ZOOMLION

OFFERING MEMORANDUM
CONFIDENTIAL

Z i H.K. SPV C ., Li ited

(incorporated in Hong Kong with limited liability)

US$600,000,000 6.125% Se i N te D e 2022

unconditionally and irrevocably guaranteed by

ZOOMLION

Z i Hea I d t Scie ce a d Tech g C ., Ltd.

中聯 股份有限公司

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

(HKSE St c C de: 01157)

(SZSE St c C de: 000157)

C ., (.) $600,000,000 6.125% 2022 ( ). w 6.125% D 20, 2012 w D 20, 2022. w - 20 D 20 20, 2013. w $200,000 $1,000 D C A E

w 100% -w ( ) 100% w w. 101%

w ( ) C ., (C). C w (1) w , (2) (3) w (w) C D 187.

I e ti g i the N te i e i . See "Ri Fact begi i g age 19.

BB+ BBB- & w A w w w w w . E

I e P ice: 99.08%

acc ed i te e t, if a , f the i e date

The N te ha e t bee egi te ed de the U.S. Sec itie Act f 1933, a a e ded (the "Sec itie Act) a d a e bei g ffe ed a d d i the U ited State t a ified i tit ti a b e i e ia ce R e 144A de the Sec itie Act ("R e 144A) a d i t a acti t ide the U ited State i e ia ce Reg ati S de the Sec itie Act ("Reg ati S). We a e t e i ed t a d d t i te d t egi te the N te de the Sec itie Act the ec itie a f a tate a the i dicti a d a e t e i ed t ffe t e cha ge the N te f N te egi te ed de the Sec itie Act the ec itie a f a tate a the i dicti . P ecti e cha e that a e a ified i tit ti a b e a e he eb tified that the e e f the N te a be e i g the e e ti f the i i f Secti 5 f the Sec itie Act ided b R e 144A. The N te a e t t a fe ab e e ce t i acc da ce ith the e t icti de c ibed de "T a fe Re t icti .

A E ( ). A C w $200,000 C ., w - D C D 20, 2012.

S e G ba C d, a d B e

G d a Sach (A ia) L.L.C.

Offe i g Me a d dated Dece be 13, 2012.

NO UNITED STATES FEDERAL, STATE OR FOREIGN SECURITIES COMMISSION OR REGULATORY AUTHORITY HAS RECOMMENDED THE NOTES OR REVIEWED, PASSED ON, DETERMINED OR CONFIRMED THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

FOR NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE UNIFORM SECURITIES ACT, AS AMENDED ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL

TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NON-GAAP FINANCIAL MEASURES

EB DA, /( ), EB DA /( ) EB DA ( ) . - AA ( ) (AA) - AA AA AA

- AA - AA - AA .

Tab e f C te t

A E E A Y E B A

PRESENTATION OF INFORMATION

w , , , D 31,
2009, 2010 2011 , 30, 2011 2012
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C , w C . A
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B) 28, 2012, w w B6.2848 = $1.00,
w $7.8 $1.00. A

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FORWARD-LOOKING STATEMENTS

ENFORCEABILITY OF FOREIGN JUDGMENTS AND CIVIL LIABILITIES

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30

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(2)

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& B

SUMMARY

This summary may not contain all of the information that may be important to you. You should read this entire offering memorandum before making an investment decision to purchase the Notes.

OVERVIEW

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C 170

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D C D C,

A C A 2005. w

C ,

C ' w

E D C C ,

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w C ' .

B20,762 2009 B46,323 ($7,371

) 2011, B2,419 2009 B8,173

($1,300) 2011. 30, 2012,

B39,108 ($6,222) B33,207

2011, B7,127 ($1,134)

B5,992 2011. A

E 12, 2000 E

, E , D 23, 2010, .

D 13, 2012, w $10.6 .

RECENT DEVELOPMENTS

P ed Di a f O S b idia

15, 2012, w 80%

C E C ., . (E C) w

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w

D 31, 2012. A , w

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J i t Ve t e i I dia

A 2012, w w E ,

, w w w w 70% .

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w w , w w .

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S icitati f C e t t A e d a E i ti g I de t e

(2017) ’ 6.875% 2017 (2017) 2017 (C) (A) 2017 w 2017 , w A , C , C ’ w C w w (C) $2 $1,000 2017 2017 w A 11:00 w C , D 13, 2012 (E D), w C 2017 (C), E D , w 2017 C C w ( ) 2017 (, E). w E 2017 ; w , A w C C w w C .

C (C) (1) C C E D ; (2) ; (3) w w , ( ) (,) w , w A , C . , , A w .

, , (1) E D , , C A , (2) w w C , (3) C , w C (4) C , w C .

w A w 2017

OUR COMPETITIVE STRENGTHS

OUR BUSINESS STRATEGIES

SUMMARY FINANCIAL INFORMATION

w D 31, 2009, 2010 2011 w D 31, 2009, 2010 2011 w w 30, 2012 w 30, 2011 2012 w , w w

Y ' D A C w w

S a H ca C , da ed S a e , f C e , e , c e Da a

	Yea E ded Dece be 31,				Ni e M th E ded Se te be 30,		
	2009	2010	2011		2011	2012	
	RMB	RMB	RMB	US$	RMB	RMB	US$
	(i i e ce t f e ce tage)						
	20,762	32,193	46,323	7,371	33,207	39,108	6,222
C	(15,422)	(22,424)	(31,316)	(4,983)	(22,532)	(25,644)	(4,080)
	5,340	9,769	15,007	2,388	10,675	13,464	2,142
(1)	25.7%	30.3%	32.4%	32.4%	32.1%	34.4%	34.4%
	(2,322)	(4,056)	(5,419)	(862)	3,681	4,690	746
	3,123	5,767	9,602	1,528	7,067	8,652	1,377
(2)	15.0%	17.9%	20.7%	20.7%	21.3%	22.1%	22.1%
	2,828	5,416	9,602	1,528	7,081	8,302	1,321
/	2,419	4,588	8,173	1,300	5,992	7,127	1,134
(3)	11.7%	14.3%	17.6%	17.6%	18.0%	18.2%	18.2%
:							
E C	2,447	4,666	8,066	1,283	5,961	6,960	1,107
-	(28)	(78)	107	17	31	167	27

(1)

(2)

(3) /

S a. H . . ca C , da.ed Ba a ce S ee. Da.a

	A f Dece be 31,				A f Se te be 30,	
	2009	2010	2011		2012	
	RMB	RMB	RMB	US$	RMB	US$
			(i i i)			
A et						
-	13,861	19,372	23,701	3,771	29,141	4,637
C	20,014	43,670	47,842	7,612	57,739	9,187
T ta a et	**33,875**	**63,042**	**71,543**	**11,383**	**86,880**	**13,824**
Liabi itie a d e it						
C	19,468	26,067	26,652	4,241	35,212	5,603
-	6,855	9,540	9,296	1,478	10,942	1,741
	26,323	35,607	35,948	5,719	46,154	7,344
	7,552	27,435	35,595	5,664	40,726	6,480
T ta iabi itie a d e it	**33,875**	**63,042**	**71,543**	**11,383**	**86,880**	**13,824**

S a. H . . ca C , da.ed Ca F Da.a

	Yea E ded Dece be 31,				Ni e M th E ded Se te be 30,		
	2009	2010	2011		2011	2012	
	RMB	RMB	RMB	US$	RMB	RMB	US$
			(i i i)				
( ) /	(1,366)	451	1,880	299	914	(3)	
	(1,360)	(1,833)	(1,287)	(205)	(1,752)	(1,859)	(296)
/ ( )	3,250	16,755	(3,275)	(521)	835	2,449	389
/ ( )	524	15,373	(2,682)	(427)	(3)	587	93
E	2	(54)	(74)	(12)	(98)	5	1
C /	2,913	3,439	18,758	2,985	18,758	16,002	2,546
C /	3,439	18,758	16,002	2,546	18,657	16,594	2,640

O e F , a c a Da a

	A f F the Yea E ded Dece be 31,				A f F the Ni e M th E ded Se te be 30,		A f F the 12 M th E ded Se te be 30,[1]	
	2009	2010	2011		2012		2012	
	RMB	RMB	RMB	US$	RMB	US$	RMB	US$
			(i i i , e		the i e tated)			
EB DA[2][9]	3,452	6,182	10,058	1,600	9,027	1,436	11,677	1,858
EB DA [3][9] (%)	16.6%	19.2%	21.7%	21.7%	23.1%	23.1%	22.4%	22.4%
w	372	403	513	82	582	93	734	117
[4]	14,174	15,797	13,138	2,090	17,923	2,852	17,923	2,852
/ ( )[5][9]	10,735	(2,961)	(2,864)	(456)	1,329	212	1,329	212
[6][9] ( )	9.3	15.3	19.6	19.6	15.5	15.5	15.9	15.9
[7][9] ( )	4.1	2.6	1.3	1.3	.[10]	.[10]	1.5	1.5
/ ( ) EB DA [8][9] ( )	3.1	(0.5)	(0.3)	(0.3)	.[10]	.[10]	0.1	0.1

(1) 12 30, 2012 30, 2011 2011, 30, 2012.

(2) EB DA , , , .

(3) EB DA EB DA .

(4) - - w .

(5) /( ) .

(6) EB DA w .

(7) EB DA.

(8) /( ) EB DA /( ) EB DA.

(9) - AA w , - AA - . - AA w . - AA w , w . - AA , . - AA w - .

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W EB DA:

	Yea E ded Dece be 31,				Ni e M th E ded Se te be 30,		12 M th E ded Se te be 30,	
	2009	2010	2011		2012		2012	
	RMB	RMB	RMB	US$	RMB	US$	RMB	US$
	(i i i)							
....	3,123	5,767	9,602	1,528	8,652	1,377	11,187	1,780
D	329	415	456	72	375	59	490	78
EB DA	3,452	6,182	10,058	1,600	9,027	1,436	11,677	1,858

W /( ):

	A f Dece be 31,				A f Se te be 30,	
	2009	2010	2011		2012	
	RMB	RMB	RMB	US$	RMB	US$
	(i i i)					
- w	8,553	8,107	6,049	962	9,263	1,474
- w	5,621	7,690	7,089	1,128	8,660	1,378
....	14,174	15,797	13,138	2,090	17,923	2,852
C	(3,439)	(18,758)	(16,002)	(2,546)	(16,594)	(2,640)
/( )	10,735	(2,961)	(2,864)	(456)	1,329	212

W :

	Yea E ded Dece be 31,				Ni e M th E ded Se te be 30,		12 M th E ded Se te be 30,	
	2009	2010	2011		2012		2012	
	RMB	RMB	RMB	US$	RMB	US$	RMB	US$
	(i i i , e the i e tated)							
EB DA	3,452	6,182	10,058	1,600	9,027	1,436	11,677	1,858
w	372	403	513	82	582	93	734	117
( )	9.3	15.3	19.6	19.6	15.5	15.5	15.9	15.9

THE OFFERING

The following summary contains information about the Notes and is not intended to be complete. For a more complete understanding of the Notes, please refer to the section in this offering memorandum entitled "Description of the Notes".

I e	Z . . C .,
N te ffe ed	$600,000,000 6.125% 2022
Mat it	D. 20, 2022
I te e t	6.125%
I te e t a e t date	20 D 20 , 20, 2013.
G a a tee	w , Z C ., .
Ra i g	w :

- ’ ;
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w ’ .

A 30, 2012, 2017 ฿2,483 , w w ฿13,935 ($2,216) ( ) w , w w ฿1,505 ($239).

O ti a Rede ti .... , w 100% -w , . D ฿ .

Cha ge f C t .... C C (D), w 101% . D ฿ C C .

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I a ce f Additi a N te . . . .

C diti . . . .

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G e i g a .... w
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RISK FACTORS

You should consider carefully all of the information in this offering memorandum, including the risks and uncertainties described below, before investing in the Notes. Any of the following risks and uncertainties could have a material and adverse effect on our business, financial condition, results of operations and prospects.

RISKS RELATED TO OUR COMPANY

[illegible]

Ce[illegible] [illegible] ***effec[illegible]*** [illegible] ***affec[illegible]*** [illegible]

C[illegible] C[illegible] A [illegible] C[illegible] C[illegible] C[illegible] A [illegible]

[illegible]

We [illegible] 2009 [illegible] Se[illegible]be[illegible] 30, 2012 [illegible]

[illegible] B1,366 [illegible] 2009, [illegible] A [illegible]

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. A 30, 2012, w 1,530 , 598

C A, 57 w C , w 27

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30, 2012, w 1,445 C 11

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2009, 2010, 2011 … 30, 2012, …

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2009, 2010, 2011 30, 2011 2012 B87 ,
B135 , B154 ($25) B100 B120 ($19
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[illegible] AC, [illegible] AC, [illegible] E [illegible] A [illegible] C [illegible] A [illegible] D [illegible] A [illegible] 2010, [illegible] D [illegible] A [illegible] A [illegible] 2012, [illegible] A 2012 [illegible] ([illegible]) [illegible] C [illegible] 2009, 2010, 2011 [illegible] 30, 2012, [illegible].

RISKS RELATED TO OUR INDUSTRY

T e d c e e a e de e de e e e d ca e f c c ac e c a e b ec f c a d ce a e be d c .

A 2009, 2010, 2011 30, 2012, 34.5%, 43.8%, 45.8% 54.2% 40.0%, 34.4%, 33.7% 26.4% 2010 2009, B4 2008. A 2011, 2012, C 30, 2012.

We a e b ec a c a ed a e ce f a a e a a d c .

A 2008, C ' A 2008, C

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RISKS RELATED TO DOING BUSINESS IN CHINA

19, 2010,

2009, 2011 30, 2011 2012, B8 , B244 ($39), B150 B62 ($10), 2010, B58 .

T e , f ce , f e Lab C , ac La , d a , a e , , c ea e , ab c , e PRC a ad e e affec b , e , d f ab .

C 1, 2008 18, 2008. C C A E , 1, 2008, 18, 2008, 15 , E C . A C , . A C .

RISKS RELATED TO THE NOTES AND THE GUARANTEES

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2017 B2,483 w w
B13,935 ($2,216) ( ) w
, w w B1,505
($239).

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B D B 2011 A E 27, 2011, A E C 30.

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CAPITALIZATION AND INDEBTEDNESS

w 30, 2012 . Y w 30, 2012, w .

E w , 30, 2012.

	A f Se te be 30, 2012			
	Act a		A Ad ted	
	RMB	US$[1]	RMB	US$[1]
		(i i i)		
Sh t-te b i g :				
B w w	9,263	1,474	9,263	1,474
L g-te b i g :				
B w	5,083	809	5,083	809
	1,094	174	1,094	174
	2,483[2]	395	2,483[2]	395
[3]			3,771	600
- w	8,660	1,378	12,431	1,978
T ta b i g	**17,923**	**2,852**	**21,694**	**3,452**
E it :				
	7,706	1,226	7,706	1,226
	32,687	5,201	32,687	5,201
-	333	53	333	53

w 30, 2012, .

	A f Se te be 30, 2012	
	Act a	A Ad ted
	US$	US$
	(i	i i)
Sh t-te b i g :		
B w w		
L g-te b i g :		
2017	392[1]	392[1]
[2]		600
- w	392	992
T ta b i g	**392**	**992**
E it :		
	(14)	(14)
T ta e it	**(14)**	**(14)**
T ta ca ita izati	**378**	**978**

(1) $400 2017 , 2017 $8 w ( ) 2017 . B2,483 w w B B C 30, 2012, $395 w .

(2) , w 14) 1 3 1( )-23 5( )-3 w ( )-43 ( )0.7(2-1.37

DESCRIPTION OF THE ISSUER

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C (C . 32) (C . 1663041). w 7, 2011. 406-409, 4/ , 1 ' E, . w w .

B i e Acti it

, , . 2017 , w 2017 2017 . A w w 2017 . A , 2017 w , , , w w .

Di ect a d Office

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Sha e Ca ita

$10,000.00, 10,000 $1.00 , w . .

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w ’ 30, 2012:

	A f Se te be 30, 2012 US$ (i i i)
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N -c e t a et	
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2017	392[(2)]
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T ta iabi itie	**392**
Ca ita a d e e e	
	(14)
T ta e it	**(14)**

(1)

(2) $400 2017 , 2017 $8 w ( ) 2017 . B2,483 w w B B C 28, 2012, $395 w .

USE OF PROCEEDS

$591.6

OUR HISTORY AND CORPORATE STRUCTURE

O Hi t

w 1999 w 100 B1.00 C C C ., .' , w - w C C ., ' C - D C ., ., C C w 74.75% 23.76% C w w 0.37% C .

2000, C C C C, w C 50 B1.00 B12.74 w E 12, 2000 000157 . A C w B150 w 33.33% C w E - w C , w 49.83% 15.83% C 0.25% C .

2004, C C C ., . A w 15.83% C .

2006, w E C w w w C w w C C w C C E . A E w 15.83% C .

2006, - - - - - - 54,080,000 - w w 3.2 10 w 2006, w 44.00% C w w E

49.83% 15.83% 41.86% 13.30%, . E

w .

2007, w w ,

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w , ,

w ,

, w .

2007, C

D 31, 2008, w .

20, 2008, .A., ., .A.,

BA. E.D ., D ., ., D ,

E , , C . ., C

, . C , , ,

A 100% , -

C A, . 59.3%

C A. 2008, ’ w C ,

C . ., C ., w -

w .,

C ( ) . w

C A , ,

C ( ) 2009. ’

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C A’ w E , ,

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2010, w 297,954,705 A -

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A w

E 12, 2010 w - 12 .

D 2010, C C, w

869,582,800 , w B1.00 , $14.98

. w E D 23, 2010

1157 . 2011, w 130,437,400 $14.98

- , w .

2011, , w

C ., . 2011, w

w .

w w 20% E C.
5.9%, 5.8%, 6.4% 5.2% 7.6%,
6.1%, 6.1% 4.4% 2009, 2010, 2011 30,
2012, . w
C ’
.

