi Liugong Machinery Co., Ltd., the vice president of Guangxi Liugong Group Co., Ltd. and a director of Liuzhou OVM Machinery Co., Ltd.. Mr. Huang graduated from Chongqing Jianzhu University with a bachelor's degree in engineering majoring in lifting transportation and engineering machinery in 1994 and obtained a master's degree in vehicle engineering from Jilin University in 2004.

Mr. Qin Xiuhong (秦修宏), male, born in 1974, is an assistant president of our Company. Mr. Qin served as the finance director of Taiyuan Branch of Ningbo Shanshan Co., Ltd., the finance director and director of internal control of Hunan Shanshan Advanced Materials Co., Ltd. and the chief financial officer of Xuzhou Xugong Mining Machinery Co., Ltd.. Mr. Qin obtained the title of senior accountant in 2012. He was appointed as a part-time postgraduate tutor at the School of Management of China University of Mining and Technology in 2014 and awarded the honorary title of "2015 China International Financial Excellence Talent" (2015中國國際財務卓越人才) in 2015. Mr. Qin graduated from Hefei University of Technology with a postgraduate degree in business administration (accounting and finance) and obtained a master's degree in business administration in 2010. He is currently a Doctor of Philosophy candidate in financial systems engineering at China University of Mining and Technology.

Mr. Wang Yongxiang (王永祥), male, born in 1977, is an assistant president of our Company. He is currently the head of operational management department of our Company. Mr. Wang previously served as the general manager of marketing branch of concrete division and assistant to general manager of concrete division of our Company. Mr. Wang was awarded the title of Outstanding Entrepreneur of National Hi-Tech Industrial Development Zone in Changsha (長沙高新技術開發區優秀企業家) in 2015. Mr. Wang graduated from Xi'an Technological University majoring in mechanical manufacturing in 1997.

Mr. Luo Kai (羅凱), male, born in 1970, is an assistant president of our Company. He is currently the general manager of engineering crane branch of our Company. Mr. Luo previously served as the director of technological research institute of engineering crane branch, the director of product research institute I of engineering crane branch, the deputy head of technical department of engineering crane branch, the manager of crawler crane division of engineering crane branch and deputy general manager of engineering crane branch of our Company. Mr. Luo obtained the title of associate senior engineer of mechanical design in 2017. Mr. Luo graduated from Taiyuan Heavy Machinery Institute with a bachelor's degree in lifting transportation and engineering machinery in 1995.

Mr. Tian Bing (田兵), male, born in 1974, is an assistant president of our Company. He is currently the general manager of pumping division of our Company. Mr. Tian also serves as the head of Ningxiang concrete machinery branch of our Company and an executive director of Hunan Zoomlion Concrete Machinery Station Equipment Co., Ltd.. Mr. Tian previously served as the head of administrative department of our Company, the general manager of concrete machinery branch of our Company and the general manager of Zhongwang branch of our Company. Mr. Tian obtained the title of lecturer in October 2000 and was awarded the title of Outstanding Entrepreneur of National Hi-Tech Industrial Development Zone in Changsha (長沙市高新區優秀企業家) in 2017. Mr. Tian obtained a Bachelor of Arts degree from Hunan Normal University in December 1995, a Bachelor of Law degree from Xiangtan University in June 1999, a Bachelor of Management degree from Hunan University in June 2007 and a bachelor's degree in economics from Hunan University in June 2013.

Mr. Tang Shaofang (唐少芳), male, born in 1974, is an assistant president of our Company. He is currently the general manager of construction crane branch of our Company. Mr. Tang previously served as the manager of planning department, assistant to general manager and executive deputy general manager of construction crane branch of our Company. Mr. Tang was awarded the title of Outstanding Entrepreneur of National Hi-Tech Industrial Development Zone in Changsha (長沙市高新區優秀企業家) in 2013. Mr. Tang graduated from University of South China majoring in mechanical engineering in 1996 and obtained a master's degree in business administration from Central South University in 2009.

Mr. Shen Ke (申柯), male, born in 1971, is the Chief Investment Officer of our Company. He was the deputy manager and head of the investment and development division, the deputy head of the investment and financing management division and the secretary of the board of directors of our Company. Mr. Shen is also a director of Infore Environment Technology Group Co., Ltd. and a director of Bichamp Cutting Technology (Hunan) Co.,Ltd.. Mr. Shen graduated from Shenyang University of Technology with a bachelor's degree in industrial management in July 1993 and Central South University of Technology (currently known as Central South University) with a master's degree in management science and engineering in December 1998.

Mr. Yang Duzhi (楊篤志), male, born in 1989, is the secretary of the board of directors of our Company. Mr. Yang previously served as a manager of the listing department of National Equities Exchange and Quotations Co., Ltd., a senior investment manager of Zoomlion Capital Co., Ltd. and the secretary of the board of directors of Beijing Junlai Capital Management Co., Ltd.. Mr. Yang graduated from Beijing Technology and Business University, the PRC with a bachelor's degree in corporate management in June 2011, obtained a master's degree in corporate management from Beijing Technology and Business University, the PRC in June 2014 and studied for a master's degree in public administration at Renmin University of China since September 2017.

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IV. 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 and senior management pursuant to the assessment standards based on the fulfillment of major financial indicators and operating targets in 2018, scope of work and major responsibilities of directors and senior management, and fulfillment of targets in the relevant performance assessment system. The performance assessment was submitted to the Board of the Company for review.

The Board of the Company determined the remuneration standards of directors 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 2018, remuneration of directors 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	Gender	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	63	incumbent	270	No
Hu Xinbao	Director	M	50	resigned	0	No
Zhao John Huan	Director	M	56	incumbent	0	No
Lai Kin Keung	Independent Director	M	68	incumbent	12	No
Zhao Songzheng	Independent Director	M	57	incumbent	12	No
Liu Guiliang	Independent Director	F	55	incumbent	12	No
Yang Changbo	Independent Director	M	64	incumbent	12	No
Fu Zheng	Chairman of Supervisory Board	F	50	resigned	0	No
Liu Quan	Supervisor	M	55	resigned	0	No
Liu Chi	Employee Supervisor	M	61	resigned	130	No
Yin Zhengfu	Vice President	M	62	resigned	170	No
Xiong Yanming	Vice President	M	54	incumbent	200	No
Su Yongzhuan	Vice President	M	46	resigned	170	No
Fang Minghua	Vice President	M	61	resigned	170	No

Name	Post	Gender	Age	Employment Status	Total remuneration before tax received from the Company	Whether the remuneration was received from a related party of the Company
He Jianming	Supervisor	M	55	incumbent	170	No
Wang Jinfu	Vice President	M	62	resigned	160	No
Sun Changjun	Vice President	M	56	incumbent	180	No
Huang Qun	Vice President	F	52	resigned	170	No
Guo Xuehong	Vice President	M	56	incumbent	180	No
Li Jiangtao	Vice President	M	55	resigned	160	No
Liu Jie	Vice President	F	50	resigned	140	No
Du Yigang	Vice President	F	43	incumbent	140	No
Fu Ling	Vice President	F	51	incumbent	140	No
Shen Ke	Investment Director	M	47	incumbent	130	No
Total	—	—	—	—	2,728	—

V. 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.

VI. Directors' and Supervisors' Interests in Contracts

No director or supervisor of the Company, or an entity connected with a director or a supervisor of the Company, had a material interest, either directly or indirectly, in any transaction, arrangement or 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.

Share Option Scheme

On 1 November 2017, a share incentive scheme of the Company (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 participants. 39 participants waived their right to subscribe for new A shares under the Share Option Scheme, leaving 1,192 participants to subscribe for an aggregate of 168,760,911 A shares under the First Grant of Options.

On 10 September 2018, during the sixth extraordinary meeting of the fifth session of the Board for 2018, the Board considered and approved the second grant of options under the Share Option Scheme (the "**Second Grant of Options**") and confirmed that the date of the Second Grant of Options shall be 10 September 2018, pursuant to which 19,063,218 options were granted to 405 participants. 16 participants waived their right to subscribe for new A shares under the Share Option Scheme, leaving 389 participants to subscribe for an aggregate of 18,554,858 A shares under the Second Grant of Options.

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.

(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 2.44% of the existing total issued share capital of the Company. Amongst the options, 171,568,961 options granted are under the First Grant of Options, representing approximately 2.20% of the existing total issued share capital of the Company, and 19,063,218 options are reserved options granted under the Second Grant of Options, representing 0.24% of the existing total issued share capital of the Company.

(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 granted to the participants have different vesting periods. The options under the First Grant of Options have vesting periods of 12 months, 24 months and 36 months and the reserved options under the Second Grant of Options 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 under the Second Grant of 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%

Share Option Scheme

(VII) Exercise price

The exercise price of the options granted under 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.

Pursuant to the terms of the Share Option Scheme, if the Company declares a dividend during the period from the date on which the Share Option Scheme is first announced to the date on which a participant exercises his options, the exercise price shall be adjusted accordingly such that it shall be the exercise price minus the amount dividend declared per share. In accordance with the terms of the Share Option Scheme, following the payment of the 2017 final dividend by the Company on 24 August 2018, the exercise price of the options granted under the First Grant of Options was adjusted to RMB4.37 per share.

The exercise price of the options granted under the Second Grant of Options shall be RMB3.96 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 of the Second Grant of Options, which was RMB3.69 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, 60 or 120 trading days immediately preceding the date of the announcement of the Second Grant of Options, which was RMB3.96 per A share.

(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 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 2018 were as follows:

	Number of options									
Name or category of participant	As at 1 January 2018	Granted during the year	Lapsed during the year	Cancelled during the year	Exercised during the year	As at 31 December 2018	Date of grant	Vesting period	Exercise period	Exercise price (RMB)
Zhan Chunxin (chief executive of the Company)	2,888,520	–	–	–	–	2,888,520	7 November 2017	1-3 years from the date of grant	7 November 2018 to 5 November 2021	4.37[2]
	2,888,520	–	–	–	–	2,888,520				
Key technical and managerial personnel [4]	165,872,391	–	–	4,472,740[1]	–	161,399,651	7 November 2017	1-3 years from the date of grant	7 November 2018 to 5 November 2021	4.37[2]
	–	18,554,858	–	–	–	18,554,858	10 September 2018	1-2 years from the date of grant	10 September 2019 to 9 September 2021	3.96[3]
	165,872,391	18,554,858	–	4,472,740[1]	–	179,954,509				
	168,760,911	18,554,858	–	4,472,740[1]	–	182,843,029				

(1) The exercise price of such cancelled options was RMB4.37 per A share.

(2) The exercise price of the options granted under the First Grant of Options was RMB4.57 per A share. Pursuant to the terms of the Share Option Scheme, if the Company declares a dividend during the period from the date on which the Share Option Scheme is first announced to the date on which a participant exercises his options, the exercise price shall be adjusted accordingly such that it shall be the exercise price minus the amount dividend declared per share. In accordance with the terms of the Share Option Scheme, following the payment of the 2017 final dividend by the Company on 24 August 2018, the exercise price of the options granted under the First Grant of Options was adjusted to RMB4.37 per share.

(3) The closing price of the A shares immediately before the date on which such options were granted was RMB3.69 per A share.

(4) There are 1,192 participants in total under the First Grant of Options, and 389 participants in total under the Second Grant of Options.

Fair value of the options granted during the year ended 31 December 2018 and assumptions are set out in note 25 to the financial statements prepared under IFRSs. The Black-Scholes model requires input of subjective assumptions such as the expected stock price volatility. Change in the subjective input may materially affect the fair value estimates. With regard to the subjectivity and uncertainty of the values of the options, such values are subject to a number of assumptions and the limitation of the Black-Scholes model.

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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.

Mr. Zhan Chunxin acted as the Chairman and Chief Executive Officer of the Company in 2018. The Board considers that Mr. 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 2018.

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 structures 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 2018, the Directors have consistently adopted proper accounting policies and made reasonable estimates

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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.

(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 4 meetings a year. In the year of 2018, the Board had held 11 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.

The attendance of all Directors at the Board meetings and general meetings in 2018 was as follows:

	Name of Directors	**Number of Board meetings held**	**Attendance**	**Number of general meetings held**	**Attendance**
Chairman	Mr. Zhan Chunxin	11	11	1	1
Non-executive Director	Mr. Hu Xinbao	11	11	1	1
	Mr. Zhao John Huan	11	11	1	1
Independent Non-executive Director	Mr. Lai Kin Keung	11	11	1	1
	Mr. Zhao Songzheng	11	11	1	1
	Ms. Liu Guiliang	11	11	1	1
	Mr. Yang Changbo	11	11	1	1

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.

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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 2018 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.

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(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

In 2018, 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 2018, 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 2017 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

In 2018, 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 2018, the Nomination Committee did not hold any meeting.

