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Zhengzhou Coal Mining Machinery Group Company Limited

鄭州煤礦機械集團股份有限公司

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

(Stock code: 00564)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

The revenue of the Group for 2020 was RMB26,519.39 million, representing an increase of RMB797.98 million (i.e. 3.10%) as compared with 2019.

Profit for the year attributable to owners of the Company for 2020 was RMB1,239.15 million, representing an increase of RMB198.90 million (i.e. 19.12%) as compared with 2019.

Earnings per share for 2020 was RMB71.52 cents.

The Board proposed a final dividend of RMB2.15 (tax inclusive) per 10 shares for 2020.

The board of directors (the “**Board**”) of Zhengzhou Coal Mining Machinery Group Company Limited (the “**Company**”) hereby announces the audited consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2020 together with the comparative figures of the corresponding period in 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

		2020	2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	26,519,393	25,721,417
Cost of sales		<u>(19,874,033)</u>	<u>(20,923,902)</u>
Gross profit		6,645,360	4,797,515
Other income	5	262,823	225,180
Other gains and losses	6	(393,012)	(418,404)
Selling and distribution expenses		(1,135,191)	(1,020,635)
Administrative expenses		(1,289,831)	(994,626)
Research and development expenses		(1,224,426)	(1,015,026)
Restructuring costs		(646,954)	–
Net impairment losses on financial and contract assets		(339)	157,875
Share of profit of associates		12,007	38,013
Share of profit of a joint venture		9,617	3,716
Finance costs, net	7	<u>(300,160)</u>	<u>(243,532)</u>
Profit before tax		1,939,894	1,530,076
Income tax expense	8	<u>(561,113)</u>	<u>(390,166)</u>
Profit for the year		<u>1,378,781</u>	<u>1,139,910</u>
Profit for the year attributable to:			
Owners of the Company		1,239,149	1,040,253
Non-controlling interests		<u>139,632</u>	<u>99,657</u>
		<u>1,378,781</u>	<u>1,139,910</u>

	<i>Note</i>	2020 RMB'000	2019 RMB'000
Other comprehensive income:			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement of post-employment benefit obligations		21,078	4,818
Changes in the fair value of financial assets at fair value through other comprehensive income		(941)	(1,606)
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences arising on translation		(119,890)	(17,440)
Cash flow hedging		(4,961)	514
Other comprehensive expense for the year, net of income tax		(104,714)	(13,714)
Total comprehensive income for the year		1,274,067	1,126,196
Total comprehensive income for the year attributable to:			
Owners of the Company		1,134,435	1,026,539
Non-controlling interests		139,632	99,657
		1,274,067	1,126,196
EARNINGS PER SHARE			
	<i>10</i>		
– Basic (RMB cents)		71.52	60.04
– Diluted (RMB cents)		71.45	60.04

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	<i>Note</i>	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		4,641,837	4,841,820
Right-of-use assets		1,268,668	1,171,066
Investment properties		387,226	175,335
Goodwill		520,431	677,221
Intangible assets		1,513,961	1,505,901
Investments in associates		297,460	285,453
Investments in joint ventures		81,339	71,722
Financial assets at fair value through other comprehensive income		28,993	29,934
Deferred tax assets		429,507	419,390
Finance lease receivables		15,497	23,348
Long-term receivables		165,531	263,231
Loans receivable from associates and a joint venture		–	6,500
Assets classified as held for sale		1,922	–
Total non-current assets		9,352,372	9,470,921
CURRENT ASSETS			
Finance lease receivables, current portion		122,834	26,084
Long-term receivables, current portion		156,944	239,513
Loans receivable from associates and a joint venture		6,500	10,000
Inventories		4,531,794	3,631,699
Trade and other receivables	<i>11</i>	6,991,913	5,836,197
Transferred trade receivables		830,941	158,762
Financial assets at fair value through profit or loss		2,857,305	1,394,296
Financial assets at fair value through other comprehensive income		3,780,065	4,246,819
Derivative financial instruments		40,405	13,946
Tax recoverable		34,701	38,581
Contract related assets, current portion		8,804	30,457
Bank deposits		2,763,289	858,141
Cash and cash equivalents		2,978,727	3,863,435
Total current assets		25,104,222	20,347,930
Total assets		34,456,594	29,818,851

	<i>Note</i>	2020 RMB'000	2019 RMB'000
NON-CURRENT LIABILITIES			
Borrowings		3,624,892	1,741,881
Lease liabilities		690,226	551,705
Deferred tax liabilities		263,567	292,778
Contract liabilities		10,312	–
Redemption liabilities		–	567,404
Provisions		136,148	197,740
Employee benefit obligations		707,321	378,430
Other non-current liabilities		161,818	124,138
		<hr/>	<hr/>
Total non-current liabilities		5,594,284	3,854,076
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade and other payables	12	8,523,817	8,005,539
Contract liabilities		1,625,444	1,699,335
Income tax liabilities		231,896	156,371
Borrowings		974,003	1,395,606
Lease liabilities		114,980	140,143
Redemption liabilities		1,420,875	720,000
Provisions		1,092,793	543,141
Liabilities associated with transferred trade receivables		830,941	158,762
Derivative financial instruments		13,730	3,632
		<hr/>	<hr/>
Total current liabilities		14,828,479	12,822,529
		<hr/>	<hr/>
Total liabilities		20,422,763	16,676,605
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Share capital	13	1,732,471	1,732,471
Share premium		4,199,421	4,199,421
Reserves		7,131,903	6,307,839
		<hr/>	<hr/>
Equity attributable to owners of the Company		13,063,795	12,239,731
Non-controlling interests		970,036	902,515
		<hr/>	<hr/>
Total equity		14,033,831	13,142,246
		<hr/>	<hr/>
Total equity and liabilities		34,456,594	29,818,851
		<hr/>	<hr/>

