ZOOMLION
中联重科

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

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

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

2019 Annual Report

* For identification purpose only

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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.

- 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.

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

Authorized representatives: Zhan Chunxin, Yang Duzhi
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
Public Interest Entity Auditor registered in accordance with
the Financial Reporting Council Ordinance
8/F, Prince's Building, 10 Chater Road, Central, Hong Kong

Chairman's Statement

Chairman **Zhan Chunxin**

Chairman's Statement

Dear Shareholders,

2019 marks the 70th anniversary of the establishment of New China, a critical year for finish building a moderately prosperous society in all respects. Chinese economy has remained moving steadily forward. Under the keynote of seeking progress in stability of the Party and the State, Zoomlion has implemented in-depth new development concept step by step, and made steady strides in high quality development.

Looking back to the previous years, we drew our "smile curve" after experiencing a journey from peak to trough and then reaching back to the peak, deeply understanding the importance of stability to an enterprise.

In 2019, we maintained a high quality and stable development. We focused on our principal business of equipment manufacturing and developed our own tempo by attaining the best balance between scale and effectiveness as well as speed and quality. The Company continued to strengthen its efforts in emerging industry while optimizing and enhancing construction machinery, speeding up the transformation and upgrade of agricultural machinery as well as developing and expanding the financial segment. In 2019, we maintained a high quality and stable development. Focusing on the technological innovation and intelligent upgrade of product, new technologies, new products and new industries continued to develop. Focusing on the management reform, the capacities in market control, risk control and resource collaboration have been significantly enhanced. In 2019, we maintained a high quality and stable development. Focusing on the ability to maintain a sustainable development, our industrial segments have formed an echelon during the development, cultivation, expansion and consolidation process; our technologies have completed the iteration during the application, reserve and preliminary research process; our team has formed a relay during the education, assistance and guidance process; our partners have formed a symbiotic chain relationship in different aspects like strategy, capital as well as upstream and downstream business.

In early 2020, a sudden epidemic aroused the feeling of hundreds of millions of people across the country. The Party Central Committee with Xi Jinping as the core has led its citizens to achieve periodical triumph in epidemic prevention and control as well as resumption of work and production. During the anti-epidemic battle, we immediately assisted in the construction of Leishenshan Hospital and Huoshenshan Hospital in Wuhan by mobilizing global resources to purchase medical protective supplies urgently. We have also experienced the strength and mightiness of the Party and the State, the righteousness and care from people all over the country and the importance and responsibility of an equipment manufacturing enterprise.

2020 is the year of finish building a moderately prosperous society in all respects and the ending of "Thirteen Five-Year" plan, as well as the year of achieving the first 100-year goals of the Party and the State. We will continue to focus on maintaining high quality and stable development by attaining a flexible, better and faster development while maintaining its stable operation.

Chairman's Statement

In 2020, we will continue to implement intelligent development. We will activate our potential in innovation and focus on intelligent operation, so as to keep pace with the development of the time and empower a "intelligent" future. In 2020, we will continue to carry out ecological development. We will create an industrial ecosystem with shared interests and risks by converging intelligence, connecting smartness and speeding up horizontal and vertical connection and integration in industrial ecosystem. In 2020, we will continue to work towards internationalization. We will develop a new model for internationalization by speeding up the implementation of overseas business reform, facilitating the expansion and upgrade of overseas bases and coordinating domestic and international markets.

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

	2019	2018	Change	2017
Operating income	**43,307,395,375.43**	28,696,542,909.99	50.92%	23,272,893,731.36
Net profit attributable to shareholders of the Company	**4,371,456,570.63**	2,019,857,001.70	116.42%	1,331,923,715.27
Net profit attributable to equity shareholders of the Company after extraordinary items	**3,514,297,528.88**	1,490,218,830.05	135.82%	-7,950,379,980.02
Net cash flow from operating income	**6,219,349,490.09**	5,064,119,225.01	22.81%	2,851,086,469.93
Basic earning per share	**0.58**	0.26	123.08%	0.17
Diluted earning per share	**0.58**	0.26	123.08%	0.17
Return on net assets	**10.82%**	5.25%	5.57%	3.57%

	End of 2019	End of 2018	Change	End of 2017
Total assets	**92,068,028,637.66**	93,456,651,846.14	-1.49%	83,149,067,653.62
Net assets attributable to shareholders of the Company	**38,863,231,588.26**	38,201,194,804.37	1.73%	37,578,261,818.00

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	**2019**	2018	2017	2016	2015
Revenue	**43,307**	28,697	23,273	20,023	20,753
Profit before taxation	**5,044**	2,650	1,252	(1,010)	39
Income tax	**(759)**	(682)	6	110	58
Profit for the year	**4,285**	1,968	1,258	(900)	97
Profit attributable to:					
Equity shareholders of the Company	**4,381**	2,031	1,342	(929)	89
Non-controlling interests	**(96)**	(63)	(84)	29	8
Basic earnings per share (RMB)	**0.58**	0.27	0.18	(0.12)	0.01
Diluted earnings per share (RMB)	**0.58**	0.27	0.18	(0.12)	0.01
Gearing ratio (%) (Note)	**57.08%**	58.54%	54.05%	57.63%	56.70%

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	**2019**	2018	2017	2016	2015
Non-current assets	**37,979**	28,657	25,218	23,239	22,667
Current assets	**54,052**	64,762	57,894	65,862	71,016
Current liabilities	**34,569**	39,623	24,488	26,876	30,173
Net current assets	**19,483**	25,139	33,406	38,986	40,843
Total assets less current liabilities	**57,462**	53,796	58,624	62,225	63,510
Non-current liabilities	**17,965**	15,065	20,434	24,470	22,941
Net assets	**39,497**	38,731	38,190	37,755	40,569
Total equity attributable to equity shareholders of the Company	**38,827**	38,164	37,540	36,773	39,896
Non-controlling interest	**670**	567	650	982	673

Principal Financial Data and Indicators

III. Reconciliation of Financial Data under PRC GAAP and IFRSs

Unit: RMB

	Net profit attributable to equity shareholders of the Company		Net assets attributable to equity shareholders of the Company	
	Current year	**Last year**	**Current year**	**Last year**
Under PRC GAAP	4,371,456,570.63	2,019,857,001.70	38,863,231,588.26	38,201,194,804.37
Items and amounts adjusted under IAS				
Acquisition related costs incurred on prior year business combination			-36,528,600.00	-36,528,600.00
Excess in the limit of withdrawal over expenses of safety production fund for the current period	9,213,375.48	12,232,216.33		
Under IFRSs	4,380,669,946.11	2,032,089,218.03	38,826,702,988.26	38,164,666,204.37

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 2019 together with the audited financial statements of the Company and the Group.

I. Operation Review of 2019

In 2019, there witnessed rising tensions in global trade with a continuous slowdown in economic growth rate, while the Chinese economy generally maintained stable in favorable development. Driven by multiple favorable factors such as investment in infrastructure, replacement of aged equipment, promotion of environmental protection and replacement of labors, the construction machinery industry continued to grow strongly. The agricultural machinery industry was affected by factors such as weak market demand, decline in crop prices and decrease in government subsidies, resulting in the decline in sales volume in the traditional agricultural machinery market while the industry was still at the stage of transformation and upgrade.

Since 2019, the Company has upheld the business motto of “Year of Development, Year of Management, Year of Intelligence, Year of Quality, Year of Service, Year of Ecology”, with emphasis on implementation, responsibility and innovation and accelerating digital transformation, which significantly enhanced the Company’s capabilities on operating management, risk control, resource coordination, further solidify its market leading position, steadily increased gross profit margin, dramatically improved profitability and gained sufficient operating cash flow. The Company has achieved sustainable and healthy development in all aspects of operation indicators, marking the best year of operation management throughout the history and achieving high quality, efficiency and sustainable performance growth.

During the Reporting Period, the Group achieved revenue of RMB43,307 million, representing a year-on-year increase of 50.91%; profit attributable to equity shareholders of the Company amounted to RMB4,381 million, representing a year-on-year increase of 115.71%; operating cash flow amounted to RMB5,968 million, representing a year-on-year increase of 26.52%.

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

(I) Emerging effect from strategic focus and explosive growth in business sectors

During the Reporting Period, under the overall strategic framework of “equipment manufacturing + Internet” and “industry + finance”, the Company focused on its main business of equipment manufacturing, optimized resource allocation, further promoted industrial upgrade and drove the Company into a new phrase of “digital enterprise”, realizing steady growth with high quality.

1. Strengthened construction machinery. During the Reporting Period, sales revenue of the Company’s construction machinery products amounted to RMB40,910 million, representing a year-on-year increase of 53.49%, maintaining strong growth of products with competitive edges.

(1) Continuously improved the market position of major products. In 2019, the Company relaunched the "multidivisional system". After divisions regained the sales function of product lines, market competitive advantage was further enhanced. The market shares of crane machinery and concrete machinery products continued to maintain their leading positions, among which construction crane machinery ranked No. 1 around the world in term of sales volume, further strengthening the number one position in the industry; the market share of construction cranes reached the best level in the past five years, and the domestic market share of truck cranes and crawler crane increased 6% and 10% year on year, respectively, achieving the strategic goal of market leading.

(2) Potential markets ready to be introduced. The introduction of work-at-height machinery has received positive feedback from the market and our products were widely complimented by customers. Being introduced into the industry for the first year, our products have become the top one in the work-at-height platform field and generated a new business growth point for the Company. Earth working machinery sector refined products and finalized the layout of market by introducing new product series such as ZE60E-10 and ZE75E-10 that had remarkable fuel consumption efficiency and were popular in market. It also speeded up the research, development and application of common technologies such as hydraulic technique, intelligent technology and structural technology, finalized the layout of sales service outlets throughout the provinces in the PRC. Latecomer advantages have begun to appear, and it is expected to become a strong growth point for the Company in the future. The emerging businesses including manufactured sand, dry mortar and spraying robotic arm continued to expand in a favorable momentum.

(3) Fully integration of key components industry. The Company strengthened independent innovation of key components, improved internal supply of core components such as oil cylinders, hydraulic valves and engineering bridges, and continuously led the development of the industry and improved product competitiveness through technological innovation.

2. Enhanced agricultural machinery. The Company explicitly formulated the strategy for the development of mid-to-high-end agricultural machinery, based on the business motto of "building foundation, preventing losses, navigating focus and achieving breakthrough", creating reliable products and further promoting the application of intelligent agriculture.

Report of the Board of Directors

(1) Market edges remained solid. Focusing on core businesses with competitive edges, the Company deepened the adjustment of product structure, accelerated the upgrades of technology and product and improved product profitability. The major products, such as wheat harvester machinery and rice harvester machinery, achieved growth in a difficult situation, and wheat harvester machinery, sugarcane machinery products and drying machinery maintained their leading positions.

(2) AI empowered intelligent agriculture industry. The Company further broadened and deepened the strategic cooperation with Landing. AI, an artificial intelligence company founded by Professor Andrew Yan-Tak Ng. Breakthrough has been made in the fields such as AI harvester and plant protection machine, domestic large-scale AI agricultural data set DeepHarvest, drive assistance and software upgrade, among which artificial intelligence wheat harvester machinery, rice harvester machinery and plant protection machine were global first products. The release of the technologies of artificial intelligence products was made at the China Agricultural Machinery Exhibition in October 2019 in Qingdao, helping the Company to become the leading AI agricultural equipment manufacturer in China.

3. Escalated the expansion of financial business. Riding on Zoomlion Capital as platform and Industrial Fund as its core, the Company has formed synergy with finance companies, financial leasing, guarantee companies, and fully cooperated with construction machinery and agricultural machinery industries to improve the industrial chain deployment, thus promoting industrial transformation and upgrading. The successful issuance of the first batch of asset-backed securities (ABS) in our self-owned financial leasing platform laid a solid foundation for our independent market-oriented financing of financial leasing platform, which helped us to improve the Company's financing structure, enhance our operational capacities, and strengthen the consolidation of industry and finance.

4. Consummated industrial Internet platform. In 2019, the Company comprehensively advanced digital transformation. Leveraging on digital technologies and Internet of Things, the Company intensified its digital operation in areas including marketing, manufacturing, service and management and continued to construct the "digital Zoomlion" so as to achieve specific and efficient management. Taking ZValley OS industrial Internet platform as our base, and focusing on Industrial Intellect and Agricultural Machinery Intellect, we empowered product application scenarios for customers, and provided user-end general operation solutions based on intelligent equipment, thus boosting the Company's pace of entering the stage of "digital enterprise" and promoting the transformation and upgrade of "equipment manufacturing + Internet".

(II) Comprehensively deepening intelligent manufacturing and acceleration of industrial transformation and upgrade

The Group speeded up the intelligent upgrade of manufacturing, creating a new model for the development of high-end equipment manufacturing industry so as to improve our core competitiveness.

1. Accelerated the promotion of industrial agglomeration and upgrade. The Group fully commenced the planning and construction of Zoomlion Intelligent Industrial City and the construction of our first earth working machinery industrial parks. Upon completion of construction and achieving production target, Zoomlion Intelligent Industrial City shall become the international leading and largest park among construction machinery industry, and become an environmentally friendly and ecological high-end equipment intelligent manufacturing base and artificial intelligence research and application base.

2. Escalated the advancement of intelligent manufacturing. Our first phase of intelligent tower crane factory project has been put into operation with high efficiency and intelligent work-at-height machinery production line has achieved mass production, indicating the further improvement of the Company's intelligent, automated and flexible production. The construction of the second phase of the intelligent tower crane factory project commenced, which would be built into the world's largest and most intelligent tower crane factory upon completion of construction. Intelligent mixer manufacturing industrial and park and hydraulic key component industrial park both under planning would be the world-class and domestic leading intelligent manufacturing industrial parks. A high-end intelligent agricultural machinery manufacturing base that we constructed and invested under the cooperation agreement with Sanshan District, Wuhu City, Anhui Province, operated technological innovation projects including development of AI harvesting machinery, plant protection machinery, tractors, promoting the transformation and upgrade of "high-end, intelligent" agricultural machinery business.

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

Adhered to our technology innovation development philosophy of "technologies and products as fundamentals, product competitiveness as essence of the Company's core competitiveness", the Group continuously enhanced its momentum in independent innovation with our intelligent and green manufacturing capabilities that lead the development of the industry.

Report of the Board of Directors

1. Continued to lead standards in the international field. The Company is the first domestic construction machinery enterprise to lead the formulation of international standards. During the Reporting Period, we introduced one international standard and two national standards, while two international standards and one national standard were newly approved, with the number of registered international standardization experts increased to 13. For international standards revised under the lead of the Company, 10245-3 "Cranes — Limiting and Indicating Devices — Part 3: Tower Cranes" was published; working groups in respect of ISO 12480-1 "Cranes — Safe use — Part 1: General" revised under the lead of the Company and ISO 9928-3 "Crane Driving Manual — Part 3: Tower Cranes" formulated under the lead of the Company were duly formed respectively.

2. Achieved fruitful results in independent innovation.

   (1) Construction machinery products: ZCC9800W crawler crane, T7525 series flat-head tower crane, ZLJ5318GJBHE truck-mounted concrete mixer and intelligent and lithium battery driven crosscutting work-at height platform ZS1212HD-Li were included in the list of 2019 TOP50 Chinese Construction Machinery Products (中國工程機械年度產品 TOP50)(2019), among which, ZCC9800W crawler crane was awarded "Application Contribution Golden Award". The launch of the world largest internal climb luffing-jib tower crane LH3350-120 broke the monopoly position of foreign-branded super-sized tower crane used in high-rise construction projects. The 5-bridge 67-meter steel boom pump truck is made of 1100 MPa ultra-high-strength steel, with a hollow design, which was accredited as the "lightweight benchmark for pump trucks" by the industry.

   We developed intelligent core common technologies such as Dynamic detection technology for space obstacles of moving subject (hook) (運動主體(吊鈎)的空間障礙物動態檢測技術), Auxiliary positioning technology for crane hoisting landing hook (起重機吊裝起落鈎輔助定位技術), 2D and 3D construction guidance technology for excavators (挖掘機2D和3D施工引導技術) and Sand and stone moisture content online detection technology (砂石含水率在線檢測技術等智能關鍵共性技術). In addition, we realized partial loading and application on mainframe products such as engineering cranes, tower cranes, excavators and mixing stations, and promoted the upgrade of less humanized and unmanned products.

Report of the Board of Directors

(2) Agricultural machinery products: The production of the PRC first 4GQT-1 mountainous sugarcane machine and 9YY-2200 bundling machine samples symbolizing innovative technology of the PRC has been completed. We completed the development of 2ZPY-13A rice order seedling throwing machine and sales by batches. Such product technology replaced the planting modes such as manual seedling throwing and rice direct seeding, achieving 13 rows of rice seedling throwing operations, which is nearly 50% quicker than traditional high-speed rice transplanter (6 rows). We updated the agronomic methods of mechanical rice seedling throwing in the domestic rice planting industry, and such proprietary technology took the lead in the country. The exhibited prototype AC90 sugarcane harvester at the China International Agricultural Machinery Exhibition 2019 has filled the gap of large domestic sugarcane machine, and has reached the international advanced level in terms of product intelligence, harvesting efficiency, impurity ratio, and adaptability.

(3) Green manufacturing led the transformation and upgrade of the industry. In 2019, the Company was selected as the first batch of industrial product green design demonstration enterprises (工業產品綠色設計示範企業) by the Ministry of Industry and Information Technology, and it is also the first company in Hunan Province being listed. We developed new products which satisfying the National VI Emission Standards, including pump truck, mixer truck and truck-mounted pump, and 12 small and medium and small tonnage truck cranes. We adopted industry-leading technology in respect of all these National VI products, which achieved comprehensive upgrade of emissions and performance. We developed "Energy saving prince (節能小王子)", the new generation mixer truck with power and working condition self-adaptive technology, which reduced the overall vehicle fuel consumption by 5%–7%. The world's first hybrid agitating cloth pump truck, MK28E, was released and put into market. The electric crank arm aerial work platform was the first in the industry to develop and apply a "dual control system" with pump control + valve control, which is energy saving and efficient.

(4) Maintaining the lead in industry in terms of patents. 233 patents were granted during the year, among which, 101 patents are invention patents, which achieved a zero breakthrough in terms of industrial internet patent. Leveraging on 9 leading industry indexes such as patent amount, homogeneity, patentability and exclusivity, the Company was selected as one of the top 500 Chinese patent enterprise in 2019, ranking first in the construction machinery industry.

(IV) Intensifying efforts in overseas markets, fostering international breakthroughs

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

1. Comprehensively promoted overseas operations and management reform. In the next half year, the business segments regained the overall control over the overseas operations of the Company, streamlining research, production, sales and services of product lines of overseas operations, enhancing the main business of business segments and creating a new system with clear division, distinct responsibility and full coordination.

2. Reached a new level for overseas localized manufacturing. The localization of manufacturing of the European CIFA crane achieved great breakthrough, and ATC960 and ATC1000 all-terrain crane samples, 100% designed and made in Europe, were unveiled in bauma GERMANY and obtained the intellectual property rights of crane products in line with the European standards, laying a good foundation for the fully launch of ATC products. The Group broadened the market of the German M-tec continuously and introduced the German high-end manufacturing and service standards to China, achieving a steady rise in results. Wilbert from Germany strengthened the integration and coordination with us, making a breakthrough in production bottleneck and further enhancing the marketing capability. The Belarus base has been completed and commenced trial operation and production, accelerating our presence into Eastern Europe and Central Asia. The Group established India division and speeded up the preparation for the construction of new factories in India and we are geared to establish the overall layout of emerging markets in India and South Asia.

3. Achieved a preliminary breakthrough in the internationalization of agricultural machinery. By fully leveraging on the overseas platform of the Company, 7 key overseas markets in Southeast Asia has completed the channel layout planning and we have signed strategic cooperation agreements with Cambodia, speeding up the international expansion and achieving an increase in the revenue from the export of agricultural machineries.

4. Stably improved operation quality of overseas businesses. In 2019, the Company continuously improved the operation quality of overseas businesses with a stable increase in the overall profitability by improving the structure of export goods, strictly managing risk of overdue receivables of overseas operations and enhancing the management of capital budget.

(V) Strengthening management innovation, significantly improving operational quality

During the Reporting Period, the Company strengthened its management platform, innovated management tools, intensified the management models and improved management capabilities focusing on the principal of high quality and sustainable development, achieving a new level of management standards and operational efficiency.

1. Enhanced its assessment incentive mechanism among business segments. In 2019, the Company implemented a system of share in super profits and allowed business segments to make a decision flexibly, in order to achieve the reasonable allocation of responsibility, rights, profits and resources, guiding business segments to make market profits, stimulating new vitality of operation and striving for the sustainable and high quality development.

2. Innovated marketing models. The Group quickly promoted the reform of performance partnership scheme, implemented the flat management, combined sales and services, to stimulate the teamwork of marketing staff under mutual creation and sharing model, help newbie to grow up quickly and strengthen core competitiveness in market.