3. Appointment of Directors and senior management

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

4. Nomination Policy

In assessing the suitability of a proposed candidate, the Nomination Committee would consider factors including:

(a) reputation for integrity;

(b) experience in the construction machinery industry and/or business strategy, management, legal and financial aspects;

(c) whether the proposed candidate is able to assist the Board in effective performance of its responsibilities;

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(d) the perspectives and skills that the proposed candidate is expected to bring to the Board;

(e) diversity in all its aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service;

(f) commitment in respect of available time and relevant interest; and

(g) in the case of selection for Independent Non-Executive Directors, the independence of the proposed candidate.

These factors are for reference only, and not meant to be exhaustive and decisive.

5. Board Diversity Policy

The Board adopted the board diversity policy ("**Board Diversity Policy**") in accordance with the requirement set out in the Corporate Governance Code. Such policy aims to set out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates shall be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates shall be based on a range of diversity perspectives, including but not limited to, gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board. The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy. The Nomination Committee will continue to give adequate consideration to these measurable objectives when making recommendations of candidates for appointment to the Board.

(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

In 2018, 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 2018, the Audit committee held 4 meetings mainly to review the annual results for 2017, the interim results for 2018 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 2018. It reviewed the accounting principles and practices adopted by the Company and discussed on issues regarding the internal control, risk management and financial reporting. It has reviewed the effectiveness of the Group's risk management and internal control systems (including the Company's internal audit function) for the year ended 31 December 2018, and considers them effective and adequate. 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 2018.

	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.

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

In 2018, 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 2018, the Strategy and Investment Decision-making Committee held 2 meeting to review the matters regarding Infore Environment Technology Group Co., Ltd. issuing shares to buy a 20% stake in Changsha Zoomlion Environmental Industry Co., Ltd. from the Company, injecting capital into the Company's wholly-owned subsidiary Zoomlion Capital Management Co., Ltd., and setting up the Zoomlion Industry Fund.

	Attendance/ Number of meetings during the Reporting Period
Ms. Zhan Chunxin	2/2
Mr. Zhao John Huan	2/2
Mr. Yang Changbo	2/2

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.

(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 of the Company, or an entity connected with a director or a supervisor of the Company, had any material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance subsisted at the end of the year or at any time during the year of 2018.

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 2018 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 2018 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[1]	Percentage of the total share capital of the same class (%)
Zhan Chunxin	Beneficiary owner	A Share	8,040,556 (L)	0.1252
	Interest in a controlled corporation[2]	H share	52,500,000 (L)	3.78
Liu Quan	Beneficiary owner	A Share	1,068,052 (L)	0.0166
Liu Chi	Beneficiary owner	A Share	379,211 (L)	0.0059

Note:

(1) L represents long position

(2) Such interest is being held by Fair Sun (Hong Kong) Holdings Limited, a wholly-owned subsidiary of Hunan Fangsheng Company Limited, which in turn is controlled by Zhan Chunxin.

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As at 31 December 2018, 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 2018, 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 2018. 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 2018.

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 2018, 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 RMB13.06 million.

All Directors acknowledge their responsibility for preparing the Group's financial statements for the year ended 31 December 2018. Baker Tilly China Certified Public Accountants and KPMG, the domestic and international auditors of the Company respectively, acknowledge reporting responsibilities in the auditor's reports on the Group's financial statements for the year ended 31 December 2018.

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 2018. Shen Ke ceased to be the Company's company secretary with effect from 29 March 2019. On the same date, Mr Yang Duzhi was appointed as the Company's company secretary and Ms Tai Chi Shan Psyche was appointed as his assistant in the discharge of his duties.

VIII. Performance Appraisal and Award System of Senior Management

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

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 2018, 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.

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

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

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

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

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

Shareholders' right to propose resolutions at general meetings

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

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

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

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

(II) Investors

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

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

XI. Stakeholders

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

XII. Connected Transactions

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

XIII. Information Disclosure and Transparency

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

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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.

XV. Dividend Policy

The Company seeks to maintain a balance between meeting Shareholders' expectations and prudent capital management with a sustainable dividend policy. The Company's dividend policy aims to allow Shareholders to participate in the Company's profit and for the Company to retain adequate reserves for future growth. In proposing any dividend payout, the Company would consider various factors including the Company's actual and expected financial performance, general economic and financial conditions, business cycle of the Company and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and the Company's future expansion plan.

Independent Auditor's Report

KPMG

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

Opinion

We have audited the consolidated financial statements of Zoomlion Heavy Industry Science and Technology Co., Ltd. ("the Company") and its subsidiaries ("the Group") set out on pages 106 to 248 which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018 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.

Revenue recognition on sale of construction machinery	
Refer to Note 3 to the consolidated financial statements and the accounting policies on pages 152 to 154.	
The Key Audit Matter	**How the matter was addressed in our audit**
The Group's revenue is principally derived from the sale of construction machinery and agricultural machinery to a significant number of customers. Revenue of construction machinery is recognised when the Group satisfies the performance obligation by transferring the control over products promised in the contract with customer, which is the point of time when a customer accepts the machinery and signs on the goods delivery note. Sales of construction machinery contributed more than 90% of the Group's revenue for the year ended 31 December 2018. 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, and also because the Group's construction machinery has a variety of sales model and payment methods, including long-term payment, finance lease or guarantee arrangement, which is more susceptible to misstatement.	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 performance obligations and terms and conditions relating to goods acceptance and the right of return; assessing whether the revenue is recognised when a performance obligation is satisfied; assessing whether the payment terms indicate a significant financing component and assessing the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards; • comparing, on a sample basis, revenue transactions recorded during the year with 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 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 directly with customers.

<table>
<tr><th colspan="2">Loss allowance for trade debtors</th></tr>
<tr><td colspan="2">Refer to Notes 18, 19 and 31(b)(ii) to the consolidated financial statements and the accounting policies on pages 119 to 125 and pages 138 to 145.</td></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>Trade debtors include trade receivables and receivables under finance lease arrangements. As of 31 December 2018, the Group's gross trade receivables and gross receivables under finance lease arrangements totalled RMB28,497 million and RMB14,158 million, respectively, against which loss allowance of RMB 5,912 million and RMB1,667 million, respectively, were recorded.

Under IFRS 9, management measures loss allowance at an amount equal to lifetime expected credit loss, which takes into account loss given default, probability of default, and forward-looking information. According to the past experience of the Group, the credit loss patterns of different customer groups are significantly different. The Group clusters customers into customer groups based on a number of factors including their ownership background and financial strength, and the industries in which they operate, etc. The Group estimates loss allowance for trade debtors for each of the customer groups with similar loss patterns.

We identified the loss allowance for trade debtors as a key audit matter because trade debtors and loss allowance are material to the Group's financial statements and because the recognition of expected credit loss is inherently subjective and requires significant management judgement.</td><td>Our audit procedures to assess the loss allowance for 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, segmentation of customer groups for trade debtors and customer credit risk assessment, estimate of expected credit loss and making of related loss allowance;

• Obtaining an understanding of the key data and assumptions adopted by the management in the expected credit loss model, including the basis of segmentation of the trade debtors based on customer credit risk characteristics, historical default data, and the assumptions involved in management's estimated loss rates;

• Assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information;

• Assessing whether items were correctly categorised in the trade debtors aging report by comparing a sample of individual items with the underlying goods delivery notes, sales invoices and other relevant underlying documentation; and

• Recalculating the loss allowance to assess if this is consistent with the Group policies on a sample basis.</td></tr>
</table>

Independent Auditor's Report

Valuation of reprocessed machinery	
Refer to Notes 16 and 35(c) to the consolidated financial statements and the accounting policies on page 146.	
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 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 forecasting 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.

<table>
<tr><th colspan="2">Assessing potential impairment of goodwill and trademarks</th></tr>
<tr><td colspan="2">Refer to Notes 12 and 13 to the consolidated financial statements and the accounting policies on page 133, pages 136 to 137 and pages 145 to 146.</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 2018, the aggregate carrying value of the Group's goodwill and trademarks with an indefinite useful life totalled RMB3,270 million which represented 3.5% of the total assets of the Group at the reporting 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 12 and 13 to the consolidated financial statements and the accounting policies on page 133, pages 136 to 137 and pages 145 to 146.	
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.

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.

- 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 2019

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

(Expressed in RMB)

	Note	2018 RMB millions	2017 RMB millions [i]
Continuing operations:			
Revenue	3	**28,697**	20,608
Cost of sales and services		**(20,923)**	(16,303)
Gross profit		**7,774**	4,305
Other income	4	**882**	259
Sales and marketing expenses		**(2,379)**	(2,180)
General and administrative expenses		**(2,063)**	(10,487)
Research and development expenses		**(581)**	(277)
Profit/(loss) from operations		**3,633**	(8,380)
Net finance costs	5(a)	**(1,205)**	(1,443)
Share of profits less losses of associates		**222**	110
Profit/(loss) before taxation	5	**2,650**	(9,713)
Income tax	6	**(682)**	1,425
Profit/(loss) from continuing operations		**1,968**	(8,288)
Discontinued operation:			
Profit from discontinued operation	7	**—**	9,546
Profit for the year		**1,968**	1,258

The notes on pages 115 to 248 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

(Expressed in RMB)

	Note	2018 RMB millions	2017 RMB millions (i)
Profit/(loss) attributable to:			
Equity shareholders of the Company			
— continuing operations		**2,031**	(8,212)
— discontinued operation		**—**	9,554
		2,031	1,342
Non-controlling interests			
— continuing operations		**(63)**	(76)
— discontinued operation		**—**	(8)
		(63)	(84)
Profit for the year		**1,968**	1,258
Basic earnings/(losses) per share (cents)	10		
— continuing operations		**26.60**	(107.46)
— discontinued operation		**—**	125.02
		26.60	17.56
Diluted earnings/(losses) per share (cents)	10		
— continuing operations		**26.41**	(107.46)
— discontinued operation		**—**	125.02
		26.41	17.56

The notes on pages 115 to 248 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

(Expressed in RMB)

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

Notes:

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

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

The notes on pages 115 to 248 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2018

(Expressed in RMB)

	Note	2018 RMB millions	2017 RMB millions (Note)
Non-current assets			
Property, plant and equipment	11	**6,077**	6,274
Lease prepayments		**1,943**	1,935
Intangible assets	12	**2,153**	2,250
Goodwill	13	**2,046**	2,088
Interests in associates	14	**3,500**	3,123
Other financial assets	15	**2,379**	2,154
Trade and other receivables	18	**5,498**	4,106
Receivables under finance lease	19	**3,656**	1,870
Pledged bank deposits	20	**129**	60
Deferred tax assets	26(b)	**1,276**	1,358
Total non-current assets		**28,657**	25,218
Current assets			
Inventories	16	**9,551**	8,886
Other current assets		**1,097**	897
Financial assets at fair value through profit or loss	17	**13,787**	6,323
Trade and other receivables	18	**21,554**	22,661
Receivables under finance lease	19	**8,835**	10,931
Pledged bank deposits	20	**1,184**	1,048
Cash and cash equivalents	21	**8,754**	7,148
Total current assets		**64,762**	57,894
Total assets		**93,419**	83,112
Current liabilities			
Loans and borrowings	22(a)	**22,044**	9,348
Trade and other payables	23	**15,786**	14,992
Financial liabilities at fair value through profit or loss		**40**	—
Contract liabilities	24	**1,602**	—
Income tax payable	26(a)	**151**	148
Total current liabilities		**39,623**	24,488
Net current assets		**25,139**	33,406
Total assets less current liabilities		**53,796**	58,624

The notes on pages 115 to 248 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2018

(Expressed in RMB)

	Note	2018 RMB millions	2017 RMB millions (Note)
Non-current liabilities			
Loans and borrowings	22(b)	**13,645**	19,296
Deferred tax liabilities	26(b)	**429**	485
Other non-current liabilities	28	**991**	653
Total non-current liabilities		**15,065**	20,434
NET ASSETS		**38,731**	38,190
CAPITAL AND RESERVES			
Share capital	29(a)	**7,809**	7,794
Reserves		**30,355**	29,746
Total equity attributable to equity shareholders of the Company		**38,164**	37,540
Non-controlling interests		**567**	650
TOTAL EQUITY		**38,731**	38,190

Approved and authorised for issue by the board of directors on 29 March 2019.