NOTES TO THE FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2020

1 GENERAL INFORMATION

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

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

2.2 Changes in accounting policies

(a) New and amended standards adopted by the Group

A number of new standards, amendments and interpretation became applicable for the current reporting period and the Group changed its accounting policies and make adjustments as a result of adopting these new standards, amendments and interpretation set out below::

- Definition of Material – amendments to IAS 1 and IAS 8
- Definition of Business – amendments to IFRS 3
- Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39 and IFRS 7
- Revised Conceptual Framework for Financial Reporting

The Group also elected to adopt the following amendments early:

- Covid-19-Related Rent Concessions – amendments to IFRS 16

The standards, amendments and interpretation listed above are either currently not relevant to the Group or had no material impact on the Group's financial statements.

(b) New standards and interpretations not yet adopted

Certain new accounting standard and amendments have been published but are not mandatory for 31 December 2020 reporting period and have not been early adopted by the Group. These new standards and amendments are not expected to have a material impact on the Group's financial statements when they become effective.

3 REVENUE

	Year ended 31 December 2020		
	Manufacture of coal mining machinery <i>RMB'000</i>	Manufacture of auto parts <i>RMB'000</i>	Total <i>RMB'000</i>
Sales of auto parts	–	14,914,668	14,914,668
Sales of hydraulic roof supports	7,213,585	–	7,213,585
Revenue from steel and other materials trading	2,595,289	62,994	2,658,283
Sales of spare parts for coal mining machinery	1,490,459	–	1,490,459
Sales of other coal mining equipment	77,054	–	77,054
Other revenue	118,579	46,765	165,344
	11,494,966	15,024,427	26,519,393
	Year ended 31 December 2019		
	Manufacture of coal mining machinery <i>RMB'000</i>	Manufacture of auto parts <i>RMB'000</i>	Total <i>RMB'000</i>
Sales of auto parts	–	16,041,025	16,041,025
Sales of hydraulic roof supports	6,269,018	–	6,269,018
Revenue from steel and other materials trading	2,118,017	128,801	2,246,818
Sales of spare parts for coal mining machinery	1,002,430	–	1,002,430
Sales of other coal mining equipment	86,532	–	86,532
Other revenue	75,594	–	75,594
	9,551,591	16,169,826	25,721,417

4 SEGMENT INFORMATION

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

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

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

	Manufacture of coal mining machinery RMB'000	Manufacture of auto parts RMB'000	Total RMB'000
Year ended 31 December 2020			
Segment revenue	<u>11,494,965</u>	<u>15,024,428</u>	<u>26,519,393</u>
Segment net profit/(loss) excluding impairment of goodwill, interest expense of redemption liabilities	<u>2,525,301</u>	<u>(882,211)</u>	<u>1,643,090</u>
Year ended 31 December 2019			
Segment revenue	<u>9,551,591</u>	<u>16,169,826</u>	<u>25,721,417</u>
Segment net profit/(loss) excluding impairment of goodwill, interest expense of redemption liabilities	<u>1,659,300</u>	<u>(250,909)</u>	<u>1,408,391</u>
		For the year ended 31 December 2020	2019
		RMB'000	RMB'000
Segment revenue and consolidated revenue		<u>26,519,393</u>	<u>25,721,417</u>
Segment net profit excluding impairment of goodwill, interest expense of redemption liabilities		1,643,090	1,408,391
Impairment of goodwill		(164,714)	(174,086)
Interest expense on redemption liabilities		(99,595)	(94,395)
Consolidated profit for the year		<u>1,378,781</u>	<u>1,139,910</u>

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

	As of December 31	
	2020	2019
	RMB'000	RMB'000
SEGMENT ASSETS		
Manufacture of coal mining machinery	19,328,850	15,180,644
Manufacture of auto parts	14,607,313	13,960,986
Total segment assets	33,936,163	29,141,630
Goodwill	520,431	677,221
Consolidated assets	34,456,594	29,818,851
SEGMENT LIABILITIES		
Manufacture of coal mining machinery	9,139,033	7,283,768
Manufacture of auto parts	9,862,855	8,105,433
Total segment liabilities excluding redemption liabilities	19,001,888	15,389,201
Redemption liabilities	1,420,875	1,287,404
Consolidated liabilities	20,422,763	16,676,605

Geographical information

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

	2020	2019
	RMB'000	RMB'000
The PRC	18,278,394	15,417,387
Germany	4,240,700	4,745,898
Other countries	4,000,299	5,558,132
	26,519,393	25,721,417