3. Continuously enhanced risk management and control capabilities. The Company adhered to tightening credit policy, carried out real-time monitoring to correct the deviation by controlling down payment ratio and the risks of customer identification in front end, implementing single monitoring early-warning in middle end and strictly implementing receivable collection in backend, and firmly grasped the key points of risk control, and hence significantly enhancing the quality of operations.

4. Built a customer alliance ecosystem. Dominated by strategic key projects of the Company, the Group explored, incubated, promoted and replicated new business models with state-owned enterprises, promoted the development of customer alliances to a deeper level through one point to all aspects to build an efficient and sustainable industrial chain ecosystem.

5. Establishing core competitiveness in services. The Group will continuously improve and optimize its service system, as well as enhance service skills and component supply capabilities. Leveraging on industrial Internet technology and mobile application promotion, we comprehensively promote our one-click repairing service, explore service visualization, mobile and intelligent applications. Also, we constantly provide users with more convenient, personalized and customized services with an aim to optimizing customer service efficiency and experience.

Report of the Board of Directors

II. Analysis of Financial position

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

III. Business Outlook of the Group

(I) Industry development trend and market outlook

1. Construction machinery market

2020 marks the last year of building a moderately prosperous society in all respects and the 13th Five-Year Plan. China will continue to implement proactive fiscal policies and sound monetary policies. Since 2020, with a large number of infrastructure projects having been introduced, the scale of local special bonds seeing increase and financial institutions increasing financing support, the growth rate of infrastructure investment is expected to accelerate. Numerous major and extremely large projects, such as the coordinated development for the Beijing-Tianjin-Hebei Region, integrated development of Yangtze River Delta, construction of Xiong'an new district and Guangdong-Hong Kong-Macao Greater Bay Area, commenced construction successively and are further promoted, and more efforts are put on infrastructure investment in severely impoverished areas, which continuously promote the construction of underground pipelines and renovation of urban old residential communities. This will bring about opportunities of long term development for the construction machinery industry. In addition, 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.

Affected by the outbreak of COVID-19, in 2020, market demand in the construction machinery industry delayed and traditional "peak season" postponed, which posted negative impact on sales in the first quarter. However, as various industries in different regions are resuming production orderly and the effect of the outbreak is gradually eliminated, downtown construction demand is fully released, the sales in the second quarter is expected to experience strong growth, hence the impact on annual sales will be limited.

2. Agricultural machinery market

In November 2019, the Ministry of Finance announced that the subsidy term of purchasing agricultural machinery was extended to 2023. In 2020, policies on agricultural machinery subsidy will maintain stable and focus of subsidy will be put on middle-to-high end, green, and smart products. With the implementation of the country's rural revitalization strategy and in-depth advancing of the structural reform of the agricultural supply side, domestic agricultural mechanization will be further improved, offering opportunity and space for development of the industry. Thus, the industry will continue to grow, and leading enterprises with edges in brand, technology, scale and services will gain greater competitive strengths.

(II) Main operation direction for 2020

1. Completing target responsibility system in all aspects. The Group will do a good job in resource allocation, stick to a tight budget by managing budget strictly, and strengthen execution capability, accountability, innovation in a fast and excellent way, in order to accomplish the business goals and enhance the operational quality of 2020.

2. Speeding up digital transformation. By making business systematic and conducting online operation, the Group will comprehensively deepen management on end-to-end business management and thoroughly open the market chain, so as to provide support for efficient, transparent and controllable business operations. With application scenarios as its core, the Group will continue to promote the digital and intelligent upgrade in terms of products, manufacturing, services, supply chain and management. The Group will further produce intelligent application products based on industrial Internet platform, so as to empower the upstream and downstream industry chains, make business models more innovative and achieve digital transformation.

3. Accelerating research, development and application of intelligent technologies. Based on the existing achievements of product 4.0, the Group will further improve intelligence level of its products; proactively explore the research, development and application of new technologies for the Internet and the Internet of the Things. The Group will get through the value chain of incubation, cultivation, application and marketization of new technologies based on ZValley and leveraging on two level research and development system of the central research institute and business department in headquarters, so as to form a technology incubation platform and market incubation platform for new industries.

4. Achieving breakthrough in potential market. By implementing the strategy of "making focus, overcoming difficulties, achieving breakthrough and making progress", earth working machinery will focus its resources on intelligent manufacturing, market and services to create a whole industry chain ecology covering production, sales and supply that bring about mutual benefits, achieving a comprehensive takeoff; work-at-height machinery will increase production capacity at full speed, improve product profile, speed up global layout, and expand market via multiple channels, achieving rapid development; and our agricultural machinery segment will keep increasing investment in agricultural machinery business, work hard on developing key technologies and improving the quality of traditional industries, overcome shortcomings and weakness based on market demand and agricultural production and continuously research and develop efficient, appropriate and intelligent high end agricultural machinery products, so as to build up core competitiveness of products and improve profitability.

Report of the Board of Directors

5. Accelerating the development of overseas business. The Company has fully transferred overseas business into the business department. The Company will further improve the research, production, sales and service system of overseas business of each product line, create innovative overseas business and development models, and promote reform of overseas business. The Company will strengthen research on overseas markets and accelerate collaboration of overseas systems, further improving competitiveness of the Company's products exported overseas and creating a new situation for overseas market expansion.

6. Establishing an intelligent industrial city with high quality and efficiency. The intelligent industrial city reflects the Company's future transformation and upgrading. In 2020, the Company will promote its high quality and highly efficient construction to ensure that the whole project can achieve or exceed annual target. As the first park opened in the industrial park, excavating machinery park will follow the requirements of establishing world-class smart factory and adopt advanced technologies including artificial intelligence and industrial Internet to carry out intelligent upgrade on business areas such as factories, products, and markets, and conduct digital transformation for business modes of research and development, marketing, services and management, realizing real-time monitoring, optimized scheduling and value mining of the entire production process and efficiently producing products with high performance and quality.

7. Building a healthy industrial ecological park. The Company will continue to expand and optimize customer alliance ecosystem, improve supply chain system, further realize upstream and downstream expansion, and selectively cooperate with suitable partners in multiple and all-round ways, so as to work together to create a healthy ecosystem with high quality.

8. Doing a good job in talent recruitment and training. Talent recruitment is a sustainable project of the Company. The Company will further improve the system of talent recruitment and training, put more efforts on the recruitment of middle to high end talents and enhance the diverse and multi-dimensional incentive system of "co-creation of values and benefit sharing", so as to recruit, retain and make good use of talents and train them as the core force of promoting sustainable development of the Company.

(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 Board does not propose any final dividend for the year ended 31 December 2019.

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

According to the Articles of Association, aggregate profit distribution of the Company in the form of cash in the past three years shall not be less than 30% of the annual average profit available for distribution in the past three years, the profit distribution of the Company shall be proposed by the board of directors in accordance with the articles and the operating condition of the Company and approved by the general meeting. Following a resolution on the profit distribution plan by the general meeting, the Board of Directors should complete the distribution of dividend (or shares) within two months after the general meeting.

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 10 to the financial statements prepared under IFRSs.

VII. Major suppliers and customers

Total purchases by the Company from the top five suppliers amounted to RMB3,592,718,980.20, accounting for 12.62% of the aggregate annual purchase of the Company and total purchases by the Company from the largest supplier accounted for 3.45% 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 RMB1,054,244,271.63, accounting for 2.43% of the aggregate annual sales of the Company and the total sales to the largest customer of the Company accounted for 0.87% 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 RMB6.96 million in aggregate.

IX. Human Resources

As at 31 December 2019, the Company had employed a total of 19,016 employees. Details of the Company's staff costs and employee benefit plans for 2019 are disclosed in notes 5(b), 26 and 28 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, including (i) research, development, manufacturing and sale of construction machinery; (ii) research, development, manufacturing and sale of agricultural machinery; (iii) finance lease services.

Results of Operations

The following table sets forth a summary of our consolidated results of operations for 2019.

	Year Ended 31 December	
	2019	2018
	RMB	RMB
	millions	millions
		(Note)
Revenue	**43,307**	28,697
Cost of sales and services	**(30,314)**	(20,923)
Gross profit	**12,993**	7,774
Other income	**1,017**	882
Sales and marketing expenses	**(3,780)**	(2,379)
General and administrative expenses	**(2,693)**	(2,063)
Research and development expenses	**(1,516)**	(581)
Profit from operations	**6,021**	3,633
Net finance costs	**(1,165)**	(1,205)
Share of profits less losses of associates	**188**	222
Profit before taxation	**5,044**	2,650
Income tax	**(759)**	(682)
Profit for the year	**4,285**	1,968

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; and

Financial services segment.

The following table sets forth the breakdown of our consolidated turnover by our operating segments for 2019:

	Year Ended 31 December	
	2019	2018
	RMB	RMB
	millions	millions
Construction machinery		
— Concrete machinery	**13,902**	10,165
— Crane machinery	**22,147**	12,472
— Others	**4,942**	4,086
Agricultural machinery	**1,583**	1,477
Financial services	**733**	497
	43,307	28,697

Management Discussion and Analysis

Our revenue increased by 50.91% from RMB28,697 million for the year ended 31 December 2018 to RMB43,307 million for the year ended 31 December 2019. 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.

The following table sets forth the breakdown of our turnover by geographic sales location for 2019:

	Year Ended 31 December	
	2019	2018
	RMB	RMB
	millions	millions
		(Note)
Revenue from external customers		
— Mainland PRC	**39,738**	25,107
— Outside PRC	**3,569**	3,590
Total	**43,307**	28,697

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	
	2019 RMB millions	2018 RMB millions (Note)
Reportable segment profit:		
Construction machinery		
— Concrete machinery	**3,810**	2,436
— Crane machinery	**7,256**	3,625
— Others	**1,127**	1,115
Agricultural machinery	**68**	102
Financial services	**732**	496
	12,993	7,774

Our gross profit increased by 67.13% from RMB7,774 million for the year ended 31 December 2018 to RMB12,993 million for the year ended 31 December 2019. Our gross profit margin increased from 27.09% for the year ended 31 December 2018 to 30.00% for the year ended 31 December 2019, 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 RMB882 million for the year ended 31 December 2018 to RMB1,017 million for the year ended 31 December 2019, which is mainly due to an increase in gain from investment in wealth management products.

Management Discussion and Analysis

Sales and marketing expenses

Our sales and marketing expenses increased by 58.89% from RMB2,379 million for the year ended 31 December 2018 to RMB3,780 million for the year ended 31 December 2019 primarily due to the expansion of sales scale resulting in an increase in sales and marketing expenses accordingly.

General and administrative expenses

Our general and administrative expenses increased from RMB2,063 million for the year ended 31 December 2018 to RMB2,693 million for the year ended 31 December 2019 primarily due to an increase in taxes and surcharges and impairment losses on receivables and inventories.

Net finance costs

Our net finance costs for the year ended 31 December 2018 was RMB1,205 million and our net finance costs for the year ended 31 December 2019 was RMB1,165 million. The decrease was due to the decrease of net exchange loss.

Profit for the year

As a result of the foregoing, our profit for the year increased by 117.73% from a profit RMB1,968 million for the year ended 31 December 2018 to a profit RMB4,285 million for the year ended 31 December 2019.

Management Discussion and Analysis

Cash Flow

As of 31 December 2019, we had RMB5,073 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 2019:

	Year Ended 31 December	
	2019	2018
	RMB	RMB
	millions	millions
Net cash generated from operating activities	**5,968**	4,717
Net cash generated from/(used in) investing activities	**9,984**	(7,242)
Net cash (used in)/generated from financing activities	**(19,648)**	4,102
Net (decrease)/increase in cash and equivalents	**(3,696)**	1,577
Effect of foreign exchange rate changes	**15**	29
Cash and cash equivalents at the beginning of the period	**8,754**	7,148
Cash and cash equivalents at the end of the period	**5,073**	8,754

Operating activities

In 2019, net cash generated from operating activities was RMB5,968 million derived primarily from the profit before taxation of RMB5,044 million in total, adjusted to reflect interest expenses of RMB1,673 million, interest income of RMB539 million, depreciation and amortisation of RMB935 million, net realised and unrealised gains on financial assets at FVPL of RMB753 million, share incentive scheme expenses of RMB135 million, share of profits less losses of associates of RMB188 million and added back the effect of (i) the increase in trade and other payables of RMB9,896 million and (ii) the increase in contract liabilities of RMB332 million, and net off the following items: (i) the increase of receivables under finance lease of RMB4,618 million; (ii) the increase in inventories of RMB1,708 million; (iii) the increase in trade and other receivables of RMB3,460 million and (iv) income tax payment of RMB773 million.

Investing activities

In 2019, net cash generated from investing activities was RMB9,984 million, consisting primarily of: (i) proceeds from disposal of financial assets at FVPL of RMB29,193 million; (ii) proceed from proposed disposal of property, plant and equipment and right-of-use assets of RMB1,375 million and (iii) interest received of RMB253 million and offset by the following items: (i) payment for acquisition of financial assets of RMB19,130 million; (ii) payment for purchase of property plant and equipment of RMB1,082 million; (iii) payment for investments in associates of RMB301 million and (iv) payment for acquisition of a subsidiary of RMB165 million.

Financing activities

In 2019, net cash used in financing activities was RMB19,648 million, consisting primarily of: (i) repayments of loans and borrowings assets of RMB56,533 million; (ii) cash dividends paid to equity shareholders of RMB1,801 million; (iii) interest payments of RMB1,707 million and (iv) payment for repurchase of own shares of RMB2,145 million and added proceeds from loans and borrowings of RMB42,525 million.

Working Capital and Indebtedness

The table below sets forth the details of our current assets and liabilities as of 31 December 2019:

	31 December	
	2019	2018
	RMB	RMB
	millions	millions
Current assets		
Inventories	**11,772**	9,551
Other current assets	**1,413**	1,097
Financial assets at FVTPL	**4,311**	13,787
Trade and other receivables	**20,839**	21,554
Receivables under finance lease	**9,229**	8,835
Pledged bank deposits	**1,415**	1,184
Cash and cash equivalents	**5,073**	8,754
Total current assets	**54,052**	64,762
Current liabilities		
Loans and borrowings	**7,312**	22,044
Trade and other payables	**25,012**	15,786
Financial liabilities at FVTPL	**37**	40
Contract liabilities	**1,934**	1,602
Lease liabilities	**88**	—
Income tax payable	**186**	151
Total current liabilities	**34,569**	39,623

Our net current assets decreased from RMB25,139 million as at 31 December 2018 to RMB19,483 million as at 31 December 2019, mainly attributable to the increase of trade and other payables.

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 2019, 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 2019) and the earliest date the Company would be required to repay:

	As at 31 December 2019					
	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	21,827	24,248	8,151	827	14,913	357
Trade and other payables	25,012	25,012	25,012	–	–	–
Lease liabilities	417	458	88	82	128	160
Other non-current liabilities	2,666	2,666	–	189	937	1,540
	49,922	52,384	33,251	1,098	15,978	2,057
Financial guarantees issued						
Maximum amount guaranteed	67	4,845	4,845	–	–	–

	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	–	–	–
Other non-current liabilities	991	991	–	261	589	141
	52,466	55,570	39,227	5,982	9,779	582
Financial guarantees issued						
Maximum amount guaranteed	55	3,899	3,899	–	–	–

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

Management Discussion and Analysis

Please refer to notes 18, 19 and 32 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 32 of the financial statements prepared under IFRSs for more quantitative information about the Company's interest rate risk.

Currency Risk

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

Please refer to note 32 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 fourth 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 2019 to 31 December 2019. 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 (2020) is expected to be released in April 2021. 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 environmental, social and governance 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 individual value comes from the enterprise and corporate value originates from society, and we always adhere to the corporate culture with the core idea of "SINCERE, CEASELESS, LARGE, SUBSTANTIAL, FAR-REACHING & LONG-ENDURING". 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, striving to practice social responsibility as an innovative enterprise.

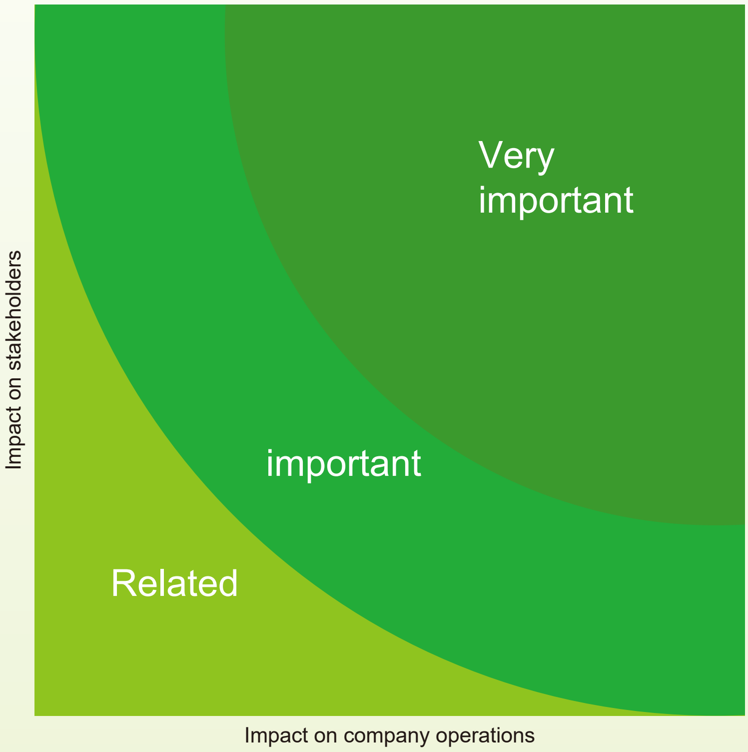
Stakeholder Involvement

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.

Materiality Assessment Matrix



Very important
Emission of exhaust gases
Emission of greenhouse gases
Emission of waste water
Emission of hazardous waste
Direct energy
Indirect energy
Water resources
Employment and labour regulations
Occupational health and safety
Development and training
Employees' rights and standards
Supply chain management
Product health and safety
Advertisement and labels of products and services
Client privacy
Anti-corruption

Important
Utilisation of packaging materials
Potential impacts from environment and natural resources on the Company
Community investment
Other potential social impacts on the Company

Related
Emission of non-hazardous waste
Materials
Other potential environmental impacts on the Company

Environmental, Social and Governance Report

3 Environment

Good ecological environment is the welfare most beneficial to people's well-being. Zoomlion, as a leading company in the industry, continues to implement a safety and management policy stressing the importance of people and the need for green manufacturing, continuously increases investment in environmental protection, and actively implements its environmental protection social responsibility. In 2019, Zoomlion invested a total of RMB120 million in technological transformation for environmental protection.

We remain highly attentive to the possible impacts of machinery manufacturing on the environment, and consider energy conservation and environmental protection a paramount issue in our production and business operation. In 2018, the powering of construction machinery products fully reached the National V Emission Standard for Motor Vehicles (i.e. the "National V Emission Standard"), and the agricultural machineries were fully equipped with engines that meet the "National III Emission Standard", based on which, in 2019, the approaches to manufacture high-end equipment, developed new products which comply with the National VI Emission Standard, including pump trucks, mixer trucks, three types of car pumps and twelve types of small and medium tonnage truck cranes. All of these products adopt industry-leading technologies to achieve comprehensive upgrading in terms of emission and performance, meet national emission standards and conform to market trends, thereby becoming a leading enterprise in the industry. 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.

Environmental, Social and Governance Report

With regard to management, externally, the Company strictly complies with *Environmental Protection Law of the People's Republic of China* and other 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. In 2019, the Company checked the environmental protection facilities in all the industrial parks to ensure that they are running normally and effectively, 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 plants' 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 blue skies, three industrial parks of the Company completed the end-of-pipe treatment of volatile organic compounds (VOCs) in 2019. In the meantime, the Company is promoting the use of environmental protection coatings, finish paint assembly, strengthening the emergency response to heavily polluted weather, proactively performing peak shifting production, promoting industrial intelligent upgrading, using environmental protection, energy saving, ecological intelligent equipment, etc., comprehensively reducing exhaust emissions through a series of measures, so as to make contributions to the cause of environmental protection.

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 2019, 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	2019 (ton[1])	2018 (ton[1])
Sulphur dioxide	**0.13**	0.08
Nitrous oxides	**18.36**	11.46

Environmental, Social and Governance Report

In addition, greenhouse gases emitted by the Company in 2019 were mainly generated from the burning of fossil fuels and the consumption of electricity. The Company generated approximately 169,007.69 tons of greenhouse gases in 2019 (2018: 102,827.85 tons), with greenhouse gas emission intensity at 3.90 tons per million revenue in Renminbi (2018: 3.58 tons per million revenue in Renminbi), an increase of 8%, this is mainly due to the significant increase in the Company's operating income during the reporting period and the increase in factory operation time, which added to the corresponding emissions. The related emission data are as follows:

Sources of greenhouse gas	Total greenhouse gas emissions in 2019 (Unit: ton[2])	Greenhouse gas emission intensity in 2019 (Unit: Tons per million revenue in Renminbi)	Total greenhouse gas emissions in 2018 (Unit: ton[2])	Greenhouse gas emission intensity in 2018 (Unit: Tons per million revenue in Renminbi)
Directly generated	**39,873.72**	**0.92**	21,817.75	0.76
Indirectly generated	**129,133.97**	**2.98**	81,010.10	2.82
Total	**169,007.69**	**3.90**	102,827.85	3.58

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, tCO_2;

$E_{electricity}$: 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.