O C ate St ct e

SELECTED FINANCIAL INFORMATION

w D 31, 2009, 2010
2011,
w D 31, 2009, 2010 2011
w .
w 30, 2012

w 30, 2011 2012
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Y w
’ D A
C w .
w .
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Se ec ed H ca C da ed S a e f C e e e I c e Da a

	Yea E ded Dece be 31,							Ni e M th E ded Se te be 30,				
	2009		2010		2011			2011		2012		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
	(i i i , e ce t f e ce tage)											
T e	20,762	100.0	32,193	100.0	46,323	7,371	100.0	33,207	100.0	39,108	6,222	100.0
C	(15,422)	(74.3)	(22,424)	(69.7)	(31,316)	(4,983)	(67.6)	(22,532)	(67.9)	(25,644)	(4,080)	(65.6)
G fit	**5,340**	**25.7**	**9,769**	**30.3**	**15,007**	**2,388**	**32.4**	**10,675**	**32.1**	**13,464**	**2,142**	**34.4**
/( )	105	0.5	54	0.2	14	2		73	0.2	(122)	(19)	(0.3)
	(1,250)	(6.0)	(2,146)	(6.7)	(3,160)	(503)	(6.8)	(1,955)	(5.8)	(2,504)	(398)	(6.4)
	(878)	(4.2)	(1,645)	(5.1)	(1,861)	(296)	(4.0)	(1,485)	(4.5)	(1,662)	(265)	(4.3)
	(194)	(0.9)	(265)	(0.8)	(398)	(63)	(0.9)	(241)	(0.7)	(524)	(83)	(1.3)
P fit f e ati	**3,123**	**15.1**	**5,767**	**17.9**	**9,602**	**1,528**	**20.7**	**7,067**	**21.3**	**8,652**	**1,377**	**22.1**
( )/												
	(6)				12	2		12				
	(295)	(1.4)	(365)	(1.1)	(36)	(6)		(16)		(356)	(57)	(0.9)
	6		14		24	4		18		6	1	
P fit bef e ta ati	**2,828**	**13.7**	**5,416**	**16.8**	**9,602**	**1,528**	**20.7**	**7,081**	**21.3**	**8,302**	**1,321**	**21.2**
	(409)	(2.0)	(828)	(2.6)	(1,429)	(228)	(3.1)	(1,089)	(3.3)	(1,175)	(187)	(3.0)
P fit f the ea / e i d	**2,419**	**11.7**	**4,588**	**14.2**	**8,173**	**1,300**	**17.6**	**5,992**	**18.0**	**7,127**	**1,134**	**18.2**
Othe c ehe i e i c e f the ea / e i d (afte ta)												
C												
- -	3		(2)		(1)	(0.2)		(1)				
			11									
E												
	44	0.2	(74)	(0.2)	(2)	(0.3)		64	0.2	21	3	0.1
T ta the c ehe i e i c e f the ea / e i d	**47**	**0.2**	**(65)**	**(0.2)**	**(3)**	**(0.5)**		**63**	**0.2**	**21**	**3**	**0.1**
T ta c ehe i e i c e f the ea / e i d	**2,466**	**11.9**	**4,523**	**14.0**	**8,170**	**1,300**	**17.6**	**6,055**	**18.2**	**7,148**	**1,137**	**18.3**
P fit att ib tab e t :												
E C	2,447	11.8	4,666	14.5	8,066	1,283	17.4	5,961	18.0	6,960	1,107	17.8
-	(28)	(0.1)	(78)	(0.3)	107	17	0.2	31	0.1	167	27	0.4
T ta c ehe i e i c e att ib tab e t :												
E C	2,497	12.0	4,580	14.2	8,050	1,281	17.4	6,012	18.1	6,982	1,111	17.8
-	(31)	(0.1)	(57)	(0.2)	120	19	0.2	43	0.1	166	26	0.5

Se ec ed H ca C , da ed Ba a, ce S ee Da a

	A f Dece be 31,				A f Se te be 30,	
	2009	2010	2011		2012	
	RMB	RMB	RMB	US$	RMB	US$
			(i i i)			
A et						
N -c e t a et						
	3,683	4,135	4,886	777	6,165	981
	907	1,119	1,390	221	1,439	229
	1,432	1,256	1,216	193	1,235	197
w	2,082	1,907	1,793	286	1,798	286
	71	86	103	17	161	25
	15	50	43	7	116	18
	229	585	912	145	3,405	542
	5,060	9,775	12,780	2,033	13,806	2,197
	234	185	261	42	628	100
D	148	274	317	50	388	62
T ta -c e t a et	**13,861**	**19,372**	**23,701**	**3,771**	**29,141**	**4,637**
C e t a et						
	6,272	8,678	9,656	1,536	12,088	1,923
	6,265	8,260	13,614	2,166	19,503	3,103
	3,283	6,397	7,089	1,128	7,985	1,271
	755	1,577	1,481	236	1,569	250
C	3,439	18,758	16,002	2,546	16,594	2,640
T ta c e t a et	**20,014**	**43,670**	**47,842**	**7,612**	**57,739**	**9,187**
T ta a et	**33,875**	**63,042**	**71,543**	**11,383**	**86,880**	**13,824**
Liabi itie a d e it						
C e t iabi itie						
w	8,553	8,107	6,049	962	9,263	1,474
	10,632	17,203	19,314	3,073	24,949	3,970
	283	757	1,289	206	1,000	159
T ta c e t iabi itie	**19,468**	**26,067**	**26,652**	**4,241**	**35,212**	**5,603**
Net c e t a et	**546**	**17,603**	**21,190**	**3,371**	**22,527**	**3,584**
T ta a et e c e t iabi itie	**14,407**	**36,975**	**44,891**	**7,142**	**51,668**	**8,221**
N -c e t iabi itie						
w	5,621	7,690	7,089	1,128	8,660	1,378
	684	1,379	1,789	284	1,831	291
	550	471	418	66	451	72
T ta -c e t iabi itie	**6,855**	**9,540**	**9,296**	**1,478**	**10,942**	**1,741**
T ta iabi itie	**26,323**	**35,607**	**35,948**	**5,719**	**46,154**	**7,344**
Net a et	**7,552**	**27,435**	**35,595**	**5,664**	**40,726**	**6,480**
Ca ita a d e e e						
	1,673	5,797	7,706	1,226	7,706	1,226
	5,755	21,579	27,701	4,408	32,687	5,201
T ta e it att ib tab e t e it ha eh de	**7,428**	**27,376**	**35,407**	**5,634**	**40,393**	**6,427**
N -c t i gi te e t	**124**	**59**	**188**	**30**	**333**	**53**
T ta e it	**7,552**	**27,435**	**35,595**	**5,664**	**40,726**	**6,480**

Se ec ed H ca C da ed Ca F Da a

	Yea E ded Dece be 31,				Ni e M th e ded Se te be 30,		
	2009	2010	2011		2011	2012	
	RMB	RMB	RMB	US$	RMB	RMB	US$
			(i i i)				
( ) /	(1,366)	451	1,880	299	914	(3)	
....	(1,360)	(1,833)	(1,287)	(205)	(1,752)	(1,859)	(296)
/ ( )	3,250	16,755	(3,275)	(521)	835	2,449	389
/ ( )	524	15,373	(2,682)	(427)	(3)	587	93
E	2	(54)	(74)	(12)	(98)	5	1
C /	2,913	3,439	18,758	2,985	18,758	16,002	2,546
C /	3,439	18,758	16,002	2,546	18,657	16,594	2,640

O e F c a Da a

	A f F the Yea E ded Dece be 31,				A f F the Ni e M th E ded Se te be 30,		A f F the 12 M th e ded Se te be 30,[1]	
	2009	2010	2011		2012		2012	
	RMB	RMB	RMB	US$	RMB	US$	RMB	US$
			(i i i ,		e the i e tated)			
EB DA[2][9]	3,452	6,182	10,058	1,600	9,027	1,436	11,677	1,858
EB DA [3][9] (%)	16.6%	19.2%	21.7%	21.7%	23.1%	23.1%	22.4%	22.4%
w	372	403	513	82	582	93	734	117
[4]	14,174	15,797	13,138	2,090	17,923	2,852	17,923	2,852
/ ( )[5][9] ...	10,735	(2,961)	(2,864)	(456)	1,329	212	1,329	212
[6][9] ( )	9.3	15.3	19.6	19.6	15.5	15.5	15.9	15.9
[7][9] ( )	4.1	2.6	1.3	1.3	. .[10]	. .[10]	1.5	1.5
/ ( ) EB DA [8][9] ( ) ...	3.1	(0.5)	(0.3)	(0.3)	. .[10]	. .[10]	0.1	0.1

(1) 12 30, 2012 30, 2011 2011, 30, 2012.

(2) EB DA , , , .

(3) EB DA EB DA .

(4) , - - w .

(5) /( ) .

(6) EB DA w .

(7) EB DA.

(8) /( ) EB DA /( ) EB DA.

(9) - AA w - AA - AA w - AA - AA w - AA - AA w -

(10)

w EB DA:

	Yea E ded Dece be 31,				Ni e M th E ded Se te be 30,		12 M th e ded Se te be 30,	
	2009	2010	2011		2012		2012	
	RMB	RMB	RMB	US$	RMB	US$	RMB	US$
				(i i i)				
	3,123	5,767	9,602	1,528	8,652	1,377	11,187	1,780
D	329	415	456	72	375	59	490	78
EB DA	3,452	6,182	10,058	1,600	9,027	1,436	11,677	1,858

w /( ):

	A f Dece be 31,				A f Se te be 30,	
	2009	2010	2011		2012	
	RMB	RMB	RMB	US$	RMB	US$
			(i i i)			
- w	8,553	8,107	6,049	962	9,263	1,474
- w	5,621	7,690	7,089	1,128	8,660	1,378
	14,174	15,797	13,138	2,090	17,923	2,852
C	(3,439)	(18,758)	(16,002)	(2,546)	(16,594)	(2,640)
/( )	10,735	(2,961)	(2,864)	(456)	1,329	212

w :

	Yea E ded Dece be 31,				Ni e M th E ded Se te be 30,		12 M th e ded Se te be 30,	
	2009	2010	2011		2012		2012	
	RMB	RMB	RMB	US$	RMB	US$	RMB	US$
			(i i i , e the i e tated)					
EB DA	3,452	6,182	10,058	1,600	9,027	1,436	11,677	1,858

w

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements as of and for each of the years ended December 31, 2009 2010 and 2011 and as of and for the nine months ended September 30, 2012 and the accompanying notes included elsewhere in the offering memorandum.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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- C ;
- w ;
- ;
- ;.
- .

Ge e a Ec c C d C a

C 2009, 2010, 2011 30, 2012. D C . , w w C . , C w w . B w 2001 2011, C ' D B11.0 B47.2 , CA 15.7%. A w , C ' w C . C 35.8% 2000 50.6% 2011, . C 54.2% 58.9% 2015 2020, , E , - . w C , , C B3.0 2001 B30.2 2011, B , CA 26.0%. w , w C ' w , , C ' . C w, w w w . , C C A , CC A, C B900 2015. A C , w w w w C . w , 2012, w C w w w . w w w 30, 2012, C ' w w w , w .

P. d c. M d, d O . Ab . . Offe. Ne P. d c.

C , w w w , w

74.5%, 78.2%, 79.5%, 79.0% 80.6%
2009, 2010, 2011 30, 2011 2012,

w , w w , w
C ' , w
w , w . A , w
w , w
w .

, w .

O . Ab Ma, a e a, d E a, d . Sca e f O. e. a. , G ba

, w , w ,
C w
, w
. B , w ,
, w
w
C . B w
, w -
. A
. A w
, w
w C
C ' C ' , w
.

O . Ab . . C, .. O . P. d c. , C

2009, 2010, 2011 30, 2011 2012, w , B14,281 , B20,740 , B29,463 ($4,688), B21,127 B24,286 ($3,864), , 68.8%, 64.5%, 63.7%, 63.6% 62.1% . w . D . A , w . A w w - C A, w w w - w w . w w w C w , w w . 2010, w -. -, w w -

w , w w , w , w .

O . Ab . . Effec. e Mă, a e O . F', ă, ce Lea e Se. ce

2007.

w . ,

w , w - , w

, w , w

w 2009, 2010, 2011

30, 2011 2012. D ,

B7,463 , B9,720 , B15,586 ($2,480

), B9,589 B11,925 ($1,897), , w

36.6%, 31.2%, 34.8%, 29.9% 31.5%

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A

w , w w

. w

. A , w , w, w

w 2009 .3( ) 4-4 465.4( )-1 4

DESCRIPTION OF SELECTED PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

T , e.

w :

- C ;
- C ;
- E ;
- ;
- E w ;
- ;
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w w , :

	Yea E ded Dece be 31,							Ni e M th E ded Se te be 30,				
	2009		2010		2011			2011		2012		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
					(i i i , e ce t f e ce tage)							
C	7,157	34.5	14,085	43.8	21,212	3,375	45.8	15,009	45.2	21,185	3,371	54.2
C	8,298	40.0	11,077	34.4	15,618	2,485	33.7	11,205	33.8	10,341	1,645	26.4
E	1,230	5.9	1,874	5.8	2,978	474	6.4	2,033	6.1	2,040	324	5.2
	787	3.8	1,246	3.9	1,737	276	3.7	1,304	3.9	1,087	173	2.8
E w	445	2.1	772	2.4	1,048	167	2.3	912	2.7	1,748	278	4.5
	873	4.2	422	1.3	504	80	1.1	403	1.2	269	43	0.7
	397	1.9	1,043	3.2	1,583	252	3.5	1,116	3.4	1,219	194	3.1

W

2009, 2010 2011 C ’

W

W

the overseas sales are higher and lower, respectively, for the relevant periods than the amounts and percentages presented in the table above. We believe the geographic classification basis used in the above presentation provides investors with additional information about the turnover from our domestic and overseas end-users.

2009 2010, - 29.5% 12.6% 5.7% . w ( ) , w w , , , ( ) , C , 2010 2011, - 39.3% 5.5% . - 42.1% 30, 2012 2011 5.6% 6.7% . w w C A , A A .

D 31, 2009, 2010, 2011 30, 2012, w , , w 10.0% .

C f Sa e d Se ce

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- w , w , , , , , , , , , w ;
- , , ;
- , ;
- , , ;
- , , , , w w w .

w :

	Yea E ded Dece be 31,							Ni e M th E ded Se te be 30,				
	2009		2010		2011			2011		2012		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
	(i i i , e ce t f e ce tage)											
w	14,281	68.8	20,740	64.5	29,463	4,688	63.7	21,127	63.6	24,286	3,864	62.1
	533	2.6	842	2.6	1,047	167	2.3	777	2.3	902	144	2.3
D	150	0.7	239	0.7	253	40	0.5	199	0.6	202	32	0.5
C	165	0.8	354	1.1	207	33	0.4	181	0.6	34	5	0.1
	293	1.4	249	0.8	346	55	0.7	248	0.8	220	35	0.6
	15,422	**74.3**	**22,424**	**69.7**	**31,316**	**4,983**	**67.6**	**22,532**	**67.9**	**25,644**	**4,080**	**65.6**

C w , , .
A , w , , w 2009, 2010 2011. 30, 2012, w , w 2011 , w w C 2012.

w w , :

	Yea E ded Dece be 31,							Ni e M th E ded Se te be 30,				
	2009		2010		2011			2011		2012		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
	(i i i , e ce t f e ce tage)											
C	5,115	71.5	9,575	68.0	13,668	2,175	64.4	9,638	64.2	13,316	2,119	62.9
C	6,335	76.3	7,995	72.2	11,595	1,845	74.2	8,351	74.5	7,503	1,194	72.6
E	824	67.0	1,282	68.4	2,061	328	69.2	1,392	68.5	1,447	230	70.9
	527	67.0	765	61.4	1,072	170	61.7	802	61.5	629	100	57.9
E w	373	83.8	607	78.6	834	133	79.6	744	81.6	1,375	219	78.7
	787	90.1	390	92.4	453	72	89.9	363	90.1	237	38	88.1
	165	41.6	354	33.9	207	33	13.1	181	16.2	34	5	2.8
	14,126	**73.6**	**20,968**	**68.7**	**29,890**	**4,756**	**66.9**	**21,471**	**67.1**	**24,541**	**3,905**	**64.8**
A	1,296	82.3	1,456	87.0	1,426	227	86.8	1,061	86.6	1,103	175	90.5
	15,422	**74.3**	**22,424**	**69.7**	**31,316**	**4,983**	**67.6**	**22,532**	**67.9**	**25,644**	**4,080**	**65.6**

74.3% 2009 69.7% 2010 67.6% 2011.

65.6%

30, 2012 67.9% 2011.

w

2009,

w w w ,

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w - .

2009, 2010 2011. 2011,

68.0% 64.4%,

- w

w ,

. 30, 2012,

62.9% 64.2% 2011,

- w

w . w

72.2% 2010 74.2% 2011, - w ,

w w ,

. 30, 2012,

72.6%

74.5% 2011, - -

w

w .

G. P. f

w w ,

:

	Yea E ded Dece be 31,							Ni e M th E ded Se te be 30,				
	2009		2010		2011			2011		2012		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
	(i i i , e ce t f e ce tage)											
C	2,042	28.5	4,510	32.0	7,544	1,200	35.6	5,371	35.8	7,869	1,252	37.1
C	1,963	23.7	3,082	27.8	4,023	640	25.8	2,854	25.5	2,838	452	27.4
E	406	33.0	592	31.6	917	146	30.8	641	31.5	593	94	29.1
....	260	33.0	481	38.6	665	106	38.3	502	38.5	458	73	42.1
E w ...	72	16.2	165	21.4	214	34	20.4	168	18.4	373	59	21.3
....	86	9.9	32	7.6	51	8	10.1	40	9.9	32	5	11.9
......	232	58.4	689	66.1	1,376	219	86.9	935	83.8	1,185	189	97.2
T ta g fit f e tab e eg e t	**5,061**	**26.4**	**9,551**	**31.3**	**14,790**	**2,353**	**33.1**	**10,511**	**32.9**	**13,348**	**2,124**	**35.2**
....	279	17.7	218	13.0	217	35	13.2	164	13.4	116	18	9.5
T ta g fit	**5,340**	**25.7**	**9,769**	**30.3**	**15,007**	**2,388**	**32.4**	**10,675**	**32.1**	**13,464**	**2,142**	**34.4%**

25.7% 2009 30.3% 2010

32.4% 2011. 30, 2012,

34.4% 32.1% 2011.

O e Re e a d Ne I c e/(L)

/( )

w C , w

2009, 2010, 2011 30, 2011 2012, w

B74 , B70 , B87

($14), B72 B52 ($8)

O e a E e

Sales and Marketing Expenses

General and Administrative Expenses

w

Research and Development Expenses

Ne F a ce C

w , w

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

w . A
w
w
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,
w
w .

TAXATION

2009, 2010, 2011 30, 2012, w w
C, .

Ta a , , e PRC

E w 1, 2008,
25%.

A E w , , -
E w
15%. 2011, w w
- w
15% 2011, 2012 2013. , E w , 50%
w .

2009, w - 2009, 2010 2011,
w 25% 2008 15% 2009, 2010 2011 .
C , w w .

Ta a , , H , K , a, d I a

16.5% 2009, 2010,
2011 30, 2012. w
2009, 2010 2011,
.

, C A , w
27.5% 31.4% 2009, 2010, 2011 30,
2012.

RESULTS OF OPERATIONS

W , , ,

. E . .

W .

	Yea E ded Dece be 31,							Ni e M th E ded Se te be 30,				
	2009		2010		2011			2011		2012		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
	(i i i , e ce t f e ce tage)											
....	20,762	100.0	32,193	100.0	46,323	7,371	100.0	33,207	100.0	39,108	6,222	100.0
C	(15,422)	(74.3)	(22,424)	(69.7)	(31,316)	(4,983)	(67.6)	(22,532)	(67.9)	(25,644)	(4,080)	(65.6)
G fit	**5,340**	**25.7**	**9,769**	**30.3**	**15,007**	**2,388**	**32.4**	**10,675**	**32.1**	**13,464**	**2,142**	**34.4**
/ ( )	105	0.5	54	0.2	14	2		73	0.2	(122)	(19)	(0.3)
.....	(1,250)	(6.0)	(2,146)	(6.7)	(3,160)	(503)	(6.8)	(1,955)	(5.8)	(2,504)	(398)	(6.4)
.....	(878)	(4.2)	(1,645)	(5.1)	(1,861)	(296)	(4.0)	(1,485)	(4.5)	(1,662)	(265)	(4.3)
.....	(194)	(0.9)	(265)	(0.8)	(398)	(63)	(0.9)	(241)	(0.7)	(524)	(83)	(1.3)
P fit f e ati ...	**3,123**	**15.1**	**5,767**	**17.9**	**9,602**	**1,528**	**20.7**	**7,067**	**21.3**	**8,652**	**1,377**	**22.1**
( )/	(6)				12	2		12				
....	(295)	(1.4)	(365)	(1.1)	(36)	(6)		(16)		(356)	(57)	(0.9)
....	6		14		24	4		18		6	1	
P fit bef e ta ati	**2,828**	**13.7**	**5,416**	**16.8**	**9,602**	**1,528**	**20.7**	**7,081**	**21.3**	**8,302**	**1,321**	**21.2**
......	(409)	(2.0)	(828)	(2.6)	(1,429)	(228)	(3.1)	(1,089)	(3.3)	(1,175)	(187)	(3.0)
P fit f the ea / e i d ..	**2,419**	**11.7**	**4,588**	**14.2**	**8,173**	**1,300**	**17.6**	**5,992**	**18.0**	**7,127**	**1,134**	**18.2**

N e ded Se e be 30, 2012 c a ed e ded Se e be 30, 2011

Turnover. 17.8% B33,207 30, 2011 B39,108 ($6,222)

30, 2012. w

w ,

41.1% B15,009 30, 2011

B21,185 ($3,371) 30, 2012. w

w 30, 2012.