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

	Segment assets RMB'000	2020 Investment in associates and joint ventures RMB'000	Additions to non-current assets RMB'000
Manufacture of coal mining machinery			
The PRC	19,320,697	299,546	455,327
Germany	3,382	–	–
Other countries	20,041	–	380
Manufacture of auto parts			
The PRC	8,213,663	79,253	251,329
Germany	3,025,221	–	439,787
Other countries	3,380,113	–	376,420
Total segment assets	33,963,117	378,799	1,523,243
Elimination	(26,954)		
Unallocated: Goodwill	520,431		
Total assets as per the financial position	34,456,594		
		2019 Investment in associates and joint ventures RMB'000	Additions to non-current assets RMB'000
Manufacture of coal mining machinery			
The PRC	15,055,206	284,598	298,820
Germany	3,611	–	–
Other countries	125,122	–	316
Manufacture of auto parts			
The PRC	7,806,456	72,577	316,638
Germany	2,940,122	–	440,695
Other countries	3,377,108	–	232,968
Total Segment assets	29,307,625	357,175	1,289,437
Elimination	(165,995)		
Unallocated: Goodwill	677,221		
Total assets as per the financial position	29,818,851		

Information about major customers

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Customer A – manufacture of auto parts segment (<i>Note</i>)	<u>N/A</u>	<u>3,389,763</u>

Note: No customer contributed over 10% of the total revenue of the Group for the year ended 31 December 2020.

5 OTHER INCOME

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Government grants (<i>Note</i>)	174,012	156,959
Interest income on bank deposits, long-term receivables and finance lease receivables	<u>88,811</u>	<u>68,221</u>
	<u>262,823</u>	<u>225,180</u>

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

6 OTHER GAINS AND LOSSES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Net fair value gains on financial assets at fair value through profit or loss	68,823	14,011
Net fair value gain/(loss) on derivative financial instruments	2,107	(55,998)
Dividend from financial assets at fair value through comprehensive income	2,022	2,897
Gain on disposal of associates	–	16,257
Loss on disposal of property, plant and equipment, and intangible assets	(19,756)	(2,192)
Impairment of intangible assets	(30,049)	(246,731)
Impairment of property, plant and equipment	(109,987)	–
Net foreign exchange (loss)/gain	(133,828)	41,896
Impairment of goodwill	(164,714)	(174,086)
Others	<u>(7,630)</u>	<u>(14,458)</u>
	<u>(393,012)</u>	<u>(418,404)</u>

7 FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interests on bank borrowings	161,547	108,600
Interests on redemption liabilities	117,170	111,054
Interests on leases	21,443	23,878
	<u>300,160</u>	<u>243,532</u>

8 INCOME TAX EXPENSE

	2020 RMB'000	2019 RMB'000
Current income tax	611,411	406,201
(Over)/under provision in prior years – enterprise income tax	(10,945)	9,971
Deferred income tax	(39,353)	(26,006)
	<u>561,113</u>	<u>390,166</u>

(a) PRC corporate income tax

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

In accordance with the PRC tax laws, standard corporate income tax rate is 25%. The Company and certain subsidiaries are qualified for new/high-tech technology enterprises status and enjoyed preferential income tax rate of 15% during 2020 and 2019.

(b) Germany profits tax

Applicable profit tax rate of Germany is 29% (2019: 29%). During the year ended 31 December 2020, no profit tax has been provided due to accumulated losses (2019: Nil).

(c) **Others**

Applicable profit tax rates of the Group's other subsidiaries are between 9% and 34.43% for the year ended 31 December 2020 (2019: between 9% to 37.68%).

During the year of 2020, the applicable profit tax rate of SEG Automotive India Private Limited decreased from 34.94% to 25.17% and the applicable profit tax rate of SEG Automotive Japan Corporation decreased from 37.68% to 34.01%.

	2020 RMB'000	2019 RMB'000
Profit before tax	1,939,894	1,530,076
Tax at applicable tax rate of respective entities	363,866	268,380
Tax effect of share of result of associates and joint ventures	(3,244)	(6,259)
Tax effect of income not taxable for tax purpose	(33,638)	(4,641)
Tax effect of expenses that are not deductible for tax purpose	98,661	60,820
Tax effect of tax losses and temporary differences not recognised	236,549	141,123
Utilisation of tax losses and temporary differences previously not recognised	(123)	(11,324)
Additional deduction for qualified research and development expenses	(90,013)	(67,904)
(Over)/under provision in prior years	(10,945)	9,971
	<u>561,113</u>	<u>390,166</u>

9 DIVIDENDS

	2020 RMB'000	2019 RMB'000
Dividends recognised as distribution during the year		
– 2020 Final (RMB0.185 per share)	320,507	–
– 2019 Final (RMB0.145 per share)	–	251,208
	<u>320,507</u>	<u>251,208</u>

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2020 of RMB0.215 per share (2019: final dividend in respect of the year ended 31 December 2019 of RMB0.185 per share) in an aggregated amount of RMB372,481,345 has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

10 EARNINGS PER SHARE

(a) Basic earnings per share

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Earning for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	<u>1,239,149</u>	<u>1,040,253</u>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>1,732,471,370</u>	<u>1,732,471,370</u>
Earnings per share (RMB cents)	<u>71.52</u>	<u>60.04</u>

(b) Diluted earnings per share

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Earnings:		
Profit attributable to owners of the Company used in the diluted earnings per share calculation	<u>1,239,149</u>	<u>1,040,253</u>
Number of shares:		
Weighted average number of ordinary shares in issue during the year per share calculation	<u>1,732,471,370</u>	<u>1,732,471,370</u>
Add: share options	<u>1,635,599</u>	<u>192,913</u>
Weighted average number of ordinary shares in issue and potential ordinary shares used as the denominator in calculating diluted earnings per share	<u>1,734,106,969</u>	<u>1,732,664,283</u>
Diluted earnings per share (RMB cents)	<u>71.45</u>	<u>60.04</u>