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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.

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 2019, the Company continued to invest in 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.

Resources consumed by the Company's domestic industrial parks during 2019 are as follows:

Variety of energy	Unit	**Total consumption in 2019**	Total consumption in 2018
Kerosene	ton	**–**	0.49
Un-leaded petrol	ton	**386.93**	239.19
Purchased electricity	10,000 kWhs	**20,192.87**	12,638.87
Freshwater	10,000 cubic metres	**242.90**	175.34
Natural gas (for cooking)	10,000 cubic metres	**817.78**	368.35
Diesel (for contingency power-generation equipment)	ton	**6,801.22**	4,247.44

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. This year's electricity consumption density is 4,662.73 kwh per million revenue in RMB (2018: 4,404.25 kwh per million revenue in RMB), water consumption density is 56.09 tons per million revenue in RMB (2018: 61.10 tons per million revenue in RMB) and natural gas is 188.83 cubic meters per million revenue in RMB (2018: 128.36 cubic meters per million revenue in RMB).

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

We are dedicated 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 manufacturer 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 concrete machinery, we have developed a complete set of green concrete machinery equipment covering the whole construction process of sandstone aggregate production, concrete production, concrete transportation and concrete pumping, thereby building an ecological chain of green concrete products. We have also developed the new generation mixer truck "Energy Saving Prince", which adopts the adaptive technology for power and working condition, reducing the overall fuel consumption of the whole truck by 5%–7%.

For the aerial work platform (AWP), we have developed a lithium battery power system tailored 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. The new ZA14JE electric BAVB-C AWP features "zero emission, long endurance, easy to maintain, accurate and efficient". The new ZS0407DC is a mini Shears-fork type AWP. The whole machine is light in weight, small in size, flexible and functional. It can enter and exit building passenger elevators freely without being limited to elevator load; it carries lithium-ion battery, with longer endurance.

In terms of earthwork sector, through long-term and joint efforts of Zoomlion's Central Research Institute and North America R&D centre, we have launched a dozen new series of 10E-10 hydraulic excavators this year, covering from ZE60E-10 to ZE485E-10, ranging from 5.5t compact excavators to 48.5t large excavators, including three categories: small, medium and large, equipped with a new upgraded power system, intelligent, comfortable and user-friendly design and remote information management function, featuring "high configuration, high efficiency, high intelligence, low fuel consumption, low failure rate, low maintenance cost" and other performance advantages.

For agricultural machinery, Zoomlion cooperated with Landing.AI in the U.S. to develop AI-enabled agricultural machinery products. Currently, we have completed the AI function determination of wheat reaper, plant protection machine and rice reaper and two rounds of field operation data collection. In October 2019, we released AI-enabled products during the National Agricultural Machinery Exhibition in Qingdao, helping Zoomlion to become a leading AI-driven equipment manufacturer. We completed the development of 2ZPY-13A rice ordered seedling thrower, realised 13 rows of rice seedling thrower operation. This product technology has replaced the cropping patters such as manual seedling, rice direct sowing, adopted innovative agricultural mode of mechanical seedling thrower across domestic rice planting industry, among the leading position in terms of proprietary technology in China. The AC90 sugarcane harvesting machine developed by Zoomlion has filled the gap of domestic large-scale sugarcane machine, coming up to international advanced level in respect of product intelligence, reaping efficiency, impurity rate and adaptability. It is a model of transformation and upgrading of China's agricultural machinery industry and moving towards high-end boutique intelligent manufacturing.

The Company has been selected as one of the first batch of green design demonstration enterprises for industrial products by the Ministry of Industry and Information Technology, and also the first enterprise to make it in the list in Hunan Province. The intelligent tower crane factory of Zoomlion has been awarded the "Green Factory" of Hunan Province, and it has developed a complete set of green concrete machinery equipment covering the whole construction process of sandstone aggregate production, concrete production, concrete transportation and concrete pumping, thereby building an ecological chain of green concrete products.

Compliance Statement

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

4 Society

4.1 Employment

In 2019, the Company has transitioned from management and control to empowerment in terms of human resources management. Positioned as "change maker, business partner and employee leader", we shall assist in the Company's strategic layout, focus on the upgrading of allocation and incentive mode, employee development and talent training, and the transformation and upgrading of human resource management mode to continuously improve employee engagement, employee cohesion and core operational efficiency.

We actively participated in legal trainings provided by government authorities and got timely updates of 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 mechanism, 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 our 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 3,000 new employees during this reporting period, serving as a good platform to promote social stability and job creation. The Company has a total employees of more than 19,000, of which 67.23% are below 35 years old (inclusive), with a sustainable employment structure.

Compliance Statement

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

4.2 Health and Safety

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 our 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.

During the reporting period, in accordance with the "three must-follow" principle (safety must be ensured for those responsible for the industry matters, business matters and production operation matters) and combined with the Company's actual administration characteristics, Zoomlion's Work Safety Committee adjusted the existing safety and environmental management organisation, and comprehensively revised the Company's safety management functions. The revised *Safety Production Responsibility System* clarifies the personnel of all functional departments, business units and safety lines of the headquarters, organises special meetings for publicity and implementation; then the business units shall revise and release the safety production responsibility system at the corresponding level based on their specific conditions, so as to truly achieve the comprehensive implementation of work safety responsibility, and fully realise the principle of "One position, dual responsibilities".

Meanwhile, in order to enable our employees to grasp safety knowledge more efficiently, we conduct online and offline training, where relevant national laws and regulations and policies are integrated into, by means of different organisational forms such as intensive face-to-face coaching, online classroom, safety video, special topic communication and discussion, and experience in emergency experience hall, so as to comprehensively improve employees' safety production awareness and safety operation skills. In 2019, a total of 179 training sessions were organised, with 16,425 participants. In 2019, special activities with respect to special equipment, relevant parties, hazardous chemicals, overseas offices, examination on special operation personnel were carried out throughout the Company, for the purpose of sorting out safety and environmental protection problems to be solved, which are still in the process of being gradually rectified.

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 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.

In the past three years (including the current reporting period), there was no death arising from accidents at work.

Compliance Statement

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

4.3 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.

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 which a second-hand pump truck (worth RMB1,274,700) was donated for practical teaching and technical research and development. The two sides will jointly build a platform specifically for the training of overseas comprehensive talents, to form a talent training system of "standards and skills and language and laws", realise the precise connection between talents supply and demand, and help achieve the Company's products, services and talents "go global" strategy. We have jointly established "Zoomlion Electric Class" with Hengyang Technician College, and also built two new bases for apprenticeship system practice, covering nearly 500 students. We have successfully applied for a training and practice base for school-enterprise cooperation in Changsha city, which has obtained a special fund of RMB200,000 from the Ministry of education. In the meantime, we have established a joint training base for school-enterprise talents with Dalian University of Science and Technology and Changsha University of Science and Technology to build a good school-enterprise cooperation relationship.

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.

Plural-training with full coverage

Zoomlion adopts innovative training methods to tally with business needs, in 2019, we focus on the training of administrative staff, marketing, risk control, production management and other talents, have organised a total of 116 training projects, with 11,685 person times of training, average training hours of 19.2 hours per employee, the training percentage of the Company's employees is 100%, and the total annual training investment amounting to nearly RMB14 million. By using AI, big data and other information-based methods, the enterprise's knowledge and experience shall be accumulated, extracted, processed, spread and utilised to improve the training efficiency. Training on marketing personnel is integrated into the actual practice so as to seeking for victories and beliefs of the winner; training on production management elite team is introduced into the actual cases to create efficient returns; training on college students focuses on potential development and comprehensive capabilities expansion; training on customer alliance personnel implements the concept of strategic cooperation, to enhance customer affinity and achieve sharing and win-win situation. We focus on the development of the National Occupational Skill Testing Centre and the National Enterprise Training Centre and have organised vocational skills training (including vocational skills training and post skills improvement training), to help the Company's transformation and upgrading of intelligent manufacturing; a total of 1,600 participants attended the training and tests.

Zoomlion has long been committed to building a gold service team. Most of the existing service engineers have college, undergraduate or above degrees with mechanical and related majors, with good qualification and technology background. 100% of them have been systematically and professionally trained and have held relevant certificates after passing strict examinations.

Furthermore, Zoomlion attaches great importance to strengthening the school-enterprise cooperation, leveraging relevant government policies to provide employment opportunities for students and training practical skilled talents for enterprises. In 2019, the Company launched various characteristic school-enterprise cooperation activities with Northwestern Polytechnical University, Hunan Industry Polytechnic, Changsha University of Science and Technology respectively.

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 do we 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 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.

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. In 2017, the Company implemented the share incentive scheme, with profit targets achieved for two consecutive periods. Based on the initial share incentive obtained, on 15 November 2019, the Company formally planned to implement the management stock ownership plan, aiming to further improve the corporate governance structure, establish and improve the benefit sharing mechanism between employees and owners, improve employee cohesion and build the Company's core competitiveness, advocate the concept of common development of the Company and individual employee, fully mobilise the Company's employees initiative and innovation ability, attract and maintain the long-term stability of outstanding management talents and key business backbone.

We have built a dual evaluation system based on performance and behavior. This new performance appraisal system covers all employees and it improves on two-way communication and guidance in the evaluation process, so as to truly fulfill corporate culture, focus on talent development and performance improvement. We standardise daily management through measures of fragmentation and standardisation, improve our performance assessment through the means of informatization and visualisation, strengthen performance guidance by way of "rules", and make use of alignment methods to ensure objective results, thereby making our performance effective and practical; stimulate employees' potential and vitality through compensation reform. We guide the management personnel to focus on the improvement of organisational and individual performance; enable the technicians to focus on their professional skill, for the purpose of improving the R&D capability and performance; guide the service personnel to return to the nature of service, encourage them to improve their skills, for the purpose of providing convenient and efficient services for customers, to further strengthen the interaction between marketing and service.

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

Zoomlion always adheres to the business philosophy of "good faith, win-win cooperation", constantly optimises the supply chain ecosystem, integrates high-quality supplier resources and builds an advanced green supply chain management system, to create value for the Company and the society as well. Faced with a complicated and challenging macro situation, the Company continues 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. Zoomlion always attaches importance to sharing opportunities and working together with suppliers to achieve sustainable development.

During the reporting period, Zoomlion continues to optimise the supply chain ecosystem by introducing good supplier resources and strengthening supplier management. In terms of the introduction of high-quality suppliers, we have attracted a large number of high-quality partners through extensive sourcing, strict supplier access review, sound and transparent bidding and procurement systems and good capital credit; in terms of supplier management, a group-level qualified supplier list has been established to continuously optimise the supplier management system and the dynamic quantitative evaluation mechanism for suppliers, carry out hierarchical management of suppliers, apply the results of dynamic quantitative evaluation mechanism for suppliers to the construction of supply chain, thereby establishing a long-term and stable partnership with those suppliers excelling in the evaluation results.

The Company continues to implement the established *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.

During the reporting period, the Company cooperated with the leading advisory bodies across the globe to conduct a comprehensive review of its supply chain management processes and business, for the purpose of enhancing the headquarters' supply chain system capabilities, and giving full play to the function of regulating, coordinating and servicing to achieve collaborative and efficient management of the Company's entire supply chain. We have planned the SRM information system project for the entire process of supply chain system to realise data connection, information sharing, and end-to-end visualisation, analysis and adjustment of supply chain. Based on the improved means of informationisation and intelligentisation, the system and human wisdom are fully integrated and interacted to build an intelligent supply chain management information platform aiming at the future.

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. Based on the supply-chain management system integrating the existing SAP system, the Company has 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. Also, the company proactively explores digital procurement methods and intends to use the procurement platform of large internet companies to improve process compliance and create a set of sound, transparent, and open internet procurement systems, for the purpose of improving procurement efficiency and cut procurement costs.

In addition, in order to improve the environmental protection capability of the supply chain system, the Company proactively promotes the use of water-based paints and provides guidance to suppliers in terms of emissions reduction and safety management, and guides suppliers to join the Alliance of Green Supply Chain of the Ministry of Industry and Information Technology to improve the environmental protection social responsibility of the upstream and downstream enterprises.

Through a series of effective assistance and management measures, the KPI indicators of the entire supply chain system in 2019 have been further improved, and high-quality, efficient, and quick-response flexible supply capacity indicators have been basically realised, making great contributions to protecting customers' needs.

5.2 Product Responsibility

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 continues to develop quality culture. In 2019, the Company organised special activities such as “Propaganda and Implementation of Quality Plan and Quality Goals”, “Quality Month”, with the theme of “Propaganda of Comprehensive Quality Management Knowledge and Establishment of Quality Improvement Culture”. Some other activities are propaganda and implementation of training knowledge, opening Wechat public account, holding knowledge competition, internal and external communication activities regarding improvement results, which have efficiently improved employees’ quality awareness and directed them to proactively participate in quality enhancement activities.

The Company strengthens the integrated management system of operation and maintenance. We always value 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 2019, the Company continued to organise reviews, internal audits, and engage 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 2019, 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 are 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 2019, in order to improve the accuracy and timeliness of quality data, the Company promoted the construction of informatisation platform; based on internal requirements and market research, the Company's quality informatisation was determined to proceed based on the principle of general planning, unified design and step-by-step construction.

The Company has optimised the quality improvement mechanism. The Company adheres to the customer-orientated principle and continues to improve quality. In 2019, the Company carried out various quality special work, including quality assessment based on coefficient K and "Three Noes" activity, so as to identify and rectify issues within factories in a timely manner, before being exposed in the public. Based on the improvement of TOP issues and QC team topics, the Company introduced new tools and methods such as Seven-step Improvement Method, Heavy Goods Management, thereby driving the rectification of main quality issues within the market and the factory, increasing coverage rate and completion rate of issues rectification and creating a good atmosphere where the whole staff could participate in quality improvement.

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.

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. In 2019, the Company continued to be innovative in fulfilling its social responsibility and has made targeted efforts in the areas of precision poverty alleviation, aid for education, equipment donation, internal assistance, offering a help hand to the disabled, etc. The accumulated investment has exceeded RMB10 million, benefiting more than 5,000 poverty-stricken students, the disabled, seniors without family, people with financial difficulties, and employees with financial difficulties.

Carry out Designated Donations and 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.

In 2019, the Company's precision poverty relief efforts mainly focused on Longshan County of Xiangxi Tujia and Miao Autonomous Prefecture and Shimeitang Town of Dingcheng District in Changde City.

Longshan County is in the northwestern border area of Xiangxi Tujia and Miao Autonomous Prefecture, Hunan Province, at the junction of Hunan Province, Hubei Province and Chongqing City. This relatively isolated environment has also restricted the development of local economy, education, transportation and other aspects to some extent. Longshan County is Changsha City's counterpart for precision poverty alleviation. In Longshan County, the Company adopts two types of poverty alleviation efforts: vocational education support and basic education construction. In respect of vocational education support, a group of poverty-stricken dropouts at school age were recruited from Liye Town, Ciyantang Town, Dianfang Town and Neixi Township of Longshan County; the Company paid their tuition and subsidised living expenses at Changzhou Communication Technician College and Changsha High-tech Engineering School, furthermore, they would be offered the chance to work at Zoomlion after graduation. This complete and coordinated and process (covering education and employment) has solved the poverty-stricken students' family status at one go. In 2019, a total of 70 students were enrolled. The Company bears a total of RMB578,000 for these students' tuition and living expenses in 2019. In terms of basic education construction, it is divided into two parts. One is through Zoomlion's "Lianai Educational Aid" brand project and based on the cooperation with the Company's customer alliance to jointly support the poverty-stricken students in Laoxing and Xingba primary schools in Guitang Township and improve the teaching faculties' wage and the corresponding teaching environment. Currently, more than RMB1.4 million has been raised in the form of cash and materials. In 2019, a total of RMB400,000 was distributed and the remaining would be distributed in the next three years. Another project is specifically for helping those 130 school-age children in Liye Town to solve the problem of insufficient classrooms.

Environmental, Social and Governance Report

The Company has planned to build a 15-storey classroom building for Liye Central Elementary School (including teaching facilities). This project already kicked off in 2019, with estimated total investment of RMB4.5 million, and was expected to be completed in 2020, ready for entering the autumn semester.

In the second round of poverty alleviation efforts in Changde city, 13 poverty-stricken households in Qingfu Village, Shimeitang Town of Dingcheng District, were Zoomlion's target of aid. In 2019, the Company contributed RMB150,000 to those households, besides, the Party branch of the Company's subsidiary visited them on a quarterly basis, including important holidays; and under the guidance of village working team, learned the details of poor households regarding family members, income, housing, land, rations, planting and breeding, labour capacity, entitlements of poverty relief policies; discussed with the working team with respect to the implementation of a series of assistance measures.

In addition, the Company also participated in precision poverty alleviation projects such as the construction of rural roads in Fengshuhu Village, Liuyang City.

Zoomlion also provided support and assistance for many charities, such as Shangshan Disability Service Centre, Changsha No.1 Social Welfare Institute, and Changsha Cerebral Palsy Children Rehabilitation Centre; we offered compassionate help to the disabled; and contributed financial aid, stationery, books and other materials to the poverty-stricken students at the High School Attached to Hunan Normal University and Puyuan Experimental Primary School, for the purpose of ensuring that they could complete studies smoothly.

As a sponsor of the "Love-Changes-Destiny" charity events organised by the Hunan Charity Federation, Zoomlion has made donations to the programme for 17 consecutive years to help alleviate poverty through education. The Company donated RMB2 million in 2019 and has made a total contribution of more than RMB26 million over the past 17 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

Zoomlion's Communist Youth League proactively responds to General Secretary Xi Jinping's call for advocating a new trend of social civilisation and active involvement in voluntary services for our young generation, so as to proactively assume social responsibilities.

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In 2019, the Company's Youth League Committee comprehensively promotes the series of activities: "Seven Hours from Everyone to Show Our Loving Heart", thereby creating Zoomlion's youth public welfare brand and in the meantime mobilising all members to participate in public welfare actions, and strongly carrying forward the volunteer spirit — dedication, love, mutual assistance and progress among the youth. During the festivals such as Learn from Lei Feng Day, Planting Day, Youth Day and other special days throughout the year, Zoomlion carried out numerous activities: "Learn from Lei Feng in Warm March • Tree Planting Starts from Me", social service with the theme of "Let's Fly with the Dream of Youth", the FIBA Asian Cup Basketball walkathon, caring activities for special children on National Disabled Persons' Day, precise poverty alleviation efforts, contributing baby chicks to farmers, giving refreshing drinks to sanitation workers on summer days to show our love for those who have made our city beautiful and clean, paying visit to and showing sympathy for the disabled working on the farms of Shangshan Disability Service Centre, "Protecting Our Mother River Starts from Environmental Protection Guardian", "Hope from Books — Lu Longshan Hand-in-hand • Book Contribution Activity". These activities have greatly enriched the amateur cultural life of the youth and carried on the Company's corporate social responsibility culture.

Offer Significant Support for the Military Parade

The year 2019 marks the 70th anniversary of the founding of the People's Republic of China, which has gathered nationwide and worldwide attention, Zoomlion took the initiative to lead in planning, designing and manufacturing the Hunan motivwagen, named as "Xiaoxiang Today", and for the fourth time became the only equipment manufacturing enterprise to assist the CCTV live broadcasting of the military parade ceremony. During the months-long planning process, Zoomlion's project team organised and deployed relevant matters seriously and efficiently by overcoming numerous difficulties and working round the clock, we assumed responsibility with the spirit of craftsmanship and military parade, and contributed significantly to the safety, accuracy, and success of the National Day military parade, which has made us widely praised by the general public. On the other hand, it showed the style and strength of "Made in China" and "Engineering Machinery Corps" represented by Zoomlion. During the National Day holiday, Zoomlion's official Weibo released a series of blog posts "Uncovering the Special Equipment Behind the Live Broadcasting of Military Parade", which later became a hot Weibo topic, receiving a total of 1.41 million reads and more than 7,000 retweets and positive comments. The courage to undertake the task of supporting the National Day Military Parade has been highly regarded and praised by netizens and has accumulated more than 2 million exposures on we-media platforms such as WeChat, Weibo, and Yidianzixun.

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Unite as One to Fight against the Outbreak of Coronavirus

At the beginning of 2020, the novel coronavirus swept the whole country. Since the outbreak of the coronavirus, Zoomlion has been supporting the front-line construction project, in addition to the procurement and donation of medical protective materials, we have resumed work and production in an orderly manner to fulfil our social and corporate responsibilities. Zoomlion cooperated with our clients and assembled more than 250 equipment to participate in the construction of Xiao Tang Shan Hospitals in Wuhan and the rest of the nation. Zoomlion has mobilised the domestic and overseas procurement channels, which have donated a total of 3,000,000 medical protective materials to Wuhan and other areas. Further to offering support to prevent and control the outbreak of coronavirus, Zoomlion proactively responded to the central government's call for resumption of work and production. As at 31 March 2020, Zoomlion's all industrial plants have resumed work. The "hardcore" prevention and control measures for resumption of work have been fully acclaimed by the Hunan Steering Group under the Joint Prevention and Control Mechanism of State Council. In response to the CPC Central Committee's call for making donations to prevent and control the outbreak of coronavirus, Zoomlion's Party Committee immediately organised and mobilised all party members and employees to offer corresponding contributions. A total of more than 20,000 employees have made contributions amounting to RMB2 million.