Zhan Chunxin
Chairman and Chief Executive Officer

Du Yigang
Vice-president

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

The notes on pages 115 to 248 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

(Expressed in RMB)

		Attributable to equity shareholders of the Company										
	Note	Share capital RMB millions (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))	Fair value reserve (recycling) RMB millions (Note 29(b)(iv))	Fair value reserve (non-recycling) RMB millions (Note 29(b)(v))	Other reserves RMB millions (Note 29(b))	Retained earnings RMB millions	Total RMB millions	Non-controlling interests RMB millions	Total equity RMB millions
Balance at 31 December 2017		7,794	12,708	2,964	(1,084)	44	–	21	15,093	37,540	650	38,190
Impact on initial application of IFRS 9	1(d)	–	–	–	–	(44)	43	–	(65)	(66)	(13)	(79)
Adjusted balance at 1 January 2018		**7,794**	**12,708**	**2,964**	**(1,084)**	**–**	**43**	**21**	**15,028**	**37,474**	**637**	**38,111**
Changes in equity for 2018												
Profit for the year		–	–	–	–	–	–	–	2,031	2,031	(63)	1,968
Other comprehensive income		–	–	–	(155)	–	(55)	–	(16)	(226)	–	(226)
Total comprehensive income		–	–	–	(155)	–	(55)	–	2,015	1,805	(63)	1,742
Appropriation for surplus reserve		–	–	369	–	–	–	–	(369)	–	–	–
Cash dividends	29(c)	–	31	–	–	–	–	–	(1,556)	(1,525)	–	(1,525)
Dividends declared by subsidiaries to non-controlling interests		–	–	–	–	–	–	–	–	–	(11)	(11)
Share incentive scheme												
– Share option scheme	25	–	48	–	–	–	–	–	–	48	–	48
– Restricted share scheme	25	15	342	–	–	–	–	–	–	357	–	357
Equity pick up of capital reserve change in an associate		–	5	–	–	–	–	–	–	5	–	5
Contribution from non-controlling shareholders in a subsidiary		–	–	–	–	–	–	–	–	–	6	6
Acquisition of non-controlling interests in a subsidiary		–	–	–	–	–	–	–	–	–	(2)	(2)
Safety production fund	29(d)	–	–	–	–	–	–	12	(12)	–	–	–
Balance at 31 December 2018		7,809	13,134	3,333	(1,239)	–	(12)	33	15,106	38,164	567	38,731

The notes on pages 115 to 248 form part of these financial statements.

Consolidated Statement of changes in equity

For the year ended 31 December 2018

(Expressed in RMB)

		Attributable to equity shareholders of the Company										
	Note	Share capital RMB millions (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))	Fair value reserve (recycling) RMB millions (Note 29(b)(iv))	Fair value reserve (non-recycling) RMB millions (Note 29(b)(v))	Other reserves RMB millions (Note 29(b))	Retained earnings RMB millions	Total RMB millions	Non-controlling interests RMB millions	Total equity RMB millions
Balance at 1 January 2017		7,664	12,695	2,938	(1,462)	(1)	–	15	14,924	36,773	982	37,755
Changes in equity for 2017												
Profit for the year		–	–	–	–	–	–	–	1,342	1,342	(84)	1,258
Other comprehensive income		–	–	–	378	45	–	–	–	423	30	453
Total comprehensive income		–	–	–	378	45	–	–	1,342	1,765	(54)	1,711
Appropriation for surplus reserve		–	–	26	–	–	–	–	(26)	–	–	–
Cash dividends	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	29(d)	–	–	–	–	–	–	6	(6)	–	–	–
Balance at 31 December 2017		7,794	12,708	2,964	(1,084)	44	–	21	15,093	37,540	650	38,190

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

The notes on pages 115 to 248 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2018

(Expressed in RMB)

	Note	2018 RMB millions	2017 RMB millions (Note)
Operating activities			
Profit before taxation		**2,650**	1,252
Adjustments for:			
Depreciation of property, plant and equipment		**585**	691
Amortisation of lease prepayments		**50**	56
Amortisation of intangible assets		**202**	221
Impairment loss on property, plant and equipment		**1**	149
Share of profits less losses of associates		**(222)**	(90)
Gain on sale of 20% equity interest in Changsha Zoomlion Environmental Industry Co., Ltd.	4	**(148)**	—
Interest income	5(a)	**(347)**	(398)
Interest expense	5(a)	**1,451**	1,488
Gain on repurchase of guaranteed USD senior notes	22(b)(v)	**(4)**	—
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	4	**(4)**	(25)
Net realised and unrealised gains on financial assets at FVPL	4	**(503)**	(32)
Dividend income from financial assets measured at FVOCI	4	**(32)**	—
Impairment loss on goodwill		**50**	24
Share incentive scheme expenses	5(b)	**267**	45
		3,996	(7,357)
(Increase)/decrease in inventories		**(108)**	3,560
(Increase)/decrease in trade and other receivables		**(1,471)**	1,639
Decrease in receivables under finance lease		**228**	1,236
Increase in contract liabilities		**1,602**	—
Increase in trade and other payables		**901**	3,602
Cash generated from operations		**5,148**	2,680
Income tax paid		**(431)**	(227)
Net cash generated from operating activities carried forward		**4,717**	2,453

The notes on pages 115 to 248 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2018

(Expressed in RMB)

	Note	2018 RMB millions	2017 RMB millions (Note)
Net cash generated from operating activities brought forward		**4,717**	2,453
Investing activities			
Payment for purchase of property, plant and equipment		**(370)**	(321)
Lease prepayments		**(58)**	(287)
Payment for purchase of intangible assets		**(103)**	(156)
Payment for investments in associates		**(4)**	(8)
Payment for financial assets at FVOCI		**(90)**	(350)
Proceeds from disposal of financial assets at FVOCI		**127**	—
Payment for financial assets at FVPL		**(38,414)**	(6,260)
Proceeds from disposal of financial assets at FVPL		**31,394**	35
Net proceeds from sale of 80% equity interest in Changsha Zoomlion Environmental Industry Co., Ltd.	7	**—**	10,428
Proceeds from disposal of interest in an associate		**—**	6
Dividends from an associate		**4**	5
Dividends from financial assets at FVOCI	4	**32**	—
Proceeds from disposal of property, plant and equipment, intangible assets and lease prepayments		**98**	248
Proceeds from settlement of foreign currency derivatives		**—**	23
Interest received		**347**	398
(Increase)/decrease in pledged bank deposits		**(205)**	275
Net cash (used in)/generated from investing activities		**(7,242)**	4,036
Financing activities			
Proceeds from loans and borrowings	21	**22,205**	16,518
Repayments of loans and borrowings	21	**(15,063)**	(17,257)
Repayments of guaranteed USD senior notes	22(b)(v)	**(325)**	(2,703)
Proceeds from issuance of restricted shares	25	**37**	386
Payment for forfeit of restricted shares	25	**(9)**	—
Interest paid		**(1,428)**	(1,527)
Dividends paid to equity shareholders		**(1,308)**	(1,141)
Dividends paid by subsidiaries to non-controlling interests		**(11)**	(11)
Contributions from non-controlling shareholders		**6**	1
Payment for acquisition of non-controlling interests		**(2)**	(2)
Payment on repurchase of own shares		**—**	(170)
Net cash generated from/(used in) financing activities		**4,102**	(5,906)
Net increase in cash and cash equivalents		**1,577**	583
Cash and cash equivalents at beginning of year		**7,148**	6,575
Effect of foreign exchange rate changes		**29**	(10)
Cash and cash equivalents at end of year	21	**8,754**	7,148

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

The notes on pages 115 to 248 form part of these financial statements.

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 the 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 2018

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 Investment Group Co., Ltd. ("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%.

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

(b) Organisation (continued)

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.

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 "First Grants"). The Company's equity interest held by Hunan SASAC was correspondingly decreased to 16.08%.

In September 2018, the Company issued additional share options and additional restricted shares under the Share Incentive Scheme adopted in 2017 (note 25), and the share capital of the Company was increased to approximately RMB7,813 million, comprising 6,424,395,847 A Shares and 1,388,207,086 H Shares.

During the period from August to November 2018, the Company forfeited 4,066,300 restricted A Shares of its own share capital with a total consideration of approximately RMB9 million, which were then cancelled in November 2018. As a result of the forfeit and cancellation of the A Shares, the share capital of the Company was decreased to approximately RMB7,809 million, comprising 6,420,329,547 A Shares and 1,388,207,086 H Shares. The Company's equity interest held by Hunan SASAC was decreased to 16.05%.

(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 below.

Notes to the consolidated financial statements

For the year ended 31 December 2018

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

(c) Basis of preparation (continued)

(i) Statement of compliance (continued)

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. note 1(d) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(ii) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 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 equity investments (note2(e)) and derivative financial instruments (note 2(f)) 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.

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

(d) Changes in accounting policies

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

(i) IFRS 9, *Financial instruments*

(ii) IFRS 15, *Revenue from contracts with customers*

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

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

The Group has been impacted by IFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by IFRS 15 in relation to presentation of contract liabilities. Details of the changes in accounting policies are discussed in Note 1(d)(i) for IFRS 9 and Note 1(d)(ii) for IFRS 15.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of IFRS 9 and IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by IFRS 9 and IFRS 15:

Notes to the consolidated financial statements

For the year ended 31 December 2018

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

(d) Changes in accounting policies (continued)

	At 31 December 2017 RMB millions	Impact on initial application of IFRS 9 (Note 1(d)(i)) RMB millions	Impact on initial application of IFRS 15 (Note 1(d)(ii)) RMB millions	At 1 January 2018 RMB millions
Other financial assets				
— Available-for-sale equity securities	2,154	(2,154)	—	—
— Financial assets measured at FVOCI	—	2,140	—	2,140
— Financial assets carried at FVPL	—	14	—	14
Trade and other receivables	4,106	(10)	—	4,096
Receivables under finance lease	1,870	(8)	—	1,862
Deferred tax assets	1,358	15	—	1,373
Total non-current assets	25,218	(3)	—	25,215
Trade and other receivables	22,661	(46)	—	22,615
Receivables under finance lease	10,931	(30)	—	10,901
Total current assets	57,894	(76)	—	57,818
Contract liabilities	—	—	1,330	1,330
Trade and other payables	14,992	—	(1,330)	13,662
Total current liabilities	24,488	—	—	24,488
Net current assets	33,406	(76)	—	33,330
Total assets less current liabilities	58,624	(79)	—	58,545
Total non-current liabilities	20,434	—	—	20,434
Net assets	38,190	(79)	—	38,111
Reserves	29,746	(66)	—	29,680
Total equity attributable to equity shareholders of the Company	37,540	(66)	—	37,474
Non-controlling interests	650	(13)	—	637
Total equity	38,190	(79)	—	38,111

Further details of these changes are set out in sub-sections (i) and (ii) of this note.

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

(d) Changes in accounting policies (continued)

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

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

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

The following table summarises the impact of transition to IFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

	RMB millions
Retained earnings	
Transferred from fair value reserve (recycling) relating to financial assets now measured at FVPL	**1**
Recognition of additional expected credit losses on financial assets measured at amortised cost	**(80)**
Related tax	**14**
Net decrease in retained earnings at 1 January 2018	**(65)**
Fair value reserve (recycling)	
Transferred to retained earnings relating to financial assets now measured at FVPL	**(1)**
Transferred to fair value reserve (non-recycling) relating to equity securities now measured at FVOCI	**(43)**
Net decrease in fair value reserve (recycling) at 1 January 2018	**(44)**
Fair value reserve (non-recycling)	
Transferred from fair value reserve (recycling) relating to equity securities now measured at FVOCI and increase in fair value reserve (non-recycling) at 1 January 2018	**43**
Non-controlling interests	
Recognition of additional expected credit losses on financial assets measured at amortised cost	**(14)**
Related tax	**1**
Net decrease in retained earnings at 1 January 2018	**(13)**

Notes to the consolidated financial statements

For the year ended 31 December 2018

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

(d) Changes in accounting policies (continued)

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

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

a. Classification of financial assets and financial liabilities

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

The following table shows the original measurement categories for each class of the Group's financial assets under IAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with IAS 39 to those determined in accordance with IFRS 9.

	IAS 39 carrying amount at 31 December 2017 RMB millions	Reclassification RMB millions	Remeasurement RMB millions	IFRS 9 carrying amount at 1 January 2018 RMB millions
Financial assets at amortised cost				
Cash and cash equivalents	7,148	—	—	7,148
Pledged bank deposits	1,108	—	—	1,108
Trade and other receivables	26,767	—	(56)	26,711
Receivables under finance lease	12,801	—	(38)	12,763
	47,824	—	(94)	47,730

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

(d) Changes in accounting policies (continued)

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

a. Classification of financial assets and financial liabilities (continued)

	IAS 39 carrying amount at 31 December 2017 RMB millions	Reclassification RMB millions	Remeasurement RMB millions	IFRS 9 carrying amount at 1 January 2018 RMB millions
Financial assets at FVOCI (non-recyclable)				
Equity securities (Note (i))	—	2,140	—	2,140
Financial assets at FVPL				
Wealth management products (Note (ii))	6,319	—	—	6,319
Derivative financial instruments (Note (ii))	4	—	—	4
Listed equity securities (Note (i))	—	14	—	14
	6,323	14	—	6,337
Financial assets classified as available-for-sale under IAS 39 (Note (i))				
Other financial assets	2,154	(2,154)	—	—

Notes:

(i) Under IAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under IFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated certain investments in unlisted equity securities at FVOCI (non-recycling), as these investments are held for strategic purposes.