11 TRADE AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	6,275,986	5,252,011
Less: loss allowance	(560,433)	(612,367)
	<u>5,715,553</u>	<u>4,639,644</u>
Prepayments to suppliers	497,630	372,396
Deposits	77,247	70,054
Other tax recoverable	572,583	601,272
Receivable from disposal of an associate	–	64,057
Staff advances	15,323	17,296
Others	226,947	185,464
Less: loss allowance	(113,370)	(113,986)
	<u>1,276,360</u>	<u>1,196,553</u>
Total trade and other receivables	<u>6,991,913</u>	<u>5,836,197</u>

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

	2020 RMB'000	2019 RMB'000
Within 180 days	4,672,144	3,837,690
Over 180 days but within 1 year	790,972	589,284
Over 1 year but within 2 years	234,325	177,330
Over 2 years but within 3 years	18,112	35,340
	<u>5,715,553</u>	<u>4,639,644</u>

The trade and other receivables denominated in foreign currencies, are expressed in RMB as at 31 December 2020 and 31 December 2019 as follows:

	2020 RMB'000	2019 <i>RMB'000</i>
EUR	582,752	795,054
USD	292,356	323,806
INR	153,901	127,090
BRL	75,832	72,336
ZAF	44,211	8,456
MXI	28,575	20,190
JPY	6,341	5,313
RUB	–	6,949
Others	–	14
	<u>1,183,968</u>	<u>1,359,208</u>

Movement of loss allowance on trade and other receivables

	2020 RMB'000	2019 <i>RMB'000</i>
Opening balance	726,353	950,462
Reversed during the year	(9,062)	(161,873)
Write off	(40,389)	(55,239)
Currency exchange	(3,099)	(6,997)
	<u>673,803</u>	<u>726,353</u>

12 TRADE AND OTHER PAYABLES

	2020 RMB'000	2019 <i>RMB'000</i>
Notes payable (<i>Note a</i>)	1,593,690	1,621,931
Trade payable (<i>Note a</i>)	5,021,579	4,733,324
	<u>6,615,269</u>	<u>6,355,255</u>
Salary and bonus payables	575,880	525,880
Deposits (<i>Note b</i>)	84,145	60,498
Interest payable	25,552	15,665
Other taxes payable	461,135	468,757
Factoring payable (<i>Note c</i>)	128,607	–
Accruals and other payables (<i>Note d</i>)	633,229	579,484
	<u>8,523,817</u>	<u>8,005,539</u>

Notes:

- (a) The following is an aged ageing analysis of notes payable and trade payables presented based on invoice date as at 31 December 2020 and 2019:

	2020 RMB'000	2019 RMB'000
Within 1 year	6,421,726	6,185,284
Over 1 year	193,543	169,971
	<u>6,615,269</u>	<u>6,355,255</u>

- (b) Deposits represent the deposits received from suppliers for transportation and other services.
- (c) In 2020, a subsidiary of the Group entered into an agreement to arrange factoring upon certain accounts receivables with a bank, and the Group derecognized those accounts receivables due to the factoring meets the derecognition criteria of financial assets under IFRS. The factoring payable balance represented the cash flow received from the accounts receivables but did not pay to the bank yet as the Group acted as an agent to collect cash flows on behalf of the bank under the arrangement.
- (d) Accruals and other payables mainly consist of payables for the acquisition of property, plant and equipment, rental payables, sales rebate and payables for other services.

13 SHARE CAPITAL

	Listed A Shares		Listed H Shares		Total	
	Number of share RMB'000	Amount RMB'000	Number of share RMB'000	Amount RMB'000	Number of share RMB'000	Amount RMB'000
At 31 December 2019 and 31 December 2020	<u>1,489,237</u>	<u>1,489,237</u>	<u>243,234</u>	<u>243,234</u>	<u>1,732,471</u>	<u>1,732,471</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

Revenue

Our revenue increased by 3.10% from RMB25,721.42 million for the year ended 31 December 2019 to RMB26,519.39 million for the year ended 31 December 2020, mainly because manufacture of coal mining machinery segment's sales increased for the year ended 31 December 2020.

Cost of Sales

As the Group recorded an increase in our revenue, our cost of sales decreased by 5.02% from RMB20,923.90 million for the year ended 31 December 2019 to RMB19,874.03 million for the year ended 31 December 2020.

Gross Profit

Driven by the above factors, our gross profit increased by 38.52% from RMB4,797.52 million for the year ended 31 December 2019 to RMB6,645.36 million for the year ended 31 December 2020.

The change in gross profit during the year primarily comprised of two parts. The gross profit margin of the coal mining machinery segment increased from 28.7% for the year ended 31 December 2019 to 36.4% for the year ended 31 December 2020. As of 31 December 2020, the gross profit margin of the auto parts segment of the Group increased from 12.7% for the year ended 31 December 2019 to 16.4% for the year ended 31 December 2020.

Therefore, the overall gross profit margin of the Group increased from 18.65% for the year ended 31 December 2019 to 25.06% for the year ended 31 December 2020.

Other Income

Our other income increased by 16.72% from RMB225.18 million for the year ended 31 December 2019 to RMB262.82 million for the year ended 31 December 2020, mainly because the Group gained more government grants and interest income.

Other Gains and Losses

Our other losses decreased by 6.07% from a loss of RMB418.40 million for the year ended 31 December 2019 to a loss of RMB393.01 million for the year ended 31 December 2020, mainly due to less losses from fair value loss on derivative financial instruments.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 11.22% from RMB1,020.64 million for the year ended 31 December 2019 to RMB1,135.19 million for the year ended 31 December 2020 which was align with the increase of revenue.