7.7% B11,205

30, 2011 B10,341 ($1,645)

30, 2012. w w

, w w w w C .

w w , w w

Cost of sales and services. 13.8% B22,532

30, 2011 B25,644 ($4,080)

30, 2012 , w

Gross profit. A , 26.1% B10,675

30, 2011 B13,464 ($2,142)

30, 2012, 32.1%

30, 2011 34.4% 30, 2012, w

, w 54.2%

30, 2012, 37.1% 30, 2012 35.8%

2011, w

w

, w 26.4%

30, 2012, 27.4% 30,

2012 25.5% 2011, w

Other revenues and net (loss)/income. B122

30, 2012, w w

B73 30, 2011. w

w w

30, 2012.

Sales and marketing expenses. 28.1% B1,955

30, 2011 B2,504 ($398)

30, 2012. w

w C .

5.8%

30, 2011 6.4% 30, 2012.

General and administrative expenses. 11.9% B1,485 30, 2011 B1,662 ($264) 30, 2012, w , w . 4.5% 30, 2011 4.2% 30, 2012.

Research and development expenses. 117.4% B241 30, 2011 B524 ($83) 30, 2012. w , w .

Profit from operations. A , 22.4% B7,067 30, 2011 B8,652 ($1,377) 30, 2012. 21.3% 30, 2011 22.1% 30, 2012.

Net finance costs. B16 30, 2011 B356 ($57) 30, 2012, w , w w w .

Income tax expenses. 7.9% B1,089 30, 2011 B1,175 ($187) 30, 2012, . 15.4% 30, 2011 14.2% 30, 2012.

Profit for the period. A , 18.9% B5,992 30, 2011 B7,127 ($1,134) 30, 2012. 18.0% 30, 2011 18.2% 30, 2012.

Yea e, ded Dece be 31, 2011 c a ed ea e, ded Dece be 31, 2010

Turnover. 43.9% B32,193 D 31, 2010 B46,323 ($7,371) D 31, 2011. w , - - C , w . , 50.6%, B14,085 2010 B21,212

($3,375) 2011. w

\- w 2011.

41.0% B11,077 2010 B15,618

($2,485) 2011. , w - w

Cost of sales and services. 39.7% B22,424

D 31, 2010 B31,316 ($4,983)

D 31, 2011 w , w w w

Gross profit. A , 53.6% B9,769

D 31, 2010 B15,007 ($2,388)

D 31, 2011, 30.3% D 31, 2010

32.4% D 31, 2011

, ,

w 45.8% 2011, 35.6% 32.0%

2010, - w

, w ,

Other revenues and net income.

B54 D 31, 2010 B14 ($2)

D 31, 2011.

Sales and marketing expenses. 47.3% B2,146

D 31, 2010 B3,160 ($503)

D 31, 2011. w w

w , w

6.7% D 31, 2010 6.8% D 31, 2011.

General and administrative expenses. 13.1%

B1,645 D 31, 2010 B1,861 ($296)

D 31, 2011, w , w

5.1%

D 31, 2010 4.0% D 31, 2011.

Research and development expenses. 50.2%

B265 D 31, 2010 B398 ($63)

D 31, 2011. w

, w

Profit from operations. A , , 66.5% B5,767 D 31, 2010 B9,602 ($1,528) D 31, 2011. 17.9% D 31, 2010 20.7% D 31, 2011.

Net finance costs. B365 D 31, 2010 B36 ($6) D 31, 2011 A , w .

Income tax expenses. 72.6% B828 D 31, 2010 B1,429 ($227) D 31, 2011 . 15.3% D 31, 2010 14.9% D 31, 2011.

Profit for the year. A , 78.1% B4,588 D 31, 2010 B8,173 ($1,300) D 31, 2011. 14.2% D 31, 2010 17.6% D 31, 2011.

Yea ded Dece be 31, 2010 c a ed ea ded Dece be 31, 2009

Turnover. 55.1% B20,762 D 31, 2009 B32,193 D 31, 2010, w . w 2010. 96.8%, B7,157 2009 B14,085 2010, w w - . 33.5% B8,298 2009 B11,077 2010.

Cost of sales and services. 45.4% B15,422 D 31, 2009 B22,424 D 31, 2010, w . w , , 45.2% D 31, 2010, . C 74.3% 2009 69.7% 2010. w . 2010, 71.5% 68.0%, 76.3% 72.2%, w w ( ) - , , ( ) - - , w .

Gross profit. A , , 82.9% B5,340 D 31, 2009 B9,769 D 31, 2010, 25.7% D 31, 2009 30.3% D 31, 2010 , , . , , w 78.2% D 31, 2010, 32.0% 27.8%, , D 31, 2010 28.5% 23.7%, , D 31, 2009.

Other revenues and net income. 48.6% B105 D 31, 2009 B54 D 31, 2010, , .

Sales and marketing expenses. 71.7% B1,250 D 31, 2009 B2,146 D 31, 2010. w , , w . 6.0% D 31, 2009 6.7% D 31, 2010.

General and administrative expenses. 87.4% B878 D 31, 2009 B1,645 D 31, 2010. w w , w . w B258 , w w . 4.2% D 31, 2009 5.1% D 31, 2010.

Research and development expenses. 36.6% B194 D 31, 2009 B265 D 31, 2010, w . , 0.9% 0.8% D 31, 2009 2010, .

Profit from operations

Net finance costs. 23.7% RMB295
D 31, 2009 RMB365 D 31, 2010,
-
.

Income tax expenses. 102.4% RMB409
D 31, 2009 RMB828 D 31, 2010,
. 14.5%
D 31, 2009 15.3% D 31, 2010.

Profit for the year. A , 89.7%
RMB2,419 D 31, 2009 RMB4,588
D 31, 2010. 11.7% D 31, 2009
14.2% D 31, 2010.

LIQUIDITY AND CAPITAL RESOURCES

D 2009, 2010, 2011 30, 2012, w
w ,
w , - A
C . A 30, 2012, w
RMB16,594 ($2,640) , w w
.

w w :

	Yea E ded Dece be 31,				Ni e M th e ded Se te be 30,		
	2009	2010	2011		2011	2012	
	RMB	RMB	RMB	US$	RMB	RMB	US$
			(i i i)				
( ) /							
	(1,366)	451	1,880	299	914	(3)	
	(1,360)	(1,833)	(1,287)	(205)	(1,752)	(1,859)	(296)
/ ( )	3,250	16,755	(3,275)	(521)	835	2,449	389
/ ( )	524	15,373	(2,682)	(427)	(3)	587	93
E	2	(54)	(74)	(12)	(98)	5	1
C /	2,913	3,439	18,758	2,985	18,758	16,002	2,546
C /	3,439	18,758	16,002	2,546	18,657	16,594	2,640

O e a , Ac e

30, 2012 w RMB3
($477),

B8,302 ($1,321), B616 ($98). B306 ($49), w : ( ). B8,355 ($1,329); ( ). B2,431 ($387); ( ).

w

2009, 2010, 2011 30, 2012,

w B7,463 , B9,720 , B15,586 ($2,480)

B11,925 ($1,897), w 36.6%, 31.2%, 34.8% 31.5%

, w

w . , w w

w ,

w w . 2009, 2010, 2011

30, 2012, w w B2,666 ,

B5,090 , B8,839 ($1,406) B10,355 ($1,648

), w 13.1%, 16.3%, 19.8% 27.3%

. w

30, 2012

w C . 2012, w C

w w w , w

w

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, w

. w

w 2008, 2009 2010 w

w - w

, w w w

w w

. 2009 2010, w B3,501 , B4,377 ,

, w .

w 2011. B

2010, w -

- . A ,

- w w . 2010, 2011

30, 2012, w B714 , B12,258

($1,950) B11,538 ($1,836)

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w C , w

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w 2009 30,

2012 w w w .

w , w .

2012, w C , w

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. w -

D. C ,

D. , . . .

Y , ... w , w

, w w

C . w

, w

. w , w w

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I, e , Ac e

30, 2012 w B1,859

($296), ,

B1,334 ($212)

B455 ($72). , w

2012. w

w , .

2011 w B1,287 ($205),

, B1,210

($193) B260 ($41),

B214 ($34). ,

w

2011.

2010 w B1,833 ,

, B910 ,

B773 , B236 .

w

COMMITMENTS AND CONTINGENT LIABILITIES

A 30, 2012, B544 ($87) B1,976 ($314), B289 ($46), w B96 ($15) w w .

A 30, 2012, w B11,709 ($1,863)

WORKING CAPITAL AND INDEBTEDNESS

w :

	A f Dece be 31,				A f Se te be 30,	
	2009	2010	2011		2012	
	RMB	RMB	RMB	US$	RMB	US$
			(i i i)			
C e t A et						
	6,272	8,678	9,656	1,536	12,088	1,923
	6,265	8,260	13,614	2,166	19,503	3,103
	3,283	6,397	7,089	1,128	7,985	1,271
	755	1,577	1,481	236	1,569	250
C	3,439	18,758	16,002	2,546	16,594	2,640
T ta c e t a et	**20,014**	**43,670**	**47,842**	**7,612**	**57,739**	**9,187**
C e t Liabi itie						
	10,632	17,203	19,314	3,073	24,949	3,970
w	8,553	8,107	6,049	962	9,263	1,474
	283	757	1,289	206	1,000	159
T ta c e t iabi itie	**19,468**	**26,067**	**26,652**	**4,241**	**35,212**	**5,603**
Net c e t a et	**546**	**17,603**	**21,190**	**3,371**	**22,527**	**3,584**

B21,190 ($3,372) D 31, 2011 B22,527 ($3,584) 30, 2012, , , w . , w w.

B17,603 D 31, 2010 B21,190 ($3,372) D 31, 2011, , . , w w.

B546 D 31, 2009 B17,603 2010, , , , w w - E - w C A w - , , . w , - A . , , w w.

C

A 30, 2012, B9,263 ($1,474).

	A f Dece be 31,				A f Se te be 30,	
	2009	2010	2011		2012	
	RMB	RMB	RMB	US$	RMB	US$
			(i i i)			
C e t						
-	2,530	23	309	49	32	5
-	3,726	4,211	4,490	714	6,046	962
C -	2,297	3,873	1,250	199	3,185	507
T ta	**8,553**	**8,107**	**6,049**	**962**	**9,263**	**1,474**
N -c e t						
-	4,515	5,534	2,036	324	1,473	234
-	2,313	4,938	5,210	829	6,795	1,081
	1,090	1,091	1,093	174	1,094	174
					2,483[1]	395
: C -	(2,297)	(3,873)	(1,250)	(199)	(3,185)	(507)
T ta	**5,621**	**7,690**	**7,089**	**1,128**	**8,660**	**1,378**

(1) $400 2017 2017 $8 ( ) 2017

A 30, 2012, - B507 ($81) - B970 ($154), D 2009, 2010, 2011 30, 2012

, w w , w .

A 5, 2012, w 2017 $400 . 2017 - A . D .

2009, 2010, 2011 30, 2012, RMB29.3 , RMB65.1 , RMB116.1 ($19 RMB136.7 ($22), . A 30, 2012, RMB76.8 ($13) 40 . , 11 RMB28.1 ($4) - , w RMB7.4 ($1) 30, 2012.

ANALYSIS OF SELECTED STATEMENT OF FINANCIAL POSITION ITEMS

T, E, A, a

. w . , w . w w . w .

w :

	A f Dece be 31,				A f Se te be 30,	
	2009	2010	2011		2012	
	RMB	RMB	RMB	US$	RMB	US$
			(i i i)			
RMBw	3,055	3,706	4,762	757	5,570	886
....	1,620	2,122	1,691	269	2,259	359
....	1,597	2,850	3,203	510	4,259	678
T ta	**6,272**	**8,678**	**9,656**	**1,536**	**12,088**	**1,923**

38.4% RMB6,272 D 31, 2009 RMB8,678 D 31, 2010, 11.3% RMB9,656 ($1,536) D 31, 2011 25.2% RMB12,088 ($1,923) 30, 2012. w 2010 2011 w w . A D 31, 2009, 2010 2011 30, 2012, 31.3%, 19.9%, 20.2% 20.9% , .

[illegible] W [illegible]:

	Yea E ded Dece be 31,			Ni e M th E ded Se te be 30,
	2009	2010	2011	2012
[illegible][1]	135	122	107	116

(1) *Inventory turnover days equal the average inventory balance divided by cost of sales and services and multiplied by 365 days, or 273 days for the nine months ended September 30, 2012. Average inventory balance is calculated as the simple average of the opening and closing inventory balances as of each reported balance sheet date.*

[illegible] 135 [illegible] D[illegible] 31, 2009 [illegible] 122 [illegible] D[illegible] 31, 2010 [illegible] 107 [illegible] D[illegible] 31, 2011, [illegible]

A , w w w w w
. C
, , , w w
5% 10% , ' w , , .
C , w , .
w w , , , , ,
, , 36 . A D 31, 2009, 2010, 2011 , 30, 2012,
B229 , B585 , B912
($145) B3,405 ($542), , .

37.3% B5,061 D 31, 2009
B6,947 D 31, 2010, 66.4% B11,563 ($1,840)
D 31, 2011, 69.0% B19,536 ($3,108)
30, 2012 .
30, 2012 w w
.
w , w .

w :

	Yea E ded Dece be 31,			Ni e M th E ded Se te be 30,
	2009	2010	2011	2012
[1]	82	73	77	109

(1) Trade receivables turnover days equal the average balance of trade receivables divided by our consolidated turnover and multiplied by 365 days, or 273 days for the nine months ended September 30, 2012. Average balance of trade receivables is calculated as the simple average of the opening and closing trade receivable balances as of each reported balance sheet date.

82 D 31, 2009
73 D 31, 2010
. 77
D 31, 2011, w
. 30, 2012,
109 w , ,
, w
w . , ,
, w
.

w (w) D 31, 2009, 2010 2011 30, 2012:

	A f Dece be 31,				A f Se te be 30,	
	2009	2010	2011	2011	2012	
	RMB	RMB	RMB	US$	RMB	US$
			(i i i)			
1	2,133	2,642	4,547	724	5,617	893
1 3	382	921	2,362	376	5,215	830
3 1	1,427	2,403	3,401	541	6,821	1,085
1 2	931	772	932	148	1,443	230
2 3	161	174	249	40	313	50
3	27	35	72	11	127	20
T ta	**5,061**	**6,947**	**11,563**	**1,840**	**19,536**	**3,108**

w w . , w , w w . w w . C w .

w w w , w , w w , -w w - w . , C A E .

w w :

	A f Dece be 31,				A f Se te be 30,	
	2009	2010	2011	2011	2012	
	RMB	RMB	RMB	US$	RMB	US$
			(i i i)			
B 1	(255)	(340)	(557)	(88)	(533)	(85)
	(87)	(258)	3		(213)	(34)
w	2	41	21	3	7	1
Ba a ce a f Dece be 31/Se te be 30	**(340)**	**(557)**	**(533)**	**(85)**	**(739)**	**(118)**

w 2009 2010 w . 2010, w w w . 2011, w w . 30, 2012, w .

Rece ab e , de F , a ce Lea e A , a

w :

	A f Dece be 31,				A f Se te be 30,	
	2009	2010	2011	2011	2012	
	RMB	RMB	RMB	US$	RMB	US$
			(i i i)			
....	9,190	17,841	22,135	3,522	24,387	3,880
....	(847)	(1,669)	(2,126)	(338)	(2,367)	(377)
	8,343	16,172	20,009	3,184	22,020	3,503
:			(140)	(23)	(229)	(35)
:	(5,060)	(9,775)	(12,780)	(2,033)	(13,806)	(2,197)
A w	3,283	6,397	7,089	1,128	7,985	1,271

. w w . . . w w , w . C , w 8% 30, 2012. w :

	A f Dece be 31,				A f Se te be 30,	
	2009	2010	2011	2011	2012	
	RMB	RMB	RMB	US$	RMB	US$
			(i i i)			
1	3,761	7,338	8,163	1,299	9,323	1,484
1 2	2,917	6,168	6,971	1,109	7,130	1,134
2 3	1,961	3,331	4,496	715	4,729	752
3	551	1,004	2,505	399	3,205	510
T ta	**9,190**	**17,841**	**22,135**	**3,522**	**24,387**	**3,880**

2009, 2010, 2011 30, 2012, 2009, 2010, 2011 30, 2012, . , w 2009, 2010, 2011 30, 2012 .

30, 2012, w B11,538 ($1,836) w . A , . A w , , w .

w

w

30,

2012, w B229 ($36)

2009, 2010, 2011 30, 2012,

w B94 , B422 ,

B464 ($74) B1,554 ($247),

30, 2012,

w w w C , w

($790) D 31, 2011 B6,975 ($1,110) 30, 2012. 2009 2010 w . D w w , w w w . 2011, w , w , w . 30, 2012, w .

w :

	Yea E ded Dece be 31,			Ni e M th E ded Se te be 30,
	2009	2010	2011	2012
[1]	153	167	142	146

(1) *Trade and bills payables turnover days equal the average balance of trade and bill payables divided by cost of sales and services and multiplied by 365 days , or 273 days for the nine months ended September 30, 2012. Average balance of trade and bill payables is calculated as the simple average of the opening and closing trade and bill payable balances as of each reported balance sheet date.*

153 D 31, 2009 167 D 31, 2010, w , w . 142 D 31, 2011 w . 30, 2012, 146 .

w :

	A f Dece be 31,				Ni e M th E ded Se te be 30,	
	2009	2010	2011	2011	2012	
	RMB	RMB	RMB	US$	RMB	US$
			(i i i)			
D w 1	1,901	4,640	4,974	791	4,846	771
D 1 w 3	2,105	3,567	3,938	627	5,407	860
D 3 w 6	2,238	3,067	2,496	397	4,418	703
D 6	1,968	1,008	695	110	725	116
T ta	**8,212**	**12,282**	**12,103**	**1,925**	**15,396**	**2,450**

OFF-BALANCE SHEET ARRANGEMENTS

, w - . , w . w ' . , w , . , , , w .

RELATED PARTY TRANSACTIONS

w w :

	Yea E ded Dece be 31,				Ni e M th e ded Se te be 30,		
	2009	2010	2011	2011	2011	2012	
	RMB	RMB	RMB	US$	RMB	RMB	US$
				(i i i	)		
T a acti ith a ciate :							
....	(4)	(4)	(157)	(25)	2	596	95
....	(3)						
w	10	39	148	24	45	454	72

2011 30, 2012, , w , w - . w . A w . A B 7 w w ' w - w .

w w w w .

w w :

	A f Dec be 31,				A f Se te be 30,	
	2009	2010	2011	2011	2012	
	RMB	RMB	RMB	US$	RMB	US$
			(i i i	)		
A	29	27	99	16	173	28
A		12	13	2	20	3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

C. ed . R

B , w . , w .

. A D 31, 2009, 2010 2011 , 30, 2012, 1.9%, 1.6%, 1.9% w 7.3%, 2.0%, 5.7% 1.5% w .