(ii) Wealth management products, structured deposits and derivative financial instruments were classified as financial assets at FVPL under IAS 39. These assets continue to be measured at FVPL under IFRS 9.

Notes to the consolidated financial statements

For the year ended 31 December 2018

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

(d) Changes in accounting policies (continued)

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

a. Classification of financial assets and financial liabilities (continued)

The measurement categories for all financial liabilities remain the same.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under IFRS 9, see respective accounting policy notes in Note 2(e), (f), (j(i)), (m) and (n).

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

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

b. Credit losses

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

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

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

— lease receivables; and

— financial guarantee contracts issued (see Note 2(j)(ii)).

For further details on the Group's accounting policy for accounting for credit losses, see Notes 2(j)(i) and (ii).

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

(d) Changes in accounting policies (continued)

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

b. *Credit losses (continued)*

The following table reconciles the closing loss allowance determined in accordance with IAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with IFRS 9 as at 1 January 2018.

	RMB millions
Loss allowance at 31 December 2017 under IAS 39	**7,692**
Additional credit loss recognised at 1 January 2018 on:	
— Trade and other receivables	**56**
— Lease receivables	**38**
Loss allowance at 1 January 2018 under IFRS 9	**7,786**

c. *Transition*

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

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

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

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

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2018

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

(d) Changes in accounting policies (continued)

(ii) IFRS 15, Revenue from contracts with customers

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

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

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

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

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

a. Timing of revenue recognition

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

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

(d) Changes in accounting policies (continued)

(ii) IFRS 15, Revenue from contracts with customers (continued)

a. *Timing of revenue recognition (continued)*

B. 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;

C. 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 is considered in determining when the transfer of control occurs.

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue.

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 of revenue recognition or significantly deferred.

Previously, the Group applied such a policy when payments were significantly deferred. 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.

Where such instalment payment schemes include a significant financing component, the transaction price is adjusted to present value. Such adjustment results in interest income being recognised by the Group 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 products recognised when control of the completed product is transferred to the customer.

Notes to the consolidated financial statements

For the year ended 31 December 2018

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

(d) Changes in accounting policies (continued)

(ii) IFRS 15, Revenue from contracts with customers (continued)

b. *Significant financing component (continued)*

It is not common for the Group to receive payments significantly in advance of revenue recognition in the Group's arrangements with its customers.

The adoption of IFRS 15 does not have a significant impact on the recognition of revenue from instalment arrangement.

c. *Presentation of contract assets and liabilities*

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

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

For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis (see Note 2(l)).

Previously, contract balances relating to contract liabilities were presented in the statement of financial position under "trade and other payables" until the products were delivered to the customer and the revenue was recognised for the reasons explained in paragraph (a) above.

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

(d) Changes in accounting policies (continued)

(ii) IFRS 15, Revenue from contracts with customers (continued)

c. Presentation of contract assets and liabilities (continued)

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of IFRS 15:

	IAS 18 carrying amount at 31 December 2017 RMB millions	Reclassification RMB millions	IFRS 15 carrying amount at 1 January 2018 RMB millions
Contract liabilities	—	1,330	1,330
Trade and other payables	14,992	(1,330)	13,662
	14,992	—	14,992

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

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2018

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(j)(iii)). 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(e)).

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

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

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

(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.

2 Significant accounting policies (continued)

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

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

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

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

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

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (note 2(j)), 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.

Notes to the consolidated financial statements

For the year ended 31 December 2018

2 Significant accounting policies (continued)

(c) Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. 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(j)). 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 any other long-term interests that in substance form part of the Group's net investment in the associate.

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

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

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

2 Significant accounting policies (continued)

(d) Goodwill

Goodwill represents the excess of

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

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

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

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

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

(e) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries and associates are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 31(a). These investments are subsequently accounted for as follows, depending on their classification.

Notes to the consolidated financial statements

For the year ended 31 December 2018

2 Significant accounting policies (continued)

(e) Other investments in debt and equity securities (continued)

(A) Policy applicable from 1 January 2018

Investments other than equity investments

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

— amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(t)(vi));

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

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

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in Note 2(t)(v).

2 Significant accounting policies (continued)

(e) Other investments in debt and equity securities (continued)

(B) Policy applicable prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost (for impairment see Note 2(j)(i) — policy applicable prior to 1 January 2018).

Investments which did not fall into any of the above categories were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in Notes 2(t)(v) and 2(t)(vi), respectively. Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss. When the investments were derecognised or impaired (see Note 2(j)(i) — policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss.

(f) Derivative financial instruments

Derivative financial instruments are recognised 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.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses (note 2(j)). 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.

Notes to the consolidated financial statements

For the year ended 31 December 2018

2 Significant accounting policies (continued)

(g) Property, plant and equipment (continued)

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(j)). Cost comprises direct costs of construction as well as interest charges and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the periods of construction.

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

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

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

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

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

(h) Intangible assets (other than goodwill)

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(v)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (note 2(j)). Other development expenditure is recognised as an expense in the period in which it is incurred.

2 Significant accounting policies (continued)

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

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(j)). 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 10 years
— customer relationships	8 to 15 years
— capitalised development costs	5 to 10 years

Both the period and method of amortisation are reviewed annually.

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

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

(i) 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(j)). 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.

Notes to the consolidated financial statements

For the year ended 31 December 2018

2 Significant accounting policies (continued)

(j) Credit losses and impairment of assets

(i) **Credit losses from financial instruments and lease receivables**

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

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

— lease receivables; and

— financial guarantee contracts issued (see Note 1(d)(i)).

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

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets, trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate;

— lease receivables: discount rate used in the measurement of the lease receivable.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

2 Significant accounting policies (continued)

(j) Credit losses and impairment of assets (continued)

(i) **Credit losses from financial instruments and lease receivables** (continued)

(A) Policy applicable from 1 January 2018 (continued)

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and lease receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the customer is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Notes to the consolidated financial statements

For the year ended 31 December 2018

2 Significant accounting policies (continued)

(j) Credit losses and impairment of assets (continued)

(i) **Credit losses from financial instruments and lease receivables** (continued)

(A) Policy applicable from 1 January 2018 (continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(t)(vi) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

2 Significant accounting policies (continued)

(j) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments and lease receivables (continued)

(A) Policy applicable from 1 January 2018 (continued)

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

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

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

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

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Notes to the consolidated financial statements

For the year ended 31 December 2018

2 Significant accounting policies (continued)

(j) Credit losses and impairment of assets (continued)

(i) **Credit losses from financial instruments and lease receivables** (continued)

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables, and available-for-sale equity securities). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

— 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 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)

(j) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments and lease receivables (continued)

(B) Policy applicable prior to 1 January 2018 (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 2018

2 Significant accounting policies (continued)

(j) Credit losses and impairment of assets (continued)

(ii) Credit losses from 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.

Financial guarantees issued are initially recognised within "trade and other payables" at fair value. Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued (see Note 2(t)(viii)). The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when expected credit losses (ECLs, see Note 1(d)(i)) on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

(A) Policy applicable from 1 January 2018

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee and a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in Note 2(j)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the payments that are guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

2 Significant accounting policies (continued)

(j) Credit losses and impairment of assets (continued)

(ii) Credit losses from financial guarantees issued (continued)

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, a provision would be recognised if and when it became probable that (i) the holder of the guarantee would call upon the Group under the guarantee and (ii) the amount of the claim on the Group was expected to exceed the amount carried in "trade and other payables" in respect of the guarantee.

(iii) Impairment of other non-current 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).

Notes to the consolidated financial statements

For the year ended 31 December 2018

2 Significant accounting policies (continued)

(j) Credit losses and impairment of assets (continued)

(iii) Impairment of other non-current 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.

(k) 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.

2 Significant accounting policies (continued)

(l) Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(t)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(m)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(t)).

(m) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(j)(i)).

(n) 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. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(j)(i).

(o) 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(j)(ii), 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.

Notes to the consolidated financial statements

For the year ended 31 December 2018

2 Significant accounting policies (continued)

(p) 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.

(q) 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.

2 Significant accounting policies (continued)

(q) Employee benefits (continued)

(ii) Share-based payment (continued)

During the vesting period, the number of share options and restricted shares 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 shares 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.

(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.

(r) 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.

Notes to the consolidated financial statements

For the year ended 31 December 2018

2 Significant accounting policies (continued)

(r) Income tax (continued)

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.

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.

2 Significant accounting policies (continued)

(r) Income tax (continued)

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.

(s) 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 2018

2 Significant accounting policies (continued)

(t) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are 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 and taken possession of the goods. Revenue excludes value added tax and is after deduction of any trade discounts.

In the comparative period, revenue from sales of goods was recognised when goods were delivered to the customers' premises, which was taken to be the point in time when the customer had accepted the goods and the related risks and rewards of ownership.

2 Significant accounting policies (continued)

(t) Revenue and other income (continued)

(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 recognises revenue from rendering of services including maintenance service, technical consultation services etc. over the period of the service.

(v) 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.

(vi) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(j)(i)).

Notes to the consolidated financial statements

For the year ended 31 December 2018

2 Significant accounting policies (continued)

(t) Revenue and other income (continued)

(vii) 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.

(viii) Income from financial guarantees issued

Income from financial guarantees issued is recognised over the term of the guarantees (see Note 2(j)(ii)).

(u) 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. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. 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.

2 Significant accounting policies (continued)

(u) Translation of foreign currencies (continued)

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.

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The 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.

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.

(w) 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

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Notes to the consolidated financial statements

For the year ended 31 December 2018

2 Significant accounting policies (continued)

(w) Leases (continued)

(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(t)(ii). Impairment losses of receivables under finance lease are accounted for in accordance with the accounting policy as set out in note 2(j).

(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(t)(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(j)(iii). 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.

(x) 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.

(y) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

2 Significant accounting policies (continued)

(y) Discontinued operations (continued)

Classification as a discontinued operation occurs upon disposal. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises:

— the post-tax profit or loss of the discontinued operation; and

— the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

(z) 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.

Notes to the consolidated financial statements

For the year ended 31 December 2018

2 Significant accounting policies (continued)

(z) Related parties (continued)

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

(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.

(aa) 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 and segment reporting

(a) Revenue

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2018

3 Revenue and segment reporting (continued)

(a) Revenue (continued)

(i) Disaggregation of revenue

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

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

Note: The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18 and IAS 11(see Note 1(d)(ii)).

3 Revenue and segment reporting (continued)

(a) Revenue (continued)

(i) **Disaggregation of revenue** (continued)

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in Notes 3(b)(i) and 3(b)(iv) respectively.

The Group's customer base is diversified and none of the customer with whom transactions have exceeded 10% of the Group's revenues. Details of concentrations of credit risk arising from this customer are set out in Note 31(b)(ii).

(ii) **Total future minimum lease payments receivable by the Group**

Total future minimum lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods as follows:

	2018 RMB millions	2017 RMB millions
Within 1 year	**24**	59
After 1 year but within 5 years	**40**	79
After 5 years	**2**	15
	66	153

(b) Segment reporting

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

Continuing reportable segment:

a. 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.

Notes to the consolidated financial statements

For the year ended 31 December 2018

3 Revenue and segment reporting (continued)

(b) Segment reporting (continued)

Continuing reportable segment: (continued)

Others primarily research, develop, manufacture and sell of other machinery products, including road construction and pile foundation machinery, earth working machinery, material handling machinery and systems, specialised vehicles and vehicle axles. None of these segments met any of the quantitative thresholds for determining reportable segments for the years ended 31 December 2018 and 2017.