Administrative Expenses

Our administrative expenses increased by 29.68% from RMB994.63 million for the year ended 31 December 2019 to RMB1,289.83 million for the year ended 31 December 2020, mainly due to the increase from the long-term super profit incentive scheme.

Research and Development Expenses

Our research and development expenses increased by 20.63% from RMB1,015.03 million for the year ended 31 December 2019 to RMB1,224.43 million for the year ended 31 December 2020, mainly due to more research and development activities incurred from manufacture of auto parts segment during the year.

Share of Profit of Associates

Share of profit of associates decreased by 68.41% from a gain of RMB38.01 million for the year ended 31 December 2019 to a gain of RMB12.00 million for the year ended 31 December 2020, mainly due to less investment income from the associate belong to manufacture of coal mining segment.

Finance Costs

Our finance costs increased by 23.25% from RMB243.53 million for the year ended 31 December 2019 to RMB300.16 million for the year ended 31 December 2020, mainly due to more borrowings for the year ended 31 December 2020.

Profit Before Tax

Being affected by the factors referred to above in aggregate, our profit before tax increased by 26.78% from RMB1,530.08 million for the year ended 31 December 2019 to RMB1,939.90 million for the year ended 31 December 2020.

Income Tax Expense

Our income tax expense increased by 43.81% from RMB390.17 million for the year ended 31 December 2019 to RMB561.11 million for the year ended 31 December 2020, primarily as a result of the significant increase in taxable income. Our effective tax rate increased to 28.92% for the year ended 31 December 2020 from 25.50% for the year ended 31 December 2019.

Profit Attributable to Owners of the Company

Based on the factors referred to above, profit attributable to owners of the Company increased by 19.12% from RMB1,040.25 million for the year ended 31 December 2019 to RMB1,239.15 million for the year ended 31 December 2020.

Trade and Other Receivables

As 31 December 2020, trade and other receivables amounted to approximately RMB6,991.91 million, representing an increase of approximately RMB1,155.71 million as compared to approximately RMB5,836.20 million as at the end of 2019, mainly due to the increase of revenue from manufacture of coal mining machinery segment.

Liquidity

The Group's net current assets were approximately RMB10,275.75 million (31 December 2019: RMB7,525.40 million) and the current ratio was 1.69 as at 31 December 2020 (31 December 2019: 1.59). The increase in current ratio was mainly attributable to the increase in trade and other receivables and bank deposit.

2020 BUSINESS REVIEW

In 2020, facing the abrupt assault from the Covid-19 pandemic in a complex and severe industry situation, the Company guided itself under the development strategy of “international strategic positioning, market-based corporate governance, high-end industry layout and global human resources”, and conscientiously carried out the spirit of the important instructions from General Secretary Xi Jinping during his inspection of ZMJ. It confronted challenges head on and with strong determination. Equipped with the mind-set of starting afresh on another entrepreneurial adventure, ZMJ leveraged innovation as the key with faster transformation towards intelligence, greater technology and management innovation as well as optimisation of the governance structure, striving to break new ground in high-quality development. As a result, its key economic indicators have improved continuously.

(I) Strategic Guidance to Keep Driving Corporate Reform

1. Advancing the mixed ownership reform and taking the lead in SOE reform

The Company proactively worked with HNMIC on public solicitation of transferring 16% of its shares in ZMJ, with the share transfer completed on 25 February 2021. The equity transfer represented a critical move for Henan Province to explore the transition of state-owned assets supervision from “Management of People, Affairs and Assets” to “Capital Management”. It also constituted a major attempt for HNMIC and ZMJ to perform their responsibility as state-owned enterprises, carry out the “Campaign of Reforming Hundreds of SOEs” (雙百行動), transform their operating mechanism at a deeper level and explore the way of SOE reform in Henan. The new shareholder structure will tap into mixed ownership to propel ZMJ in its exploration of the modern enterprise system with Chinese characteristics. Grounded on a diverse shareholding structure and market-oriented board composition after the reform, ZMJ will develop a corporate governance structure with market-oriented operation to stimulate its vitality, and lay a solid foundation for ZMJ to establish itself as a benchmark in the mixed ownership reform of SOEs and the “Campaign of Reforming Hundreds of SOEs”.

By combining industry and finance, central and local strengths as well as diverse backgrounds, the strategic investors are set to introduce effective strategic incremental resources to ZMJ, such as capital, market, technology and industrial synergy, to assist the listed company to enhance its industrial competitiveness, acquire new technologies and markets, enter strategic emerging fields and expedite industrial transformation and upgrade, thus amplifying the effect of marrying state-owned capital with strategic investment capital and realising sustainable high-quality development for ZMJ.

2. Improving central management capability and internal risk prevention system

We have established robust group management and risk control systems that align with the Group’s international drive and multi-industry management. First, we continued to sort out future development strategies for the Group and its industrial segments, explore innovation and upgrade approaches to our principal operations, and study development opportunities from emerging industries. Second, we leveraged on information-based management and control for the Group, to keep advancing its information-based systems. Specifically, we explored the establishment and improvement of intelligent reporting system, budget and capital management systems as well as information-based modules on operations management for the Group, providing solid support for enhancing group control. Third, we kept enhancing the development of an international talent team, by introducing premium talents from various channels and developing a vertical talent training system that covers the entire career of our staff. Fourth, we continued to capitalise on the synergy between our internal auditing and the work of our board of supervisors and disciplinary inspection bodies, to fully deliver the overall effect of our supervisory organs and prevent and control risks.