L d R

w w . , w , w .

w , w w (, , ,) . w w :

	A f Dece be 31, 2009					
	Ca i g A t	T ta C t act a U di c ted Ca h F	Withi 1 Yea De a d	M e Tha 1 Yea b t Le Tha 2 Yea	M e Tha 2 Yea b t Le Tha 5 Yea	M e Tha 5 Yea
			(RMB i i i)			
w	14,174	15,158	9,015	3,458	1,491	1,194
,	10,632	10,632	10,632			
-	684	684		159	525	
	25,490	26,474	19,647	3,617	2,016	1,194
		3,369	3,369			

	A f Dece be 31, 2010					
	Ca i g A t	T ta C t act a U di c ted Ca h F	Withi 1 Yea De a d	M e Tha 1 Yea b t Le Tha 2 Yea	M e Tha 2 Yea b t Le Tha 5 Yea	M e Tha 5 Yea
			(RMB i i i)			
w	15,797	16,878	8,650	2,520	4,590	1,118
,	17,203	17,203	17,203			
-	1,379	1,379		387	992	
	34,379	35,460	25,853	2,907	5,582	1,118
		7,284	7,284			

	A f Dece be 31, 2011					
	Ca i g A t	T ta C t act a U di c ted Ca h F	Withi 1 Yea De a d	M e Tha 1 Yea b t Le Tha 2 Yea	M e Tha 2 Yea b t Le Tha 5 Yea	M e Tha 5 Yea
			(RMB i i i)			
w	13,138	13,989	6,487	5,226	2,276	
....	19,314	19,314	19,314			
-	1,789	1,829		710	1,119	—
	34,241	35,132	25,801	5,936	3,395	—
....		10,726	10,726			—

I, e e Ra e R

, , - - w . C w , . w , : w :

	A f Dece be 31,						
	2009		2010		2011		
	Weighted a e age i te e t ate	A t	Weighted a e age i te e t ate	A t	Weighted a e age i te e t ate	A t	
	%	RMB	%	RMB	%	RMB	US$
		(i i i , e ce t f e ce tage)					
Fi ed ate fi a cia i t e t :							
- w	3.8	(4,280)	3.3	(1,234)	4.8	(1,090)	(173)
- w	5.7	(3,320)	6.7	(1,091)	6.1	(1,314)	(209)
		(7,600)		(2,325)		(2,404)	(382)
Va iab e ate fi a cia i t e t :							
....	0.4	989	0.4	1,762	0.5	1,742	277
B	0.4	3,439	0.3	18,756	1.0	16,000	2,546
....	8.0	8,343	7.8	16,172	8.0	19,869	3,161
- w	3.5	(4,273)	3.4	(6,873)	4.2	(4,959)	(789)
- w	4.8	(2,301)	3.6	(6,599)	3.9	(5,776)	(919)
		6,197		23,218		26,876	4,276
Net		(1,403)		20,893		24,472	3,894

A D 31, 2009, 2010 2011, / 100 , w , w / 2009 B44 , / 2010 B195 , / 2011 B215 ($34).

C . . ꝯ, c R

w w

w

w

E . . D 2009, 2010, 2011

Y 30, 2012, w

w

5% B

5% w

A ( ) w

( ) w B

5% w B w

	Year Ended December 31,					
	2009		2010		2011	
	I c ea e/ dec ea e i f eig e cha ge ate	Effect fit afte ta ati a d etai ed fit	I c ea e/ dec ea e i f eig e cha ge ate	Effect fit afte ta ati a d etai ed fit	I c ea e/ dec ea e i f eig e cha ge ate	Effect fit afte ta ati a d etai ed fit
	%	RMB	%	RMB		

The information presented in this section is derived from various official or publicly available sources unless indicated otherwise. We believe that the sources of such information are appropriate

A C , - , E C . w 2011 w :

World Rank	Company Name	Country[(1)]	Revenue (US$ million)
1	C		35,296
2			21,750
3	CE	w	10,013
4	C C .,		9,997
5			7,930
6	A	C	7,861
7	Y	C	7,171
8	E E C		6,505
9	D		5,830
10	D		5,372

Source: International Construction

(1) A ’ .

, w , C , , w w C w .

OVERVIEW OF CHINA'S CONSTRUCTION MACHINERY INDUSTRY

Overview of China's Economy

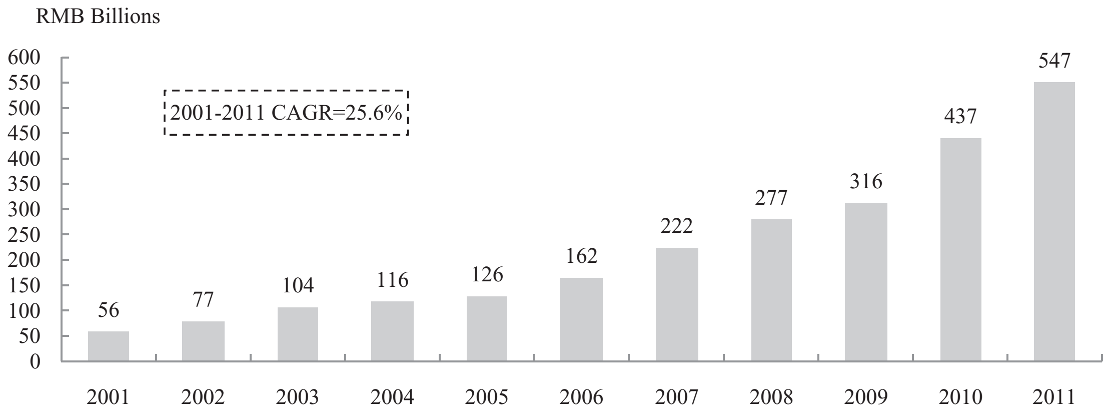
C w w . A , , C ’ D w CA 10.6% 2001 2011. D , C D w B , , C , B C , w . w D w B C , w :

Location	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2001-2011 CAGR
C	8.3%	9.1%	10.0%	10.1%	11.3%	12.7%	14.2%	9.6%	9.2%	10.3%	9.2%	10.6%
	3.9%	4.6%	6.9%	7.6%	9.0%	9.5%	10.0%	6.2%	6.8%	10.1%	6.8%	7.7%
	5.1%	4.7%	7.3%	7.2%	6.4%	8.2%	8.5%	5.2%	(7.8)%	4.0%	4.3%	4.7%
B	1.3%	2.7%	1.1%	5.7%	3.2%	4.0%	6.1%	5.2%	(0.6)%	7.5%	2.7%	3.7%
	1.1%	1.8%	2.5%	3.5%	3.1%	2.7%	1.9%	(0.3)%	(3.5)%	3.0%	1.8%	1.6%
	1.8%	0.9%	0.9%	2.3%	1.9%	2.7%	2.2%	(0.2)%	(2.6)%	1.4%	1.7%	1.1%
	0.2%	0.3%	1.4%	2.7%	1.9%	2.0%	2.4%	(1.2)%	(6.3)%	4.0%	(0.8)%	0.6%
	1.6%	—	(0.4)%	0.7%	0.8%	3.9%	3.4%	0.8%	(5.1)%	3.6%	3.1%	1.0%
World Real GDP	**2.3%**	**2.9%**	**3.6%**	**4.9%**	**4.6%**	**5.3%**	**5.4%**	**2.8%**	**(0.7)%**	**5.1%**	**3.8%**	**3.8%**

Source: IMF

C D w . D , C w w 2010. 2010, C ’ D $5,878.3 ’ D $5,458.9 . A , C w w ’ 2016.

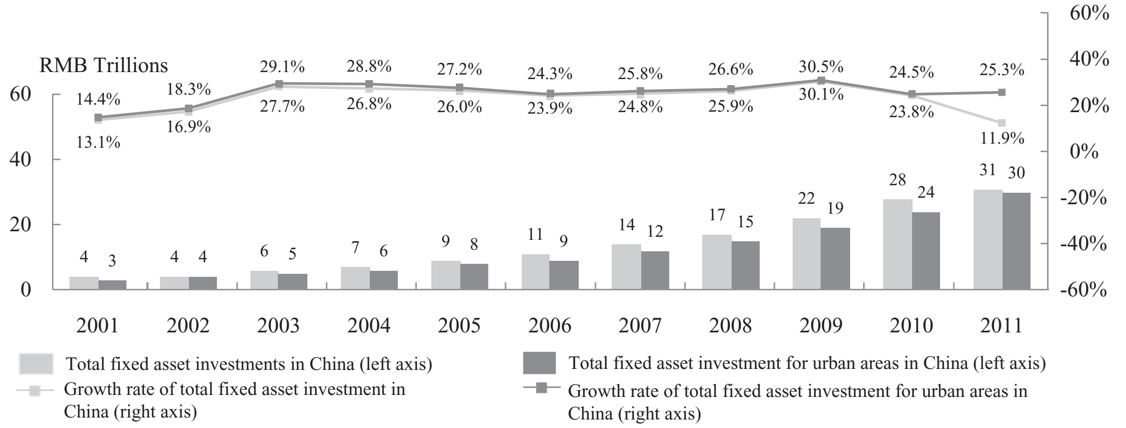
D w , C ’ w , C w . A CC A, C - B56 2001 B547 2011, CA 25.6%. w w w C :



Source: CCMA

F ed A e. e . . d U. b . a. C . . b e . . e G. . f . e C . . c. Mac . e. d . . C . a

C ’ w . A B C C B3.7 2001 B31.1 2011, CA 23.7%, w C B3.0 2001 B30.2 2011, CA 26.0%. C w w , w C . w w C :



Source: National Bureau of Statistics of China

w , C , w w C . A , C 35.8% 2000 50.6% 2011. w , C ’ w , w w C , w C .

, c. ea , De . d f . E . . . f C . . c. Mac . e. Made , C . a

E C . A CC A, C $0.7 2001 $15.9 2011, CA 36.7%. C 2001 2011 CA 19.3% CC A, w w C . A w , C 2009. w , C w w 2009 2011.

The Ba ie t E te i g Chi a' Ma et

C

MAJOR MARKETS AND COMPETITION OF ZOOMLION

C , c e e Mac , e Sec

C

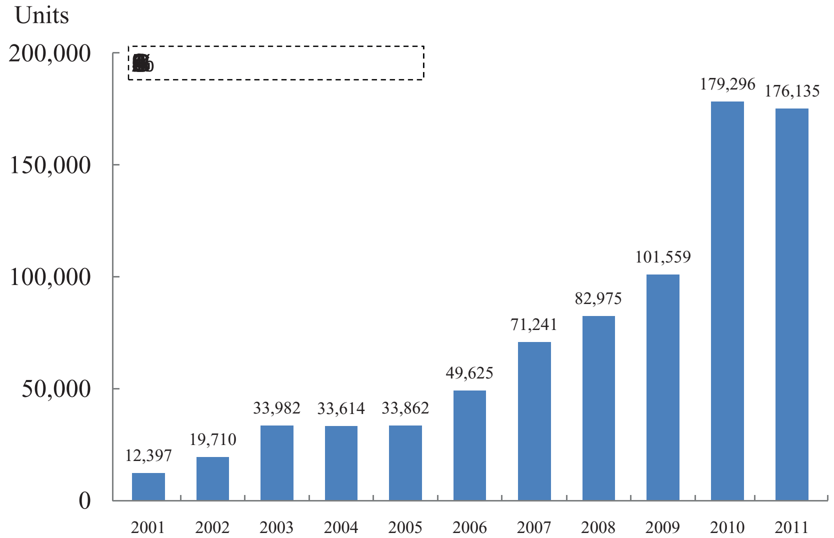
Chi a' Ea th W i g Machi e Sect

E w w , . E w , . w w w C 2011:

	E ca at	B d ze	L ade
Sa e e i 2011 (it)	176,135	13,094	246,981

Source: CCMA

w . A CC A, 2001 2011, C CA 30.4%. w C :



Source: CCMA

w . C , C , w , w , C - , , , - w C . w , C -

, w C - w
. , , 0.4% 2009 1.1%
2011, CC A. ' 2.5%
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, . , , , C
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OUTLOOK FOR CHINA'S CONSTRUCTION MACHINERY INDUSTRY

C w w
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C ' . A ,
C w 50.6% 2011, w w ' w 52.1%.
, , w 77.7% . A
C w, w w ,
C . , ,
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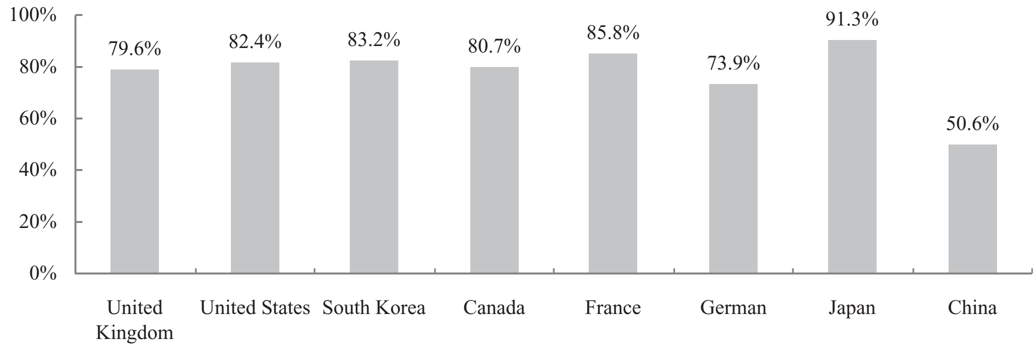
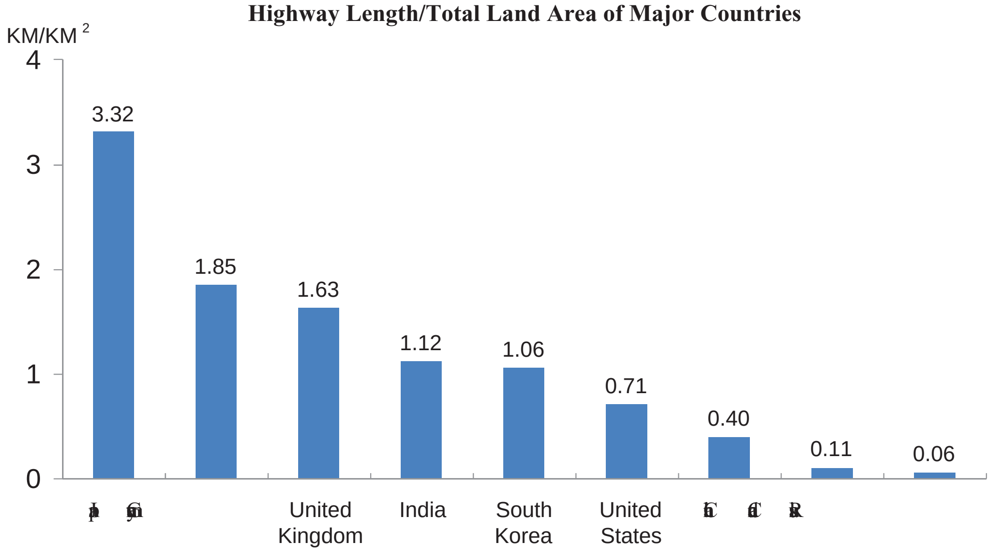
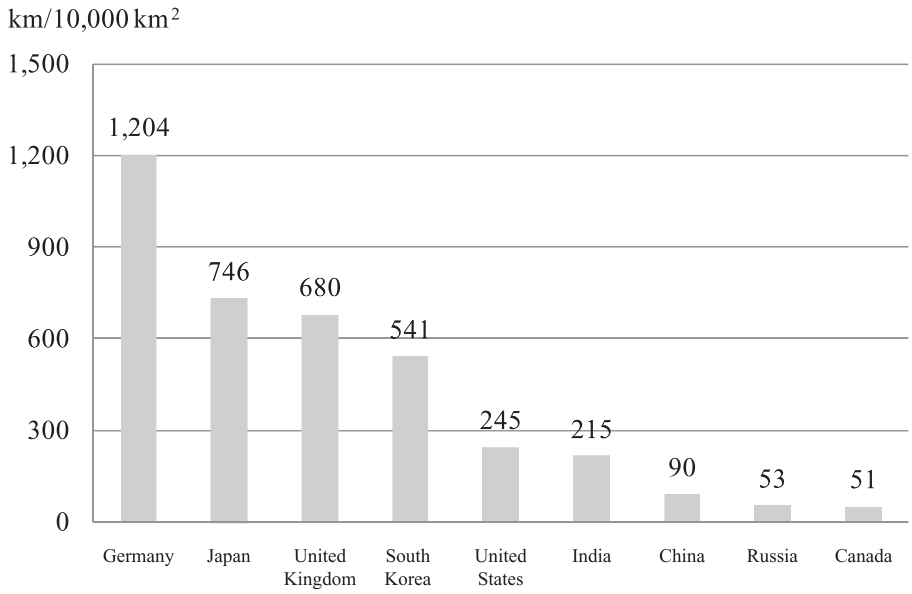


Source: United Nations, Department of Economic and Social Affairs.

Highway Length/Total Land Area of Major Countries



Rai a Le gth/T ta La d A ea f Ma C t ie



Source: the Central Intelligence Agency of the United States, The World Fact Book

Note: The data for Japan is for the year 2011. The data for United Kingdom, U.S., India and Russia are for the year 2010. The data for Germany, South Korea, China and Canada are for the year 2009.

INFORMATION ABOUT INTERNATIONAL CONSTRUCTION, OFF HIGHWAY RESEARCH LIMITED, CCMA, CHINA CONSTRUCTION MACHINERY INDUSTRY YEAR BOOK AND LIAONING YITONG

I te ati a C t cti

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Chi a C t cti Machi e I d t Yea B

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BUSINESS

OVERVIEW

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C . ,

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2005. w

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B20,762 2009 B46,323 ($7,371

) 2011, B2,419 2009 B8,173

($1,300) 2011. 30, 2012,

B39,108 ($6,222)

B7,127 ($1,134). A

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OUR COMPETITIVE STRENGTHS

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C 50 . 2009, 2010, 2011
30, 2012, w 71, 152, 231 933 , . A 30,
2012, w 1,530 C . w , w 78
w . 2009, 2010, 2011 30,
2012, w 238, 224, 257 161 w

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C . w , w 120

w w , 30, 2012, 52 , 73

23 , w , w 120 ,

140 60 , w 62 -

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OUR BUSINESS STRATEGIES

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[illegible]

[illegible]

[illegible]

[illegible]

OUR PRODUCTS

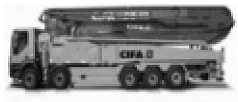
[illegible] w [illegible] w [illegible] w [illegible] 78 w [illegible] 2009, 2010, 2011 [illegible] 30, 2012, w [illegible] 238, 224, 257 [illegible] 161 w [illegible] 900 [illegible] 98 [illegible] 13 [illegible] w [illegible] 200 [illegible] w [illegible] D [illegible] C [illegible] 74.5%, 78.2%, 79.5%, 79.0% [illegible] 80.6% [illegible] 2009, 2010, 2011 [illegible] 30, 2011 [illegible] 2012, [illegible] w [illegible] w [illegible]:

	Yea E ded Dece be 31,							Ni e M th e ded Se te be 30,					
	2009		2010		2011			2011		2012		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
	(i i , e ce t f e ce tage)											
C ...	7,157	34.5	14,085	43.8	21,212	3,375	45.8	15,009	45.2	21,185	3,371	54.2
C ...	8,298	40.0	11,077	34.4	15,618	2,485	33.7	11,205	33.8	10,341	1,645	26.4
E ...	1,230	5.9	1,874	5.8	2,978	474	6.4	2,033	6.1	2,040	324	5.2
...	787	3.8	1,246	3.9	1,737	276	3.7	1,304	3.9	1,087	173	2.8
E w ...	445	2.1	772	2.4	1,048	167	2.3	912	2.7	1,748	278	4.5
.....	873	4.2	422	1.3	504	80	1.1	403	1.2	269	43	0.7
....	1,575	7.6	1,674	5.2	1,643	262	3.5	1,225	3.7	1,219	194	3.1
T ta P d ct Sa e	**20,365**	**98.1**	**31,150**	**96.8**	**44,740**	**7,119**	**96.5**	**32,091**	**96.6**	**37,889**	**6,028**	**96.9**

C..., c. e. e Mac ..., e.