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.	

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.	
	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

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.	
A3	Environment and Natural Resources	General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.		3.3
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.		3.3
	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

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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.		4.2
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.		4.3
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.		4.4
	Operating practices			
B5	Supply Chain Management	General Disclosure Policies on managing environmental and social risks of the supply chain.		5.1

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.		6

Significant Events

Material Connected Transactions of the Company during the Year

Under the Listing Rules of Hong Kong, the continuing connected transactions of the Company during 2019 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 30 March 2016 with Dongfeng Motor Corporation and such agreement was expired on 31 December 2018. The Company entered into the Dongfeng Sales Renewal Agreement dated 29 March 2019 to renew the terms and conditions set out in the Dongfeng Framework Sales Agreement. Such agreement has taken effect from 1 January 2019 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 2019, total sales of the Company to Dongfeng Group amounted to approximately RMB518 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 30 March 2016 with Dongfeng Motor and such agreement was expired on 31 December 2018. On 29 March 2019, 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 2019 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 2019, the total purchases from the Dongfeng Group amounted to approximately RMB106 million (excluding VAT).

The Independent Non-executive Directors unanimously confirmed that the continuing connected transactions of the Company for the year 2019 were:

(1) entered into in the ordinary and usual course of business of the Group;

(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; and

(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.

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 Group;

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

(4) the value of those continuing connected transactions did not exceed the respective annual caps approved by the Board on 29 March 2019.

Save as disclosed above, the related party transactions of the Company during the year ended 31 December 2019 as set out in note 35 to the consolidated financial statements in the auditor's report did not constitute connected or continuing connected transactions of the Company within the meaning of Chapter 14A of the Listing Rules.

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 2019)

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	132,422,307	1.70%	-11,957,177	-11,957,177	120,465,130	1.53%
3. Shares held by other domestic listed companies	132,422,307	1.70%	-11,957,177	-11,957,177	120,465,130	1.53%
Shares held by domestic natural persons	132,422,307	1.70%	-11,957,177	-11,957,177	120,465,130	1.53%
II. Shares not subject to sales restriction	7,676,114,326	98.30%	78,395,402	78,395,402	7,754,509,728	98.47%
1. Ordinary shares denominated in RMB	6,287,907,240	80.52%	78,395,402	78,395,402	6,366,302,642	80.84%
3. Overseas listed foreign invested shares	1,388,207,086	17.78%	0	0	1,388,207,086	17.63%
III. Total number of shares	7,808,536,633	100.00%	66,438,225	66,438,225	7,874,974,858	100.00%

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	17.59%	1,385,124,079	-444,360		1,385,124,079		
State-owned Assets Supervision and Administration Commission of Hunan Province People's Government	State-owned legal person	15.92%	1,253,314,876			1,253,314,876		
Hong Kong Securities Clearing Company Limited	Overseas legal person	7.89%	621,189,173	528,126,956		621,189,173		
Securities account designated for share repurchase of Zoomlion Heavy Industry Science and Technology Co., Ltd.*	Other	4.96%	390,449,924	390,449,924		390,449,924		
Changsha Hesheng Science and Technology Investment Co., Ltd.	Domestic non state-owned legal person	4.91%	386,517,443			386,517,443	Pledged	350,000,000
China Securities Finance Corporation Limited	State-owned legal person	2.96%	233,042,928			233,042,928		
Real Smart International Limited	Overseas legal person	2.14%	168,635,602			168,635,602	Pledged	168,635,602
Changsha Yifang Science and Technology Investment Co., Ltd.	Domestic non state-owned legal person	1.99%	156,864,942			156,864,942		
AVIC Trust Co., Ltd. — AVIC Trust Tianshun [2018] No. 220 Zoomlion Single Capital Trust	Domestic non state-owned legal person	1.76%	138,819,479			138,819,479		
Central Huijin Asset Management Ltd.	State-owned legal person	1.47%	115,849,400			115,849,400		

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

Changes in Share Capital and Shareholders

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

As at 31 December 2019, 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[1]	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 share	1,253,314,876 (L)	19.32	15.92
Changsha Hesheng Science and Technology Investment Co., Ltd.[2]	Beneficial owner	A share	386,517,443 (L)	5.96	4.91
BlackRock, Inc.[3]	Interest of a controlled corporation	H share	121,881,971 (L)	8.78	1.55
			292,400 (S)	0.02	> 0.01
Credit Suisse Group AG[4]	Interest of a controlled corporation	H share	114,287,965 (L)	8.23	1.45
			62,178,406 (S)	4.48	0.79
	Investment manager		5,728,600 (L)	0.41	0.07
			195,000 (S)	0.01	> 0.01
Citigroup Inc.[5]	Person having a security interest in shares	H share	769,200 (L)	0.06	0.01
	Interest of a controlled corporation		1,483,119 (L)	0.11	0.02
			311,800 (S)	0.02	> 0.01
	Approved lending agent		95,389,366 (P)	6.87	1.21
JPMorgan Chase & Co.[6]	Interest of a controlled corporation	H share	14,886,508 (L)	1.07	0.19
			8,388,812 (S)	0.60	0.11
	Investment manager		1,047,600 (L)	0.08	0.01
	Person having a security interest in shares		10,349,566 (L)	0.75	0.13
	Approved lending agent		56,208,345 (P)	4.05	0.71
全國社會保障基金理事會	Beneficial owner	H share	70,023,726 (L)	5.04	0.89

(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 om 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 BlackRock, Inc. on 3 January 2020, these shares were being held via its affiliates.

(4) The disclosure is based on the information available om 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 Credit Suisse Group AG on 2 January 2020, these shares were being held via its affiliates.

(5) The disclosure is based on the information available om 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 Citigroup Inc. on 3 January 2020, these shares were being held via its affiliates.

(6) The disclosure is based on the information available om 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 27 December 2019, these shares were being held via its affiliates.

Save as disclosed above, as at 31 December 2019, 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.

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

During the year ended 31 December 2019, the Company repurchased a total of 397,396,243 A shares at an aggregate consideration of RMB2,159 million as follows:

Month/year	Total number of A shares repurchased	Highest price paid per A share (RMB)	Lowest price paid per A share (RMB)	Total consideration paid (RMB)
April 2019	4,758,624[(1)]	2.09	1.98	9,906,195
May 2019	164,295,362[(2)]	5.46	5.07	863,272,549
June 2019	226,154,562[(2)]	6.29	6.06	1,281,540,525
September 2019	179,180[(3)]	1.73	1.73	309,981
November 2019	2,008,515[(4)]	1.84	1.84	3,695,668
	397,396,243			2,158,724,918

Changes in Share Capital and Shareholders

(1) On 29 April 2019, the Board resolved that the restricted A shares held by 46 participants of the restricted A share incentive scheme who had, since completion of the first grant ant the second grant of restricted A shares, ceased employment with the Group be repurchased and cancelled by the Company. As the participants were no longer qualified participants within the meaning of the restricted A share incentive scheme, the Board resolved to repurchase and cancel a total of 4,758,624 restricted A shares (comprising 4,401,084 restricted A shares under the first grant and 357,540 restricted A shares under the second grant) granted under the restricted A share incentive scheme to but not yet unlocked by the participants, in accordance with the terms of the restricted A share incentive scheme. The repurchase price was RMB2.09 per share with respect to the first grant of restricted A shares and RMB1.98 per share with respect to the second grant of restricted A shares. The repurchase and cancellation was completed on 19 July 2019.

(2) Such A shares were repurchased by the Company on the Shenzhen Stock Exchange by means of centralised biddings through its specific securities account for repurchase for the purpose of its stock ownership plan, and therefore were not subject to cancellation.

(3) On 10 September 2019, the Board resolved that the restricted A shares held by 6 participants of the restricted A share incentive scheme who had, since completion of the second grant of restricted A shares, ceased employment with the Group be repurchased and cancelled by the Company. As the participants were no longer qualified participants within the meaning of the restricted A share incentive scheme, the Board resolved to repurchase and cancel 179,180 restricted A shares granted under the restricted A share incentive scheme to but not yet unlocked by the participants, in accordance with the terms of the restricted A share incentive scheme. The repurchase price was RMB1.73 per share. The repurchase and cancellation was completed on 31 October 2019.

(4) On 7 November 2019, the Board resolved that the restricted A shares held by 33 participants of the restricted A share incentive scheme who had, since the first grant of restricted A shares, ceased employment with the Group or otherwise failed to satisfy the conditions for unlocking the restricted A shares be repurchased and cancelled by the Company. As the participants were no longer qualified participants within the meaning of the restricted A share incentive scheme, the Board resolved to repurchase and cancel 2,008,515 restricted A shares granted under the restricted A share incentive scheme to but not yet unlocked by the participants, in accordance with the terms of the restricted A share incentive scheme. The repurchase price was RMB1.84 per share. The repurchase and cancellation was completed on 7 January 2020.

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 2019.

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 Officer	incumbent	M	64	2 April 2001	28 January 2022	8,040,556	1,155,408	0	0	9,195,964
He Liu	Director	incumbent	M	49	29 January 2019	28 January 2022	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	69	29 June 2015	28 January 2022	0	0	0	0	0
Zhao Songzheng	Independent Director	incumbent	M	58	29 June 2015	28 January 2022	0	0	0	0	0
Liu Guiliang	Independent Director	incumbent	F	57	29 June 2015	28 January 2022	0	0	0	0	0
Yang Changbo	Independent Director	incumbent	M	65	29 June 2016	28 January 2022	0	0	0	0	0
Wang Minghua	Chairman of Supervisory Board	incumbent	M	55	29 January 2019	28 January 2022	0	0	0	0	0
He Jianming	Supervisor	incumbent	M	57	29 January 2019	28 January 2022	2,086,341	808,785	-420,300	-1,213,179	1,261,647
Liu Xiaoping	Employee Supervisor	incumbent	M	56	29 January 2019	28 January 2022	489,800	150,920	-20,000	-293,880	326,840
Xiong Yanming	Vice President	incumbent	M	55	29 June 2015	28 January 2022	3,103,963	1,039,867	-1,035,759	0	3,108,071
Sun Changjun	Vice President	incumbent	M	57	29 June 2015	28 January 2022	2,776,040	808,785	-896,100	0	2,688,725
Guo Xuehong	Vice President	incumbent	M	57	29 June 2015	28 January 2022	2,940,147	880,998	-955,200	0	2,865,945
Fu Ling	Vice President	incumbent	F	52	29 June 2015	28 January 2022	2,180,284	852,113	-758,000	0	2,274,397
Du Yigang	Vice President	incumbent	F	44	29 June 2015	28 January 2022	2,310,816	924,326	-808,700	0	2,426,442
Huang Jianbing	Assistant President	incumbent	M	48	29 January 2019	28 January 2022	0	0	0	0	0
Qin Xiuhong	Assistant President	incumbent	M	45	29 January 2019	28 January 2022	0	0	0	0	0
Wang Yongxiang	Assistant President	incumbent	M	42	29 January 2019	28 January 2022	840,000	560,000	-350,000	0	1,050,000
Luo Kai	Assistant President	incumbent	M	49	29 January 2019	28 January 2022	890,000	560,000	-362,500	0	1,087,500
Tian Bing	Assistant President	incumbent	M	45	29 January 2019	28 January 2022	1,400,000	560,000	-490,000	0	1,470,000
Tang Shaofang	Assistant President	incumbent	M	45	29 January 2019	28 January 2022	1,000,000	400,000	-350,000	0	1,050,000
Shen Ke	Investment Director	incumbent	M	48	29 June 2015	28 January 2022	4,349,203	895,441	-1,311,000	0	3,933,644
Yang Duzhi	Board Secretary	incumbent	M	30	29 March 2019	28 January 2022	0	0	0	0	0
Total	–	–	–	–	–	–	32,407,150	9,596,643	-7,757,559	-1,507,059	32,739,175

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 directors
Liu Chi	Employee Supervisor	Departure upon expiration of term	29 January 2019	Reshuffle of the board of directors
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 directors
He Jianming	Supervisor	Appointment and removal	29 January 2019	Reshuffle of the board of directors
Liu Xiaoping	Employee Supervisor	Appointment and removal	29 January 2019	Reshuffle of the board of directors
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

Directors, Supervisors, Senior Management and Employees

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, director and the deputy general manager of Hunan Xing Xiang Investment Holding Group Co., Ltd. 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.

Directors, Supervisors, Senior Management and Employees

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, a non-executive director of Legend Holdings Corporation, a non-executive director of Lenovo Group Ltd., a non-executive director of China Glass Holdings Limited, an executive director and the chairman of the board of directors of Best Food Holding Company Limited, a non-executive director and the chairman of the board of directors of Hospital Corporation of China Limited, a non-executive director of Shanghai Jin Jiang International Hotels Development Co., Ltd., a non-executive director of ENN Ecological Holdings Co., Ltd. and an executive director and the chairman of the board of directors of Goldstream Investment Limited. 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 Crisis Management and a chair professor of management science at City University of Hong Kong. Mr. Lai is also an independent non-executive director of Bank of Communications Schroder Fund Management Co., Ltd. (上海交通銀行施羅德基金公司). 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, AECC Aero-Engine Control Co., Ltd and Shaanxi Yanchang Petroleum Chemical Engineering Co., Ltd..

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 1962, 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 1964, is 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, he worked for the Industrial Working Committee of Hunan Provincial Party Committee and State-owned Assets Supervision and Administration Commission of Hunan Provincial People's Government by serving 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.

Directors, Supervisors, Senior Management and Employees

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, 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 a vice president of the Company. Mr. Xiong is also 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 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.

Directors, Supervisors, Senior Management and Employees

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 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, She is currently the general manager of Zoomlion Heavy Industry Science and Technology Finance Company (中聯重科財務公司). 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, He is currently the general manager of Concrete Pump Machinery Company (混凝土泵送機械公司) of the 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, He is currently the deputy director of the Financial Management Centre of the 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. 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.

Directors, Supervisors, Senior Management and Employees

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 2019, 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 2019, 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	64	incumbent	270	No
He Liu	Director	M	49	incumbent	0	No
Zhao John Huan	Director	M	56	incumbent	0	No
Lai Kin Keung	Independent Director	M	69	incumbent	15	No
Zhao Songzheng	Independent Director	M	58	incumbent	15	No
Liu Guiliang	Independent Director	F	57	incumbent	15	No
Yang Changbo	Independent Director	M	65	incumbent	15	No
Wang Minghua	Chairman of Supervisory Board	M	55	incumbent	0	No
He Jianming	Supervisor	M	57	incumbent	170	No
Liu Xiaoping	Employee Supervisor	M	56	incumbent	103	No
Xiong Yanming	Vice President	M	55	incumbent	200	No
Sun Changjun	Vice President	M	57	incumbent	180	No
Guo Xuehong	Vice President	M	57	incumbent	180	No

Directors, Supervisors, Senior Management and Employees

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
Fu Ling	Vice President	F	52	incumbent	180	No
Du Yigang	Vice President	F	44	incumbent	180	No
Huang Jianbing	Assistant President	M	48	incumbent	130	No
Qin Xiuhong	Assistant President	M	45	incumbent	130	No
Wang Yongxiang	Assistant President	M	42	incumbent	120	No
Luo Kai	Assistant President	M	49	incumbent	120	No
Tian Bing	Assistant President	M	45	incumbent	120	No
Tang Shaofang	Assistant President	M	45	incumbent	120	No
Shen Ke	Investment Director	M	48	incumbent	130	No
Yang Duzhi	Board Secretary	M	30	incumbent	103	No
Total	—	—	—	—	2,496	—

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 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**") was 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.

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 is 190,632,179 A shares, representing approximately 2.42% of the total issued share capital of the Company as at the date of this report.

(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 grant date.

(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 grant date 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 grant date	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 grant date	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 grant date	30%

Reserved options under the second grant of options are exercisable in two batches upon expiry of 12 months from the grant date 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 grant date	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 grant date	50%

(VII) Exercise price

The exercise price of the options granted under the first grant of Options was 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.

Share Option Scheme

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, as a result of the implementation of the 2017 profit distribution plan, 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 was 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.

In accordance with the terms of the Share Option Scheme, as a result of the implementation of the 2018 profit distribution plan, the exercise prices of the options granted under the first and second grants of options were adjusted to RMB4.14 per share and RMB3.73 per share, respectively.

(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 grant date 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 2019 were as follows:

Name or category of participant	Number of options: As at 1 January 2019	Granted during the year	Lapsed during the year	Cancelled during the year	Exercised during the year	As at 31 December 2019	Date of grant	Vesting period	Exercise period	Exercise price (RMB)
Zhan Chunxin (chief executive of the Company)	2,888,520	–	–	–	1,155,408[3]	1,733,112	7 November 2017	1-3 years from the date of grant	7 November 2018 to 5 November 2021	4.14[5]
	2,888,520	–	–	–	1,155,408	1,733,112				
Key technical and managerial personnel[7]	161,399,651	–	–	4,401,084[1]	63,782,398[3]	93,216,169	7 November 2017	1-3 years from the date of grant	7 November 2018 to 5 November 2021	4.14[5]
	18,554,858	–	–	730,306[2]	6,438,223[4]	11,386,329	10 September 2018	1-2 years from the date of grant	10 September 2019 to 9 September 2021	3.73[6]
	179,954,509	–	–	5,131,390	70,220,621	104,602,498				
	182,843,029	–	–	5,131,390	71,376,029	106,335,610				

(1) Of such cancelled options, a total of 4,401,084 options had an exercise price of RMB4.37.

(2) Of such cancelled options, a total of 357,540 options had an exercise price of RMB3.96 and a total of 372,766 options had an exercise price of RMB3.73.

(3) The weighted average closing price of the A shares immediately before the dates on which such options were exercised was RMB5.29.

(4) The weighted average closing price of the A shares immediately before the dates on which such options were exercised was RMB6.23.

(5) 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, as a result of the implementation of the 2017 and 2018 profit distribution plans, the exercise price of the options granted under the first grant of options was adjusted to RMB4.14 per share.

(6) The exercise price of the options granted under the second grant of options was RMB3.96 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, as a result of the implementation of the 2018 profit distribution plan, the exercise price of the options granted under the second grant of options was adjusted to RMB3.73 per share.

(7) There are 1,093 grantees in total under the first grant of options and 372 grantees in total under the second grant of options.

Corporate Governance

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

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

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

Mr. Zhan Chunxin acted as the Chairman and Chief Executive Officer of the Company in 2019. 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 2019.

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, as well as determining the policy for the corporate governance 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 2019, the Directors have consistently adopted proper accounting policies and made reasonable estimates and have complied with all applicable accounting standards. Having made proper enquiries, the

Directors are satisfied that the Company has adequate resources for its business in the foreseeable future. Therefore, the Company's financial statements have been prepared on a going concern basis.

(II) Composition of the Board

The Board of the Company has seven members, including a chairman who is an executive Director, 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 2019, 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 2019 was as follows:

	Name of Directors	Number of Board meetings held	Attendance	Number of general meetings held	Attendance
Chairman	Mr. Zhan Chunxin	11	11	2	2
Non-executive Director	Mr. Hu Xinbao	11	11	2	2
	Mr. Zhao John Huan	11	11	2	2
Independent Non-executive Director	Mr. Lai Kin Keung	11	11	2	2
	Mr. Zhao Songzheng	11	11	2	2
	Ms. Liu Guiliang	11	11	2	2
	Mr. Yang Changbo	11	11	2	2

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

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

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 2019 are summarized as follows:

Directors	Type of traning
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.

(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 2019, the Remuneration and Appraisal Committee had three members, including two Independent Non-executive Directors and a Non-executive Director. The chairman of the Remuneration and Appraisal Committee was Mr. Lai Kin Keung, Independent Non-executive Director. Other members included Mr. He Liu and Mr. Yang Changbo. In 2019, 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 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. He Liu	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 2019, 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 2019, the Nomination Committee held 1 meeting. During the meeting, the committee reviewed the qualifications, the election procedures and term of office of senior management.

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

3. Appointment of Directors and senior management

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

4. Nomination Policy

In assessing the suitability of a proposed candidate, the Nomination Committee would consider factors including reputation for integrity, experience, whether the proposed candidate is able to assist the Board in effective performance of its responsibilities; the perspectives and skills that the proposed candidate is expected to bring to the Board, commitment in respect of available time and relevant interest diversity in all its aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. 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 2019, 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. He Liu, a Non-executive Director. The composition of the Audit Committee complies with Rule 3.21 of the Listing Rules of Hong Kong.

In 2019, the Audit committee held 4 meetings mainly to review the results for 2018, the interim results for 2019 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 2019. It reviewed the accounting principles and practices adopted by the Company and discussed on issues regarding the internal control, risk management and financial reporting. Having 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 2019 on an annual basis, the Audit Committee 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 2019.