(II) Executing Development Strategies in Respective Business Segments with Stable Operation

1. *Operation and development of the coal mining machinery segment*

In 2020, the Company remained oriented towards “orders that could generate profit and cash flow with controllable risk exposure”, captured quality orders, worked harder on payment collection, and vigorously promoted comprehensiveness and intelligence. As such, ZMJ sustained the growth of its operating results, achieving preliminary success with its “comprehensive, intelligent, international and society-oriented” strategy and further boosting its core competitiveness.

(1) *Leading industrial iteration and upgrade with stellar achievements in intelligence and comprehensiveness*

First, driving comprehensiveness at a steady pace. Our comprehensive strategy proved highly effective, as we enhanced internal cooperation and established the platform of comprehensive production system and the system of comprehensive development service. Our equipment sets work under the “in-house synergetic deployment model”, which has matured into one of the competitive edges of the Company. Our first set of intelligent workforce for comprehensive mining formally commenced operation at Pingdingshan Coal Group No.2 Mine (平煤二礦), thus accomplishing a real breakthrough in ZMJ’s comprehensive workforce “from none to first”. The Company also passed the inspection and acceptance of its first proprietary equipment set of comprehensive mining for Datong Coking Coal Mine, writing another new chapter on its way to comprehensiveness.

Second, achieving crucial developments in its intelligent drive. We delved deeper into understanding the status-quo and intelligent needs of our clients, expanded our investment in intelligent technology research and development, and achieved multiple innovation results. ZMJ collaborated with universities, high-tech enterprises and mining groups on intelligence, acquired equity interest in Nanjing Bestway Intelligent Control Technology Co., Ltd (北路智控公司) and worked with Huawei and Siemens to jointly explore deep integration of modern information technology such as 5G, big data, industrial internet and the Internet of Things into R&D and manufacturing. The Company enabled the promotion and application of its intelligent workforce in a number of coal groups, maintaining the largest market share within the industry. In its comprehensive advancement in intelligent manufacturing, ZMJ completed the intelligent transformation for some of its components production lines, with a largely completed intelligent technology software platform and the MES system in trial operation. In addition, ZMJ Digital Intelligent Technology Co., Ltd. (鄭州煤機數耘智能科技有限公司) was established to focus on the intelligent and digital transformation of factories and accelerate the development of demonstration plants for intelligent manufacturing.

Third, intensifying the international strategy. Amidst the pandemic onslaught abroad, we completed the contract negotiation and technical support for our comprehensive project in Turkey, setting the highest record in contract value for a single project in the international market. We employed innovative initiatives for project execution, offered online guidance on equipment installation and commissioning to our clients, and managed to complete our equipment certification. A five-year strategy was prepared to develop the international market, with efforts to ramp up our process of managing international aftermarket services. We also successfully obtained the AEO Senior Certification of the customs system, which significantly improved the Company's import and export customs management and reduced logistics costs, laying a solid foundation for expanding our international business.

Fourth, becoming more society-oriented. A more professional society-oriented service system will be established that offers more timely response and better services. Apart from bolstering the quality and efficiency of our aftermarket service by information-based approaches, our technical and aftermarket personnel also provided onsite guidance to clients on equipment application and maintenance. As such, our aftermarket service team has been recognized and praised by mining companies.

(2) *Deepening innovation with a digital reform of operation and management*

Firstly, our innovative operation proved effective. In an optimised organisational structure of internal production, our oil cylinder company operated separately, relied on supplying oil cylinders for internal roof supports and developed premium oil cylinder products and business for non-coal machinery segments. Our structural component company simulated legal person operation and assessment to raise its operational efficiency and quality. Our KPI indicator system has been ramped up at company, departmental and primary levels so that responsibilities and indicators are specified for each level. During the year, we worked on lean improvement for 15,631 items, which represented a new record high.

Secondly, we explored reform in our supply chain system. We developed new materials and channels to improve procurement quality and the ability to ensure supply. Our supply chain reform took place steadily, as the group company started exploring transformation into industrial internet platform and digitisation. The Group established its procurement centre and procurement information platform, to shift its procurement methods to strategic procurement.

2. *Operation and development of the auto parts segment*

(1) *ASIMCO capturing opportunities to buck the trend and achieve growth*

2020 saw a moderate decline in domestic automobile sales and a major uptick in commercial vehicle production and sales. Firstly, ASIMCO capitalised on the prime opportunity amidst the upward trend of commercial vehicles in 2020, by emphasising on technology leadership and high-end clients. It took the lead in upgrading its technology in line with the National VI emissions standard, which generated rapid growth of sales revenue and profit. Secondly, ASIMCO gravitated towards core products to build industry benchmarks with its own intellectual property rights. Thirdly, leveraging the timing of the integration of the international industry chain, ASIMCO entered the high-end market and secured high-end projects such as the engine block and cylinder cap project with Daimler and the shock absorption and sealing products project with Bosch Group, in addition to swifter development of the aftersales market. Fourthly, we selected “high-potential talents” for prioritised development, enhanced the building of our talent teams and fast-tracked our international drive.