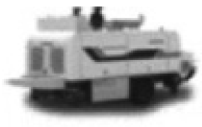
w ... , ... , ... - ... - ... - ... , ... - ... w ... C A, w w ... 2008. w ... :

P d ct	**Ke Feat e**
T c - ted C c ete P C A	• ... w ... . • 39 ... 17 ... C A ... w ... , ... • E ... w ... . • ... - ... . • ... 22 101 ... . • ... - ... 60 200 ... . • ... 7 12 ... .



P d ct	Ke Feat e
T ai e - ted C c ete P	

C A



- D.
- w -
- 19 C A w , w.
- 26 136
- 7 48

C c ete P aci g B

- w
- 10 w ,
- , - , - , w
- 16 45
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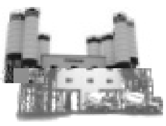
P d ct	Ke Feat e
C c ete Mi i g P a t Ʒ 	● , , , . , , , , , , w , , , , . , . ● C , , - , , , , . ● 52 Ʒ . ● , , , 45 300 , . ● , , , w , . ● 41 Ʒ w , . ● C , 6 15 .
T c - ted C c ete Mi e Ʒ  C A 	

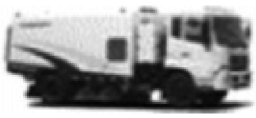
P d ct	Ke Feat e
T c - ted Li e C c ete P 	● -

C. a, e Mac , e.

P d ct	Ke Feat e
T c C a e (i c di ga -te ai t c c a e) 	• . • 67 w . • 12 220 . • 35.8 95.8 . • 465.5 7,350 - . - : • C w w w . • w . • 180 500 . • 88.5 150 . • 6,480 17,000 - .

E … e a a d S a … Mac e

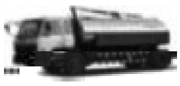
E … w … w . … w … w … , w … , w … , … , w … w . … w … :

P d ct	Ke Feat e
R ad S ee e 	• 38 … w … w … w … , … w … - … . • w … w … 1.2 3.6 … . • … 0.7 9.5 … .
Wa hi g Vehic e 	• 23 … w … w … w … , … w … w … . • … w … 2.5 3.5 … . • … w … 14 24 … .
Wa te T eat e t E i e t C … E … w … C …  	• C … w … , … w … . • C … .

P d ct	Ke Feat e
C w D	60 250

- 60 250 .
- 69 .
- w w .
- E w .
- 14 w .

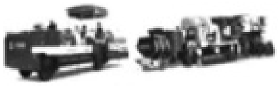
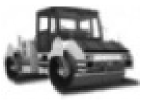
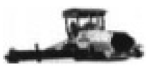
C w D

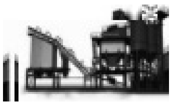
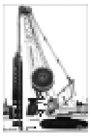


D

R ad C , c. , d P e F , da. , Mac , e.

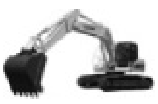
w , , , , , , , w . , w , w , :

P d ct	Ke Feat e
R ad S face Heate 	● , , w , . ● w 2.8 4.5 .
M t G ade 	● . ● w 701.5 946 - .
R ad R e 	● - , 17 - w w , , w w .
Pa e 	● 24 w , w .
R ad S face C d P a e 	● w , , , , w w , . ● w w , .

P d ct	Ke Feat e
A ha t Mi i g E i e t 	● w .
R ta D i i g Rig 	● 18 w . ● 2.8 , 98 . ● .
U de g d C ti Wa H d a ic C ab B c et 	● w , , , , w . ● w . ● 80 .

Ea W , Mac , e

E w w , . w 10 - - - - , w w , w , w w , w . w w :

P d ct	Ke Feat e
E ca at 	● , , w . ● 11 w w 71.4 3,448 - .

P d ct	Ke Feat e
	- E E .
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Ma e a Ha d Mac e a d S e

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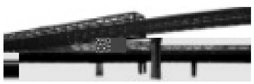
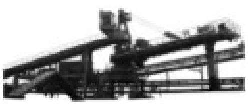
Stac e a d Rec ai e

Pi e C e



P t L adi g/U adi g E i e t



P ta C a e

Other Machinery Products

We manufacture other types of machinery products, mainly including special vehicles and vehicle axles. Our special vehicles include derrick cargo trucks, aerial working platform vehicles, cable trucks, container cranes, articulated mobile cranes for smaller containers, tyre cranes, reach stackers, road wreckers and roll-off dump trucks. Our axles are widely used for the manufacturing of construction vehicles and commercial vehicles. We currently offer two main types of vehicle axles. We currently offer 14 models of axles for construction vehicles and 46 models of axles for commercial vehicles with various fixed loads. Set forth below are pictures of our major special vehicles and axle products:

Derrick Cargo Truck

Articulated Mobile Crane

Tyre Crane

Reach Stacker

Aerial Working Platform Vehicle

Road Wrecker

Cable Truck

Hook Loader Loading and Unloading Device

Vehicle Axles

MANUFACTURING FACILITIES AND PROCESS

Manufacturing Facilities and Production Capacity

We have established specialized industrial parks and factories to manufacture and assemble various products to increase efficiency and enhance product quality. We currently own and operate a total of 13 specialized industrial parks, of which 12 are located in China and one located in Italy. We also operate three specialized factories located in Liaoning Province, Sichuan Province and Guangdong Province, China. Meanwhile, phase two of our Weinan industrial park is expected to be completed and commence production by the end of 2012. In addition, we plan to establish another specialized industrial park at Jiangyin, Jiangsu Province with an approximate gross floor area of approximately 1,730,000 square meters to manufacture and assemble crawler cranes and excavators. We have also entered into a joint venture agreement with ElectroMech, a leading crane machinery manufacturer in India, to establish a subsidiary to manufacture tower cranes, in which we will own a 70%. Furthermore, we plan to establish additional manufacturing facilities in Brazil and Russia. The table below sets forth certain information relating to our existing facilities:

Name	Location	Commencement Date of Operation	Approximate Gross Floor Area (m^2)	Products
Guanxi Industrial Park	Guanxi, Hunan Province, China	August 2008	220,804	Cranes, concrete machinery and others
Lugu Industrial Park	Changsha, Hunan Province, China	August 2005	363,061	Concrete machinery, crawler crane and others
Huayin Industrial Park	Huayin, Shaanxi Province, China	January 2002[1]	126,673	Earth working machinery
Quantang Industrial Park	Changsha, Hunan Province, China	July 1997[2]	175,488	Mobile cranes
Maqiaohe Industrial Park	Wangcheng, Hunan Province, China	November 2007	38,840	Road construction Machinery
Yuanjiang Industrial Park	Yuanjiang, Hunan Province, China	December 2007	52,213	Concrete Machinery
Zoomlion Industrial Park	Changsha, Hunan Province, China	September 1992	42,790	Environmental and sanitation machinery[3]
Songjiang Industrial Park	Shanghai, China	May 2010	60,049	Rotary drilling rigs
Hanshou Industrial Park	Hanshou, Hunan	December 2011[4]	160,000	Concrete mixing plants and special vehicles
Weinan Industrial Park	Weinan, Shaanxi	December 2010[5]	102,941	Excavators
Cheqiao Industrial Park	Changde, Hunan	January 2004[6]	120,000	Axles
Deshan Industrial Park	Changde, Hunan	May 2008[7]	22,262	Hydraulic parts
CIFA Industrial Park	Senago, Italy	May 2006[8]	290,000	Concrete machinery
Shenyang Factory	Shenyang, Liaoning Province, China	March 2012	55,000	Tower crane and construction lift
Chengdu Factory	Chengdu, Sichuan Province, China	March 2012	48,000	Tower crane
Guangzhou Factory	Guangzhou, Guangdong Province, China	February 2009	20,000	Tower crane

(1) The establishment date of Shaanxi Zoomlion Earthmoving Machinery Co., Ltd., which was acquired by the Company in June 2008.

(2) Acquired by the Company in November 2003.

(3) On March 15, 2012, we passed a board resolution approving the disposal of 80% equity interest in the ESM Company, our wholly-owned subsidiary principally engaged in our environmental and sanitation business, by way of a public tender on Hunan Province Equity Exchange. For details, please see History and Corporate Structure „ Proposed Disposal of Our SubsidiaryŽ. Upon completion of the proposed disposal, we plan to lease the manufacturing facilities for environmental and sanitation machinery in the Zoomlion Industrial Park to the ESM Company.

(4) The date of the commencement of pilot production.

(5) Phase two is expected to be completed and commence production of tower cranes by the end of 2012.

(6) Acquired by the Company in June 2008.

(7) Acquired by the Company in December 2008.

(8) The establishment date of CIFA, which was acquired by the Company in September 2008.

The table below sets forth the annualized production capacity, production volume and utilization rate for the specified product categories and major parts and components for the periods indicated:

	Year Ended December 31, 2009			Year Ended December 31, 2010			Year Ended December 31, 2011			Nine Months Ended September 30, 2012		
	Production Capacity	Production Volume	Utilization Rate	Production Capacity	Production Volume	Utilization Rate	Production Capacity	Production Volume	Utilization Rate	Production Capacity	Production Volume	Utilization Rate[3]
	(Units, except for percentages)											
Concrete Machinery												
Truck-mounted concrete pump	2,580	1,812	70%	3,900	3,608	93%	4,888	4,598	94%	7,260	4,342	80%
Trailer mounted concrete pump	950	947	100%	1,200	1,576	131%	1,500	1,670	111%	1,500	704	64%
Truck mounted concrete mixer	5,760	3,220	56%	8,760	5,911	67%	15,260	7,791	51%	18,260	10,547	77%
Concrete mixing plant	450	395	88%	1,200	984	82%	1,500	1,375	92%	2,500	985	52%
Crane Machinery												
Truck crane (including all-terrain truck crane)	6,000	7,804[2]	130%	6,000	10,034	167%	12,120	7,852	65%	12,500	4,698	52%
Crawler crane	600	182	30%	600	364	61%	900	507	56%	950	277	39%
Tower crane	1,800	1,678	93%	3,500	5,175	148%	13,000	13,795	106%	20,400	8,669	56%
Environmental and Sanitation Machinery												
Road sweeper[3]	1,800	1,433	80%	2,500	2,375	95%	3,600	3,066	85%	6,000	2,063	45%
Washing vehicle	1,000	836	84%	1,500	1,118	75%	2,400	1,809	75%	4,000	1,499	49%
Refuse Compression and transfer vehicle	1,000	946	95%	1,500	1,673	112%	4,000	3,671	92%	5,500	2,465	60%
Road construction and pile foundation machinery												
Road construction machinery	400	279	70%	480	407	85%	560	468	84%	600	234	52%
Rotary Drilling Rig	385	142	37%	400	265	66%	420	312	74%	450	271	80%
Earth working machinery												
Excavator	1,000	602	60%	2,700	1,355	50%	2,700	1,897	70%	8,000	2,591	44%
Bulldozer	800	325	41%	800	567	71%	1,200	760	63%	1,200	685	76%
Hydraulic cylinder	60,000	68,871	115%	62,000	61,000	98%	220,000	221,586	101%	350,000	175,646	67%
Hydraulic valve	7,000	6,370	91%	150,000	131,020	87%	180,000	133,204	74%	220,000	96,519	59%

(1) We aggregate the production volume and production capacity of all types of products in a specific product line to arrive at the production volume and production capacity for the line of product.

(2) For certain products, the actual production volume was larger than our production capacity, which is primarily due to the fact that the actual working hours exceeded the working hours being used as a presumption to calculate the production capacity, which is 16 hours per day, five days a week for processing of raw materials and components and assembly into semi-finished products, eight hours per day, five days a week awio(wnto)-288.5(semi4finished)-2uctducts,igeeknth-287(p)-1(4r)-286.7(d6(processing)-(io(wn-

To continue supporting our growth, we have undertaken and will continue to expand our manufacturing capabilities so as to meet the market demand for our products and the manufacturing capacity for key parts and components used in our products. For example, we are currently expanding our manufacturing facility at Quantang Industrial Park for large-capacity truck cranes and all-terrain truck cranes. We expect to complete the expansion of our manufacturing capacities at Quantang Industrial Park by the end of 2013. We are also in the process of expanding or upgrading the Maqiaohe Industrial Park, Songjiang Industrial Park and Deshan Industrial Park. We believe that our manufacturing facilities are well maintained, in good operating condition and suitable for their current purposes. Meanwhile, we plan to establish another specialized industrial park at Jiangyin, Jiangsu Province. In addition to expanding our manufacturing capacity, we also plan to further improve our manufacturing efficiency and processes by reducing our manufacturing cycle times and upgrading existing technologies.

Manufacturing Process

The diagram below illustrates the major manufacturing process of our principal products:

Generally, our manufacturing process can be broadly categorized into the following steps:

— Procurement of raw materials, parts and components. Principal raw materials, parts and components include steel sheets, round steel, steel pipes, electrical parts, hydraulic cylinders and valves and chassis. Some of the raw materials, parts and components do not need to be processed. They can be assembled into semi-finished products upon completion of quality inspection.

— Processing of raw materials, parts and components. Raw materials, parts and components are processed according to the necessary technical specifications to form the specified components. Such treatment process includes cutting, drilling, gas cutting, welding, bending, abrasive blasting, polishing, pre-coating, machining and heat treatment. While we purchase some components processed by third parties, the processing of raw materials, parts and components is typically either carried out by us or is outsourced to external third parties who conduct the processing based on our designs and technical specifications. We typically outsource procedures that do not involve our proprietary technologies to third parties, including surface treatment, painting and zinc plating. We perform strict quality control measures to inspect the raw materials, parts and components processed by third parties.

— Assembly of parts and components into semi-finished products. Raw materials, parts and components are further processed to form semi-finished parts ready for final assembly. These materials will undergo processes including welding and drilling.

— Assembly and integration of semi-finished products. All semi-finished parts and components, such as electric motors, electric controls, hydraulic cylinders and valves and chassis, are assembled and integrated to form the finished products.

— Coating. Finished products are sent to the coating factory.

— Commissioning. Finished products are sent for commissioning, further adjustments and fine tuning before being dispatched to the manufacturing sites for evaluative testing and quality inspection. For additional information as to the testing and quality inspection of our products, please see •„Quality Control.Ž

— Warehousing. The painted final products are sent to our warehouses for storage and distribution to our customers.

To avoid duplication of processing facilities in our different specialized industrial parks and factories, we also group certain pre-assembly processing and treatment steps of the raw materials, parts and components, such as coating, before dispatching them to the specialized industrial park for assembly. The lead manufacturing time for our products varies. The lead manufacturing time for our concrete machinery, excluding concrete mixing plants, ranges from 10 to 33 days, the lead manufacturing time for our mobile cranes ranges from 30 to 210 days, the lead manufacturing time for our crawler cranes ranges from 45 to 180 days, and the lead manufacturing time for our tower cranes ranges from 7 to 30 days.

Every stage of our manufacturing process is subject to quality control procedures and adheres to our strict quality control standards. See •„Quality ControlŽ for additional information.

In order to utilize our manufacturing facilities more effectively and enhance our manufacturing efficiencies, we are continuously improving our manufacturing processes. We have hired experts in relevant areas to implement lean manufacturing and zero-defect manufacturing measures. Our headquarters develops general directional strategies to improve our manufacturing efficiencies, which are then adjusted and implemented by each of our business divisions, with the approval from our headquarters, to best suit their manufacturing activities. We believe that enables our business divisions to tailor the implementation of the strategies and improve their manufacturing processes, and thus, allocate resources more efficiently and help address the practical business needs.

Manufacturing System

We have developed and implemented an advanced manufacturing system based on the master production schedule, or MPS, model. At the end of the third quarter of each year, our senior management first sets the overall business plan as well as a target for our domestic and international sales plan for the next year based on the prevailing macro economic outlook, industry forecast and our strategic targets. The manufacturing division would then set an MPS to implement the overall business plan and to achieve the domestic and international sales targets. The MPS sets out the quantity of each model to be completed in a given month. At the end of each month, our manufacturing division sets the detailed manufacturing plan that covers each phase of the manufacturing process for the following month in order to implement the MPS. In order to minimize inventory levels, our manufacturing department also adjusts the MPS based on the actual orders we receive.

We utilize automated and computerized systems in our manufacturing lines for many stages of our manufacturing processes in most of our manufacturing facilities. As a result, certain specific and up to the date of this offering memorandum, we have not experienced any product recall that adversely impacted our reputation, business operations or financial condition. Our quality control procedures start with quality assurance of raw materials, parts and components, which includes annual evaluation of our major suppliers and inspection of raw materials, parts and components upon their arrival at our facilities. We regularly dispatch quality control personnel to our key suppliers in order to ensure the quality of the raw materials, parts and components we procure externally. Raw materials, parts and components that fail our inspection are returned to suppliers. We also established quality control measures in all key stages of our manufacturing process, and test all finished products before delivery to customers. If a problem is detected, a failure analysis is performed to determine the cause. We distribute internal quality control publications on a weekly and monthly basis that inform, examine, and analyze quality control issues and problems that are identified in order to continuously improve our quality control measures.

We have received ISO9001:2008 certification for the quality management system, ISO10012 for the measurement management system, ISO14001 certification for the environmental management system and BSOHSAS18001 certification for the occupational health and safety management system covering substantially all of our products. We have also received many other domestic and international certifications for our products from PRC government agencies and independent international certification authorities, including the China Compulsory Certification for product quality and safety from the China Quality Certification Center and the CE certification from TüV Rheinland and TüV SüD, independent certification institutions based in Germany, as well as GOST-R certification in Belarus, TP certification in Russia, MOM certification in Singapore, UksEPRO certification in Ukraine, North America certification and Product Safety Certification in South Korea and Brazil. We believe all of these certifications demonstrate the technological capabilities of our manufacturing processes and help build customer confidence.

SUPPLIES

Raw Materials, Parts and Components

The principal raw materials, parts and components that we use to manufacture our products include steel, branded chassis, hydraulic pumps, valves and cylinders, engines, tires, electric controls, and a variety of other commodities and fabricated or manufactured parts and components. We currently source our raw materials and a portion of the parts and components used in our products from multiple suppliers located in and outside of the PRC. We also manufacture certain key parts and components that are used in our products, especially for hydraulic cylinders and valves. We have also recently increased our efforts to manufacture chassis for our products as well. We may continue to subcontract and outsource the manufacturing of additional non-key parts and components to external parties in the future as we believe it can be more cost effective and a more efficient use of resources. We manufacture certain major parts and components in-house, including hydraulic cylinders and valves, structural parts and machined parts.

Procurement Control

We adopt different policies to manage our procurement for raw materials, parts and components. We typically have multiple suppliers for each of our raw materials, parts and components so as to minimize any potential disruption of our operations, maintain sourcing stability and secure competitive prices from suppliers. For certain raw materials, parts and components with limited supply sources or which are manufactured specifically for an individual product type, including steel, chassis and hydraulic pumps, we enter into strategic framework agreements to ensure a sufficient supply. Our strategic cooperation framework agreements express the parties• intention to explore future cooperative opportunities and normally specify favorable pricing terms, supply priority, quantity, and quality of raw materials, parts and components to be provided, and post-sales service assurance. Our strategic cooperation framework agreements also provide for minimum purchase volumes. Our strategic cooperation framework agreements typically have a term of one to three years. We make our raw materials, parts and components procurement plan based on the MPS. Depending on the type and lead time of raw materials, parts and components, purchase orders are issued on a weekly or monthly basis.