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

(IV) Strategy and Investment Decision-making Committee

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

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

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

In 2019, 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 2019, the Strategy and Investment Decision-making Committee did not hold any meeting.

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

(I) Remuneration

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

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

Corporate Governance

(II) Interests

Service contract of Directors and Supervisors and their contractual interests

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

Directors and Supervisors' interests in contracts

None of the Directors and Supervisors, or an entity connected with a Director or a supervisor, had any material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance subsisting at the end of the year or at any time during the year of 2019.

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 2019 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 2019, the Directors, Supervisors and senior management who have interest or a short position in the shares, underlying shares and debentures of the Company or any 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	9,195,964 (L)	0.1418
	Interest of a controlled corporation[2]	H share	5,250,000 (L)	0.38
He Jianming	Beneficiary owner	A Share	1,261,647 (L)	0.0194
Liu Xiaoping	Beneficiary owner	A Share	326,840 (L)	0.0050

Notes:

(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.

As at 31 December 2019, 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 2019, 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 2019. 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 2019.

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 2019, 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 RMB13.69 million.

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

VII. Trainings for Company Secretary

Yang Duzhi, the Company Secretary, confirmed that he has received no less than 15 hours of relevant professional trainings in 2019.

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 2019, remuneration of senior management was in compliance with the remuneration management system of the Company. The remuneration was not in violation or inconsistent with the remuneration management system.

IX. Control on Appraisal and Award System

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

X. Relationship with Shareholders and Investors

(I) Shareholders

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

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

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

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

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

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.

Corporate Governance

XI. Stakeholders

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

XII. Connected Transactions

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

XIII. Information Disclosure and Transparency

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

XIV. Remuneration and Retirement Benefits of Employees

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

Details of staff welfare benefits offered by the Company are set out in note 28 to the financial statements prepared under IFRSs.

Independent Auditor's Report

KPMG

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

Opinion

We have audited the consolidated financial statements of Zoomlion Heavy Industry Science and Technology Co., Ltd. ("the Company") and its subsidiaries ("the Group") set out on pages 110 to 248 which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019 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 154 to 155.

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 2019. 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.

Loss allowance for trade debtors	
Refer to Notes 18, 19 and 32(b)(ii) to the consolidated financial statements and the accounting policies on pages 142 to 146.	
The Key Audit Matter	**How the matter was addressed in our audit**
Trade debtors include trade receivables and receivables under finance lease arrangements. As of 31 December 2019, the Group's gross trade receivables and gross receivables under finance lease arrangements totalled RMB30,437 million and RMB18,646 million, respectively, against which loss allowance of RMB5,146 million and RMB1,646 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.	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.

Independent Auditor's Report

Valuation of reprocessed machinery	
Refer to Notes 16 and 36(c) to the consolidated financial statements and the accounting policies on page 148.	
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.

Independent Auditor's Report

<table>
<tr><th colspan="2">Assessing potential impairment of goodwill and trademarks</th></tr>
<tr><td colspan="2">Refer to Notes 12 and 13 to the consolidated financial statements and the accounting policies on page 134, pages 137 to 138 and pages 147 to 148.</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 2019, the aggregate carrying value of the Group's goodwill and trademarks with an indefinite useful life totalled RMB3,239 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. Management compares the carrying amount of each CGU with its recoverable amount, which is determined by assessing the value-in-use based on 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.</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 134, pages 137 to 138 and pages 147 to 148.	
The Key Audit Matter	**How the matter was addressed in our audit**
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.	• performing sensitivity analyses of the key assumptions adopted in the discounted cashflow forecasts, including the discount rates and future revenue growth rates, and considering the resulting impact on the impairment assessments and whether there were any indicators of potential management bias; and • considering the disclosures in the consolidated financial statements in respect of the impairment assessment of goodwill and trademarks, including the key assumptions adopted, with reference to the requirements of the prevailing accounting standards.

Independent Auditor's Report

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

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

30 March 2020

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

(Expressed in RMB)

	Note	2019 RMB millions	2018 RMB millions (Note)
Revenue	3	**43,307**	28,697
Cost of sales and services		**(30,314)**	(20,923)
Gross profit		**12,993**	7,774
Other income	4	**1,017**	882
Sales and marketing expenses		**(3,780)**	(2,379)
General and administrative expenses		**(2,693)**	(2,063)
Research and development expenses		**(1,516)**	(581)
Profit from operations		**6,021**	3,633
Net finance costs	5(a)	**(1,165)**	(1,205)
Share of profits less losses of associates		**188**	222
Profit before taxation	5	**5,044**	2,650
Income tax	6	**(759)**	(682)
Profit for the year		**4,285**	1,968

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 1(d).

The notes on pages 120 to 248 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019
(Expressed in RMB)

	Note	2019 RMB millions	2018 RMB millions (Note)
Profit attributable to:			
Equity shareholders of the Company		**4,381**	2,031
Non-controlling interests		**(96)**	(63)
		4,285	1,968
Profit for the year		**4,285**	1,968
Earnings per share (cents)			
Basic	9	**58.30**	26.60
Diluted	9	**57.92**	26.41

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 1(d).

The notes on pages 120 to 248 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

(Expressed in RMB)

	Note	2019 RMB millions	2018 RMB millions (Note)
Profit for the year		**4,285**	1,968
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)		**26**	(71)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside mainland PRC		**(29)**	(155)
Total other comprehensive income for the year		**(3)**	(226)
Total comprehensive income for the year		**4,282**	1,742
Total comprehensive income attributable to:			
Equity shareholders of the Company		**4,378**	1,805
Non-controlling interests		**(96)**	(63)
Total comprehensive income for the year		**4,282**	1,742

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 1(d).

The notes on pages 120 to 248 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2019

(Expressed in RMB)

	Note	2019 RMB millions	2018 RMB millions (Note)
Non-current assets			
Property, plant and equipment	10	**6,735**	6,077
Right-of-use assets	11	**2,433**	—
Lease prepayments		**—**	1,943
Intangible assets	12	**2,043**	2,153
Goodwill	13	**2,017**	2,046
Interests in associates	14	**3,909**	3,500
Other financial assets	15	**2,644**	2,379
Trade and other receivables	18	**9,072**	5,498
Receivables under finance lease	19	**7,771**	3,656
Pledged bank deposits	20	**84**	129
Deferred tax assets	27(b)	**1,271**	1,276
Total non-current assets		**37,979**	28,657
Current assets			
Inventories	16	**11,772**	9,551
Other current assets		**1,413**	1,097
Financial assets at fair value through profit or loss	17	**4,311**	13,787
Trade and other receivables	18	**20,839**	21,554
Receivables under finance lease	19	**9,229**	8,835
Pledged bank deposits	20	**1,415**	1,184
Cash and cash equivalents	21	**5,073**	8,754
Total current assets		**54,052**	64,762
Total assets		**92,031**	93,419
Current liabilities			
Loans and borrowings	22(a)	**7,312**	22,044
Trade and other payables	23	**25,012**	15,786
Financial liabilities at fair value through profit or loss		**37**	40
Contract liabilities	24	**1,934**	1,602
Lease liabilities	25	**88**	—
Income tax payable	27(a)	**186**	151
Total current liabilities		**34,569**	39,623
Net current assets		**19,483**	25,139
Total assets less current liabilities		**57,462**	53,796

The notes on pages 120 to 248 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2019

(Expressed in RMB)

	Note	2019 RMB millions	2018 RMB millions (Note)
Non-current liabilities			
Loans and borrowings	22(b)	**14,515**	13,645
Lease liabilities	25	**329**	—
Deferred tax liabilities	27(b)	**455**	429
Other non-current liabilities	29	**2,666**	991
Total non-current liabilities		**17,965**	15,065
NET ASSETS		**39,497**	38,731
CAPITAL AND RESERVES			
Share capital	30(a)	**7,875**	7,809
Reserves		**30,952**	30,355
Total equity attributable to equity shareholders of the Company		**38,827**	38,164
Non-controlling interests		**670**	567
TOTAL EQUITY		**39,497**	38,731

Approved and authorised for issue by the board of directors on 30 March 2020.

Zhan Chunxin
Chairman and Chief Executive Officer

Du Yigang
Vice-president

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 1(d).

The notes on pages 120 to 248 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

(Expressed in RMB)

	Note	Share capital RMB millions (Note 30(a))	Capital reserve RMB millions (Note 30(b)(i))	Statutory surplus reserve RMB millions (Note 30(b)(ii))	Exchange reserve RMB millions (Note 30(b)(iii))	Fair value reserve (non-recycling) RMB millions (Note 30(b)(v))	Other reserves RMB millions (Note 30(d))	Retained earnings RMB millions	Total RMB millions	Non-controlling interests RMB millions	Total equity RMB millions
		Attributable to equity shareholders of the Company									
Balance at 1 January 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	30(c)	–	31	–	–	–	–	(1,556)	(1,525)	–	(1,525)
Dividends declared by subsidiaries to non-controlling interests		–	–	–	–	–	–	–	–	(11)	(11)
Share incentive scheme											
– Share option scheme	26	–	48	–	–	–	–	–	48	–	48
– Restricted share scheme	26	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	30(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 120 to 248 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

(Expressed in RMB)

	Note	Attributable to equity shareholders of the Company									
		Share capital RMB millions (Note 30(a))	Capital reserve RMB millions (Note 30(b)(i))	Statutory surplus reserve RMB millions (Note 30(b)(ii))	Exchange reserve RMB millions (Note 30(b)(iii))	Fair value reserve (non-recycling) RMB millions (Note 30(b)(v))	Other reserves RMB millions (Note 30(d))	Retained earnings RMB millions (Note)	Total RMB millions	Non-controlling interests RMB millions	Total equity RMB millions
Balance at 31 December 2018 and 1 January 2019		7,809	13,134	3,333	(1,239)	(12)	33	15,106	38,164	567	38,731
Changes in equity for 2019											
Profit for the year		–	–	–	–	–	–	4,381	4,381	(96)	4,285
Other comprehensive income		–	–	–	(29)	26	–	–	(3)	–	(3)
Total comprehensive income		–	–	–	(29)	26	–	4,381	4,378	(96)	4,282
Appropriation for surplus reserve		–	–	222	–	–	–	(222)	–	–	–
Cash dividends	30(c)	–	27	–	–	–	–	(1,861)	(1,834)	–	(1,834)
Repurchase of own shares	30(e)	–	(2,145)	–	–	–	–	–	(2,145)	–	(2,145)
Share incentive scheme											
– Share option scheme	26	71	278	–	–	–	–	–	349	–	349
– Restricted share scheme	26	(5)	193	–	–	–	–	–	188	–	188
Contributions in a subsidiary		–	(291)	–	–	–	–	–	(291)	291	–
Acquisition of non-controlling interests in subsidiaries		–	(15)	–	–	–	–	–	(15)	(140)	(155)
Dividends declared by subsidiaries to non-controlling interests		–	–	–	–	–	–	–	–	(9)	(9)
Contribution from non-controlling shareholders in a subsidiary		–	33	–	–	–	–	–	33	57	90
Safety production fund	30(d)	–	–	–	–	–	10	(10)	–	–	–
Balance at 31 December 2019		7,875	11,214	3,555	(1,268)	14	43	17,394	38,827	670	39,497

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 1(d).

The notes on pages 120 to 248 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2019

(Expressed in RMB)

	Note	2019 RMB millions	2018 RMB millions (Note)
Operating activities			
Profit before taxation		**5,044**	2,650
Adjustments for:			
Depreciation of property, plant and equipment	5(c)	**612**	585
Depreciation of right-of-use assets	5(c)	**118**	—
Amortisation of lease prepayments	5(c)	**—**	50
Amortisation of intangible assets	5(c)	**205**	202
Impairment loss on property, plant and equipment	5(c)	**—**	1
Share of profits less losses of associates		**(188)**	(222)
Gain on sale of 20% equity interest in Changsha Zoomlion Environmental Industry Co., Ltd.	4	**—**	(148)
Interest income	5(a)	**(539)**	(347)
Interest expense	5(a)	**1,673**	1,451
Gain on repurchase of guaranteed USD senior notes	22(b)(v)	**—**	(4)
Gain on disposal of property, plant and equipment and intangible assets	4	**(8)**	(4)
Net realised and unrealised gains on financial assets at FVPL	4	**(753)**	(503)
Dividend income from financial assets at FVOCI	4	**(36)**	(32)
Impairment loss on goodwill	5(c)	**30**	50
Impairment loss on intangible assets	5(c)	**6**	—
Share incentive scheme expenses	5(b)	**135**	267
		6,299	3,996
Increase in inventories		**(1,708)**	(108)
Increase in trade and other receivables		**(3,460)**	(1,471)
(Increase)/decrease in receivables under finance lease		**(4,618)**	228
Increase in contract liabilities		**332**	1,602
Increase in trade and other payables		**9,896**	901
Cash generated from operations		**6,741**	5,148
Income tax paid		**(773)**	(431)
Net cash generated from operating activities carried forward		**5,968**	4,717

The notes on pages 120 to 248 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2019

(Expressed in RMB)

	Note	2019 RMB millions	2018 RMB millions (Note)
Net cash generated from operating activities brought forward		**5,968**	4,717
Investing activities			
Payment for purchase of property, plant and equipment		**(1,082)**	(370)
Payment for purchase of right-of-use assets		**(127)**	—
Payment for purchase of lease prepayments		**—**	(58)
Payment for purchase of intangible assets		**(128)**	(103)
Proceed from proposed disposal of property, plant, equipment and right-of-use assets		**1,375**	—
Payment for investments in associates		**(301)**	(4)
Payment for acquisition of financial assets at FVOCI		**(250)**	(90)
Proceeds from disposal of financial assets at FVOCI		**318**	127
Payment for acquisition of financial assets at FVPL		**(19,130)**	(38,414)
Proceeds from disposal of financial assets at FVPL		**29,193**	31,394
Dividends from associates		**45**	4
Dividends income from financial assets at FVOCI	4	**36**	32
Proceeds from disposal of property, plant and equipment and intangible assets		**133**	98
Payment for acquisition of a subsidiary	13	**(165)**	—
Interest received		**253**	347
Increase in pledged bank deposits		**(186)**	(205)
Net cash generated from/(used in) investing activities		**9,984**	(7,242)
Financing activities			
Proceeds from loans and borrowings	21(a)	**42,525**	22,205
Proceeds from issuance of restricted shares	26	**—**	37
Proceeds from exercise of share options	26	**303**	—
Proceeds on contributions from non-controlling shareholders		**10**	6
Repayments of loans and borrowings	21(a)	**(56,533)**	(15,063)
Repayments of guaranteed USD senior notes		**—**	(325)
Payment for forfeiture of restricted shares	26	**(14)**	(9)
Payment for repurchase of own shares	30(e)	**(2,145)**	—
Interest paid	21(a)	**(1,707)**	(1,428)
Dividends paid to equity shareholders	30(c)	**(1,801)**	(1,308)
Dividends paid by subsidiaries to non-controlling interests		**(9)**	(11)
Payment for acquisition of non-controlling interests		**(203)**	(2)
Capital element of lease rentals paid	21(a)	**(64)**	—
Interest element of lease rentals paid	21(a)	**(10)**	—

The notes on pages 120 to 248 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2019

(Expressed in RMB)

	Note	2019 RMB millions	2018 RMB millions (Note)
Net cash (used in)/generated from financing activities		**(19,648)**	4,102
Net (decrease)/increase in cash and cash equivalents		**(3,696)**	1,577
Cash and cash equivalents at 1 January		**8,754**	7,148
Effect of foreign exchange rate changes		**15**	29
Cash and cash equivalents at 31 December	21	**5,073**	8,754

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Previously, cash payments under operating leases made by the Group as a lessee of RMB134 million were classified as operating activities in the consolidated cash flow statement. Under IFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see Note 21(a)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to IFRS 16 are set out in Note 1(d).

The notes on pages 120 to 248 form part of these financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2019

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.

(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.

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%.

Notes to the consolidated financial statements

For the year ended 31 December 2019

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 18,554,858 share options and additional 18,554,858 restricted shares under the Share Incentive Scheme adopted in 2017 (Note 26), 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 forfeiture 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%.

During the period from April to September 2019, the Company forfeited 4,937,804 restricted A Shares of its own share capital with a total consideration of approximately RMB10 million, which were then cancelled in July and October 2019. As a result of the forfeiture and cancellation of the A Shares, the share capital of the Company was decreased to approximately RMB7,804 million, comprising 6,415,391,743 A Shares and 1,388,207,086 H Shares.

During year 2019, 71,376,029 share options were exercised, the share capital of the Company was increased to approximately RMB7,875 million, comprising 6,486,767,772 A Shares and 1,388,207,086 H Shares. The Company's equity interest held by Hunan SASAC was correspondingly decreased to 15.92%.

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

(c) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). IFRSs include all individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance, and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

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 2019 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 (Note 2(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 36.

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

(d) Changes in accounting policies

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases — incentives,* and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach. The comparative information has not been restated and continues to be reported under IAS 17.

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

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

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

IFRS 16, *Leases* (continued)

b. Lessee accounting and transitional impact

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment. For an explanation of how the Group applies lessee accounting, see Note 2(i)(i).

At the date of transition to IFRS 16 (1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 2.6%.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

Notes to the consolidated financial statements

For the year ended 31 December 2019

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

IFRS 16, *Leases* (continued)

b. Lessee accounting and transitional impact (continued)

The following table reconciles the operating lease commitments as disclosed in Note 33(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 RMB millions
Operating lease commitments at 31 December 2018	**106**
Less: commitments relating to leases exempt from capitalisation:	
— short-term leases and other leases with remaining lease term ending on or before 31 December 2019	**(17)**
— leases of low-value assets	**(9)**
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	**291**
	371
Less: total future interest expenses	**(37)**
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	**334**
Add: finance lease liabilities recognised as at 31 December 2018	**—**
Total lease liabilities recognised at 1 January 2019	**334**

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

So far as the impact of the adoption of IFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of IFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

Notes to the consolidated financial statements

For the year ended 31 December 2019

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

IFRS 16, *Leases* (continued)

b. Lessee accounting and transitional impact (continued)

The Group presents right-of-use assets that do not meet the definition of investment property in 'Right-of-use assets' and presents lease liabilities separately in the statement of financial position.

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB millions	Capitalisation of operating lease contracts RMB millions	Carrying amount at 1 January 2019 RMB millions
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:			
Right-of-use assets	—	2,277	2,277
Lease prepayments	1,943	(1,943)	—
Total non-current assets	28,657	334	28,991
Lease liabilities (current)	—	50	50
Current liabilities	39,623	50	39,673
Net current assets	25,139	(50)	25,089
Total assets less current liabilities	53,796	284	54,080
Lease liabilities (non-current)	—	284	284
Total non-current liabilities	15,065	284	15,349
Net assets	38,731	—	38,731

Notes to the consolidated financial statements

For the year ended 31 December 2019

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

IFRS 16, *Leases* (continued)

c. Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liabilities, and the depreciation of the right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of comprehensive income, as compared to the results had IAS 17 been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a change in presentation of cash flows within the cash flow statement.

The following tables give an indication of the estimated impact of adoption of IFRS 16 on the Group's financial result, segment results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under IFRS 16 in these financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 had this superseded standard continued to be applied to 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

Notes to the consolidated financial statements

For the year ended 31 December 2019

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

IFRS 16, *Leases* (continued)

c. Impact on the financial result, segment results and cash flows of the Group (continued)

	2019				2018
	Amounts reported under IFRS 16 (A) RMB millions	Add back: IFRS 16 depreciation and interest expense (Note 1) (B) RMB millions	Deduct: Estimated amounts related to operating leases as if under IAS 17 (Note 1) (C) RMB millions	Hypothetical amounts for 2019 as if under IAS 17 (D=A+B-C) RMB millions	Compared to amounts reported for 2018 under IAS 17 RMB millions
Financial result for year ended 31 December 2019 impacted by the adoption of IFRS 16:					
Profit from operations	6,021	68	(74)	6,015	3,633
Net finance costs	(1,165)	10	–	(1,155)	(1,205)
Profit before taxation	5,044	78	(74)	5,048	2,650
Profit for the year	4,285	78	(74)	4,289	1,968
Reportable segment profit for year ended 31 December 2019 (Note 3(b)) impacted by the adoption of IFRS 16:					
– Construction machinery	12,193	28	(32)	12,189	7,176
– Agricultural machinery	68	1	(1)	68	102
– Financial services	732	–	–	732	496
– Total	12,993	29	(33)	12,989	7,774

Notes to the consolidated financial statements

For the year ended 31 December 2019

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

IFRS 16, *Leases* (continued)

c. Impact on the financial result, segment results and cash flows of the Group (continued)

	2019			2018
	Amounts reported under IFRS 16 (A) RMB millions	Estimated amounts related to operating leases as if under IAS 17 (Notes 1 & 2) (B) RMB millions	Hypothetical amounts for 2019 as if under IAS 17 (C=A+B) RMB millions	Compared to amounts reported for 2018 under IAS 17 RMB millions
Line items in the consolidated cash flow statement for year ended 31 December 2019 impacted by the adoption of IFRS 16:				
Cash generated from operations	6,741	(74)	6,667	5,148
Net cash generated from operating activities	5,968	(74)	5,894	4,717
Capital element of lease rentals paid	(64)	64	–	–
Interest element of lease rentals paid	(10)	10	–	–
Net cash (used in)/generated from financing activities	(19,648)	74	(19,574)	4,102

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, had IAS 17 been still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, had IAS 17 been still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 was still applied.