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

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

Discontinued reportable segment for the year ended 31 December 2017:

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

(i) Segment results, assets and liabilities

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

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

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

3 Revenue and segment reporting (continued)

(b) Segment reporting (continued)

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

Disaggregation of revenue from contracts with customers by timing of revenue recognition regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below:

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

Notes:

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2018

3 Revenue and segment reporting (continued)

(b) Segment reporting (continued)

(ii) Information about profit or loss

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

(iii) Reconciliations of segment profit/(loss)

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

3 Revenue and segment reporting (continued)

(b) Segment reporting (continued)

(iv) Geographic information

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

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2018

4 Other income

	2018 RMB millions	2017 RMB millions
Continuing operations:		
Government grants (Note)	**206**	197
Net realised and unrealised gains on financial assets at FVPL	**503**	59
Dividend income from financial assets at FVOCI	**32**	—
Gain on disposal of property, plant and equipment, intangible assets and lease prepayments	**4**	25
Gain on sale of 20% equity interest in Changsha Zoomlion Enviromental Industry Co., Ltd.	**148**	—
Others	**(11)**	(22)
	882	259
Discontinued operation:		
Others	**—**	2
	882	261

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

5 Profit before taxation

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

(a) Net finance costs:

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

Notes to the consolidated financial statements

For the year ended 31 December 2018

5 Profit before taxation (continued)

(b) Staff costs:

	2018 RMB millions	2017 RMB millions
Continuing operations:		
Salaries, wages and other benefits	2,063	1,744
Share incentive scheme expenses (Note 25)	267	45
Contributions to retirement schemes (Note 27)	337	284
	2,667	2,073
Discontinued operation:		
Salaries, wages and other benefits	–	159
Contributions to retirement schemes (Note 27)	–	16
	–	175
	2,667	2,248

5 Profit before taxation (continued)

(c) Other items:

	2018 RMB millions	2017 RMB millions (Note)
Continuing operations:		
Cost of inventories sold (Note 16)	**20,923**	16,303
Depreciation of property, plant and equipment (Note 11)	**585**	664
Amortisation of lease prepayments	**50**	54
Amortisation of intangible assets (Note 12)	**202**	206
Gain on disposal of property, plant and equipment, intangible assets and lease prepayments	**4**	25
Operating lease charges	**134**	143
Auditors' remuneration:		
— audit services	**10**	9
Product warranty costs (Note 23(b))	**151**	128
Impairment losses:		
— property, plant and equipment (Note 11)	**1**	149
— trade receivables (Note 18(c))	**145**	5,927
— receivables under finance lease (Note 19(c))	**85**	797
— inventories (Note 16)	**36**	1,823
— goodwill (Note 13)	**50**	24
Discontinued operation:		
Cost of inventories sold (Note 16)	**—**	1,803
Depreciation of property, plant and equipment (Note 11)	**—**	27
Amortisation of lease prepayments	**—**	2
Amortisation of intangible assets (Note 12)	**—**	15
Operating lease charges	**—**	6
Auditors' remuneration:		
— audit services	**—**	1
Product warranty costs (Note 23(b))	**—**	2
Impairment losses		
— trade receivables (Note 18(c))	**—**	10

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

Notes to the consolidated financial statements

For the year ended 31 December 2018

6 Income tax

Income tax in the consolidated statement of comprehensive income represents:

(a) Continuing operations

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

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

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

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

6 Income tax (continued)

(b) Discontinued operation

(i) Taxation charged to profit or loss:

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

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2018

6 Income tax (continued)

(b) Discontinued operation (continued)

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

Notes:

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

The Company's subsidiaries in the HKSAR are subject to Hong Kong Profits Tax at 16.5% (2017: 16.5%) in respect of assessable profits arising in or derived from Hong Kong. In 2018 and 2017, the Group did not derive any income chargeable to Hong Kong Profits Tax on the basis that all the income was offshore sourced, all the expenses incurred by the subsidiaries in Hong Kong have been disallowed.

The Company's overseas subsidiaries are subject to income tax at rates ranging from 19.0% to 28.4% (2017: 19.0% to 31.4%).

(b) According to the income tax law and its relevant regulations, entities that qualified as high-technology enterprises under the tax law are entitled to a preferential income tax rate of 15%. One subsidiary of the Company renewed its status as high-technology enterprises in 2018 and accordingly are subject to income tax at 15% for the years from 2018 to 2020.

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

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

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.

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 was recognised in profit or loss during the year 2017, 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.

Notes to the consolidated financial statements

For the year ended 31 December 2018

7 Discontinued operation (continued)

(a) Results of discontinued operation

	Six months from 1 January 2017 to 30 June 2017 RMB millions
Revenue	2,665
Cost of sales and services	(2,001)
Other income	2
Sales and marketing expenses	(272)
General and administrative expenses	(99)
Research and development expenses	(29)
Net finance costs	(19)
Share of profits less losses of associates	(20)
Result from operating activities	227
Income tax	(36)
Result from operating activities, net of tax	191
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 period	9,546

(b) Cash flows used in discontinued operation

	Six months from 1 January 2017 to 30 June 2017 RMB millions
Net cash used in operating activities	(294)
Net cash generated from investing activities	356
Net cash used in financing activities	(156)
Net cash flow for the period	(94)

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
Interests 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	3,325
Consideration received	11,600
Net cash and cash equivalents disposed of	(1,172)
Net cash inflow	10,428

Notes to the consolidated financial statements

For the year ended 31 December 2018

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 2018						
Executive director						
ZHAN Chunxin	–	1,342	1,342	16	4,415	7,115
Non-executive directors						
HU Xinbao	–	–	–	–	–	–
ZHAO John Huan	–	–	–	–	–	–
Independent non-executive directors						
LIU Guiliang	120	–	–	–	–	120
YANG Changbo	120	–	–	–	–	120
LAI Kin Keung	120	–	–	–	–	120
ZHAO Songzheng	120	–	–	–	–	120
Supervisors						
FU Zheng	–	–	–	–	–	–
LIU Chi	–	642	642	16	–	1,300
LIU Quan	–	–	–	–	–	–
	480	1,984	1,984	32	4,415	8,895

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	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

None of these directors and supervisors received any inducements or compensation for loss of office, or waived any emoluments during the year (2017: Nil).

Notes to the consolidated financial statements

For the year ended 31 December 2018

9 Individuals with highest emoluments

Of the five highest paid individuals of the Group, one (2017: one) individual was director or supervisor of the Company, whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the remaining four (2017: four) individuals are as follows:

	2018 RMB thousands	2017 RMB thousands
Salaries, allowances and other benefits in kind	**7,136**	7,086
Share incentive scheme expenses	**15,012**	2,458
Contributions to retirement scheme	**64**	64
	22,212	9,608

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

	2018 Number	2017 Number
RMB1,500,001 – RMB3,000,000	**—**	4
RMB3,000,001 – RMB6,000,000	**3**	—
RMB6,000,001 – RMB9,000,000	**1**	—

None of these employees received any inducements or compensation for loss of office, or waived any emoluments during the year (2017: Nil).

10 Earnings per share

(a) Basic earnings per share

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

Weighted average number of ordinary shares

	2018 millions	2017 millions
Issued ordinary shares at 1 January	**7,794**	7,664
Effect of shares repurchased	**—**	(22)
Effect of restricted A shares issued (Note 25)	**(169)**	—
Effect of restricted A shares unlocked (Note 25(b))	**10**	—
Weighted average number of ordinary shares at 31 December	**7,635**	7,642

(b) Diluted earnings per share

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

Weighted average number of ordinary shares (diluted)

	2018 millions	2017 millions
Weighted average number of ordinary shares at 31 December	**7,635**	7,642
Effect of deemed issue of restricted A shares (Note 25)	**56**	—
Weighted average number of ordinary shares (diluted) at 31 December	**7,691**	7,642

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2018

11 Property, plant and equipment

	Buildings RMB millions	Machinery, plant and equipment RMB millions	Motor vehicles and office equipment RMB millions	Construction in progress RMB millions	Total RMB millions
Cost:					
Balance at 1 January 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
Balance at 1 January 2018	**5,082**	**3,729**	**804**	**403**	**10,018**
Additions	**28**	**67**	**39**	**379**	**513**
Transferred from construction in progress	**68**	**66**	**10**	**(144)**	**–**
Disposals	**(51)**	**(144)**	**(82)**	**–**	**(277)**
Transfer to inventory	**–**	**(107)**	**–**	**–**	**(107)**
Effect of exchange rate difference	**10**	**5**	**(4)**	**–**	**11**
Balance at 31 December 2018	**5,137**	**3,616**	**767**	**638**	**10,158**
Accumulated depreciation and impairment:					
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)
Balance at 1 January 2018	**(1,177)**	**(1,953)**	**(614)**	**–**	**(3,744)**
Depreciation charge for the year	**(185)**	**(309)**	**(91)**	**–**	**(585)**
Impairment losses	**–**	**(1)**	**–**	**–**	**(1)**
Written back on disposals	**31**	**110**	**54**	**–**	**195**
Transfer to inventory	**–**	**56**	**–**	**–**	**56**
Effect of exchange rate difference	**(1)**	**(2)**	**1**	**–**	**(2)**
Balance at 31 December 2018	**(1,332)**	**(2,099)**	**(650)**	**–**	**(4,081)**
Net book value:					
Balance at 31 December 2018	**3,805**	**1,517**	**117**	**638**	**6,077**
Balance at 31 December 2017	3,905	1,776	190	403	6,274

11 Property, plant and equipment (continued)

As at 31 December 2018, the carrying amount of machinery, plant and equipment leased out under operating leases is RMB119 million (31 December 2017: RMB178 million), which mainly represents machinery reprocessed from customers. The lease term generally ranges from 1 to 4 years (2017: 1 to 4 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:

	2018 RMB millions	2017 RMB millions
Within 1 year	**18**	49
After 1 year but within 2 years	**14**	21
After 2 years but within 3 years	**12**	18
Thereafter	**14**	39
	58	127

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12 Intangible assets

	Trademarks RMB millions	Technical know how RMB millions	Software, patents, operating and similar rights RMB millions	Customer relationships RMB millions	Capitalised development costs RMB millions	Total RMB millions
Cost:						
Balance at 1 January 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
Balance at 1 January 2018	**1,255**	**172**	**441**	**576**	**787**	**3,231**
Additions	**–**	**7**	**12**	**–**	**84**	**103**
Disposals	**–**	**–**	**(2)**	**–**	**(14)**	**(16)**
Effect of exchange rate difference	**8**	**5**	**–**	**5**	**–**	**18**
Balance at 31 December 2018	**1,263**	**184**	**451**	**581**	**857**	**3,336**
Accumulated amortisation and impairment:						
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)
Balance at 1 January 2018	**(39)**	**(111)**	**(241)**	**(333)**	**(257)**	**(981)**
Amortisation for the year	**–**	**(25)**	**(35)**	**(52)**	**(90)**	**(202)**
Disposals	**–**	**–**	**2**	**–**	**–**	**2**
Effect of exchange rate difference	**–**	**(1)**	**–**	**(1)**	**–**	**(2)**
Balance at 31 December 2018	**(39)**	**(137)**	**(274)**	**(386)**	**(347)**	**(1,183)**
Net book value:						
Balance at 31 December 2018	**1,224**	**47**	**177**	**195**	**510**	**2,153**
Balance at 31 December 2017	1,216	61	200	243	530	2,250

13 Goodwill and business combination

	2018 RMB millions	2017 RMB millions
Balance at 1 January	**2,088**	2,076
Disposal (Note 7)	**—**	(46)
Impairment loss (Note)	**(50)**	(24)
Effect of exchange rate difference	**8**	82
Balance at 31 December	**2,046**	2,088

Note: The RMB50 million impairment loss recognized during the year ended 31 December 2018 related to the Group's Zoomlion Heavy Machinery Co., Ltd. ("Zoomlion Heavy Machinery") cash generating unit, considering the impact of weak market demand to the recoverable amount.

The goodwill arose from the acquisition of the following entities:

		Carrying amount	
Name of entity	**Date of acquisition**	**2018 RMB millions**	2017 RMB millions
CIFA	September 2008	**1,523**	1,515
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
m-tec	April 2014	**33**	33
Zoomlion Heavy Machinery (formerly "Chery Heavy Industry Co., Ltd.")	January 2015	**363**	413
		2,046	2,088

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13 Goodwill and business combination (continued)

Goodwill impairment test

The recoverable amounts of the respective cash-generating units have 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 8.68% to 17.00% (2017: 11.32% to 18.07%). 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% (2017: 2.5% to 3.0%), which does not exceed the long-term average growth rate for the business in which the respective cash-generating units operate.

14 Interests in associates

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

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

14 Interests in associates (continued)

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

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

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

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

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

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14 Interests in associates (continued)

On 26 November 2018, the Transaction was approved by the China Securities Regulatory Commission. On 27 November 2018, Infore Environment finished completion of the change of the Industry and Commerce Administration authorities and the Transaction was completed. The Company obtains significant influence over Infore Environment as a result of the right of representation on the Board of Directors of Infore Environment. The investment in Infore Environment is recognised as interest in associate with a consideration of RMB2,795 million and a gain of RMB148 million was recognised in other income during the year (see Note 4).