As our raw materials and components procurement plan is based on the MPS, our inventory of raw materials, parts and components required is minimized and kept at an appropriate level to facilitate the manufacturing process. For certain small key parts and components that we use on a recurring or regular basis, we typically maintain stock at a level based on our inventory policy. For imported parts and components, including hydraulic pumps, valves and cylinders, we typically maintain a stock for our production needs of 15 to 30 days. For parts and components manufactured in China, including engines, we typically maintain a stock for our production needs of seven to 15 days. This is to ensure a ready and sufficient inventory level when we need to significantly adjust our MPS. For certain of our operation segments, we have also installed an enterprise resource planning, or ERP system which provides us with real-time information about purchases, production schedules and supplies of our raw materials, parts and components. By providing us with quick access to various data and easy formulation of operating models, the ERP system has substantially improved our inventory controls.

CUSTOMERS, DISTRIBUTION NETWORK AND SALES AND MARKETING

Customers

We sell our products to customers around the world. In 2009, 2010, 2011 and the nine months ended September 30, 2012, sales to end-users in China accounted for 87.4%, 94.3%, 94.5% and 93.3%, respectively, of our consolidated turnover. We currently market and sell a majority of our products under the Zoomlion brand to domestic customers in China. On the other hand, our products under the CIFA brand are primarily sold to customers that are located outside China. In addition, our products under the CIFA brand are sold in China through our extensive distribution network.

Our concrete machinery, crane machinery and certain other construction machinery such as rotary drilling rigs, earth working machinery and special vehicles are typically sold, either directly or through dealers, to property developers, infrastructure construction companies, construction contractors or government agencies. Our road construction machinery is typically sold, either directly or through dealers, to infrastructure construction companies or government agencies. Our material handling machinery and systems are typically sold to mining companies and port construction companies. Most of our environmental and sanitation machinery is sold to government agencies. The sales of our products to government agencies and certain customers are achieved through competitive bidding and tender processes. We have established a dedicated team that specializes in such government or private competitive bidding and tender processes. In certain cases, our products are also sold to leasing companies. We also consider certain large-scale state-owned enterprises, such as China Railway Engineering Group Co., Ltd., China Railway Construction Corporation Limited and China Communication Construction Company Limited to be our major customers. While historically, direct purchases from these major customers did not account for a significant percentage of our consolidated turnover, we have been able to sell several lines of products to the contractors engaged by these customers based on their recommendations.

Currently, we have over 30,000 customers that varied widely in terms of their contribution to our total turnover. In 2009, 2010, 2011 and the nine months ended September 30, 2012, sales to our largest customer accounted for approximately 1.2%, 1.5%, 1.0% and 0.7%, respectively, of our consolidated turnover, and our five largest customers accounted for approximately 4.6%, 5.0%, 3.6% and 2.9%, respectively, of our consolidated turnover, and for the respective periods.

Sales and Distribution

We have established an extensive distribution network in China. As of September 30, 2012, the distribution network consisted of 935 outlets, 1,007 service centers and 528 components depots owned and operated by us, as well as 134 outlets, 227 service centers and 148 components depots owned and operated by third-party dealers, covering more than 300 cities and all provinces and autonomous regions in China. As of September 30, 2012, we employed over 7,300 marketing, sales and after-sales services personnel in China. In addition, we sell our products to over 120 different countries and have also established an extensive overseas distribution network which, as of September 30, 2012, consisted of 52 outlets, 73 service centers and 23 parts and components depots owned and operated by us, as well as 120 outlets, 140 service centers and 60 parts and components depots owned and operated by our 62 third-party dealers. Our dealers generally have experience in the sales of construction machinery or other machinery. As part of our strategy to enhance our sales and distribution network, beginning in 2011, we make investments in certain of our dealers in China from time to time.

We provide personalized and tailored purchasing experiences for our customers by offering consultations to design comprehensive solutions in accordance with each customer•s specific needs, industry and business operations. For example, our engineers will accompany our customers to their construction sites to understand work requirements and recommend the most suitable products. We also provide technical advisory services to our customers and assist them in designing construction plans based on available equipment. For special projects, we work with our customers to design and manufacture tailored products to address the customers• unique needs. Some of our products are sold to customers who, as a result of our reputation or customer referrals, approach us directly. However, we also actively source business through open or invited tenders where competitive bidding processes are arranged by potential customers.

We select our dealers in China based on their reputation, market coverage, sales experience and ability to foster relationships with local customers, financial strength and existing or potential size of their distribution force. Our dealers include specialized construction machinery retailers, car dealers and electrical engineers, including special equipment service providers. We typically require a deposit when we engage a dealer. We have two types of arrangements with our dealers. Under the first type, our dealers in China purchase our products from us and subsequently sell our products within a designated region to end-users. Under the second type, we sell our products through dealers to particular customers or projects, and the sales contracts for our products are between the customer and us. Our dealers under the second type of arrangement are compensated by commissions paid by us. In 2009, 2010, 2011 and the nine months ended September 30, 2012, a majority of our sales in connection with dealership arrangements are made under the first type of arrangement.

For the first type of arrangement with our dealers, we typically enter into written distribution agreements for a one-year term with our dealers in China that are generally renewed annually. The second type of arrangement with our dealers is typically customer and/or project based and the contract terms vary from dealer to dealer. These distribution agreements set forth guidelines for the sale and distribution of our products, including restrictions on the territories in which our products may be sold to end-users by such dealers. Our distribution agreements also allow our dealers to sell our products to overseas end-users. Dealers who sell our products to overseas end users are typically subject to the same terms and conditions under the first type of arrangement, and have similar rights and obligations to the other dealers under the first type of arrangement. Under the first type of arrangement, we typically enter into non-exclusive agreements under which we are not bound to only sell to such dealers within a defined territory. Our distribution agreements typically have certain periodic sales targets to facilitate our evaluation of the performance of our dealers. Failure of our dealers to achieve the sales targets would not result in any penalty, but may result in non-renewal of the distribution agreement. In addition, if the dealers sell competing products from other companies, we also reserve the right to terminate the distribution agreements. Under the second type of arrangement, we typically enter into non-exclusive agreements with our dealers.

We utilize different combinations of direct sales outlets and dealers for different types of products, customers• demand and geographic areas to maximize our market penetration. As part of our efforts to integrate resources across different operating segments, since 2008, we have established various all-products sales and service centers in major cities across the key markets where there is strong demand for more than one line of our products and our important customers are located, allowing us to fully leverage our customer relationships and information and to cross-sell our products.

Our products are typically sold internationally through dealers supported by certain of our own distribution outlets staffed with our own personnel. Our international distribution network is comprised of 62 third-party dealers as of September 30, 2012. Our international third-party dealers typically purchase our products from us and subsequently sell our products within a designated region to end-users. The contractual arrangements with our international third-party dealers are similar to the first type of contractual arrangement with our third-party dealers in China in this respect. Certain of our international dealers also engage sub-dealers to further broaden the market reach of our products. We typically enter into written exclusive distribution agreements with our international dealers for either one- or two-year terms that can be renewed upon expiration of the agreements. International distribution agreements contain similar terms as our domestic distribution agreements, but many of the tires, batteries and friction plates in our mobile cranes are subject to warranty terms of 30 days, 45 days and three months, respectively. In addition, our product warranty does not cover normal wear and tear during the products• use. Our product warranty typically requires us to provide after-sales services covering parts and labor for non-maintenance repairs, provided operator abuse and improper use or negligence did not necessitate the repair. Certain parts and components of our products, however, are not covered by us but are covered by the warranties of the manufacturers of such parts and components, such as the branded chassis used in our products. In accordance with the relevant return procedures, our customers can return defective components of our products to us during the warranty period. Following the expiration of the warranty period, we may provide repair and maintenance services and supply parts and components for a fee based on the services required. Product warranty expenses incurred in 2009, 2010, 2011 and the nine months ended September 30, 2011 and 2012 were RMB87 million, RMB135 million, RMB154 million (US$25 million), RMB100 million and RMB120 million (US$19 million), respectively.

We provide a comprehensive suite of after-sales services to our customers, which includes many value-added services aimed at lowering costs to our customers and increasing their productivity and operating efficiency. When our products arrive at our customers• locations, our technical personnel are present on-site to provide any required installation and assembly services. Furthermore, to ensure that our customers understand the operation and functions of our products, we provide on-site technical and product training. We also perform preventive maintenance and diagnostics for our customers, instead of waiting for our customers to request maintenance services. Other value-added after-sales services include the procurement of product insurance and other necessary certifications and providing ongoing relevant industry advice and analysis. Furthermore, we are one of the few construction machinery manufacturers• in China to offer remanufacturing services as a value-added service to our customers, including technological upgrades and extending the life of their products at the request of customer.

As part of our commitment to provide quality after-sales services, we implement a •24 Hours On-callŽ policy under which we aim to respond to customers within 24 hours. We also provide on-site support to our customers within two hours for urban areas covered by our service centers.

After-sales services overseas are currently provided either through over 140 service centers and 60 parts and components depots of our international dealers or through 73 of our own service centers and 23 parts and components depots located across Italy, Russia, the United Arab Emirates, Belgium, Vietnam and 30 other countries.

In order to ensure that our brand is associated with high quality and both reliable and responsive service levels, we constantly provide training to our own and our dealers• after-sales services personnel. We expect our dealers to provide the same, if not higher, levels of service than our own personnel, with such capability an important criterion in our selection of dealers. We also continuously catalog and archive our customers• product usage history which assists us in improving the quality of our services and enhancing our knowledge as to such customers• preferences, needs, constraints and strategies and the field performance of our products.

Pricing Strategy

We formulate and adjust the prices for most of our products based on such product•s life cycle and in a market-oriented manner. As a majority of our products remains in the growth stage of their life cycle, we adopt a pricing strategy focused on maximizing our profitability and margins. We also take into account factors such as product capabilities, degree of competition, market demand and changes and improvements in technical innovations in pricing our products. The sales prices of our products are formulated at the sales center level. The prices of our products are not subject to official price guidelines under PRC laws and regulations. The sales prices of our products are generally the same within each designated region in China but may be affected by variation in transportation costs. However, the sales prices of our products outside of China are generally higher than the sales prices for the same products in China. For most of our machinery, we set a suggested sale price, while giving our sales personnel and third party dealers the flexibility to offer certain discounts. We also provide volume discounts to certain of our customers as well as a discount from the retail purchase price to our dealers.

Payment Options

We currently provide certain of our customers, including our dealers, with full payment or installment payment options, or provide financial guarantees for such customers• bank loans to purchase our products, depending on the credit quality of our customers or dealers and the general business practices in the region in which the products are sold.

In addition, starting from May 2007, we began to provide finance lease services directly to our end-user customers in China covering all products manufactured and sold by us through our subsidiary Beijing Zoomlion Leasing. We also established Zoomlion Finance and Leasing (China) in February 2009 to further expand our finance lease services domestically, and Zoomlion Capital (H.K.) in May 2008 to expand our finance lease services overseas. Our two PRC subsidiaries, Beijing Zoomlion Leasing and Zoomlion Finance and Leasing (China), have obtained prior approvals from MOFCOM to conduct finance lease business, and have complied with all the other requirements under PRC laws as to registered capital, relevant experience for senior management and specialists of the enterprise and periodic inspection from MOFCOM. In addition, we have obtained the relevant licenses and/or complied with the requirements and conditions in order to provide finance lease services in Hong Kong, Australia, Italy, Russia and South Africa. In addition, our financial guarantee arrangement does not violate any laws and regulations in the PRC.

The following table sets forth the breakdown of total turnover from sales of our products by different payment options, and each expressed as a percentage of turnover from sales of our products, for the periods indicated:

	Year Ended December 31,						Nine Months Ended September 30,			
	2009		2010		2011		2011		2012	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in millions, except for percentages)									
Full payment	6,896	33.9	10,312	33.1	13,145	29.4	10,808	33.7	7,783	20.5
Installment payment	2,666	13.1	5,090	16.3	8,839	19.8	5,137	16.0	10,355	27.3
Sales under financial guarantee arrangement	3,340	16.4	6,028	19.4	7,170	16.0	6,557	20.4	7,826	20.7
Sales under finance lease[1]	7,463	36.6	9,720	31.2	15,586	34.8	9,589	29.9	11,925	31.5
Total	20,365	100.0	31,150	100.0	44,740	100.0	32,091	100.0	37,889	100.0

Note:

(1) The interest income from finance lease service is not included in the sales under finance lease arrangement in the above table as such income is not directly derived from product sales under the finance lease payment option. In 2009, 2010, 2011 and the nine months ended September 30, 2011 and 2012, our interest income under finance lease amounted to RMB397 million, RMB1,043 million, RMB1,583 million (US$252 million), RMB1,116 million and RMB1,219 million (US$194 million), respectively.

— Under the full payment option, credit terms granted to our customers normally range from one to three months from the date of billing, and an upfront payment ranging from 10% to 30% of the product price is required based on the different terms agreed with the customers.

— Under the installment payment option, our customers are typically required to make an upfront payment ranging from 10% to 40% of the product price and settle the remaining balance on a monthly equal installment basis within 24 months. We allow certain customers with appropriate credit standing to make payments in installments over a period of up to 36 months.

— Under the financial guarantee arrangement, our customers are required to make an upfront payment ranging from 20% to 30% of the product price and arrange bank loans for the remaining balance to finance the purchase of machinery, and we will provide financial guarantees for such customers• bank loans. The terms of these guarantees coincide with the tenure of bank loans that generally range from two to four years.

— Under the finance lease arrangement, the length of the lease is generally two to four years, although for certain products that have a longer useful life, such as tower cranes, crawler cranes and large-capacity truck cranes, we may extend the length of the lease to five years. Our finance lease services cover all our product lines, including concrete machinery, crane machinery, environmental and sanitation machinery, road construction and pile foundation machinery, earth working machinery, material handling machinery and systems and other types of machinery products. Generally, our products have an estimated average useful life of ten years. However, based on circumstances including working conditions, work load, usage and maintenance, the actual useful life of our products could vary significantly among our end-users. The length of the lease is typically much shorter than the useful life of the leased equipment. An upfront payment ranging from 5% to 20% of product price is required. Also, we require a security deposit equal to 1% to 10% of the product price from the customers, which will be released upon completion of the lease period and the receipt of final lease payment. 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. Terms of the finance lease services provided are determined based on our relationship with and the credit quality of the customer. We believe finance lease services provide customers with a more flexible payment option that increase the attractiveness of our products, especially in overseas, where the typical payment option of choice is a finance lease.

By offering varying payment options, we are exposed to business and credit risks. Accordingly, individual credit evaluations are performed on all customers requiring credit over a certain amount, customers choosing our installment payment option, financial guarantee arrangement and financial lease arrangement. These evaluations focus on each customer•s background and financial strengths, past payment history and current ability to pay, and take into account information specific to each customer as well as the economic environment in which such customer operates.

— Under the full payment option, we evaluate the creditworthiness of customers to which we grant credit in the normal course of business by performing credit checks. Credit exposure limits are established to avoid concentration risk with any single customer. To reduce our credit risk, we may request certain customers to pay with bank acceptance notes or letters of credit, which are guaranteed by banks with a maturity period ranging from one to six months.

— Under the installment payment option, credit evaluation, exposure limits and debt chasing procedures are in place, and collateral such as properties, machinery or third party guarantees are generally required for customers with lower credit ratings.

— Under the financial guarantee arrangement, we require the customers to provide a counter guarantee such that the customers agree to be responsible for the outstanding principal, interest, penalties, legal expensesooc receivables upon repossession of the equipment under the relevant finance leases by such bank. We dispose of or recycle such repossessed used equipment after refurbishing or remanufacturing, or in certain cases, sell such used equipment as is.

To manage the risks associated with finance leases, we established a risk control committee, which is responsible for risk evaluation for each credit investigation report submitted to them, the establishment of credit risk management policies, the supervision on the implementation of such policies, and risk management for finance leases, including determination of the key terms of the lease contracts such as interest rate, lease period and amount of security deposit. The risk control committee members are also responsible for approval of each leasing transaction within their respective authority. In May 2012, in view of the general economic condition in China, we strengthened our risk management and collection efforts. We established a risk management committee at our headquarters to replace the risk control committee for our finance lease services. The newly-established risk management committee is chaired by Dr. Sun Changjun, and comprises a number of our senior management, including Dr. Su Yongzhuan, Ms. Hong Xiaoming and Mr. Guo Xuehong. We have also appointed an internal control director to oversee and supervise our risk management practices. Our credit risk management procedures with respect to finance lease services include pre-lease investigation, lease approval, lease payment collection and management, as well as repossession and subsequent sale of machinery and forfeiture of related customer deposits in case of customer default. Moreover, we established a collection center at our headquarters and have implemented various measures, including incentive schemes for our personnel responsible for collecting receivables.

Marketing

We place great emphasis on the promotion of end-users• awareness of our brands and products. Our headquarters sets general strategies to promote our brands and approve marketing and promotional activities that are formulated and carried out by our respective business divisions, which vary according to our customer targets for the specific product type. Our marketing and promotional activities include offering extended warranties and participating in or organizing seminars, tradeshows and exhibitions to showcase our products and to seek end-user feedback for our products. Our headquarters also strategically pursues advertising campaigns through various media outlets such as trade publications, outdoor advertising, television and trade-related websites.

We assist our dealers to establish market demand for our products by providing the necessary marketing support and developing marketing and promotional strategies. We conduct periodic and intensive training and provide technical support seminars to our dealers in order to enable them to proactively educate potential customers as to the features and benefits of our products and adequately address our customers• need for after-sales services and repairs.

We have also carried out research and development projects in collaboration with several domestic institutions. Currently, we maintain cooperative relationships in connection with various research and development projects, including:

— Zhejiang University;

— Shanghai Jiao Tong University;

— Tongji University;

— Beijing University of Aeronautics and Astronautics;

— Hunan University;

— Dalian University of Technology; and

— Dalian Maritime University.

Our cooperation with these domestic institutions relates to the research and development of technologies that are crucial to our product development and enhancement. For specific research and development projects, we typically enter into cooperation agreements that typically require us to pay a fixed amount of service fees to the domestic institutions, and we have the exclusive rights to use the proprietary technology or patent resulting from such research and development projects. We also outsource certain processes in connection with our research and development efforts, including product testing, designing of data analysis systems and software development, to these domestic institutions. The results of the research and development projects are either solely owned by us or co-owned by the domestic institution and us. In certain limited circumstances, we also enter into cooperation agreements which require us to share a specified percentage of our profit from the sales of our products incorporating the technology from the research and development project during a specified period after completion of the project.

Our strength in research and development has allowed us to become a leading institution in the development and establishment of national and industry standards for construction machinery and environmental and sanitation machinery in China. We have participated in and contributed to the establishment of over 170 national or industry standards that are currently in effect, such as the national standard for concrete pumps, the first industry standard for truck-mounted concrete pumps in 2004 and the industry standard for chassis specially designed for mobile cranes. In 2011, we participated in the formulation and revision of nine national and industry standards. Furthermore, we are currently in the process of authorizing new national and industry standards in China for products such as road surface planers, asphalt mixing equipment and truck-mounted concrete mixers with major industry players, including XCMG, Shaanxi Construction Machinery Co., Ltd. and Tianjin Dingsheng Construction Machinery Co., Ltd., and research and development institutions such as Hanyang Special-Purpose Vehicle Institute and Tianjin Research Institute of Construction Machinery.