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

IFRS 16, *Leases* (continued)

d. Lessor accounting

The Group leases out a number of items of machinery as the lessor of operating leases and finance leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under IAS 17.

Under IFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of IFRS 16 does not have a significant impact on the Group's financial statements in this regard.

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.

2 Significant accounting policies (continued)

(b) Subsidiaries and non-controlling interests

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

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

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

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

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

2 Significant accounting policies (continued)

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

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 37.

(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.

2 Significant accounting policies (continued)

(c) Associates (continued)

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).

(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.

2 Significant accounting policies (continued)

(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 32(a). These investments are subsequently accounted for as follows, depending on their classification.

(i) 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.

Notes to the consolidated financial statements

For the year ended 31 December 2019

2 Significant accounting policies (continued)

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

(ii) 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).

(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.

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) Right-of-use assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

2 Significant accounting policies (continued)

(i) Right-of-use assets (continued)

(i) As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

2 Significant accounting policies (continued)

(i) Right-of-use assets (continued)

(i) As a lessee (continued)

(A) Policy applicable from 1 January 2019 (continued)

The Group presents right-of-use assets that do not meet the definition of investment property in 'Right-of-use assets' and presents lease liabilities separately in the statement of financial position.

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases, with the following exceptions:

— property held under operating leases that would otherwise meet the definition of an investment property was classified as investment property on a property-by-property basis and, if classified as investment property, was accounted for as if held under a finance lease; and

— land held for own use under an operating lease, the fair value of which could not be measured separately from the fair value of a building situated thereon at the inception of the lease, was accounted for as being held under a finance lease, unless the building was also clearly held under an operating lease. For these purposes, the inception of the lease was the time that the lease was first entered into by the Group, or taken over from the previous lessee.

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset, as set out in Note 2(g). Impairment losses were accounted for in accordance with the accounting policy as set out in Note 2(j). Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

2 Significant accounting policies (continued)

(i) Right-of-use assets (continued)

(i) As a lessee (continued)

(B) Policy applicable prior to 1 January 2019 (continued)

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

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.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note 2(t)(iii).

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in Note 2(i)(i), then the Group classifies the sub-lease as an operating lease.

2 Significant accounting policies (continued)

(j) Credit losses and impairment of assets

(i) Credit losses from financial instruments and lease receivables

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.

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, security investment funds 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)

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.

2 Significant accounting policies (continued)

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

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

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 2019

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) on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

The 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)

(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, including right-of-use assets;

— intangible assets;

— goodwill; and

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

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

— *Calculation of recoverable amount*

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

2 Significant accounting policies (continued)

(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 2019

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 28.

(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.

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.

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.

(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.

2 Significant accounting policies (continued)

(t) Revenue and other income (continued)

(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. Variable lease payments that do not depend on an index or a rate 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)).

(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)).

Notes to the consolidated financial statements

For the year ended 31 December 2019

2 Significant accounting policies (continued)

(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.

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.

2 Significant accounting policies (continued)

(w) 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.

(x) Related parties

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

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2019

2 Significant accounting policies (continued)

(y) 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, including (i) research, development, manufacturing and sale of construction machinery; (ii) research, development, manufacturing and sale of agricultural machinery; and (iii) finance lease services.

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

Notes to the consolidated financial statements

For the year ended 31 December 2019

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:

	2019 RMB millions	2018 RMB millions (Note)
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products of service lines		
Construction machinery		
Construction machinery		
— Concrete machinery	13,870	10,130
— Crane machinery	22,124	12,447
— Others	4,916	4,076
Agricultural machinery	1,583	1,477
	42,493	28,130
Revenue from other sources		
Rental income from construction machinery		
— Concrete machinery	32	35
— Crane machinery	23	25
— Others	26	10
	81	70
Financial services	733	497
	814	567
	43,307	28,697

Notes to the consolidated financial statements

For the year ended 31 December 2019

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 32(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:

	2019 RMB millions	2018 RMB millions
Within 1 year	36	24
After 1 year but within 5 years	9	40
After 5 years	—	2
	45	66

3 Revenue and segment reporting (continued)

(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.

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.

   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 2019 and 2018.

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.

Notes to the consolidated financial statements

For the year ended 31 December 2019

3 Revenue and segment reporting (continued)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities

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

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

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

Disaggregation of revenue from contracts with customers by timing of revenue recognition regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below:

	2019			2018		
	Point in time RMB millions	Over time RMB millions (Note)	Total RMB millions	Point in time RMB millions	Over time RMB millions (Note)	Total RMB millions
Reportable segment revenue:						
Construction machinery						
Construction machinery						
– Concrete machinery	13,870	32	13,902	10,130	35	10,165
– Crane machinery	22,124	23	22,147	12,447	25	12,472
– Others	4,916	26	4,942	4,076	10	4,086
Agricultural machinery	1,583	–	1,583	1,477	–	1,477
Financial services	–	733	733	–	497	497
	42,493	814	43,307	28,130	567	28,697

Note:

Revenue recognised over time include rental income and service income.

3 Revenue and segment reporting (continued)

(b) Segment reporting (continued)

(ii) Information about profit or loss

	2019 RMB millions	2018 RMB millions (Note)
Reportable segment profit:		
Construction machinery		
— Concrete machinery	3,810	2,436
— Crane machinery	7,256	3,625
— Others	1,127	1,115
Agricultural machinery	68	102
Financial services	732	496
	12,993	7,774

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 1(d).

(iii) Reconciliations of segment profit

	2019 RMB millions	2018 RMB millions (Note)
Reconciliation of segment profit:		
Total reportable segment profit	12,993	7,774
Gross profit	12,993	7,774
Other income	1,017	882
Sales and marketing expenses	(3,780)	(2,379)
General and administrative expenses	(2,693)	(2,063)
Research and development expenses	(1,516)	(581)
Net finance costs	(1,165)	(1,205)
Share of profits less losses of associates	188	222
Profit before taxation	5,044	2,650

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 1(d).

Notes to the consolidated financial statements

For the year ended 31 December 2019

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, right-of-use assets, 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.

	2019 RMB millions	2018 RMB millions (Note)
Revenue from external customers		
— Mainland PRC	**39,738**	25,107
— Outside PRC	**3,569**	3,590
Total	**43,307**	28,697

	2019 RMB millions	2018 RMB millions (Note)
Specified non-current assets		
— Mainland PRC	**8,462**	7,755
— Outside PRC	**706**	265
Total	**9,168**	8,020

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 1(d).

4 Other income

	2019 RMB millions	2018 RMB millions
Government grants (Note)	**223**	206
Net realised and unrealised gains on financial assets at FVPL	**753**	503
Dividend income from financial assets at FVOCI	**36**	32
Gain on disposal of property, plant and equipment and intangible assets	**8**	4
Gain on sale of 20% equity interest in Changsha Zoomlion Environmental Industry Co., Ltd.	**—**	148
Others	**(3)**	(11)
	1,017	882

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

Notes to the consolidated financial statements

For the year ended 31 December 2019

5 Profit before taxation

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

(a) Net finance costs:

	2019 RMB millions	2018 RMB millions (Note)
Interest income	**(539)**	(347)
Interest on loans and borrowings	**1,663**	1,451
Interest on lease liabilities (Note 21(a))	**10**	—
Net exchange loss	**31**	101
	1,165	1,205

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 1(d).

(b) Staff costs:

	2019 RMB millions	2018 RMB millions
Salaries, wages and other benefits	**2,908**	2,063
Share incentive scheme expenses (Note 26(c))	**135**	267
Contributions to retirement schemes (Note 28)	**440**	337
	3,483	2,667

5 Profit before taxation (continued)

(c) Other items:

	2019 RMB millions	2018 RMB millions (Note)
Cost of inventories sold (Note 16)	**30,314**	20,923
Depreciation charge		
— owned property, plant and equipment (Note 10)	**612**	585
— right-of-use assets, lease prepayments (Note 11)	**50**	50
— right-of-use assets, other than lease prepayments (Note 11)	**68**	—
— Amortisation of intangible assets (Note 12)	**205**	202
Gain on disposal of property, plant and equipment and intangible assets (Note 4)	**8**	4
Total minimum lease payments for leases previously classified as operating leases under IAS 17	**—**	134
Auditors' remuneration:		
— audit services	**10**	10
Product warranty costs (Note 23(b))	**162**	151
Impairment losses:		
— owned property, plant and equipment (Note 10)	**—**	1
— trade receivables (Note 18(c))	**425**	145
— receivables under finance lease (Note 19(c))	**1**	85
— inventories (Note 16)	**180**	36
— goodwill (Note 13)	**30**	50
— intangible assets (Note 12)	**6**	—

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See Note 1(d).

Notes to the consolidated financial statements

For the year ended 31 December 2019

6 Income tax

Income tax in the consolidated statement of comprehensive income represents:

(a) Taxation charged to profit or loss:

	2019 RMB millions	2018 RMB millions
Current tax — PRC income tax	**747**	620
Current tax — Income tax in other tax jurisdictions	**12**	7
Deferred taxation	**—**	55
Tax expenses	**759**	682

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

	2019 RMB millions	2018 RMB millions
Profit before taxation	**5,044**	2,650
Notional tax on profit before taxation, calculated at the statutory income tax rate applicable to the jurisdictions concerned (Note (i))	**1,261**	663
Tax effect of non-deductible expenses	**115**	500
Current year loss for which no deferred tax assets was recognised	**107**	96
Tax effect of non-taxable income (Note (i))	**(168)**	(146)
Tax effect of tax concessions (Note (ii))	**(460)**	(361)
Additional deduction for qualified research and development expenses (Note (iii))	**(96)**	(70)
Actual income tax expenses	**759**	682

6 Income tax (continued)

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

Notes:

(i) The PRC statutory income tax rate is 25% (2018: 25%).

The Company's subsidiaries in the HKSAR are subject to Hong Kong Profits Tax at 16.5% (2018: 16.5%) in respect of assessable profits arising in or derived from Hong Kong. In 2019 and 2018, 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 % (2018: 19.0% to 28.4%).

(ii) According to the income tax law and its relevant regulations, entities that qualified as high-technology enterprises under the tax law are entitled to a preferential income tax rate of 15%. The company and certain of its subsidiaries obtained or renewed its status as high-technology enterprises in 2019 and accordingly are subject to income tax at 15% for the years from 2019 to 2021.

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 2020.

(iii) 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 2019 (2018: 75%).

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For the year ended 31 December 2019

7 Directors' and supervisors' emoluments

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

	Directors'/ supervisors' fee RMB thousands	Salaries, allowances and other benefits RMB thousands	Discretionary bonuses RMB thousands	Contributions to retirement scheme RMB thousands	Share incentive scheme RMB thousands	Total RMB thousands
For the year ended 31 December 2019						
Executive director						
ZHAN Chunxin	–	1,342	1,342	16	2,130	4,830
Non-executive directors						
HE Liu*	–	–	–	–	–	–
ZHAO John Huan	–	–	–	–	–	–
Independent non-executive directors						
LIU Guiliang	150	–	–	–	–	150
YANG Changbo	150	–	–	–	–	150
LAI Kin Keung	150	–	–	–	–	150
ZHAO Songzheng	150	–	–	–	–	150
Supervisors						
WANG Minghua**	–	–	–	–	–	–
HE Jianming**	–	842	842	16	1,491	3,191
LIU Xiaoping**	–	507	507	16	361	1,391
	600	2,691	2,691	48	3,982	10,012

* Mr. HE Liu was appointed as non-executive director of the Company on 29 January 2019.

** Mr. WANG Minghua, Mr. HE Jianming and Mr. LIU Xiaoping were appointed as supervisors of the Company on 29 January 2019.

7 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 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

None of these directors and supervisors received any inducements or compensation for loss of office, or waived any emoluments during the year (2018: Nil).

Notes to the consolidated financial statements

For the year ended 31 December 2019

8 Individuals with highest emoluments

Of the five highest paid individuals of the Group, one (2018: one) individual was director or supervisor of the Company, whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the remaining one (2018: four) individuals are as follows:

	2019 RMB thousands	2018 RMB thousands
Salaries, allowances and other benefits in kind	**7,336**	7,136
Share incentive scheme expenses	**6,815**	15,012
Contributions to retirement scheme	**64**	64
	14,215	22,212

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

	2019 Number	2018 Number
RMB1,500,001 — RMB3,000,000	**—**	—
RMB3,000,001 — RMB6,000,000	**4**	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 (2018: Nil).

9 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 RMB4,381 million (2018: RMB2,031 million) and the weighted average of 7,514 million ordinary shares (2018: 7,635 million shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2019 millions	2018 millions
Issued ordinary shares at 1 January	7,809	7,794
Effect of shares repurchased (Note 30(e))	(219)	—
Effect of restricted A shares issued (Note 26(b))	(117)	(169)
Effect of restricted A shares unlocked (Note 26(b))	9	10
Effect of share options exercised (Note 26(a))	32	—
Weighted average number of ordinary shares at 31 December	7,514	7,635

(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 RMB4,381 million (2018: RMB2,031 million) and the weighted average number of ordinary shares of 7,564 million shares (2018: 7,691 million shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2019 millions	2018 millions
Weighted average number of ordinary shares at 31 December	7,514	7,635
Effect of deemed issue of restricted A shares (Note 26(b))	45	56
Effect of exercisable options (Note 26(a))	5	—
Weighted average number of ordinary shares (diluted) at 31 December	7,564	7,691

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

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For the year ended 31 December 2019

10 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 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
Balance at 1 January 2019	**5,137**	**3,616**	**767**	**638**	**10,158**
Additions	**52**	**107**	**105**	**931**	**1,195**
Acquisition from business combination (Note 13)	**7**	**162**	**7**	**1**	**177**
Transferred from construction in progress	**338**	**283**	**16**	**(637)**	**–**
Disposals	**(20)**	**(116)**	**(72)**	**–**	**(208)**
Transfer to inventory	**–**	**(63)**	**–**	**–**	**(63)**
Effect of exchange rate difference	**1**	**8**	**1**	**–**	**10**
Balance at 31 December 2019	**5,515**	**3,997**	**824**	**933**	**11,269**
Accumulated depreciation and impairment:					
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)
Balance at 1 January 2019	**(1,332)**	**(2,099)**	**(650)**	**–**	**(4,081)**
Depreciation charge for the year	**(194)**	**(348)**	**(70)**	**–**	**(612)**
Write off impairment	**–**	**28**	**–**	**–**	**28**
Written back on disposals	**4**	**47**	**54**	**–**	**105**
Transfer to inventory	**–**	**29**	**–**	**–**	**29**
Effect of exchange rate difference	**–**	**(3)**	**–**	**–**	**(3)**
Balance at 31 December 2019	**(1,522)**	**(2,346)**	**(666)**	**–**	**(4,534)**
Net book value:					
Balance at 31 December 2019	**3,993**	**1,651**	**158**	**933**	**6,735**
Balance at 31 December 2018	3,805	1,517	117	638	6,077

Notes to the consolidated financial statements

For the year ended 31 December 2019

10 Property, plant and equipment (continued)

As at 31 December 2019, the carrying amount of machinery, plant and equipment leased out under operating leases is RMB91 million (31 December 2018: RMB119 million), which mainly represents machinery reprocessed from customers. The lease term generally ranges from 1 to 4 years (2018: 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:

	2019 RMB millions	2018 RMB millions
Within 1 year	14	18
After 1 year but within 2 years	12	14
After 2 years but within 3 years	9	12
Thereafter	5	14
	40	58

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11 Right-of-use assets

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to IFRS 16 is as follows:

	Note	At 31 December 2019 RMB millions	At 1 January 2019 RMB millions
Land use rights, carried at depreciated cost	(i)	2,020	1,943
Plant, machinery and equipment, carried at depreciated cost	(ii)	413	334
		2,433	2,277

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 RMB millions	2018 RMB millions (Note)
Depreciation charge of right-of-use assets by class of underlying asset:		
Land use rights, carried at depreciated cost	50	50
Plant, machinery and equipment, carried at depreciated cost	68	—
	118	50
Interest on lease liabilities (Note 5(a))	10	—
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	25	—
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	20	—
Total minimum lease payments for leases previously classified as operating leases under IAS 17	—	134

11 Right-of-use assets (continued)

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See Note 1(d).

During the year, additions to right-of-use assets were RMB274 million. This amount primarily related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Notes 21 and 25, respectively.

(i) Land use rights

Land use rights are mainly located in Hunan Province and Anhui Province, the PRC, and are held on medium-term leases of 20 to 50 years from the dates of acquisition.

Lump sum payments were made upfront to acquire these property interests from their previous registered owners, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on ratable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities.

(ii) Plant, machinery and equipment

The Group leases production plant under operating leases expiring from 2 to 12 years. None of the leases includes an option to purchase the leased equipment at the end of the lease term. Some of the leases includes an option to renew the lease or variable lease payments.

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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 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
Balance at 1 January 2019	**1,263**	**184**	**451**	**581**	**857**	**3,336**
Additions	**–**	**6**	**42**	**–**	**80**	**128**
Acquisition from business combination (Note 13)	**–**	**1**	**–**	**–**	**–**	**1**
Disposals	**–**	**–**	**(2)**	**–**	**(23)**	**(25)**
Effect of exchange rate difference	**(2)**	**(1)**	**–**	**–**	**–**	**(3)**
Balance at 31 December 2019	**1,261**	**190**	**491**	**581**	**914**	**3,437**
Accumulated amortisation and impairment:						
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)
Balance at 1 January 2019	**(39)**	**(137)**	**(274)**	**(386)**	**(347)**	**(1,183)**
Amortisation for the year	**–**	**(20)**	**(39)**	**(52)**	**(94)**	**(205)**
Impairment losses	**–**	**–**	**–**	**–**	**(6)**	**(6)**
Balance at 31 December 2019	**(39)**	**(157)**	**(313)**	**(438)**	**(447)**	**(1,394)**
Net book value:						
Balance at 31 December 2019	**1,222**	**33**	**178**	**143**	**467**	**2,043**
Balance at 31 December 2018	1,224	47	177	195	510	2,153

Notes to the consolidated financial statements

For the year ended 31 December 2019

13 Goodwill and business combination

	2019 RMB millions	2018 RMB millions
Balance at 1 January	**2,046**	2,088
Addition	**6**	—
Impairment loss (Note)	**(30)**	(50)
Effect of exchange rate difference	**(5)**	8
Balance at 31 December	**2,017**	2,046

Note: The RMB30 million impairment loss recognised during the year ended 31 December 2019 related to the Group's Shaanxi Zoomlion Earth Working Machinery Co., Ltd. ("Zoomlion Earth Working Machinery") cash generating unit (2018: RMB50 million related to the Group's Zoomlion Heavy Machinery Co., Ltd. ("Zoomlion Heavy Machinery") cash generating unit), considering the underperformance of Zoomlion Earth Working Machinery in 2019.

The goodwill arose from the acquisition of the following entities:

		Carrying amount	
Name of entity	**Date of acquisition**	**2019 RMB millions**	2018 RMB millions
CIFA	September 2008	**1,519**	1,523
Zoomlion Earth Working Machinery (formerly "Shaanxi Xinhuanggong Machinery Co., Ltd.")	June 2008	**85**	115
Hunan Zoomlion Axle Co., Ltd.	June 2008	**12**	12
m-tec	April 2014	**32**	33
Zoomlion Heavy Machinery (formerly "CheryHeavy Industry Co., Ltd.")	January 2015	**363**	363
Wilbert TowerCranes GmbH	June 2019	**6**	—
		2,017	2,046

13 Goodwill and business combination (continued)

On 19 June 2019, the Company completed the acquisition of 100% interest in Guoyu Europe Holding GmbH and its wholly-owned subsidiary, Wilbert TowerCranes GmbH (collectively "Wilbert") with a cash consideration of EUR22 million (equivalent to RMB171 million). The purpose of the business combination was to broaden the Group's business in tower cranes and construction machinery.

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

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

	RMB millions
Property, plant and equipment	177
Intangible assets	1
Inventories	57
Other current assets	5
Trade and other receivables	35
Cash and cash equivalents	6
Total assets acquired	**281**
Loans and borrowings	(52)
Trade and other payables	(23)
Deferred tax liabilities	(23)
Other non-current liabilities	(18)
Total liabilities assumed	**(116)**
Goodwill	6
Total cost of acquisition	**171**
Cash acquired	(6)
Net cash outflow	**165**

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 11.72% to 15.99% (2018: 8.68% to 17.00%). 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% (2018: 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

	2019 RMB millions	2018 RMB millions
Infore Environment Technology Group Co., ltd. (“Infore Environment”)	2,933	2,795
Aggregate carrying amount of individually material associates in the consolidated financial statements	2,933	2,795
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	976	705
Total	3,909	3,500

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

Notes to the consolidated financial statements

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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 (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 2019, the quoted market price of Infore Environment was RMB6.17 (2018: RMB5.65) per share and the fair value of the investment in Infore Environment was RMB2,463 million (2018: RMB2,256 million).