(2) *SEG confronting industrial downturn with reform and transformation*

Affected by such factors as the on-going Covid-19 outbreak overseas and the downward pressure of the global automotive industry, while working on Covid-19 prevention and control and work resumption, SEG initiated its business reform with global resource integration and better allocation, shifting its production capacity from high-cost regions to low-cost ones so that it can attain higher operational efficiency and profitability at lower costs in multiple dimensions. First, in high-cost regions such as Western Europe, SEG reduced its costs by downsizing the staff and production, outsourcing part of its business and optimising the layout of production capacity. Secondly, the company transformed its headquarters with streamlined functions and personnel structure, with some headquarters functions delegated to regional plants. SEG has also implemented its policy to make ends meet, as it transitions from the business division of a large group to a medium-sized company. Efforts were also made to optimise the structure of its product portfolio, scale back loss-making orders and operations to lift profitability. Further, SEG insisted on technology leadership by actively establishing its presence in electrification technology products. It developed and promoted the second generation of 48V BRM products with better energy-saving effect, which has already obtained orders from some clients. At the same time, SEG made a pre-emptive move in the research and development of high-voltage motors to prepare technology reserves for future long-term development.

3. *Zhima Street Developing into an Eco-Empowered Smart Park with Dual Innovation*

Our wholly-owned subsidiary Zhima Street worked on “Zhima Street 1958 Dual Innovation Park Project” (芝麻街1958雙創園項目), a project mainly engaged in renovating and improving the Company’s old factories and with “Scientific Innovation and Cultural Innovation” as its theme to revitalise idle factory premises. Its first phase was completed, with the opening ceremony to take place on the first anniversary of the general secretary’s visit to ZMJ on 17 September 2020. At present, the project has ushered in a number of well-known brand enterprises and venture capital incubators. Its dominant industries have taken shape and been well-positioned, such as design, medical and environmental, cultural and creative industries. As an industrial platform for cross-sectoral integration on the Central Plains of China, Zhima Street will further integrate resources, create smart spaces, help its enterprises with transformation and upgrade and optimise the development environment for industries, empower both traditional and emerging enterprises, and strive to be a first-class exemplar in Zhengzhou, Henan Province and beyond.

(III) Leading the Market with Technology Innovation, with Fresh Accomplishments in R&D Innovation

1. In the coal mining machinery segment, we sustained our research and development of intelligent and comprehensive technology. In relation to expanding the existing product lines, we took steps to improve our intelligent control technology for comprehensive workplace, completed the development of pump station and three-machine control system, and beefed up the comprehensive capacity of our intelligent control system. We also engaged ourselves in studying the advanced technology for Intelligent Workface 3.0. In addition, we carried forward the development of our smart mining system based on industrial internet platforms, with preliminary research conducted for frontier technology.
2. In respect of our auto parts business, we kept pushing ahead the development of such products with new technologies including EcoC, PVD coating and HPO that meet National VI and T4 emissions requirements, new engine blocks and 48V BRM. We also intensified our development of ancillaries for new models and products that catered to key clients. Accordingly, we became eligible for developing ancillaries and bulk supply to a number of clients, which facilitated the growth of our market share and sales. We enhanced our work on core technologies, by completing the development of upgraded components for road National VI and non-road National IV engines, and securing the leading advantage in the new round of emissions upgrade.

(IV) Enhancing Investor Protection and Performing Social Responsibility Properly

In 2020, the Company strictly complied with the requirements of relevant laws, regulations and normative documents such as the Company Law, the Securities Law and the Code of Corporate Governance for Listed Companies, in an aim to further improve the awareness of regulated operation, keep perfecting its corporate governance structure, and facilitate the sound and sustainable development of the Company. In addition, it strictly conformed to the requirements of relevant laws and regulations, and performed the obligation of information disclosure in a truthful, accurate, timely and complete manner. In this regard, the Company has an investor communication system in place that primarily employs official media for information disclosure, which is supported by multiple channels such as the Company's official website, WeChat public account, investor hotline, email and SSE e-interaction (上證e互動) to continuously improve the effect of investor communication and properly protect the interest of shareholders as well as small and medium-sized investors.

Insisting on rewarding investors with cash dividend, the Company completed the implementation plan of profit distribution for the year 2019, under which all its shareholders were paid a cash dividend of RMB1.85 (tax inclusive) for every 10 shares based on the total share capital on the record date. Since its listing, the Company has distributed cash dividends each year to share the operational achievements of its development with all the shareholders.

During the reporting period, the Company lost no time to resume production and work in tandem with epidemic prevention and control, striving to attain its operational objectives for the year. Apart from that, ZMJ donated RMB2 million to epidemic prevention and control agencies, in addition to individual voluntary donation of RMB580,000 from CPC leaders and staff to medical institutions, and anti-epidemic supplies such as ventilators and protective facial masks to Germany and Spain, all in a bid to fulfil its corporate social responsibility with concrete action.

OUTLOOK

As pointed out in the Outline of the 14th Five-Year Plan, the world is undergoing once-in-a-century transformations, with the new technological revolution and industrial transformation making inroads. Meanwhile, we are confronted by an increasingly complex international environment with much more instability and uncertainties, coupled with the far-reaching impact of the Covid-19 epidemic. Still, the Chinese economy retains its underlying trend of stability, improvement and long-term positivity. ZMJ will work under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and carried out the spirit of the important issues addressed by General Secretary Xi Jinping during his inspection of ZMJ with depth. The Company will advance towards its objectives by focusing on its development strategies and engaging in change and innovation with courage. Its work emphasis will be placed on the following aspects:

1. Reform corporate governance structure and enhance corporate governance capability

ZMJ will establish a more market-oriented governance structure on the basis of a more diversified and mixed shareholding structure, which sets out clear responsibilities and powers for the shareholders' general meeting, the board of directors, the board of supervisors and the management, with adequate authority and proper performance to enhance corporate governance capability and continue to explore the path for the reform of state-owned enterprises in Henan Province. Based on a market-oriented board composition, we will enhance the efficiency of market-oriented decision-making, establish a market-oriented mechanism for incentives and restraints, stimulate the vitality of corporate operation, and create more value and returns for our shareholders.