As a result of our leading market position and our active involvement in the establishment of national and industry standards, we are also an important member of the CCMA, the official construction machinery industrial organization in China under the SASAC which has over 1,500 members in total. However, given that all the major industry players are members of CCMA, we do not believe we are able to influence the data collection and publication process of CCMA. We believe our active participation in establishing industry standards and our nationally accredited research and development laboratories allow us to focus our research and development efforts on addressing prevailing market trends and develop products with industry-leading technological capabilities.

Product Research and Development

We focus our product research and development on improving product performance, features and controls to satisfy evolving and differentiated customer requirements and fine tune our product models to maximize product performance in varying working environments and conditions. We have developed and launched over 800 different products since the founding of our Group, which included a number of new products and product upgrades that have generated significant turnover, been commercially successful, and both realized a technology breakthrough in China and opened new opportunities, such as:

— truck-mounted concrete pumps with six-joint jibs, which significantly enhanced the maximal concrete placing range;

— QAY180, QAY220 and QAY350 all-terrain truck cranes with the then industry-leading lifting capacity;

— D5200 tower crane, which was the first tower crane with a lifting capacity of over 5,200 ton-meters; and

— QUY1000 crawler crane, the first crawler crane with a lifting capacity of over 1,000 tons.

Our acquisition of CIFA has further bolstered our research and development capabilities. CIFA•s research and development capabilities and efforts have led to the introduction of several commercially successful and innovative products on a global basis, such as:

— truck-mounted concrete mixer and pumps;

— concrete spraying machinery; and

— truck-mounted concrete pump with carbon fiber concrete placing boom.

We have selectively applied CIFA•s proprietary technologies to the research and development efforts of our Zoomlion line of concrete machinery products including:

— carbon fiber concrete placing booms;

— K-Tronic intelligent electrical control systems;

— boom fatigue test beds;

— pumping unit test beds; and

— finite element calculation.

While most of our products are not tailored to meet specific needs of individual customers, we may, from time to time, enter into arrangements with our customers to design and manufacture products based on their specific needs. The development of such products, while based on requests from our customers, are actually designed by us, and the intellectual property rights arising from the development of such products are usually owned by us and not by our customers. As part of our arrangements with our customers, our customers generally will arrange for their own technicians and engineers to participate in an appraisal of our new product designs, provide us with industrial testing fields for the testing of our new products, and after using our products, provide us with periodic updates and information so as to assist us in the development of new technology to upgrade the performance of the product. In return, we provide our customers with certain benefits or discounts for them to purchase such products.

INTELLECTUAL PROPERTY RIGHTS

We are committed to the development and protection of our intellectual property portfolio. We rely on a combination of patents, trademarks, copyrights and trade secret laws, employee and third-party non-disclosure/confidentiality and non-competition agreements to protect our intellectual property. We own and have applied for patents to protect the technologies, inventions and improvements that we believe are significant to our business. As of September 30, 2012, we held 1,530 patents in China, including 72 invention patents, 1,268 utility patents and 190 design patents. In addition, as of September 30, 2012, we had 27 patents held by CIFA in Italy. We also had 1,445 pending patent applications in China as of September 30, 2012. We anticipate we will apply for additional patents in the future as we develop new products, technology and designs.

We hold a number of registered trade names, brand names and registered trademarks. As of September 30, 2012, we maintained 598 trademark registrations in China, including eight trademark registrations for our CIFA brand in China, and 407 trademark registrations overseas. Our subsidiary CIFA maintained 24 trademarks registrations in Italy. In addition, as of September 30, 2012, we had 47 trademark applications in China, 122 trademark applications overseas, and we are also applying for trademark registrations in member countries of the Madrid Agreement, the European Union and the African Regional Intellectual Property Organization. Two of our trademarks were recognized as •Well-Known TrademarksŽ nationwide. Our trademark, the Chinese characters for Zoomlion and our trademark •ZoomlionŽ, were recognized as •Well-Known TrademarksŽ in China.

We have also obtained 57 copyrights for our software in China used to control the various electrical components in our products as of September 30, 2012.

With respect to proprietary know-how that is not patentable or for which patents are difficult to enforce, we rely on trade secret protection and non-disclosure/confidentiality and non-competition agreements in order to safeguard our interests. All of our personnel who have access to sensitive and confidential information have entered into non-disclosure/ confidentiality and non-competition agreements with us. We also take other precautions, such as internal document controls and network assurance procedures, including the use of a separate dedicated server for technical data.

COMPETITION

The industry in which we operate is highly competitive. We face direct competition both in China and internationally across all product lines and price ranges. In China, our competitors include domestic Chinese companies, such as XCMG Group, Sany Group and other domestic manufacturers that either offer a range of construction machinery and environmental and sanitation machinery or some specific types of competing products, and occasionally, certain multinational companies. In the international market, our major competitors include multinational companies such as Caterpillar Inc, Komatsu Machinery Corporation, Liebherr Group, Terex Corporation and Manitowoc Company Inc, regional manufacturers and certain domestic Chinese companies. Moreover, the industry is becoming increasingly competitive as new foreign entrants are currently seeking to enter the PRC market while more domestic Chinese manufacturers are enhancing their international penetration and competitiveness.

EMPLOYEES

As of September 30, 2012, we employed a total of 32,624 employees which are classified as follows:

Competency	Number of Employees	Percentage of Total Number of Employees
Technology, research and development	4,203	12.9%
Production	13,364	41.0%
Sales and marketing	7,855	24.1%
Management and administration	6,448	19.7%
Finance	754	2.3%
Total	32,624	100.0%

In 2009, 2010, 2011 and the nine months ended September 30, 2012, the staff costs we incurred were approximately RMB1,383 million, RMB2,249 million and RMB3,076 million (US$489 million) and RMB2,360 million (US$376 million), respectively.

We provide management personnel and employees with on-the-job education, training and other opportunities to improve their skills and knowledge. We sign individual employment agreements with our employees, covering, among other things, salaries, benefits, training, workplace safety and hygiene, confidentiality obligations relating to trade secrets and grounds for termination. The remuneration package of our employees includes salary, bonuses and allowances. Our employees also receive welfare benefits including medical insurance, housing subsidies, pension insurance, unemployment insurance, maternity insurance and other miscellaneous benefits. We made contribution to pension plans, which amounted to approximately RMB104 million, RMB122 million, RMB178 million (US$28 million) and RMB200 million (US$32 million) in 2009, 2010, 2011 and the nine months ended September 30, 2012, respectively.

ENVIRONMENTAL AND SAFETY MATTERS

We are subject to extensive national and local environmental laws and regulations where we operate concerning, among other things, emissions to the air, discharges to land, surface water and subsurface water, the generation, handling, storage, transportation, treatment and disposal of waste and other materials, and the remediation of environmental pollution relating to our properties and operations. Our products will need to comply with the applicable safety, exhaust and performance standards adopted by the respective jurisdictions into which we sell, which may differ depending on their respective characteristics. See •Regulatory OverviewŽ for additional information. However, for certain parts and components used in our products, such as branded chassis, it is the manufacturers of such parts and components who are responsible for ensuring that their parts and components are in compliance with the safety, exhaust and performance standards set forth by the relevant jurisdictions in which we sell our products. In 2009, 2010, 2011 and the nine months ended September 30, 2012, our cost of compliance with environmental protection rules and regulations was approximately RMB79 million, RMB10 million, RMB20 million (US$3 million) and RMB15 million (US$2 million), respectively.

The PRC national and local environmental laws and regulations impose fees for the discharge of waste substances above prescribed levels, require the payment of fines for serious violations and provide that the PRC national and local governments may at their own discretion close or suspend the operation of any facility that fails to comply with orders requiring it to cease or remedy operations causing environmental damage. The Italian environmental laws and regulations impose fees for the discharge of waste substances above prescribed levels, require the payment of administrative fines or impose criminal sanctions for serious violations and provide that the governmental or local authorities may require specific actions to be taken to remedy or discontinue any course of action that is causing environmental damage. We have installed various types of anti-pollution equipment in all our facilities to reduce, treat, and where feasible, recycle the wastes generated in our manufacturing process. We have also built appropriate facilities to filter and treat waste water and recycle the water back into our manufacturing process, as well as treat gaseous waste to reduce contaminant levels to below the applicable environmental protection standard before emission. As advised by our PRC legal advisors, Fangda Partners, and our Italian legal advisors, we have obtained all material environmental permits to conduct our manufacturing activities and we complied with the applicable environmental laws and regulations in the PRC and Italy in 2009, 2010, 2011 and the nine months ended September 30, 2012. We received ISO 14001 certification, the internationally recognized standards for the design and implementation of effective environmental management systems, covering the manufacturing process for all of our products. During 2009, 2010, 2011 and the nine months ended September 30, 2012, we did not received any notifications or warnings, nor were we subject to any fines or penalties in relation to any breach of any applicable environmental laws or regulations which had materially and adversely affected our financial condition or business operations.

We are subject to the PRC laws and regulations regarding labor, safety and work-related incidents. Our subsidiary CIFA in Italy is subject to Italian health and safety laws and regulations, which impose a number of strict safety standards and regulations that need to be followed within any premises or facilities or areas where work is conducted, so as to prevent accidents to employees and workers. Italian health and safety laws and regulations provide for administrative fines and even criminal sanctions against an employer who does not comply with the health and safety laws. We provide safety protection to our employees working in our manufacturing facilities, which includes providing them with adequate safety equipment and ensuring that our manufacturing facilities have adequate precautionary measures. In addition, we provide safety-related education to our employees to increase awareness as to safety in the workplace. Relevant warning signs, such as those against smoke and heat emissions are always used at required locations. During 2009, 2010, 2011 and the nine months ended September 30, 2012, we had complied with the relevant PRC and Italian workplace safety regulatory requirements in all material respects and have not had any incidents or complaints which had materially and adversely affected our financial condition or business operations.

INSURANCE

We maintain insurance policies on certain of our vehicles that cover losses arising from fire, earthquake, flood and a wide range of other natural disasters. We also maintain insurance policies in respect of transit risks of our products and personal injury insurance for our employees. Our subsidiary CIFA maintained insurance for inventories and production facilities, as well as product liability insurance. We do not maintain insurance on other properties and fixed assets of our other subsidiaries, including our production facilities, equipment and inventory. We also do not maintain product liability insurance, business interruption insurance, key-man life insurance or insurance covering potential liability relating to the release of hazardous materials, which we believe is in line with industry practices in China. In 2009, 2010 and 2011, we have not experienced any product liability claims. We plan to increase our insurance coverage in the near future to cover losses arising from potential liability of our Company and secure our assets. As advised by our PRC legal advisors, Fangda Partners, our insurance policies are in compliance with relevant laws and regulations in the PRC.

LEGAL PROCEEDINGS AND COMPLIANCE

On December 29, 2008, we entered into an Equity Transfer Agreement with Skyworth Mobile Communication (Shenzhen) Limited, or Skyworth Mobile, a mobile phone producer and an independent third party of the Company. Pursuant to the Equity Transfer Agreement, we were required to transfer 65% of the equity interests in Changsha New High-tech Industrial Development Zone Zhongke Beidou Hangdian Technology Co., Ltd., or Zoomlion Beidou, which was all of our equity interest in Zoomlion Beidou, to Skyworth Mobile for a purchase price of RMB20.15 million. We have transferred the 65% equity interests to Skyworth Mobile and such equity interests were registered in the name of Skyworth Mobile on December 30, 2008 with relevant registration authorities in China. After the sale of all of our equity interest in Zoomlion Beidou, we ceased to be a shareholder of Zoomlion Beidou and did not retain any control in this entity. Hence, we have ceased to consolidate this entity since then and did not enter into any shareholders agreements with Skyworth Mobile. The Equity Transfer Agreement provides that RMB10.0 million of the purchase price is due within 60 days of the effective date of the agreement, and RMB6.0 million is payable within 45 days of the completion of the registration with the relevant authority in China. The rest of the purchase price is payable within 45 days after the due date of the RMB6.0 million. However, Skyworth Mobile failed to pay us the purchase price when due and we filed a claim against Skyworth Mobile at a court in Changsha. The court entered into a judgment in our favor on July 24, 2009 ordering Skyworth Mobile to pay us RMB21,070,598.44 for the purchase price, interest accrued thereon and reasonable expenses. Skyworth Mobile appealed to a higher court which dismissed the appeal and upheld the original judgment. On January 15, 2010, we applied to the relevant court for the enforcement of this judgment. As of September 30, 2012, we were still in the process of enforcing the judgment. Having considered the court•s favorable judgment, as well as the assets of Skyworth Mobile frozen by the court to secure the settlement of the outstanding receivable balance, we have made a RMB10 million impairment provision against the RMB20.15 million receivable balance, which we believe is adequate. Furthermore, a number of investors have expressed interest in purchasing the equity interest in Zoomlion Beidou from Skyworth Mobile, who is in the process of negotiating a transfer agreement with these investors. We expect the transfer price of the equity interest to be used to settle the receivable balance.

Other than as disclosed in this offering memorandum, there are no other litigation or arbitration proceedings pending or threatened against us or any of our directors which could have a material adverse effect on our financial condition or results of operations.

REGULATORY OVERVIEW

OVERVIEW

Our business is extensively regulated by the policies, laws and regulations of the PRC and by government authorities at both local and national levels. All aspects of our operations, including research and development, design, manufacturing, sales and leasing activities, are subject to regulation, and so are our financing, accounting, administrative, and other non-operating activities. Many of the regulations, including environmental and safety regulations, apply to PRC firms generally or to all PRC manufacturing firms. Others, however, apply to us based on the nature of our products, which include special equipments and automobiles. This section describes the regulations to which we are subject that we believe are most important for a potential investor to understand.

REGULATIONS AS TO FOREIGN INVESTMENT POLICIES

The Provisions on Guiding the Directions of Foreign Investment, issued by the State Council, divides foreign investment projects into four categories: encouraged, permitted, restricted and prohibited. Additional details as to each of the encouraged, restricted and prohibited categories are provided in the Guiding Catalog of Foreign Investment Industries (the •Guiding CatalogŽ), which was jointly issued by the NDRC and the MOFCOM on December 24, 2011 and became effective on January 30, 2012.

Under the Guiding Catalog, the follow64.2(C)2.8()-365,oc [(Gui.8()-365,cti2idsued)-289er90.2(jm1elie2(Guidl

— the manufacture of devices of road tunnel disaster control and rescuing system;

— the design and manufacture of bridge repair and maintenance machinery, bridge detection and inspection devices and their relevant key components; and

— the manufacture of solid waste treatment and disposal equipments: landfill leachate treatment equipments.

In addition, according to the Catalog of Priority Industries for Foreign Investment in Central and Western China jointly issued by the NDRC and MOFCOM, development and manufacture of certain types of concrete machinery, cranes, environmental and sanitation machinery, road construction machinery, earth working machinery, hydraulic valves and cylinders and other construction machinery and key parts and components in Hunan Province are classified as •encouragedŽ projects.

The following business activities that we engage in or are associated with are classified as •restrictedŽ projects under the Guiding Catalog:

— the manufacture of mobile cranes and crawler cranes with lifting capacity of less than 400 tons (in the form of equity or cooperative joint venture only); and

— the manufacture of tractors with 320 horsepower or less, hydraulic excavators with lifting capacity of 30 tons or less, wheel-type loaders with loading power of 6 tons or less, graders and rollers with 220 horsepower or less, asphalt concrete mixing and paving equipments and high-altitude operation machinery, commercial concrete machinery such as trailer-mounted concrete pumps, truck-mounted concrete mixers, concrete mixing plants, and truck-mounted pump trucks.

Our other business activities fall into the category of •permittedŽ projects.

REGULATIONS AS TO MANUFACTURING

Special Equipments

Manufacture of many products in the PRC is subject to specific licensing requirements. Because the cranes construction lifts we manufacture fall into the •special equipmentŽ category of manufactured goods, we are required to maintain specific licenses in order to manufacture them. Three regulations contain these requirements: the Regulations on Safety Supervision of Special Equipment, the Regulations on Quality Control and Safety Supervision for Special Equipment, and the Regulations on Safety Supervision of Cranes.

Other Industrial Products

We are required to obtain licenses from the competent quality supervision authority before we manufacture certain goods, such as rubber hoses, rubber hose assemblies, and loading-dock equipment, because those goods are listed in the Industrial Products Catalog issued by the General Administration of Quality Supervision, Inspection and Quarantine (the •GAQSŽ). In addition to the Industrial Products Catalog, two legal provisions contain these requirements: the Regulations on the Administration of Production Licenses for Industrial Products, and the implementing rules for these Regulations.

Automobiles

We are required to obtain licenses for the manufacture of automotive goods under the Notice on Further Strengthening the Administration of Announcement and Registration of Automotive Manufacturing Enterprises and Products issued by the PRC•s Ministry of Industry and Information Technology (the •MIITŽ) and Ministry of Public Security (the •MPSŽ) and the Entry Rules of Special Purpose Vehicle and Trailer Manufacturers and Products. Under these regulations, a company is not allowed to manufacture any automotive goods until it has obtained the approval of the MIIT in a public announcement. In addition to such approval issued by MIIT, we are also required to meet various emission and pollution standards published by the Ministry of Environmental Protection (the •MEPŽ) from time to time, as well as to obtain certain permits issued by the MEP.

Also, vehicles and other automotive goods must pass government-mandated tests for compliance with a variety of safety standards, technical specifications and environmental protection requirements. After obtaining all the foregoing permits and passing all the requisite tests, automotive goods must be registered with the MPS prior to their sales.

The PRC government may also remove automotive products from the aforesaid public announcement if it determines that they no longer meet the relevant regulatory requirements. Such removal will deprive the relevant manufacturer of its entitlement to continue to manufacture or sell the removed automotive products in the PRC.

REGULATIONS AS TO AUTOMOTIVE PROJECTS INVESTMENT

An automotive manufacturer is subject to certain approval or filing for its investment in the automotive projects in the PRC. The following regulations set forth the requirements and details in connection with such approval or filing: the Decision of the State Council on Reform of the Investment System issued by the State Council on July 16, 2004, the Automobile Industry Development Policy issued by NDRC on May 21, 2004 and amended jointly by NDRC and MIIT on August 15, 2009, the Notice concerning the Administration of Filings of Investment Projects of Automotive Manufacturers as well as its supplementary notice promulgated by NDRC on June 30, 2004 and May 25, 2011 respectively. According to these regulations, certain projects related to the manufacture of motorcycles and/or their engines, or some parts or components of the automobiles shall only be filed with local NDRC, while other projects, such as the establishment of new automotive enterprises or the development and manufacture of new types of automotive products are subject to prior approvals from NDRC or its provincial counterparts.

Furthermore, under the Notice on Strengthening the Administration of Filings of Investment Projects of Automotive Manufacturers which came into effect on April 1, 2009, an automotive manufacturer investing in the special purpose vehicle projects is required to file with MIIT for record.

REGULATIONS AS TO RESEARCH AND DEVELOPMENT

PRC companies can apply for patents on their technical achievements and are entitled to related intellectual property protection. Under the PRC Patent Law and its implementing rules, a company can apply for an invention, utility model or design patent based on the nature of the relevant technical achievement. The duration of a patent is 20 years for inventions and 10 years for utility models and designs, in each case from the date of filing. For inventions devised by an employee in the performance of tasks assigned by the employer or using primarily the resources of the employer, the employer is entitled to apply for a patent. The patent rights for such inventions belong to the employer upon the approval of the patent application, provided that there are no prior agreements to the contrary between the employer and the employee.

REGULATIONS AS TO SALES, INSTALLMENT AND MAINTENANCE OF PRODUCTS

Automotive Certification and Inspection

Under the Implementation Rules on Compulsory Certification of Automobiles issued by the GAQS, automotive products, including imported vehicles and parts and components, are subject to compulsory certification conducted by government-designated certification agencies to ensure the products are in compliance with safety and technical requirements. An automotive product is permitted to be sold in China or imported into China only after passing inspection and obtaining a China Compulsory Certification. Each automotive manufacturer is subject to annual inspection of its compulsory certification by the GAQS. If an automobile manufacture fails to pass the annual inspection, it has three months to conform to inspection standards, after which its certification will be cancelled by GAQS.