	2019 RMB millions	2018 RMB millions
Amounts of the Group's share of Infore Environment		
Profit from operations	178	—
Other comprehensive income	—	—
Total comprehensive income	178	—

	2019 RMB millions	2018 RMB millions
Aggregate amounts of the Group's share of individually immaterial associates		
Profit from operations	10	35
Other comprehensive income	—	—
Total comprehensive income	10	35

15 Other financial assets

	Note	31 December 2019 RMB millions	31 December 2018 RMB millions
Financial assets at FVOCI			
Equity securities	(i)	**2,367**	2,268
Financial assets at FVPL			
Listed equity securities	(ii)	**127**	111
Securities investment funds	(iii)	**150**	—
Total		**2,644**	2,379

Notes:

(i) The equity securities comprises equity funds and other unlisted equity securities. The aggregate fair value of equity funds and unlisted equity securities was RMB1,264 million and RMB1,103 million respectively at 31 December 2019 (2018: RMB1,364 million and RMB904 million).The Group designated these investments at FVOCI (non-recycling), as the investments are held for strategic purposes. Dividends of RMB38 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 RMB0.4 million in relation to partial disposal of equity securities was transferred to retained earnings during the year(2018: RMB16 million).

(ii) The listed equity securities represent the Group's investments in shares of listed companies in the PRC. The aggregate fair value of these investments was RMB127 million, based on their quoted market prices as at 31 December 2019 (2018: RMB111 million).

(iii) The Group invests its spare cash in securities investment funds offered by fund management institutions. The underlying assets of the products are a wide range of government and corporate bonds, asset-backed securities, bond repurchases, bank deposits and other financial instruments. The Group evaluates these products on a fair value basis in accordance with the accounting policy set out in Note 2(e).

Notes to the consolidated financial statements

For the year ended 31 December 2019

16 Inventories

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

	2019 RMB millions	2018 RMB millions
Raw materials	2,509	2,443
Work in progress	2,611	1,625
Finished goods (Note)	6,652	5,483
	11,772	9,551

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

	2019 RMB millions	2018 RMB millions
Financial assets carried at fair value through profit or loss:		
— Wealth management products (Note)	3,953	8,443
— Structured deposits (Note)	—	5,344
— Securities investment funds (Note 15(iii))	358	—
	4,311	13,787

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).

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18 Trade and other receivables

	31 December 2019 RMB millions	31 December 2018 RMB millions
Trade receivables (Notes (a) and (b))	**30,437**	28,497
Less: loss allowance (Note (c))	**(5,146)**	(5,912)
	25,291	22,585
Less: trade receivables due after one year	**(9,072)**	(5,498)
	16,219	17,087
Bills receivable (Note (d))	**1,748**	1,350
	17,967	18,437
Amounts due from related parties (Note 35(b))	**181**	376
Prepayments for purchase of raw materials	**644**	558
Prepaid expenses	**623**	494
VAT recoverable	**771**	970
Deposits	**197**	123
Others	**456**	596
	20,839	21,554

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

Notes to the consolidated financial statements

For the year ended 31 December 2019

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 2019, the weighted average discount rate was approximately 4.75% (2018: 4.75%) per annum. As at 31 December 2019, trade receivables due after one year of RMB9,072 million (31 December 2018: RMB5,498 million) were presented net of unearned interest of RMB826 million (31 December 2018: RMB564 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:

	2019 RMB millions	2018 RMB millions
Within 1 year	**16,984**	11,495
Over 1 year but less than 2 years	**3,086**	4,132
Over 2 years but less than 3 years	**1,641**	2,813
Over 3 years but less than 5 years	**2,698**	3,754
Over 5 years	**882**	391
	25,291	22,585

Trade receivables under credit sales arrangement are generally due within 1 to 3 months (2018: 1 to 3 months) from the date of billing, and customers are normally required to make an upfront payment ranging from 40% to 50% (2018: 40% to 50%) of the product price. For sales under instalment payment method that has instalment payment periods generally ranging from 6 to 42 months (2018: 6 to 42 months), customers are normally required to make an upfront payment ranging from 30% to 50% (2018: 30% to 50%) of the product price.

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

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2019 RMB millions	2018 RMB millions
Balance at 31 December 2017 under IAS 39		5,937
Impact on initial application of IFRS 9		56
Balance/adjusted balance at 1 January	**5,912**	5,993
Impairment losses recognised	**425**	145
Reclassification from loss allowance of receivables under finance lease (Note 19(c))	**22**	16
Uncollectible amounts written off	**(307)**	(242)
Written off upon sale of trade receivables (Note)	**(906)**	—
Balance at 31 December	**5,146**	5,912

Note: During the year ended 31 December 2019, RMB906 million of loss allowance for trade receivables were written off due to disposal of certain receivables in a bulk sale (2018: nil).

(d) As at 31 December 2019, bills receivable of RMB1,748 million (2018: RMB1,350 million) whose fair values approximate to their carrying values were classified as financial assets at fair value through other comprehensive income under IFRS 9. The fair value changes of these bills receivable at fair value through other comprehensive income were insignificant during the year.

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.

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For the year ended 31 December 2019

18 Trade and other receivables (continued)

(d) (continued)

As at 31 December 2019, 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 2019, the Group's maximum exposure to loss and undiscounted cash outflow, which is same as the amount payable by the Group to suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB1,387 million (31 December 2018: RMB2,343 million).

As at 31 December 2019, bills receivable of RMB358 million (31 December 2018: RMB203 million) 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 2019, bills receivable of RMB559 million (31 December 2018: nill) 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 2019 RMB millions	31 December 2018 RMB millions
Gross investment	19,406	14,623
Unearned finance income	(760)	(465)
	18,646	14,158
Less: loss allowance (Note(c))	(1,646)	(1,667)
	17,000	12,491
Less: receivables under finance lease due after one year	(7,771)	(3,656)
Receivables under finance lease due within one year	9,229	8,835

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 (2018: 2 to 5 years). Customers are normally required to make an upfront payment ranging from 5% to 40% of the product price (2018: 5% to 40%) and pay a security deposit ranging from 1% to 10% of the product price (2018: 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.

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For the year ended 31 December 2019

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:

	2019 RMB millions	2018 RMB millions
Present value of the minimum lease payments		
Within 1 year	10,670	10,260
Over 1 year but less than 2 years	4,223	2,102
Over 2 years but less than 3 years	2,498	1,235
Over 3 years	1,255	561
	18,646	14,158
Unearned finance income		
Within 1 year	468	320
Over 1 year but less than 2 years	192	88
Over 2 years but less than 3 years	76	41
Over 3 years	24	16
	760	465
Gross investment		
Within 1 year	11,138	10,580
Over 1 year but less than 2 years	4,415	2,190
Over 2 years but less than 3 years	2,574	1,276
Over 3 years	1,279	577
	19,406	14,623

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:

	2019 RMB millions	2018 RMB millions
Not yet due	**13,360**	6,663
Within 1 year past due	**1,621**	2,535
Over 1 year but less than 2 years past due	**1,114**	2,588
Over 2 years past due	**2,551**	2,372
Total past due	**5,286**	7,495
	18,646	14,158
Less: loss allowance	**(1,646)**	(1,667)
	17,000	12,491

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	2019 RMB millions	2018 RMB millions
Balance at 31 December 2017 under IAS 39			1,560
Impact on initial application of IFRS 9			38
Balance/adjusted balance at 1 January		**1,667**	1,598
Impairment losses recognised		**1**	85
Reclassification to loss allowance of trade receivables	18(c)	**(22)**	(16)
Balance at 31 December		**1,646**	1,667

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For the year ended 31 December 2019

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 32(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 34(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

	2019 RMB millions	2018 RMB millions
Cash at bank and on hand		
— RMB denominated	**3,826**	7,541
— USD denominated	**632**	650
— EUR denominated	**366**	352
— HKD denominated	**4**	12
— Other currencies	**245**	199
	5,073	8,754

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For the year ended 31 December 2019

21 Cash and cash equivalents (continued)

(a) 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)	Deposits placed with an associate RMB million (Note 22)	Lease liabilities RMB million (Note 25)	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
Impact on initial application of IFRS 16	1(d)	—	—	334	334

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21 Cash and cash equivalents (continued)

(a) Reconciliation of liabilities arising from financing activities (continued)

	Note	Bank loans and other borrowings RMB million (Note 22)	Deposits placed with an associate RMB million (Note 22)	Lease liabilities RMB million (Note 25)	Total RMB million
At 1 January 2019		35,650	39	334	36,023
Changes from financing cash flows:					
Capital element of lease rentals paid		—	—	(64)	(64)
Interest element of lease rentals paid		—	—	(10)	(10)
Proceeds from loans and borrowings		41,250	1,275	—	42,525
Repayments of loans and borrowings		(55,251)	(1,282)	—	(56,533)
Interest paid		(1,707)	—	—	(1,707)
Total changes from financing cash flows		(15,708)	(7)	(74)	(15,789)
Exchange adjustments		120	—	—	120
Other changes:					
Loans and borrowings acquired from business combination	13	52	—	—	52
Increase in lease liabilities from entering into new lease during the year		—	—	147	147
Change in interest payable		18	—	—	18
Interest on loans and borrowings	5(a)	1,663	—	—	1,663
Interest on lease liabilities	5(a)	—	—	10	10
Total other changes		1,733	—	157	1,890
At 31 December 2019		21,795	32	417	22,244

21 Cash and cash equivalents (continued)

(b) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2019 RMB millions	2018 RMB millions (Note)
Within operating cash flows	**45**	134
Within financing cash flows	**74**	—
	119	134

Note: The adoption of IFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

These amounts relate to the following:

	2019 RMB millions	2018 RMB millions
Lease rentals paid	**119**	134

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For the year ended 31 December 2019

22 Loans and borrowings

(a) Short-term loans and borrowings

	Note	2019 RMB millions	2018 RMB millions
Secured short-term bank loans			
— RMB denominated	(i)	**48**	50
Pledged short-term bank loans	(ii)	**358**	703
Unsecured short-term bank loans			
— RMB denominated	(iii)	**3,803**	6,911
— USD denominated	(iv)	**490**	639
— EUR denominated	(v)	**340**	23
— RUB denominated	(vi)	**4**	—
Deposits placed with an associate	(vii)	**32**	39
		5,075	8,365
Add: current portion of long-term loans and borrowings	22(b)	**2,237**	13,679
		7,312	22,044

Notes:

(i) As at 31 December 2019, RMB denominated secured short-term bank loan of RMB48 million (31 December 2018: RMB50 million) bore interest at a fixed rate of 4.65% were secured by certain land and properties, and will be repayable in full in 2020.

(ii) As at 31 December 2019, RMB denominated pledged short-term bank loan of RMB358 million (31 December 2018: RMB703 million) bore interest at a fixed rate of 3.87% were pledged by financial assets and bank acceptance bills, and will be repayable in full in 2020.

(iii) As at 31 December 2019, RMB denominated unsecured short-term bank loans of RMB3,803 million (31 December 2018: RMB6,911 million) bore interest at rates ranging from 2.25% to 4.35% per annum and will be repayable in full in 2020.

22 Loans and borrowings (continued)

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

(iv) As at 31 December 2019, USD denominated unsecured short-term bank loans of RMB490 million (31 December 2018: RMB639 million) bore interest at rates ranging from 2.31% to 3.50% per annum and will be repayable in full in 2020.

(v) As at 31 December 2019, EUR denominated unsecured short-term bank loans of RMB340 million (31 December 2018: RMB23 million) bore interest at rates ranging from 0.80% to 1.10% per annum and will be repayable in full in 2020.

(vi) As at 31 December 2019, RUB denominated unsecured short-term bank loans of RMB4 million (31 December 2018: nil) bore interest at a fixed rate of 8.3% per annum and will be repayable in full in 2020.

(vii) As at 31 December 2019, the demand deposits due to an associate amounted to RMB32 million (31 December 2018: RMB39 million).

(b) Long-term loans and borrowings

	Note	**2019 RMB millions**	2018 RMB millions
Unsecured long-term bank loans			
— RMB denominated	(i)	**2,801**	8,201
— EUR denominated	(ii)	**1,561**	1,629
— USD denominated	(iii)	**717**	389
RMB medium-term notes	(iv)	**4,988**	11,491
Guaranteed USD senior notes	(v)	**3,692**	3,620
Debentures	(vi)	**2,993**	1,994
		16,752	27,324
Less: current portion of long-term loans and borrowings	22(a)	**(2,237)**	(13,679)
		14,515	13,645

Notes:

(i) As at 31 December 2019, RMB denominated unsecured long-term bank loan of RMB1,911 million (31 December 2018: RMB3,111 million) bore interest at rates ranging from 3.45% to 4.37% per annum and will be repayable in full in 2020.

As at 31 December 2019, RMB denominated unsecured long-term bank loans of RMB890 million (31 December 2018: RMB5,090 million) bore interest at rates ranging from 4.18% to 4.51% per annum and will be repayable from 2020 to 2027. Such loans were subject to the fulfilment of certain financial covenants of the Group. As at 31 December 2019, the Group was in compliance with these financial covenants.

(ii) As at 31 December 2019, EUR denominated unsecured long-term bank loans of RMB1,561 million (31 December 2018: RMB1,629 million) bore interest at rates ranging from 0.45% to 0.80% per annum and will be repayable from 2021 to 2022.

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For the year ended 31 December 2019

22 Loans and borrowings (continued)

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

(iii) As at 31 December 2019, USD denominated unsecured long-term bank loan of RMB326 million (31 December 2018: nil) bore interest at a fixed rate of 3.15% per annum and will be repayable in full in 2020.

As at 31 December 2019, USD denominated unsecured long-term bank loans of RMB391 million (31 December 2018: RMB389 million) bore interest at rates ranging from 3.14% to 3.50% per annum and will be repayable from 2021 to 2022.

(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 was matured and paid in October 2019. Interest on the notes was 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.

In October 2019, 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 3.75% per annum and will mature in October 2024. Interest on the notes will be payable yearly in arrears in October, beginning from October 2019.

(v) In December 2012, Zoomlion H.K. SPV Co., Limited issued 10-year senior notes with principal amount of USD600 million. The senior notes were guaranteed by the Company, bear interest at a fixed rate of 6.13% per annum and will mature in December 2022. Interest on the notes will be payable half-yearly in arrears in June and December of each year, beginning from June 2013.

In December 2016, senior notes with the carrying amount of USD19.20 million (RMB equivalent 132 million) was repurchased at the quoted market price of USD19.10 million (RMB equivalent 131 million) and the difference of RMB1 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.

In December 2018, senior notes with the carrying amount of USD49.10 million (RMB equivalent 329 million) was repurchased at the quoted market price of USD48.60 million (RMB equivalent 325 million) and the difference of RMB4 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 2018.

In July 2019, the Company issued 5-year RMB debentures with principal amount of RMB1,000 million. The debentures bore interest at a fixed rate of 4.00% per annum and will mature in July 2024. Interest on the debentures will be payable yearly in arrears in July, beginning from July 2019.

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

Notes to the consolidated financial statements

For the year ended 31 December 2019

23 Trade and other payables

	31 December 2019 RMB millions	31 December 2018 RMB millions
Trade creditors	**9,301**	6,998
Bills payable	**9,760**	3,802
Trade creditors and bills payable (Note (a))	**19,061**	10,800
Accrued staff costs	**786**	568
VAT payable	**640**	601
Sundry taxes payable	**125**	131
Security deposits (Note 29)	**607**	397
Dividends payable	**313**	251
Amounts due to non-controlling shareholders of certain subsidiaries	**254**	338
Payable for acquisition of property, plant and equipment	**284**	259
Locked restricted share (Note 26)	**100**	243
Product warranty provision (Note (b))	**99**	82
Interest payable	**81**	143
Financial guarantees issued (Note 34)	**67**	55
Amounts due to related parties (Note 35(b))	**3**	23
Other accrued expenses and payables	**2,592**	1,895
	25,012	15,786

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.

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For the year ended 31 December 2019

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:

	2019 **RMB** **millions**	2018 RMB millions
Due within 1 month or on demand	**5,119**	4,638
Due after 1 month but within 3 months	**5,935**	2,791
Due after 3 months but within 6 months	**7,619**	3,223
Due after 6 months but less than 12 months	**388**	148
	19,061	10,800

(b) Product warranty provision

	RMB **millions**
Balance at 1 January 2018	75
Provision for the year	151
Utilisation during the year	(144)
Balance at 31 December 2018 and 1 January 2019	**82**
Provision for the year	**162**
Utilisation during the year	**(145)**
Balance at 31 December 2019	**99**

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.

24 Contract liabilities

	31 December 2019 RMB millions	31 December 2018 RMB millions
Contract liabilities		
Receipts in advance from customers	**1,934**	1,602
	1,934	1,602

	2019 RMB millions	2018 RMB millions
Balance at 1 January	**1,602**	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	**(2,690)**	(3,083)
Increase in contract liabilities as a result of billing in advance of manufacturing activities	**3,022**	3,355
Balance at 31 December	**1,934**	1,602

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25 Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to IFRS 16 are as follows:

	At 31 December 2019		At 1 January 2019 (Note)	
	Present value of the minimum lease payments RMB millions	**Total minimum lease payments RMB millions**	Present value of the minimum lease payments RMB millions	Total minimum lease payments RMB millions
Within 1 year	**88**	**88**	50	50
After 1 year but within 2 years	**74**	**82**	47	49
After 2 years but within 5 years	**115**	**128**	101	111
After 5 years	**140**	**160**	136	161
	329	**370**	284	321
	417	**458**	334	371
Less: total future interest expenses		**(41)**		(37)
Present value of lease liabilities		**417**		334

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. The comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to IFRS 16 are set out in Note 1(d).

26 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 RMB1.98 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.

On 10 September 2019, the board of directors further resolved to approve the commencement of the first exercise period in respect of options granted under the Second Grants. A total number of 8,815,482 share options and 9,009,068 restricted shares granted to the Participants under Second Grants were vested or unlocked.

On 8 November 2019, the board of directors further resolved to approve the commencement of the second exercise period in respect of options granted under the First Grants. A total number of 44,640,739 share options and 45,408,457 restricted shares granted to the Participants under First Grants were vested or unlocked.

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26 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.	0.8 years
Options granted to employees: — on 1 November 2017	166,472,391	The first exercise period shall commence from trading day after expiry of the 12-month period from the date of grant. The share options shall be exercisable separately in the subsequent 3 exercise periods or tranches, whose percentages of options exercisable are 40%, 30% and 30% respectively, subject to certain performance conditions as the conditions of exercise.	0.8 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.	1.17 years
	187,315,769		

26 Share incentive scheme (continued)

(a) share options (continued)

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

	2019 Weighted average exercise price	2019 Number of options	2018 Weighted average exercise price	2018 Number of options
Outstanding at the beginning of the year	**4.52**	**182,843,029**	4.57	168,760,911
Exercised during the year	**4.25**	**(71,376,029)**	—	—
Forfeited during the year	**4.08**	**(5,131,390)**	4.57	(4,472,740)
Granted during the year		**—**	3.96	18,554,858
Outstanding at the end of the year	**4.10**	**106,335,610**	4.52	182,843,029
Exercisable at the end of the year	**4.12**	**47,017,998**	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	0.57	0.76	0.91
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%

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26 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	0.31	0.45
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%

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

(b) Restricted shares

The number of restricted shares are as follows:

	2019 Number of restricted shares	2018 Number of restricted shares
Outstanding at the beginning of the year	**117,371,631**	168,760,911
Vested during the year	**(54,417,525)**	(65,877,838)
Forfeited during the year	**(4,937,804)**	(4,066,300)
Granted during the year	**—**	18,554,858
Outstanding at the end of the year	**58,016,302**	117,371,631
Contractual life of restricted shares	**0.81 years**	1.31 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.

26 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 2019, the weighted average expected demission rate of the Participants was assessed to be 4.78% (2018: 3.05%). In 2019, share incentive scheme expenses of RMB135 million (2018: RMB267 million) were recognised in the consolidated statement of comprehensive income.

27 Income tax in the consolidated statement of financial position

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

	2019 RMB millions	2018 RMB millions
Provision for PRC income tax (Note)	**177**	148
Provision for income tax in other tax jurisdictions	**9**	3
	186	151

Note: Income tax payable after one year is recognised in other non-current liabilities (see Note 29).

Notes to the consolidated financial statements

For the year ended 31 December 2019

27 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 2019

	Balance at 31 December 2018 RMB millions	Acquisition from business combination RMB millions (Note 13)	Credited/ (charged) to profit or loss RMB millions	Credited/ (charged) to reserves RMB millions	Balance at 31 December 2019 RMB millions
Deferred tax assets arising from:					
Receivables	825	–	(111)	–	714
Inventories	135	–	20	–	155
Accrued expenses	101	–	35	–	136
Tax losses	137	–	57	–	194
Others	78	–	(5)	(1)	72
Total	1,276	–	(4)	(1)	1,271
Deferred tax liabilities arising from:					
Property, plant and equipment	(14)	(23)	(8)	–	(45)
Intangible assets	(348)	–	14	1	(333)
Right-of-use assets	(42)	–	2	–	(40)
Others	(25)	–	(4)	(8)	(37)
Total	(429)	(23)	4	(7)	(455)

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

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

Year ended 31 December 2018

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

As at 31 December 2019, deferred tax assets in respect of tax losses totalling RMB422 million (31 December 2018: RMB371 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 2019

28 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 and Wilbert are required to contribute to a government-mandated pension fund at the range from 9.2% to 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.