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

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

Aggregate information of associates that are not individually material:

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

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

15 Other financial assets

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

Notes:

(i) The equity securities comprises equity funds and other unlisted equity securities. The fair value of equity funds and unlisted equity securities was RMB1,364 million and RMB904 million respectively at 31 December 2018. The Group designated these investments at FVOCI (non-recycling), as the investments are held for strategic purposes. Dividends of RMB32 million were received on investments in equity securities during the year (see Note 4). A loss accumulated in the fair value reserve (non-recycling) of RMB16 million in relation to partial disposal of equity securities was transferred to retained earnings during the year.

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

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

Notes to the consolidated financial statements

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16 Inventories

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

	2018 RMB millions	2017 RMB millions
Raw materials	**2,443**	1,935
Work in progress	**1,625**	1,147
Finished goods (Note)	**5,483**	5,804
	9,551	8,886

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.

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

17 Financial assets at fair value through profit or loss

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

Note: The Group invests its spare cash in wealth management products and structured deposits offered by banks and other financial institutions. These products generally have a pre-set maturity and expected return, with its underlying assets being a wide range of government and corporate bonds, central bank bills, money market funds as well as other listed and unlisted equity securities in the PRC. The Group evaluates these products on a fair value basis in accordance with the accounting policy set out in Note 2(e).

18 Trade and other receivables

	31 December 2018 RMB millions	1 January 2018 RMB millions	31 December 2017 RMB millions
Trade receivables (Notes (a) and (b))	**28,497**	26,917	26,917
Less: loss allowance (Note (c))	**(5,912)**	(5,993)	(5,937)
	22,585	20,924	20,980
Less: trade receivables due after one year	**(5,498)**	(4,096)	(4,106)
	17,087	16,828	16,874
Bills receivable (Note (d))	**1,350**	2,237	2,237
	18,437	19,065	19,111
Amounts due from related parties (Note 34(b))	**376**	1,175	1,175
Prepayments for purchase of raw materials	**558**	210	210
Prepaid expenses	**494**	465	465
VAT recoverable	**970**	885	885
Deposits	**123**	141	141
Others	**596**	674	674
	21,554	22,615	22,661

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

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

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For the year ended 31 December 2018

18 Trade and other receivables (continued)

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

(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 loss allowance is as follows:

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

Trade receivables under credit sales arrangement are generally due within 1 to 3 months from the date of billing, and customers are normally required to make an upfront payment ranging from 40% to 50% of the product price (2017: 30% to 40%). For sales under instalment payment method that has instalment payment periods generally ranging from 6 to 42 months (2017: 6 to 42 months), customers are normally required to make an upfront payment ranging from 30% to 50% of the product price (2017: 20% to 40%).

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

18 Trade and other receivables (continued)

(c) Impairment of trade receivables

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

	Note	2018 RMB millions	2017 RMB millions
Balance at 31 December 2017 under IAS 39		**5,937**	
Impact on initial application of IFRS 9		**56**	
Adjusted/balance at 1 January		**5,993**	2,853
Impairment losses recognised		**145**	5,937
Reclassification from loss allowance of receivables under finance lease	19(c)	**16**	2
Uncollectible amounts written off		**(242)**	(304)
Written off upon disposal of discontinued operation	7	**—**	(63)
Written off upon sale of trade receivables		**—**	(2,488)
Balance at 31 December		**5,912**	5,937

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

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18 Trade and other receivables (continued)

As at 31 December 2018, bills receivable of RMB203 million (31 December 2017: Nil) were discounted to banks or other financial institutions with recourse, where substantially the risks and rewards of ownership had not been transferred. Since the Group has continuing involvement in the transferred assets, these discounted bills receivable were therefore not derecognised. As at 31 December 2018, no bills receivable (31 December 2017: RMB148 million) was discounted to banks or other financial institutions without recourse, where substantially all the risks and rewards of ownership had been transferred. Since the Group does not have continuing involvement in the transferred assets, these discounted bills receivable were therefore derecognised.

19 Receivables under finance lease

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

The Group provides equipment finance lease services to customers purchasing machinery products of the Group or other vendors through its leasing subsidiaries. Under the finance lease arrangement, the collectability of the minimum lease payments is reasonably predictable, there is no significant uncertainty surrounding the amount of un-reimbursable cost yet to be incurred by the Group under the lease arrangement. The finance lease contracts entered into by the Group typically are for a period ranging from 2 to 5 years (2017: 2 to 5 years). Customers are normally required to make an upfront payment ranging from 5% to 40% of the product price (2017: 5% to 30%) and pay a security deposit ranging from 1% to 10% of the product price (2017: 1% to 10%). At the end of the lease term, the lessee has an option to purchase the leased machinery at nominal value and the ownership of the leased machinery is then transferred to the lessee. The leases do not provide any guarantee of residual values.

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

19 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:

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

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19 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:

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

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

(c) Impairment of receivables under finance lease

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

	Note	2018 RMB millions	2017 RMB millions
Balance at 31 December 2017 under IAS 39		**1,560**	
Impact on initial application of IFRS 9		**38**	
Adjusted/balance at 1 January		**1,598**	765
Impairment losses recognised		**85**	797
Reclassification to loss allowance of trade receivables	18(c)	**(16)**	(2)
Balance at 31 December		**1,667**	1,560

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

19 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(t)(ii).

20 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.

21 Cash and cash equivalents

	2018 RMB millions	2017 RMB millions
Cash at bank and on hand		
— RMB denominated	**7,541**	5,727
— USD denominated	**650**	603
— EUR denominated	**352**	667
— HKD denominated	**12**	6
— Other currencies	**199**	145
	8,754	7,148

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21 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 22)	RMB commercial paper RMB million (Note 22)	Deposits placed with an associate RMB million (Note 22)	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

21 Cash and cash equivalents (continued)

	Note	Bank loans and other borrowings RMB million (Note 22)	RMB commercial paper RMB million (Note 22)	Deposits placed with an associate RMB million (Note 22)	Total RMB million
At 1 January 2018		28,515	–	129	28,644
Changes from financing cash flows:					
Proceeds from loans and borrowings		21,163	–	1,042	22,205
Repayments of loans and borrowings		(13,931)	–	(1,132)	(15,063)
Payments on repurchase of guaranteed USD senior notes		(325)	–	–	(325)
Interest paid		(1,428)	–	–	(1,428)
Total changes from financing cash flows		5,479	–	(90)	5,389
Exchange adjustments		235	–	–	235
Other changes:					
Change in interest payable		(2)	–	–	(2)
Capitalised borrowing costs		(28)	–	–	(28)
Interest on loans and borrowings	5(a)	1,451	–	–	1,451
Total other changes		1,421	–	–	1,421
At 31 December 2018		35,650	–	39	35,689

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22 Loans and borrowings

(a) Short-term loans and borrowings

	Note	2018 RMB millions	2017 RMB millions
Secured short-term bank loans			
— RMB denominated	(i)	50	50
— EUR denominated	(ii)	—	6
Pledged short-term bank loans	(iii)	703	—
Unsecured short-term bank loans			
— RMB denominated	(iv)	6,911	3,975
— USD denominated	(v)	639	529
— EUR denominated	(vi)	23	467
Deposits placed with an associate	(vii)	39	129
Gold leasing arrangements	(viiii)	—	396
		8,365	5,552
Add: current portion of long-term loans and borrowings	22(b)	13,679	3,796
		22,044	9,348

Notes:

(i) As at 31 December 2018, RMB denominated secured short-term bank loan of RMB50 million (31 December 2017: RMB50 million) bore interest at a fixed rate of 4.83% were secured by certain land and properties, and will be repayable in full in 2019.

(ii) EUR denominated secured short-term bank loan of RMB6 million was all repaid in 2018.

(iii) As at 31 December 2018, RMB denominated pledged short-term bank loan of RMB703 million (31 December 2017: RMB Nil) bore interest at a fixed rate of 3.30% were pledged by financial assets and bank acceptance bills, and will be repayable in full in 2019.

22 Loans and borrowings (continued)

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

(iv) As at 31 December 2018, RMB denominated unsecured short-term bank loan of RMB1,200 million (31 December 2017: RMB1,515 million) bore interest at a fixed rate of 4.13% per annum and will be repayable in full in 2019. Such short-term loan was subject to the fulfilment of certain financial covenants of the Group. As at 31 December 2018, the Group was in compliance with these financial covenants.

As at 31 December 2018, the remaining RMB denominated unsecured short-term bank loans of RMB5,711 million (31 December 2017: RMB2,460 million) bore interest from 2.25% to 4.83% per annum and will be repayable in full in 2019.

(v) As at 31 December 2018, USD denominated unsecured short-term bank loans of RMB639 million (31 December 2017: RMB529 million) bore interest from 3.50% to 4.45% per annum and will be repayable in full in 2019.

(vi) As at 31 December 2018, EUR denominated unsecured short-term bank loans of RMB23 million (31 December 2017: RMB467 million) bore interest at a fixed rate of 2.55% per annum and will be repayable in full in 2019.

(vii) As at 31 December 2018, the demand deposits due to an associate which bore interest at a fixed rate of 0.35% per annum were unsecured.

(viii) Gold leasing agreements of RMB396 million was all repaid in 2018.

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22 Loans and borrowings (continued)

(b) Long-term loans and borrowings

	Note	2018 RMB millions	2017 RMB millions
Unsecured long-term bank loans			
— RMB denominated	(i)	**8,201**	8,621
— EUR denominated	(ii)	**1,629**	1,711
— USD denominated	(iii)	**389**	—
RMB medium-term notes	(iv)	**11,491**	8,996
Guaranteed USD senior notes	(v)	**3,620**	3,764
Debentures	(vi)	**1,994**	—
		27,324	23,092
Less: current portion of long-term loans and borrowings	22(a)	**(13,679)**	(3,796)
		13,645	19,296

Notes:

(i) As at 31 December 2018, RMB denominated unsecured long-term bank loans of RMB465 million (31 December 2017: RMB400 million) bore interest at a fixed rate of 4.37% per annum and will be repayable in full in 2019. Such long-term loan was subject to the fulfilment of certain financial covenants of the Group. As at 31 December 2018, the Group was in compliance with these financial covenants.

As at 31 December 2018, RMB denominated unsecured long-term bank loan of RMB2,646 million (31 December 2017: RMB200 million) bore interest rate from 4.15% to 4.38% per annum and will be repayable in full in 2019.

As at 31 December 2018, RMB denominated unsecured long-term bank loans of RMB1,200 million (31 December 2017: RMB2,134 million) bore interest at a fixed rate of 4.37% per annum and will be repayable from 2019 to 2027. Such long-term loan was subject to the fulfilment of certain financial covenants of the Group. As at 31 December 2018, the Group was in compliance with these financial covenants.

As at 31 December 2018, RMB denominated unsecured long-term bank loan of RMB3,890 million (31 December 2017: RMB5,887 million) bore interest rate from 3.45% to 4.90% per annum and will be repayable by half-yearly instalments from 2019 to 2020.

(ii) As at 31 December 2018, EUR denominated unsecured long-term bank loans of RMB1,629 million (31 December 2017: RMB1,711 million) bore interest from 0.67% to 2.55% per annum and will be repayable in full in 2019.

22 Loans and borrowings (continued)

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

(iii) As at 31 December 2018, USD denominated unsecured long-term bank loans of RMB389 million (31 December 2017: RMB Nil) bore interest from 3.50% to 3.91% per annum and will be repayable from 2019 to 2020.

(iv) In October 2014, the Company issued 5-year RMB medium-term notes with principal amount of RMB9,000 million. The notes bore interest at a fixed rate of 5.80% per annum and will mature in October 2019. Interest on the notes will be payable yearly in arrears in October, beginning from October 2015.

In December 2018, the Company issued 5-year RMB medium-term notes with principle amount of RMB2,500 million. The notes bore interest at a fixed rate of 4.49% per annum and will mature in December 2023. Interest on the notes will be payable yearly in arrears in December, beginning from December 2018.

(v) In December 2012, Zoomlion H.K. SPV Co., Limited issued 10-year senior notes with principal amount of USD 600 million. The senior notes are 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 19.20 million (RMB equivalent 132 million) was repurchased at the quoted market price of USD19.10 million (RMB equivalent 131 million) and the difference of RMB 1 million between the purchase price and the carrying amount was charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016.

During 2018, senior notes with the carrying amount of USD 49.10 million (RMB equivalent 329 million) was repurchased at the quoted market price of USD 48.60 million (RMB equivalent 325 million) and the difference of RMB 4 million between the purchase price and the carrying amount was charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018.

(vi) In December 2018, the Company issued 5-year RMB debentures with principal amount of RMB2,000 million. The debentures bore interest at a fixed rate of 4.65% per annum and will mature in December 2023. Interest on the debentures will be payable yearly in arrears in December, beginning from December 2019.

(c) Except as disclosed in Notes 22(a)(iii) and 22(b)(i) above, none of the Group's loans and borrowings contains any financial covenants.