2. Grow a global perspective and develop into a manufacturer of high-end intelligent equipment with global influence

China will develop towards a new landscape, where the domestic cycle plays the leading role and the international cycle serves as the extension and supplement, which will bring fresh development opportunities to domestic industries and enterprises. Against the backdrop, the Company will grow its global perspective on products, markets, talents, networks, technologies and supply chains, regarding China as the base and the world as its extension. ZMJ will work harder on the existing principal business, explore new industrial opportunities and promote its high-quality development.

In respect of the coal mining machinery segment, we will seize development opportunities when the global coal mining machinery industry is in its integration period and coal mines expedite their intelligent development. We will optimise our intelligent equipment sets and services for comprehensive coal mining, search for development opportunities from other coal mining machinery equipment in relation to smart mining, and integrate premium domestic and overseas resources in the coal mining machinery industry. We will also enhance our services before and after sales, while standardising and expanding aftermarket service, all in a bid to become the global leader in our segments and fast-track the “comprehensive, intelligent, international and society-oriented” strategy for our coal mining machinery segment.

In the auto parts business, firstly, we will continue to shift the production capacity of SEG from high-cost regions to low-cost ones for lower production costs and higher profitability. Secondly, we will integrate research and development with markets, new energy and capital markets more closely. On one hand, we will facilitate the transformation of our auto parts business to energy conservation, environmental protection and even new energy. On the other hand, we will work to master the core technology for more comfortable and lighter vehicles, and undertake international industrial and capital transfer. Meanwhile, we will explore the transformation from machinery to electromechanical integration and from parts to components and even system integration, striving to develop the enterprise into a global first-class provider of auto electrification system solutions.

3. Initiate institutional innovation and reform for human resource management, remuneration and incentives

We will establish a talent management system that is more adaptable to the market. Such a system will combine global resources with local wisdom, and external introduction with internal cultivation. Our mechanism will be optimised in relation to talent selection, cultivation, employment and retainment, as we continue to consolidate our three-tier talent cultivation system to build our talent portfolio and develop a hub for talents. In addition, we will further establish and improve a market-oriented and international mechanism for remuneration, incentives, appraisal and restraints, to boost the vitality and efficiency of the Company.

4. Engage in swift digital transformation of the Company

Going forward, competition is bound to be digital. Hence, the Company will be customer-centric to develop a digital system that covers all its processes, ranging from customer demand analysis and prediction, product design, supply chain coordination, intelligent manufacturing and operation as well as digital services, to empower its high-quality development with digitisation and intelligence. Application of big data will take place to develop smart mining system platforms as the command centre for intelligent comprehensive coal mining, and provide intelligent support for coal mine safety production. Internally, we will promote data exchange and application sharing among segments and businesses to ramp up digital strategic decision-making.

5. Keep enhancing comprehensive risk control

The Board of the Company will keep improving our comprehensive risk control system with internal control and internal audit as the cores. More efforts will be made to develop our internal control and legal affairs teams, to ensure that our corporate operations comply with laws and regulations and that our assets are safe. Additionally, we will further tap into the functions of our board of supervisors, internal auditing and disciplinary inspection bodies, so that they can work as a collective force and ensure our operation in compliance with laws and regulations.

OTHER INFORMATION

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

During the year ended 31 December 2020 (the “**Review Period**”), neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

Corporate Governance

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

Model Code for Securities Transactions by Directors and Supervisors

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

Final Dividend

A relevant resolution was passed at a meeting of the Board held on 26 March 2021, and the Board proposed the payment of a final dividend (the “**Dividend**”) of RMB2.15 (tax inclusive) per 10 shares for the year ended 31 December 2020, totalling RMB372,481,344.55. The Dividend is expected to be paid on or before 31 July 2021. The proposal in relation to profit distribution is subject to approval at the 2020 annual general meeting. The time of convening the 2020 annual general meeting and the relevant arrangements will be announced by the Company in due course.

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

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

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

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

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

Profit Distribution to Investors of Northbound Trading

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

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

Profit Distribution to Investors of Southbound Trading

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

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

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

Audit Committee

The audit committee has reviewed the accounting principles and policies adopted by the Group and the audited annual consolidated financial statements for the year ended 31 December 2020.

Scope of Work of PricewaterhouseCoopers

The figures in respect of this announcement of the Group's consolidated statement of profit or loss and comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2020 as set out in the Preliminary Announcement have been agreed by the Group's auditor, PricewaterhouseCoopers ("PwC"), to the amounts set out in the Group's audited consolidated financial statements for the year.

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

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

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

The 2020 Annual Report which is prepared in accordance with the International Financial Reporting Standards and the PRC Accounting Standards will be published on the websites of the Stock Exchange, the Shanghai Stock Exchange and the Company in due course. The annual report of the Company for the year ended 31 December 2020 will be dispatched to the shareholders of the Company (if appropriate) and posted on the websites of the Stock Exchange and the Company in due course.

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

Zhengzhou, PRC, 26 March 2021

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