29 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".

30 Capital and reserves

(a) Share capital

	2019 RMB millions	2018 RMB millions
Ordinary shares issued and fully paid:		
At 1 January	**7,809**	7,794
Own shares repurchased and cancelled (Note 1)	**(5)**	—
Share incentive scheme (Notes 1 and 26)	**71**	15
At 31 December	**7,875**	7,809
6,486,767,772 A Shares of RMB1.00 each		
1,388,207,086 H Shares of RMB1.00 each		
(2018: 6,420,329,547 A Shares of RMB1.00 each		
1,388,207,086 H Shares of RMB1.00 each)	**7,875**	7,809

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 26. 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 2019

30 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	
	2019	2018
	RMB millions	RMB millions
Capital reserve		
Balance at 1 January	**14,738**	14,317
Repurchase of own shares (Note 30(e))	**(2,145)**	—
Share incentive scheme (Note 26)		
— Share option scheme	**277**	48
— Restricted share scheme	**194**	342
Cash dividends (Note 30(c))	**27**	31
Balance at 31 December	**13,091**	14,738
Statutory surplus reserve		
Balance at 1 January	**3,332**	2,963
Appropriation (Note 30(b)(ii))	**222**	369
Balance at 31 December	**3,554**	3,332
Other reserve		
Balance at 31 December 2018	**12**	8
Transferred to retained earnings relating to financial assets now measured at FVPL	**—**	(1)
Adjusted/balance at 1 January	**12**	7
Other comprehensive income	**4**	5
Balance at 31 December	**16**	12

30 Capital and reserves (continued)

(b) Reserves (continued)

	The Company	
	2019	2018
	RMB	RMB
	millions	millions
Retained earnings		
Balance at 31 December 2018	**13,554**	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	**13,554**	12,012
Appropriation (Note 30(b)(ii))	**(222)**	(369)
Safety production fund (Note 30(d))	**(4)**	(5)
Cash dividends (Note 30(c))	**(1,861)**	(1,556)
Profit for the year	**2,118**	3,472
Balance at 31 December	**13,585**	13,554
Total		
Balance at 1 January	**31,636**	29,299
Balance at 31 December	**30,246**	31,636

(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 2019

30 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 2019, the Company transferred RMB222 million (2018: RMB369 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)).

(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)).

30 Capital and reserves (continued)

(c) Cash dividends

Pursuant to the shareholders' approval at the Annual General Meeting held on 21 June 2019, a final cash dividend of RMB0.25 per share based on 7,460 million ordinary shares in issue, totaling RMB1,863 million in respect of the year ended 31 December 2018 was declared, in which RMB27 million was declared to restricted shareholders who are expected to be unlocked and RMB2 million was declared to restricted shareholders who are not expected to be unlocked. The forfeited restricted shares will not be entitled to the declared dividends. As at 31 December 2019, RMB313 million dividends are not paid and will be fully paid in 2020.

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.

(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.

30 Capital and reserves (continued)

(e) Repurchase of own shares

During the reporting period, the Company repurchased its own shares on the Shenzhen Stock Exchange as follows:

Month/year	Number of shares repurchased	Highest price paid per share RMB	Lowest price paid per share RMB	Aggregated price paid RMB millions
May to June/2019	**390,449,924**	**6.29**	**5.07**	**2,145**

The total amount paid for the repurchased shares of RMB2,145 million was paid wholly out of capital reserve.

31 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.

The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. This caused an increase in the Group's total debt and hence the Group's debt-to-equity ratio rose from 93.51% to 94.39% on 1 January 2019 when compared to its position as at 31 December 2018.

31 Capital management (continued)

Considering the impact of the application of IFRS 16, during 2019, the Group's strategy, which was unchanged from 2018, 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.

The Group's debt-to-equity ratio at the end of the current and previous reporting periods and at the date of transition to IFRS 16 was as follows:

	31 December 2019 RMB millions	**1 January 2019 RMB millions (Note)**	31 December 2018 RMB millions (Note)
Current liabilities:			
Short-term loans and borrowings	**7,312**	**22,044**	22,044
Lease liabilities	**88**	**50**	—
Total Current liabilities	**7,400**	**22,094**	22,044
Non-current liabilities:			
Long-term loans and borrowings	**14,515**	**13,645**	13,645
Lease liabilities	**329**	**284**	—
Total non-current liabilities	**14,844**	**13,929**	13,645
Total debt	**22,244**	**36,023**	35,689
Total equity attributable to equity shareholders of the Company	**38,827**	**38,164**	38,164
Debt-to-equity ratio	**57.29%**	**94.39%**	93.51%

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Under this approach, the comparative information is not restated. See Note 1(d).

32 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

For the year ended 31 December 2019

32 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 2019	Fair value measurements as at 31 December 2019		
		Level 1	Level 2	Level 3
Recurring fair value measurements				
Financial assets:				
Fair value through other comprehensive income				
— Bills receivable	1,748	—	1,748	—
— Equity securities	2,367	—	1,264	1,103
Fair value through profit or loss				
— Wealth management products	3,953	—	3,953	—
— Listed equity securities	127	127	—	—
— Securities investment funds	508	—	508	—
Financial liabilities:				
Fair value through profit or loss	(37)	—	(37)	—

	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 other comprehensive income				
— Bills receivable	1,350	—	1,350	—
— Equity securities	2,268	—	1,364	904
Fair value through profit or loss				
— Wealth management products	8,443	—	8,443	—
— Structured deposits	5,344	—	5,344	—
— Listed equity securities	111	111	—	—
Financial liabilities:				
Fair value through profit or loss	(40)	—	(40)	—

Notes to the consolidated financial statements

For the year ended 31 December 2019

32 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 2019 and 2018, 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 2019 RMB millions	At 31 December 2018 RMB millions
Unlisted equity securities:		
At 1 January	**904**	580
Additional investments in equity securities	**199**	324
At 31 December	**1,103**	904
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	**—**	—

32 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)

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.

(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 2019 and 2018 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 2019	**Fair value at 31 December 2019 categorised into Level 1**	Carrying amount at 31 December 2018	Fair value at 31 December 2018 categorised into Level 1
Guaranteed USD senior notes	**3,692**	**3,673**	3,620	3,434
RMB medium-term notes	**4,988**	**5,052**	11,491	11,639
Debentures	**2,993**	**3,036**	1,994	2,029

(b) Financial risk management

The Group has exposure to the following risks arising from financial instruments:

— credit risk (Note 32(b)(ii))
— liquidity risk (Note 32(b)(iii))
— interest rate risk (Note 32(b)(iv))
— currency risk (Note 32(b)(v))

Notes to the consolidated financial statements

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32 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 34(a).

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

(b) Financial risk management (continued)

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

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% (2018: 30% to 50%) of the product price is normally required from the customer. For sales under instalment payment method that has instalment payment periods generally ranging from 6 to 42 months (2018: 6 to 42 months), customers are normally required to make an upfront payment ranging from 30% to 50% (2018: 30% to 50%) 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.

Notes to the consolidated financial statements

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32 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:

	2019		
	Expected loss rate %	**Gross carrying amount RMB millions**	**Loss allowance RMB millions**
Within 1 year	**2.9%**	**17,494**	**(510)**
Over 1 year but less than 2 years	**9.7%**	**3,418**	**(332)**
Over 2 years but less than 3 years	**25.4%**	**2,199**	**(558)**
Over 3 years but less than 5 years	**40.9%**	**4,564**	**(1,866)**
Over 5 years	**68.1%**	**2,762**	**(1,880)**
		30,437	**(5,146)**

	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)

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

(b) Financial risk management (continued)

(ii) Credit risk (continued)

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

	2019		
	Expected loss rate %	**Gross carrying amount RMB millions**	**Loss allowance RMB millions**
Current (not past due)	**0.8%**	**11,582**	**(94)**
1–30 days past due	**4.3%**	**698**	**(30)**
31–60 days past due	**14.0%**	**301**	**(42)**
61–90 days past due	**16.0%**	**188**	**(30)**
More than 90 days past due	**24.7%**	**5,877**	**(1,450)**
		18,646	**(1,646)**

	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)

Notes to the consolidated financial statements

For the year ended 31 December 2019

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

(b) Financial risk management (continued)

(ii) Credit risk (continued)

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.

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 2019, 0.1% (31 December 2018: 0.1%) of the total trade and bills receivables was due from the Group's largest customer and 1.9% (31 December 2018: 1.3%) of the total trade and bills receivables was due from the Group's five largest customers respectively. As at 31 December 2019, 94.1% and 95.2% (31 December 2018: 94.2% and 94.9%) 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.

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

(b) Financial risk management (continued)

(ii) Credit risk (continued)

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 34(a).

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient cash and committed lines of funding from financial institutions to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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).

Notes to the consolidated financial statements

For the year ended 31 December 2019

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

(b) Financial risk management (continued)

(iii) Liquidity risk (continued)

	As at 31 December 2019					
	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	**21,827**	**24,248**	**8,151**	**827**	**14,913**	**357**
Trade and other payables	**25,012**	**25,012**	**25,012**	**–**	**–**	**–**
Lease liabilities (Note)	**417**	**458**	**88**	**82**	**128**	**160**
Other non-current liabilities	**2,666**	**2,666**	**–**	**189**	**937**	**1,540**
	49,922	**52,384**	**33,251**	**1,098**	**15,978**	**2,057**
Financial guarantees issued						
Maximum amount guaranteed	**67**	**4,845**	**4,845**	**–**	**–**	**–**

	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	–	–	–
Other non-current liabilities	991	991	–	261	589	141
	52,466	55,570	39,227	5,982	9,779	582
Financial guarantees issued						
Maximum amount guaranteed	55	3,899	3,899	–	–	–

32 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

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Lease liabilities include amounts recognised at the date of transition to IFRS 16 in respect of leases previously classified as operating leases under IAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See note 1(d).

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 2019

32 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 lease liabilities, short-term and long-term loans and borrowings. These borrowings 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 borrowings as at 31 December 2019.

	2019		2018	
	Effective interest rate %	Amount RMB millions	Effective interest rate %	Amount RMB millions
Fixed rate borrowings:				
Lease liabilities (Note)	2.6%	417	—	—
Short-term loans and borrowings	3.5%	7,249	4.7%	20,118
Long-term loans and borrowings	4.8%	12,563	4.8%	13,524
		20,229		33,642
Variable rate borrowings:				
Short-term loans and borrowings	0.7%	63	1.2%	1,926
Long-term loans and borrowings	1.4%	1,952	4.6%	121
		2,015		2,047
Total borrowings:		22,244		35,689
Fixed rate borrowings as a percentage of total borrowings		90.9%		94.3%

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Under this approach, the comparative information is not restated. See Note 1(d).

32 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 after taxation 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 increase**	**100 bp increase**	**100 bp increase**
31 December 2019				
Variable rate borrowings	**(15)**	**15**	**(15)**	**15**
31 December 2018				
Variable rate borrowings	(15)	15	(15)	15

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 2018.

(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.

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

(b) Financial risk management (continued)

(v) Currency risk (continued)

	Exposure to foreign currencies risk (expressed in equivalent RMB millions)					
	2019			2018		
	USD	**EUR**	**HKD**	USD	EUR	HKD
Trade debtors	**684**	**1,067**	**119**	438	526	24
Cash and cash equivalents	**632**	**366**	**4**	650	352	12
Trade creditors	**(3)**	**(482)**	**—**	(7)	(778)	—
Loans and borrowings	**(4,899)**	**(1,901)**	**—**	(4,648)	(1,652)	—
Notional amounts of forward exchange contracts used as economic hedges	**—**	**—**	**—**	(515)	475	—
Net exposure arising from recognised assets and liabilities	**(3,586)**	**(950)**	**123**	(4,082)	(1,077)	36

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 2019				
USD (5% movement)	**(134)**	**134**	**(134)**	**134**
EUR (5% movement)	**(36)**	**36**	**(36)**	**36**
31 December 2018				
USD (5% movement)	(153)	153	(153)	153
EUR (5% movement)	(40)	40	(40)	40

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

(b) Financial risk management (continued)

(v) Currency risk (continued)

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 2018.

33 Commitments

(a) Capital commitments

As at 31 December 2019, the Group had capital commitments as follows:

	2019 RMB millions	2018 RMB millions
Authorised and contracted for		
— property, plant and equipment	**182**	214
	182	214

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For the year ended 31 December 2019

33 Commitments (continued)

(b) Operating lease commitments

The Group leases business premises and equipment through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments.

As at 31 December 2018, the future minimum lease payments under non-cancellable operating lease were as follows:

	RMB millions
Within 1 year	52
After 1 but within 2 years	24
After 2 but within 3 years	16
After 3 but within 4 years	10
After 4 but within 5 years	3
Thereafter	1
	106

The Group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balance at 1 January 2019 to recognise lease liabilities relating to these leases (see Note 1(d)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in Note 25.

34 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 2019, the Group's maximum exposure to such guarantees was RMB4,542 million (31 December 2018: RMB3,533 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 2019, the Group made payments of RMB58 million (2018: RMB23 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 2019, the Group's maximum exposure to such guarantees was RMB231 million (31 December 2018: RMB292 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 2019, there was no payment made for repossession of machinery incurred (2018: 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 2019, the Group's maximum exposure to such guarantees was RMB72 million (31 December 2018: RMB74 million). For the year ended 31 December 2019, there was no payment to banks incurred (2018: Nil) under the guarantee arrangement as a result of customer default.

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For the year ended 31 December 2019

34 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.

35 Related party transactions

(a) Transactions with related parties

	2019 RMB millions	2018 RMB millions
Transactions with associates:		
Sales of products	**348**	347
Purchase of raw materials and finished goods	**22**	28
Payment for acquisition of receivables under commercial factoring	**910**	281
Payment for acquisition of finance lease assets	**554**	1
Guarantees provided	**—**	4
Proceeds from borrowings	**1,275**	1,042
Repayments of borrowings	**1,282**	1,132

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.

35 Related party transactions (continued)

(b) Outstanding balances with related parties

Amounts due from/to related parties are arising in the Group's normal course of business and are included in the account captions of trade and other receivables and trade and other payables, respectively. These balances bear no interest, are unsecured and are repayable in accordance with the agreements governing such transactions which are comparable to credit period with third-party customers/suppliers.

(c) Key management personnel remuneration

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

	2019 RMB thousands	2018 RMB thousands
Short-term employee benefits	**24,704**	27,024
Retirement scheme contributions	**256**	256
Share incentive scheme	**17,771**	49,469
	42,731	76,749

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 28.

Notes to the consolidated financial statements

For the year ended 31 December 2019

36 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.
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.

36 Accounting estimates and judgements (continued)

(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 its value in use and the fair value less costs to sell. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. It is difficult to precisely estimate selling price of the Group's long-lived assets because quoted market prices for such assets may not be readily available. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of revenue, amount of operating costs and applicable discount rate. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

Notes to the consolidated financial statements

For the year ended 31 December 2019

36 Accounting estimates and judgements (continued)

(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.

(f) Determining the lease term

As explained in policy Note 2(i), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

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37 Investments in subsidiaries

The following list contains particulars of subsidiaries as at 31 December 2019 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

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37 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	USD25	100%	–	100%	Bond issuance
m-tec mathis technik GmbH	EUR 3	100%	–	100%	Manufacture of concrete machinery
Zoomlion Commercial Factoring (China) Co., Ltd.	USD100	100%	–	100%	Commercial factoring services
Anhui Zoomlion Earth Working Machinery Co., Ltd.	RMB500	100%	100%	–	Manufacture of earth working machinery
Zoomlion Finance Co., Ltd.	RMB1,500	100%	75%	25%	Financial services
Shaanxi Zoomlion Culture Tourism Development Co., Ltd.	RMB220	100%	100%	–	Exploitation and management of tourism resource
Hunan Zoomlion Hoisting Machinery Co., Ltd.	RMB500	100%	100%	–	Manufacture of hoisting machinery
Zoomlion Sales Co., Ltd.	RMB100	100%	100%	–	Sales of equipment and machinery
Wilbert TowerCranes GmbH	EUR 4	100%	100%	–	Manufacture of tower cranes

37 Investments in subsidiaries (continued)

		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
Hunan Zoomlion engineering hoisting equipment Co., Ltd	RMB200	100%	100%	–	Manufacture of hoisting machinery
Hunan Zoomlion Construction Hoisting Machinery Co.Ltd	RMB800	100%	100%	–	Manufacture of concrete machinery
ZValley Co,. Ltd.	RMB50	100%	100%	–	Research and manufacture of machine software
Changsha Wisdom New Town Machinery Manufacturing Limited	RMB800	100%	100%	–	Manufacture of concrete machinery

All of the above subsidiaries are incorporated and operate in the PRC, except for CIFA which are incorporated and operate in Italy, and m-tec and Wilbert which are incorporated and operate in Germany. All of the above subsidiaries are limited liability companies.

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38 Company-level statement of financial position

	31 December 2019 RMB millions	1 January 2019 RMB millions (Note)	31 December 2018 RMB millions (Note)
Non-current assets			
Property, plant and equipment	**2,490**	3,028	3,028
Right-of-use assets	**712**	861	—
Lease prepayments	**—**	—	810
Intangible assets	**146**	191	191
Investments in subsidiaries	**17,755**	14,336	14,336
Interests in associates	**3,041**	3,042	3,042
Other financial assets	**746**	721	721
Trade and other receivables	**8,092**	4,663	4,663
Pledged bank deposits	**84**	129	129
Deferred tax assets	**428**	507	507
Total non-current assets	**33,494**	27,478	27,427
Current assets			
Inventories	**6,779**	4,342	4,342
Other current assets	**1,413**	1,097	1,097
Financial assets at fair value through profit or loss	**3,950**	13,737	13,737
Trade and other receivables	**52,492**	48,406	48,406
Pledged bank deposits	**835**	279	279
Cash and cash equivalents	**2,561**	3,979	3,979
Total current assets	**68,030**	71,840	71,840
Total assets	**101,524**	99,318	99,267

38 Company-level statement of financial position (continued)

	Note	31 December 2019 RMB millions	1 January 2019 RMB millions (Note)	31 December 2018 RMB millions (Note)
Current liabilities				
Loans and borrowings		**11,925**	20,951	20,951
Trade and other payables		**30,686**	27,273	27,273
Financial liabilities at fair value through profit or loss		**37**	40	40
Contract liabilities		**7,961**	1,049	1,049
Lease liabilities		**21**	13	—
Income tax payable		**76**	19	19
Total current liabilities		**50,706**	49,345	49,332
Net current assets		**17,324**	22,495	22,508
Total assets less current liabilities		**50,818**	49,973	49,935
Non-current liabilities				
Loans and borrowings		**10,578**	9,904	9,904
Lease liabilities		**36**	38	—
Deferred tax liabilities		**24**	21	21
Other non-current liabilities		**2,059**	565	565
Total non-current liabilities		**12,697**	10,528	10,490
Net assets		**38,121**	39,445	39,445
Capital and reserves				
Share capital	30(a)	**7,875**	7,809	7,809
Reserves	30(b)	**30,246**	31,636	31,636
Total equity		**38,121**	39,445	39,445

Note: The Company has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 1(d).

39 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2019

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, *Insurance contracts,* which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform	1 January 2020
Amendments to IFRS 3, *Definition of a business*	1 January 2020
Amendments to IAS 1 and IAS 8, *Definition of material*	1 January 2020
IFRS 17, *Insurance contracts*	1 January 2021
Amendments to IAS 1, Classification of Liabilities as Current or Non-current	1 January 2022

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

40 Reconciliation of financial information prepared under PRC GAAP to IFRSs

(a) Reconciliation of total equity of the Group

	As at 31 December 2019 RMB millions	As at 31 December 2018 RMB millions
Total equity reported under PRC GAAP	**39,534**	38,768
— Acquisition-related costs incurred on prior year business combination	**(37)**	(37)
Total equity reported under IFRSs	**39,497**	38,731

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

	2019 RMB millions	2018 RMB millions
Total comprehensive income for the year reported under PRC GAAP	**4,272**	1,730
— Safety production fund (Note)	**10**	12
Total comprehensive income for the year reported under IFRSs	**4,282**	1,742

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

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

Notes to the consolidated financial statements

For the year ended 31 December 2019

41 Non-adjusting events after the reporting period

Pursuant to a resolutions passed at the directors' meeting on 30 March 2020, no dividend in respect of the year ended 31 December 2019 (2018: RMB0.25 per share totaling RMB1,952 million) was proposed for shareholders' approval at the forthcoming Annual General Meeting.

The coronavirus outbreak since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations. The Group has been closely monitoring the impact of the developments on the Group's businesses, and will keep continuous attention on the change of situation and make timely response and adjustments in the future.

42 Comparative figures

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 1(d).

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