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23 Trade and other payables

	31 December 2018 RMB millions	1 January 2018 RMB millions	31 December 2017 RMB millions
Trade creditors	**6,998**	5,700	5,700
Bills payable	**3,802**	3,394	3,394
Trade creditors and bills payable (Note (a))	**10,800**	9,094	9,094
Amounts due to related parties (Note 34(b))	**23**	50	50
Amounts due to non-controlling shareholders of certain subsidiaries	**338**	468	468
Receipts in advance (Note 24)	**—**	—	1,330
Payable for acquisition of property, plant and equipment	**259**	249	249
Accrued staff costs	**568**	488	488
Product warranty provision (Note (b))	**82**	75	75
VAT payable	**601**	261	261
Sundry taxes payable	**131**	171	171
Security deposits (Note 28)	**397**	504	504
Interest payable	**143**	141	141
Financial guarantees issued (Note 33)	**55**	35	35
Other accrued expenses and payables	**1,895**	1,740	1,740
Dividends payable	**251**	—	—
Locked restricted share (Note 25)	**243**	386	386
	15,786	13,662	14,992

Note: As a result of the adoption of IFRS 15, gross amount due to customers for advances received is included in contract liabilities and disclosed in Note 24 (see Note 1(d)(ii)).

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

23 Trade and other payables (continued)

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

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

(b) Product warranty provision

	RMB millions
Balance at 1 January 2017	72
Provision for the year	130
Utilisation during the year	(127)
Balance at 31 December 2017	75
Balance at 1 January 2018	**75**
Provision for the year	**151**
Utilisation during the year	**(144)**
Balance at 31 December 2018	**82**

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.

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24 Contract liabilities

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

Notes:

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

(ii) Upon the adoption of IFRS 15, these amounts were reclassified from "Trade and other payables" (Note 23) to "Contract liabilities" (see Note 1(d)(ii)).

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

25 Share incentive scheme

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

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

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

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25 Share incentive scheme (continued)

(a) share options

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

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

25 Share incentive scheme (continued)

(a) share options (continued)

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

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

(iii) Fair value of share options and assumptions

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2018

25 Share incentive scheme (continued)

(a) share options (continued)

(iii) Fair value of share options and assumptions (continued)

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

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

(b) Restricted share

The number of restricted shares are as follows:

	2018 Number of restricted shares	2017 Number of restricted shares
Outstanding at the beginning of the year	**168,760,911**	—
Vested during the year	**(65,877,838)**	—
Forfeited during the year	**(4,066,300)**	—
Granted during the year	**18,554,858**	168,760,911
Outstanding at the end of the year	**117,371,631**	168,760,911
Contractual life of restricted shares	**1.31 years**	1.73 years

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

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

25 Share incentive scheme (continued)

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

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

26 Income tax in the consolidated statement of financial position

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

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

Note: Income tax payable after one year is recognized in other non-current liabilities (see Note 28).

Notes to the consolidated financial statements

For the year ended 31 December 2018

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

(b) Deferred tax assets and liabilities recognised:

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

Year ended 31 December 2018

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

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

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

Year ended 31 December 2017

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

Note: Upon the initial application of IFRS 9, the Group has recognised deferred tax assets on the additional credit losses recognised under the ECL model (see Note 1(d)(i)).

As at 31 December 2018, deferred tax assets in respect of tax losses totalling RMB 371 million (31 December 2017: RMB 362 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 2018

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, deferred income of government grants related to assets and long-term income tax. 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".

29 Capital and reserves

(a) Share capital

	2018 RMB millions	2017 RMB millions
Ordinary shares issued and fully paid:		
At 1 January	7,794	7,664
Own shares repurchased and cancelled (Note 1)	–	(39)
Share incentive scheme (Notes 1 and 25)	15	169
At 31 December	7,809	7,794
6,420,329,547 A Shares of RMB1.00 each 1,388,207,086 H Shares of RMB1.00 each (2017: 6,405,840,989 A Shares of RMB1.00 each 1,388,207,086 H Shares of RMB1.00 each)	7,809	7,794

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 2018

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	
	2018 RMB millions	2017 RMB millions
Capital reserve		
Balance at 1 January	**14,317**	14,562
Repurchase of own shares (Note 1)	**—**	(131)
Share incentive scheme (Note 25)		
— Share option scheme	**48**	9
— Restricted share scheme	**342**	(133)
Dilution of interest in an associate	**—**	10
Cash dividends (Note 29(c))	**31**	—
Balance at 31 December	**14,738**	14,317
Statutory surplus reserve		
Balance at 1 January	**2,963**	2,937
Appropriation (Note 29(b)(ii))	**369**	26
Balance at 31 December	**3,332**	2,963
Other reserve		
Balance at 31 December 2017	**8**	
Transferred to retained earnings relating to financial assets now measured at FVPL	**(1)**	
Adjusted/balance at 1 January	**7**	(1)
Other comprehensive income	**5**	9
Balance at 31 December	**12**	8

29 Capital and reserves (continued)

(b) Reserves (continued)

	The Company	
	2018	2017
	RMB	RMB
	millions	millions
Retained earnings		
Balance at 31 December 2017	**12,020**	
Transferred from fair value reserve (recycling) relating to financial assets now measured at FVPL	**1**	
Recognition of additional expected credit losses on financial assets measured at amortised cost	**(9)**	
Adjusted / balance at 1 January	**12,012**	13,084
Appropriation (Note 29(b)(ii))	**(369)**	(26)
Safety production fund (Note 29(d))	**(5)**	(4)
Cash dividends (Note 29(c))	**(1,556)**	(1,141)
Profit for the year	**3,472**	107
Balance at 31 December	**13,554**	12,020
Total		
Balance at 1 January	**29,299**	30,582
Balance at 31 December	**31,636**	29,308

(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.

Notes to the consolidated financial statements

For the year ended 31 December 2018

29 Capital and reserves (continued)

(b) Reserves (continued)

(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 2018, the Company transferred RMB369 million (2017: RMB26 million), being 10% of the current year's net profit as determined in accordance with PRC accounting rules and regulations, to this reserve.

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

(iii) Exchange reserve

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

(iv) Fair value reserve (recycling)

The fair value reserve (recycling) comprises the cumulative net change in the fair value of debt securities measured at FVOCI under IFRS 9 held at the end of the reporting period (see Note 2(e)). Prior to 1 January 2018, this reserve included the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period in accordance with IAS 39. This amount relating to the equity fund and unlisted equity securities has been reclassified to fair value reserve (non-recycling) upon the initial adoption of IFRS 9 at 1 January 2018 (see Note 1(d)(i)).

(v) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under IFRS 9 that are held at the end of the reporting period (see Note 2(e)).

29 Capital and reserves (continued)

(c) Cash dividends

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

Pursuant to the shareholders' approval at the Annual General Meeting held on 27 June 2017, a final cash dividend of 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.

(d) Safety production fund

Pursuant to certain regulations issued by the Ministry of Finance and the State Administration of Work Safety, the Group is required to set aside from profit after tax an amount to a legal reserve at different rates ranging from 0.05% to 2% of the total revenue recognised for the previous year. The reserve can be utilised for improvements of safety on the manufacturing work, and the amounts are generally expenses in nature and charged to the consolidated statement of profit or loss as incurred, and at the same time the corresponding amounts of safety reserve fund were utilised and transferred back to retained profits until such special reserve was fully utilised.

Notes to the consolidated financial statements

For the year ended 31 December 2018

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 2018, the Group's strategy, which was unchanged from 2017, 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 2018, the Group's debt-to-equity ratio was as follows:

	2018 RMB millions	2017 RMB millions
Short-term loans and borrowings	**22,044**	9,348
Long-term loans and borrowings	**13,645**	19,296
Total debt	**35,689**	28,644
Total equity attributable to equity shareholders	**38,164**	37,540
Debt-to-equity ratio	**94%**	76%

31 Financial instruments — fair values and risk management

(a) Accounting classifications and fair values

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

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

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31 Financial instruments — fair values and risk management (continued)

(a) Accounting classifications and fair values (continued)

(i) **Financial assets and liabilities measured at fair value** (continued)

Fair value hierarchy (continued)

	Fair value at 31 December 2018	Fair value measurements as at 31 December 2018 Level 1	Level 2	Level 3
Recurring fair value measurements				
Financial assets:				
Fair value through OCI				
— Equity securities	**2,268**	**—**	**1,364**	**904**
Fair value through PL				
— Wealth management products	**8,443**	**—**	**8,443**	**—**
— Structured deposits	**5,344**	**—**	**5,344**	**—**
— Listed equity securities	**111**	**111**	**—**	**—**
Financial liabilities:				
Fair value through PL	**(40)**	**—**	**(40)**	**—**

	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:				
Available-for-sale listed equity securities	14	14	—	—
Available-for-sale equity fund (Note)	1,560	—	1,560	—
Wealth management products	6,319	—	6,319	—
Derivative financial instruments	4	—	4	—

Note: Available-for-sale equity fund was reclassified to financial assets designated at FVOCI (non-recycling), upon the adoption of IFRS 9 at 1 January 2018 (see Note 1(d)(i)).

31 Financial instruments — fair values and risk management (continued)

(a) Accounting classifications and fair values (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

During the years ended 31 December 2018 and 2017, 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.

Information about Level 3 fair value measurements

For unlisted equity securities without an active market, the Group establishes the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, price/earnings ratios and price/book value ratios of comparable listed companies adjusted for lack of marketability discount, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. If none of the valuation techniques results in a reasonable estimate on the fair value, the investment is stated in the statement of financial position at cost less impairment losses.

The movement during the period in the balance of Level 3 fair value measurements is as follows:

	At 31 December 2018 RMB millions	At 31 December 2017 RMB millions
Unlisted equity securities:		
At 1 January (Note)	**580**	—
Additional investments in equity securities	**324**	—
At 31 December	**904**	—
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	**—**	—

Note: The equity interests in unlisted securities measured at cost were transferred from available-for-sale financial assets into fair value through OCI, which is valued as Level 3 on 1 January 2018 upon the adoption of IFRS 9.

Notes to the consolidated financial statements

For the year ended 31 December 2018

31 Financial instruments — fair values and risk management (continued)

(a) Accounting classifications and fair values (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Information about Level 3 fair value measurements (continued)

From 1 January 2018, any gains or losses arising from the remeasurement of the Group's unlisted equity securities held for strategic purposes are recognised in the fair value reserve (non-recycling) in other comprehensive income. Upon disposal of the equity securities, the amount accumulated in other comprehensive income is transferred directly to retained earnings. Prior to 1 January 2018, any gains arising from the disposal of the unlisted equity securities were presented in the "Other income" line item in the consolidated statement of profit or loss.

(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 2018 and 2017 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 2018	**Fair value at 31 December 2018 categorised into Level 1**	Carrying amount at 31 December 2017	Fair value at 31 December 2017 categorised into Level 1
Guaranteed USD senior notes	**3,620**	**3,434**	3,764	3,916
RMB medium-term notes	**11,491**	**11,639**	8,996	8,962
Debentures	**1,994**	**2,029**	—	—

(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 refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. 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).

In respect of trade 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 50% (2017: 30% to 40%) of the product price is normally required from the customer. For sales under instalment payment method that has instalment

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For the year ended 31 December 2018

31 Financial instruments — fair values and risk management (continued)

(b) Financial risk management (continued)

(ii) **Credit risk** (continued)

payment periods generally ranging from 6 to 42 months (2017: 6 to 42 months), customers are normally required to make an upfront payment ranging from 30% to 50% (2017: 20% to 40%) 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.

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.

The Group measures loss allowances for trade receivables and lease receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. According to the past experience of the Group, the loss patterns of different customer groups are significantly different. The Group classifies customers into customer groups based on a number of factors including their ownership background and financial strength, and the industries in which they operate, etc. The Group estimates loss allowance for trade receivables for each of the customer groups with similar loss patterns.

31 Financial instruments — fair values and risk management (continued)

(b) Financial risk management (continued)

(ii) Credit risk (continued)

The following table provides information about Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss rate %	Gross carrying amount RMB millions	Loss allowance RMB millions
Within 1 year	5.1%	12,114	(619)
Over 1 year but less than 2 years	16.1%	4,922	(790)
Over 2 years but less than 3 years	22.1%	3,609	(796)
Over 3 years but less than 5 years	45.1%	6,842	(3,088)
Over 5 years	61.3%	1,010	(619)
		28,497	(5,912)

The following table provides information about the Group's exposure to credit risk and ECLs for receivables under finance lease as at 31 December 2018:

	Expected loss rate %	Gross carrying amount RMB millions	Loss allowance RMB millions
Current (not past due)	2.4%	5,076	(121)
1–30 days past due	8.0%	639	(51)
31–60 days past due	12.0%	258	(31)
61–90 days past due	13.3%	113	(15)
More than 90 days past due	18.0%	8,072	(1,449)
		14,158	(1,667)

Loss allowances for receivables under finance lease are measured at an amount equal to lifetime ECLs. Thus, past due receivables under finance lease refer to the net amounts caused by receivables under finance lease deducting unearned finance income whose all or part of principals or interests have overdue for more than 1 day.

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31 Financial instruments — fair values and risk management (continued)

(b) Financial risk management (continued)

(ii) **Credit risk** (continued)

Expected loss rates are based on actual loss experience over the past few years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Credit risk in respect of other receivables is limited as the balance mainly includes prepayments to tax authorities and reputable suppliers, deposits to landlord, and debts due from related parties.

The Group measures a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Bank deposits, wealth management products and structured deposits are placed with financial institutions that have high credit ratings. Given their credit ratings, management does not expect any counterparty to fail to meet its obligations.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. As at 31 December 2018, 0.1% (31 December 2017: 0.2%) of the total trade and bills receivables was due from the Group's largest customer and 1.3% (31 December 2017: 1.0%) of the total trade and bills receivables was due from the Group's five largest customers respectively. As at 31 December 2018, 94.2% and 94.9% (31 December 2017: 93.6% and 95.8%) 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 18. Overdue analysis of the Group's receivables under finance lease is set out in Note 19.

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).

31 Financial instruments — fair values and risk management (continued)

(b) Financial risk management (continued)

(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.

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 18(d) for details).

	As at 31 December 2018					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions
Loans and borrowings	35,689	38,793	23,441	5,721	9,190	441
Trade and other payables	15,786	15,786	15,786	–	–	–
Contract liabilities	1,602	1,602	1,602	–	–	–
Other non-current liabilities	991	991	–	261	589	141
	54,068	57,172	40,829	5,982	9,779	582
Financial guarantees issued						
Maximum amount guaranteed	55	3,899	3,899	–	–	–

Notes to the consolidated financial statements

For the year ended 31 December 2018

31 Financial instruments — fair values and risk management (continued)

(b) Financial risk management (continued)

(iii) Liquidity risk (continued)

	As at 31 December 2018				
	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	(515)	–	–	–	(515)
— inflow	475	–	–	–	475

	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	2,576	2,576	—	—	—

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

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 2018

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 2018.

	2018		2017	
	Weighted average interest rate %	**Amount RMB millions**	Weighted average interest rate %	Amount RMB millions
Fixed rate financial instruments:				
Short-term loans and borrowings	**4.7%**	**(20,118)**	3.8%	(8,215)
Long-term loans and borrowings	**4.8%**	**(13,524)**	5.5%	(17,721)
		(33,642)		(25,936)
Variable rate financial instruments:				
Pledged bank deposits	**0.4%**	**1,313**	0.4%	1,110
Cash and cash equivalents	**1.3%**	**8,754**	1.1%	7,145
Receivables under finance lease	**5.6%**	**12,491**	5.6%	12,801
Short-term loans and borrowings	**1.2%**	**(1,926)**	2.0%	(1,133)
Long-term loans and borrowings	**4.6%**	**(121)**	0.7%	(1,575)
		20,511		18,348
Net amount		**(13,131)**		(7,588)

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 2018				
Variable rate financial instruments	**174**	**(174)**	**174**	**(174)**
31 December 2017				
Variable rate financial instruments	156	(156)	156	(156)

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 2017.

Notes to the consolidated financial statements

For the year ended 31 December 2018

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, and HK dollars.

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)

	2018			2017		
	USD	**EUR**	**HKD**	USD	EUR	HKD
Trade debtors	**10,586**	**2,450**	**4**	9,842	2,811	4
Cash and cash equivalents	**650**	**352**	**12**	603	667	6
Trade creditors	**(139)**	**(1,081)**	**(7)**	(144)	(1,679)	—
Loans and borrowings	**(4,648)**	**(1,652)**	**—**	(4,293)	(2,184)	—
Notional amounts of forward exchange contracts used as economic hedges	**(515)**	**475**	**—**	(133)	137	—
Net exposure arising from recognised assets and liabilities	**5,934**	**544**	**9**	5,875	(248)	10

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 2018				
USD (5% movement)	**252**	**(252)**	**252**	**(252)**
EUR (5% movement)	**23**	**(23)**	**23**	**(23)**
HKD (5% movement)	**—**	**—**	**—**	**—**
31 December 2017				
USD (5% movement)	250	(250)	250	(250)
EUR (5% movement)	(11)	11	(11)	11
HKD (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.

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 2017.

Notes to the consolidated financial statements

For the year ended 31 December 2018

32 Commitments

(a) Capital commitments

As at 31 December 2018, the Group had capital commitments as follows:

	2018 RMB millions	2017 RMB millions
Authorised and contracted for		
— property, plant and equipment	214	149
	214	149

(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 2018, the future minimum lease payments under operating lease are as follows:

	2018 RMB millions	2017 RMB millions
Within 1 year	52	69
After 1 year but within 2 years	24	52
After 2 years but within 3 years	16	32
After 3 years but within 4 years	10	13
After 4 years but within 5 years	3	7
Thereafter	1	2
	106	175

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 collateralised 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 2018, the Group's maximum exposure to such guarantees was RMB3,533 million (31 December 2017: RMB2,199 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 2018, the Group made payments of RMB23 million (2017: RMB215 million) to the banks for repossession of machinery under the guarantee arrangement as a result of customer default.

Starting from 1 January 2013, certain customers of the Group finance their purchase of the Group's machinery products through finance leases provided by third-party leasing companies. Under the third party leasing arrangement, the Group provides guarantee to the third-party leasing companies that in the event of customer default, the Group is required to make payment to the leasing companies for the outstanding lease payments due from the customer. At the same time, the Group is entitled to repossess and sell the leased machinery, and retain any net proceeds in excess of the guarantee payments made to the leasing companies. As at 31 December 2018, the Group's maximum exposure to such guarantees was RMB292 million (31 December 2017: 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 2018, there was no payment made for repossession of machinery incurred (2017: 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 these 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 2018, the Group's maximum exposure to such guarantees was RMB74 million (31 December 2017: RMB103 million). For the year ended 31 December 2018, there was no payment to banks incurred (2017: Nil) under the guarantee arrangement as a result of customer default.

Notes to the consolidated financial statements

For the year ended 31 December 2018

33 Contingent liabilities (continued)

(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.

34 Related party transactions

(a) Transactions with related parties

	2018 RMB millions	2017 RMB millions
Transactions with associates:		
Sales of products	**347**	281
Purchase of raw materials and finished goods	**28**	8
Payment for acquisition of receivables under commercial factoring	**281**	16
Payment for acquisition of finance lease assets	**1**	25
Interest income	**—**	2
Guarantees provided	**4**	13
Proceeds from borrowings	**1,042**	2,212
Repayments of borrowings	**1,132**	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.

34 Related party transactions (continued)

(c) Key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and supervisors of the Group. The key management personnel compensation are as follows:

	2018 RMB thousands	2017 RMB thousands
Short-term employee benefits	**27,024**	28,390
Retirement scheme contributions	**256**	320
Share incentive scheme	**49,469**	9,848
	76,749	38,558

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

(d) Contributions to retirement plans

The details of the Group's employee benefit plans are disclosed in Note 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 13 contains information about significant assumptions and their risk factors relating to goodwill impairment.

Management reviews estimations and underlying assumptions ongoing basis. Revisions to accounting estimations are recognised in the period in which the estimations are revised and in any future periods affected.

Notes to the consolidated financial statements
For the year ended 31 December 2018

35 Accounting estimates and judgements (continued)

Other key sources of estimation uncertainty are as follows:

(a) Impairment of receivables

The Group's management determines the loss allowance for expected credit losses on trade, finance lease, bills and other receivables based on an assessment of the present value of all expected cash shortfalls. These estimates are based on the information about past events, current conditions and forecasts of future economic conditions. The Group's management reassesses the loss allowance at each reporting period end.

(b) Warranty provision

As explained in Note 23(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(k), 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) 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(j)(iii). 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

35 Accounting estimates and judgements (continued)

(d) Impairment of long-lived assets (continued)

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.

(e) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual value, if any. Management reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and take into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Amortisation of intangible assets is recognised on a straight-line basis over the respective intangible assets' estimated useful lives. Management reviews the estimated useful lives annually in order to estimate the amount of amortisation expense to be recorded during any reporting period. The estimated useful lives are based on the estimated periods over which future economic benefits will be received by the Group and take into account the level of future competition, the risk of technological or functional obsolescence and the expected changes in the regulatory and social environment. The amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

Notes to the consolidated financial statements

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36 Investments in subsidiaries

The following list contains particulars of subsidiaries as at 31 December 2018 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	EUR 15	100%	–	100%	Manufacture of concrete machinery
Shaanxi Zoomlion Earth Working Machinery Co., Ltd.	RMB254	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

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
Hunan Zoomlion Hardware Co., Ltd.	RMB100	100%	100%	–	Manufacture of components
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	USD 25	100%	–	100%	Bond issuance
m-tec mathis technik GmbH	EUR 3	100%	–	100%	Manufacture of concrete machinery
Zoomlion Commercial Factoring (China) Co., Ltd.	USD 100	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
Shanxi Zoomlion Culture Tourism Development Co., Ltd.	RMB220	100%	100%	–	Exploitation and management of tourism resource
Hunan Zoomlion Hoisting Machinery Co., Ltd.	RMB800	100%	100%	–	Manufacture of hoisting machinery
Zoomlion Sales Co., Ltd.	RMB100	100%	100%	–	Sales of equipment and machinery

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.

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37 Company-level statement of financial position

	Note	2018 RMB millions	2017 RMB millions
Non-current assets			
Property, plant and equipment		**3,028**	3,131
Lease prepayments		**810**	773
Intangible assets		**191**	242
Investments in subsidiaries		**14,336**	14,168
Interests in associates		**3,042**	1,037
Other financial assets		**721**	414
Trade and other receivables		**4,663**	3,737
Pledged bank deposits		**129**	60
Deferred tax assets		**507**	664
Total non-current assets		**27,427**	24,226
Current assets			
Inventories		**4,342**	4,095
Other current assets		**1,097**	897
Financial assets at fair value through profit or loss		**13,737**	6,323
Trade and other receivables		**48,406**	36,570
Pledged bank deposits		**279**	202
Cash and cash equivalents		**3,979**	3,674
Total current assets		**71,840**	51,761
Total assets		**99,267**	75,987

37 Company-level statement of financial position (continued)

	Note	2018 RMB millions	2017 RMB millions
Current liabilities			
Loans and borrowings		**20,951**	10,486
Trade and other payables		**27,273**	14,006
Financial liabilities at fair value through profit or loss		**40**	—
Contract liabilities		**1,049**	—
Income tax payable		**19**	64
Total current liabilities		**49,332**	24,556
Net current assets		**22,508**	27,205
Total assets less current liabilities		**49,935**	51,431
Non-current liabilities			
Loans and borrowings		**9,904**	13,957
Deferred tax liabilities		**21**	10
Other non-current liabilities		**565**	362
Total non-current liabilities		**10,490**	14,329
Net assets		**39,445**	37,102
Capital and reserves			
Share capital	29(a)	**7,809**	7,794
Reserves	29(b)	**31,636**	29,308
Total equity		**39,445**	37,102

Notes to the consolidated financial statements

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38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018

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 2018 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 16, *Leases*	1 January 2019
IFRIC 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to IFRSs 2015–2017 Cycle	1 January 2019
Amendments to IAS 28, *Long-term interest in associates and joint ventures*	1 January 2019
Amendments to IFRS 9, Financial instruments	1 January 2019
Amendments to IAS 19, Employee benefits	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 IFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

IFRS 16, Leases

As disclosed in Note 2(w), 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.

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018 (continued)

IFRS 16, Leases (continued)

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.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore 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.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in Note 32(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB106 million for properties and other assets, the majority of which is payable between 1 and 5 years after the reporting date. Upon the initial adoption of IFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets are expected to be adjusted to approximately RMB97 million and RMB97 million respectively, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statements from 2019 onwards.

Notes to the consolidated financial statements

For the year ended 31 December 2018

39 Reconciliation of financial information prepared under PRC GAAP to IFRSs

(a) Reconciliation of total equity of the Group

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2018

40 Non-adjusting event after the reporting period

Pursuant to a resolutions passed at the directors' meeting on 29 March 2019, a final dividend in respect of the year ended 31 December 2018 of RMB0.25 (2017: RMB0.20) per share totaling RMB1,952 million (2017: RMB1,559 million) was proposed for shareholders' approval at the Annual General Meeting. The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

41 Comparative figures

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 1(d).


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