Product Quality

Under the PRC Product Quality Law, manufacturers are liable for the quality of products that they produce and sellers must take reasonable steps to ensure the quality of the products they sell. If the seller of a product causes a defect in the product, the seller is liable to the user for damages caused by the product to any person or property (other than the defective product itself). Persons who are harmed or whose property is damaged by the defective product may claim such losses against the manufacturer or the seller.

On October 1, 2004, the Provisions on the Administration of Recall of Defective Automobiles jointly issued by GAQS, NDRC, MOFCOM and the General Administration of Customs came into effect. This regulation provides relevant principles of determining a defect product, the procedures of voluntary recalls and mandatory recalls, and the requirements in relation to the reporting, investigation and determination of automobile defects. According to such regulation, an automotive manufacturer must recall any defective automotive products made or imported by it, otherwise it shall be subject to various penalties, including but not limited to rectification and monetary fines. In addition, the State Council issued the Rules on the Administration of Recall of Defective Automotive Products on October 22, 2012, which will come into effect on January 1, 2013.

Installment and Maintenance

Under the Regulations on Safety Supervision of Special Equipment, companies engaging in the installation, improvement, or maintenance of electromechanical special equipment such as cranes must obtain installment, improvement, or maintenance licenses for such equipment and must operate within the scope of those licenses.

Export

Cranes and certain other products are subject to a quality licensing system for products intended for export. As a result, manufacturers of such products are required to obtain quality licenses for export within a designated period, otherwise such products will be prohibited from export. Four regulations set forth these requirements: the Measures of Quality Management and Supervision over Export of Electromechanical Products, the Administrative Measures of Quality License for Export of Electromechanical Products, the Administrative Measures of License for Export Machinery Products, and the Notice Regarding Enhancing the Administration on Licenses for Export Electromechanical Products.

Under the Notice Concerning Regulating the Automobile Export System and the Automotive Product Catalog issued by the PRC government, manufacturers of certain automotive products and the automobile export companies authorized by such manufacturers must obtain an automobile export license before exporting any automotive products.

REGULATIONS AS TO FINANCE LEASE INDUSTRY

Under the Measures for the Administration of Foreign-invested Lease Industry, which were adopted on March 5, 2005 by MOFCOM, a foreign-invested enterprise wishing to provide finance leases must obtain prior approval from MOFCOM. The Measures also contain entry requirements for foreign investors, including requirements as to registered capital and term of operations, risk assets limitations, and relevant experience for senior managers and specialists of the enterprise. Also, a foreign-invested finance lease enterprise is only allowed to conduct leasing business approved by MOFCOM, and is required to submit an annual financial and operations report to MOFCOM for its review.

According to the Notice of the MOFCOM and the State Administration of Taxation on Relevant Issues Concerning Conducting Finance Lease Business, which was issued on October 22, 2004, MOFCOM is responsible for the approval of domestic finance lease enterprise pilots. Any domestic enterprise providing finance leases must satisfy the conditions as follows: (a) a minimum registered capital of RMB170 million, (b) a sound internal management system and risk control system, (c) having professionals in the areas of finance, trade, law, and accounting, etc., and senior management with no less than three-year experiences in the lease industry, (d) good operating records without any violation of laws or non-compliance records in the past two years, and (e) having the industrial background in relation to the products which it provides for the finance lease services. A finance lease enterprise is also subject to the periodic inspection by MOFCOM, and its risk assets (including the balance of guarantee) shall not exceed ten times of its total capital.

Under the PRC laws, the finance lease enterprise is prohibited from engaging in the following businesses:

— Raising funds in the form of deposits or other disguised form;

— Providing loans to the lessee under the finance lease arrangement for working capital or other purposes;

— Securities investment or equity investment in financial institutions;

— Inter-bank borrowing or lending business; or

— Other financial businesses which are not approved by the China Banking Regulatory Commission.

REGULATIONS AS TO ENVIRONMENTAL PROTECTION

Manufacturing businesses are subject to PRC environmental laws and regulations, which include the PRC Environmental Protection Law, PRC Law on the Prevention and Control of Water Pollution, PRC Law on the Prevention and Control of Atmospheric Pollution, PRC Law on the Prevention and Control of Pollution From Environmental Noise, and the PRC Law on the Prevention and Control of Environmental Pollution by Solid Waste (collectively, the •Environmental LawsŽ). The Environmental Laws govern a broad range of environmental matters, including air pollution, noise emissions, sewage, and waste discharge.

Under the Environmental Laws, all business operations that could cause environmental pollution and other public hazards are required to incorporate environmental protection measures into their plans and establish a reliable system for environmental protection. Thesere-63nviro34.1R305.1(ht-634.1(Tadopt-63 of Social Insurance, the Interim Regulation on the Collection and Payment of Social Insurance Premiums, and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time in the PRC.

Under the PRC Labor Law and the PRC Labor Contract Law, labor contracts in written form must be executed to establish labor relationships between employers and employees. Wages cannot be lower than the local minimum wage. The employer must establish a system for labor safety and sanitation, strictly abide by state standards, and provide relevant education to its employees. Employers are also required to provide for their employees a safe and sanitary work environment that meets state requirements, and to carry out regular health examinations of employees engaged in hazardous occupations.

Under the Regulation of Insurance for Work-Related Injury, the Provisional Measures on Insurance for Maternity of Employees, the Interim Regulation on the Collection and Payment of Social Insurance Premiums, and the Interim Provisions on Registration of Social Insurance, we are required to provide our employees in the PRC with social insurance covering basic pension insurance, unemployment insurance, maternity insurance, injury insurance and basic medical insurance.

As a manufacturing company, we are subject to the PRC Production Safety Law (the •Production Safety LawŽ), which requires us to provide our workers with safe manufacturing conditions in accordance with standards set forth in various laws and administrative regulations. The law further provides that any entity that is not sufficiently equipped to ensure safe production may not engage in production and business operations, and that companies must provide production safety education and training programs to employees. The design, manufacture, installation, use, inspection, and maintenance of safety equipment are required to conform to applicable national or industry standards. In addition, labor protection equipment must meet national or industry standards, and companies must supervise and educate their employees to wear or use such equipment according to the prescribed rules.

REGULATIONS AS TO FOREIGN EXCHANGE

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations, as amended in August 2008. Under this regulation, Renminbi is freely convertible for current account items, including the trade and service-related foreign exchange transactions and other current exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities, unless the prior approval of the SAFE is obtained and prior registration with the SAFE is made.

Pursuant to the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange promulgated on June 20, 1996 by the People•s Bank of China, or PBOC, foreign-invested enterprises in China may purchase or remit foreign currency for settlement of current account transactions without the approval of the SAFE. Foreign currency transactions under the capital account are still subject to limitations and require approvals from, or registration with, the SAFE and other relevant PRC governmental authorities.

On August 29, 2008, the General Affairs Department of the SAFE issued the Notice concerning the Issues of Administration of Settlement of Foreign Currency Capital of Foreign Investment Enterprises, or Circular 142, which regulates the conversion by foreign-invested enterprises of foreign currency into Renminbi by restricting how the converted Renminbi may be used. Circular 142 requires that Renminbi converted from the foreign currency denominated capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the relevant government authority and may not be used to make equity investments in PRC, unless specifically provided otherwise. The SAFE further strengthened its oversight over the flow and use of Renminbi funds converted from the foreign currency-denominated capital of a foreign invested enterprise. The use of such Renminbi may not be changed without approval from the SAFE, and may not be used to repay Renminbi loans if the proceeds of such loans have not yet been used. Any violation of Circular 142 may result in severe penalties, including substantial fines.

On September 25, 1996, the PBOC issued the Foreign Security Measures which became effective on October 1, 1996. According to this regulation, if a non-financial institution plans to provide security to foreign companies, it shall first obtain approval from the competent foreign exchange administrative authority; and the non-financial institution shall conclude a contract in writing with the creditor and the secured party to agree on the rights and obligations of the parties under the security; subsequently,

REGULATIONS AS TO OVERSEAS INVESTMENT

According to the Rules on Overseas Investment issued by the MOFCOM on March 16, 2009 and coming into effect on May 1, 2009 (the •MOFCOM Overseas Investment RulesŽ), local PRC enterprises proposing to engage in overseas investment where the total investment by the PRC party would be USD 100 million or more must first obtain approval from the commerce authorities at the local provincial level and thereafter must seek approval from the MOFCOM. The MOFCOM Overseas Investment Rules further provide that, after an overseas investment application is approved, in case any matter in the original application changes, the enterprise shall apply to the original approving commerce authority for the approval of such modification.

The NDRC promulgated Interim Rules for the Administration of Examination and Approval of the Overseas Investment Projects in October 2004, which requires the approvals of the NDRC or its provincial counterparts, as the case may be, for overseas investment projects to be undertaken by PRC entities.

MANAGEMENT

GENERAL

Board of Directors

Our board of directors currently consists of two executive directors, one non-executive director, and four independent non-executive directors. The directors are all elected at shareholders• meetings for a term of three years, which is renewable upon re-election and re-appointment. The independent non-executive directors do not serve on the board of directors for more than six years. The duties and powers conferred on the board of directors include: convening shareholders• meetings, reporting its work to the shareholders, implementing shareholders• resolutions, determining our business and investment plans, preparing our annual budget and final accounts, formulating our proposals for profit distributions and recovery of losses, and formulating our proposals for the increase or reduction of registered capital, as well as exercising other powers as conferred by our articles of association.

Supervisory Board

The PRC Company Law requires a joint stock limited liability company to establish a supervisory board, and this requirement is also contained in our articles of association. Our supervisory board is responsible for monitoring our financial matters and overseeing the actions of our board of directors and our management personnel. Our supervisory board consists of three supervisors, one of whom is elected by our employees. The term of office of the supervisors is three years renewable upon re-election. The duties and powers conferred on the supervisors include: examining our periodic reports prepared by the board of directors and providing written comments, proposing resolutions to shareholders• meetings, and proposing the convening of a meeting of the board of directors, as well as overseeing the actions of the board of directors and our senior management in carrying out their duties. In the case of any conflict of interest between us and any of the directors, the supervisors shall negotiate or initiate legal proceedings against such directors on behalf of us as well as exercising other powers as conferred by the articles of association and shareholders• meetings. A resolution of our supervisory board may be adopted only if it is approved by voting by two-thirds or more of the members of our supervisory board.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The table below sets forth information regarding the directors:

Name	Age	Position	Date of Appointment
Dr. Zhan Chunxin	56	Chairman, Chief Executive Officer and Executive Director	August 8, 1999
Mr. Liu Quan	48	Executive Director	August 8, 1999
Mr. Qiu Zhongwei	43	Non-executive Director	July 13, 2006
Mr. Liu Changkun	68	Independent non-executive Director	July 13, 2006
Dr. Qian Shizheng	59	Independent non-executive Director	November 16, 2007
Mr. Wang Zhile	63	Independent non-executive Director	May 21, 2009
Mr. Lian Weizeng	65	Independent non-executive Director	May 21, 2009

EXECUTIVE DIRECTORS

Dr. Zhan Chunxin is the chairman of our board of directors and our chief executive officer. Dr. Zhan has been our director since our establishment in 1999, and chairman of our board of directors since 2001. Currently, Dr. Zhan also chairs our various subsidiaries. Dr. Zhan has also served as deputy chairman of the China Entrepreneurs Association and the China Enterprise Confederation since September 2008. Dr. Zhan has received various titles and awards including the title of •Young- and Middle-Aged Expert in Science Technology and ManagementŽ with •Outstanding Contribution to the Ministry of ConstructionŽ in 2008; the 2008 China•s Most-Watched Entrepreneur award, given in January 2009; and the Yuan Baohua Enterprises Management Gold Award in May 2010 which is the most distinguished award for corporate executives in China. Dr. Zhan also received the 2010 International Leonardo Award, which commends those persons who had made contributions to Italy•s economy, culture and technology, in recognition of Zoomlion•s acquisition of CIFA. Dr. Zhan was also recognized as a CCTV Economic Figure of 2011. Dr. Zhan obtained a master•s degree in Aeronautical Engineering from Northwestern Polytechnical University in Xi•an City, the PRC in 2000, and a doctorate degree in Systems Engineering from Northwestern Polytechnical University in Xi•an City, the PRC in 2005. Dr. Zhan possesses more than 32 years of experience in the construction machinery industry, which has given him a deep understanding of it. Dr. Zhan has an interest of approximately 30% of the issued share capital of Changsha Hesheng Science and Technology Investment Co., Ltd., or Changsha Hesheng, which together with Changsha Yifang Science and Technology Investment Co., Ltd., or Changsha Yifang, held approximately 7.1% of the entire issued share capital of our Company as of September 30, 2012.

Mr. Liu Quan is an executive director of our Company. Mr. Liu has been our director since August 1999. Mr. Liu also serves in various positions with our subsidiaries and affiliates. Mr. Liu became an expert entitled to special government subsidy granted by the State Council in April 1999. Mr. Liu has received various titles and awards including the 2005 Huaxia Construction Science and Technology Award (Grade II) awarded in January 2006, the Outstanding Leader in Quality Group Activities of Hunan Province awarded in August 2006, and the Outstanding Leader in National Quality Management Group Activities awarded in September 2006. Mr. Liu received his bachelor•s degree in Construction Machinery from Harbin University of Civil Engineering and Architecture in Harbin City, the PRC in 1984. Mr. Liu has approximately 26 years of experience in the construction machinery industry. Mr. Liu has an interest of approximately 4.6% of the issued share capital of Changsha Hesheng, which together with Changsha Yifang, held approximately 7.1% of the entire issued share capital of our Company as of September 30, 2012.

NON-EXECUTIVE DIRECTOR

Mr. Qiu Zhongwei is a non-executive director of our Company. Mr. Qiu has been our director since July 2006. Mr. Qiu is currently the managing director of Beijing Hony Future Investment Advisor Ltd. and provides advisory services to Hony Capital Fund III, L.P. Mr. Qiu was also a non-executive director at Digital China Holdings Ltd. (stock code: 861), a company listed on the Hong Kong Stock Exchange, from February 2009 to September 2010. Mr. Qiu received a bachelor•s degree in Technology Economics from Xi•an Jiaotong University in Xi•an City, the PRC in 1990, and a master•s degree in Business Administration jointly awarded by the Kellogg School of Management at

Northwestern University and the Hong Kong University of Science and Technology in Hong Kong in April 2003. Mr. Qiu has approximately 20 years of experience in corporate management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Changkun is an independent non-executive director of our Company. Mr. Liu has been our director since July 2006. Mr. Liu has acted as a senior officer in various public bodies. He has been Chairman of the China Association of Chief Financial Officers since December 2007, Associate Professor in Enterprise Management at Jiangxi University of Finance and Economics and Shandong University of Finance since October 2003, and Deputy Director of the China National Committee for the Well Being of the Next Generation since May 2004. Mr. Liu received a bachelor•s degree in Chinese Language and Literature from Beijing Normal College in Beijing, the PRC in 1965, and a master•s degree in Comparative Studies on Chinese and Foreign Cultures from Renmin University of China in Beijing, the PRC through the correspondence course in 1989.

Dr. Qian Shizheng is an independent non-executive director of our Company. Dr. Qian has been our director since November 2007. Dr. Qian holds senior management positions in various public companies. Dr. Qian has over 20 years of experience in accounting and finance including the review and analysis of financial statements of public companies as Director, Chief Financial Officer and/or member of the audit committees of various Hong Kong and PRC listed companies.

Mr. Wang Zhile is an independent non-executive director of our Company. Mr. Wang has been our director since May 2009. Mr. Wang became an expert entitled to special government subsidy granted by the State Council in October 1995. Mr. Wang is currently the head of the Beijing New-Century Academy on Transnational Corporations. He holds senior management positions in various public companies. Mr. Wang received the Scientific Research Achievement Award from the Ministry of Commerce in 2000. Mr. Wang received his master•s degree in History from Liaoning University in Shenyang City, the PRC in 1982.

Mr. Lian Weizeng is an independent non-executive director of our Company. Mr. Lian has been our director since May 2009. Since April 2009, Mr. Lian has served as an external director of China National Machinery Industry Corporation, a state-owned enterprise. Mr. Lian had previously served as Head of the Personnel Bureau of State-owned Assets Supervision and Administration Commission of the State Council from May 2003 to January 2007. Mr. Lian also acted as an external director of China Railway Engineering Group Co., Ltd. from January 2007 to February 2008. Mr. Lian received a diploma in Economics and Management from the Beijing Committee Party School in Beijing, the PRC in January 1988 and received a bachelor•s degree in Leadership through the correspondence course in Economics and Management from Party School of the Chinese Communist Party Central Committee in Beijing, the PRC in 1997.

None of the above directors has any interest in any business which competes or is likely to compete, either directly or indirectly, with us.

SUPERVISORS

The table below sets forth information regarding the supervisors:

Name	Age	Position	Date of Appointment
Mr. Cao Yonggang.	39	Chairman of the Supervisor Board	July 22, 2010
Mr. Luo Anping	50	Employee Supervisor	July 22, 2010
Mr. Liu Chi	54	Supervisor	July 13, 2006

Mr. Cao Yonggang is the chairman of our supervisory board. Currently Mr. Cao is the general manager of the risk management department of Beijing Hony Future Investment Advisor Ltd. Mr. Cao has been qualified as a lawyer in the PRC since 1996. Mr. Cao graduated from Nankai University with a bachelor•s degree in Laws in Tianjin City, the PRC in 1995, and has two master•s degrees in International Law from Peking University in Beijing, the PRC in September 2001 and Erasmus University Rotterdam in the Netherlands in February 2002 respectively, and a master•s degree in Executive MBA from China Europe International Business School in Beijing, the PRC in September 2010.

Mr. Luo Anpin is an employee supervisor of our Company. He is also the vice president of the concrete machinery branch of our Company. Mr. Luo was Deputy chief of the administrative security department of Research Institute, head of the administration department of Research Institute and deputy head of the Research Institute successively from January 1996 to December 2008. Mr. Luo has been a supervisor of our Company since July 2006. Mr. Luo graduated from Central South University in Changsha City, the PRC with a diploma in Administrative Management in 1989. Mr. Luo has an interest of approximately 1.7% of the issued share capital of Changsha Hesheng, which together with Changsha Yifang, held approximately 7.1% of the entire issued share capital of our Company as of September 30, 2012.

Mr. Liu Chi is a supervisor of our Company. Mr. Liu was the executive vice president of the environmental and sanitation machinery branch of our Company from 2004 to 2008. Mr. Liu was our employee supervisor from July 2006 to July 2010. Mr. Liu graduated from Hunan Agricultural College (currently known as Hunan Agricultural University) in Changsha City, the PRC with a bachelor•s degree in Agricultural Machinery in July 1982, and received his master•s degree in Architectural and Civil engineering from Chongqing Architecture University (currently known as Chongqing University) in Chongqing, the PRC in January 2000. Mr. Liu has an interest of approximately 1.3% of the issued share capital of Changsha Hesheng, which together with Changsha Yifang, held approximately 7.1% of the entire issued share capital of our Company as of September 30, 2012.

Save as disclosed in the offering memorandum, each of our directors and supervisors has confirmed with respect to himself that: (a) he has not held any directorships, current or past, since January 1, 2008 up to the date of this offering memorandum in any public companies whose securities are listed on any securities market in Hong Kong and/or overseas; (b) he is not related to any other director, supervisor, senior management member or substantial shareholder of our Company; (c) there is no information to be disclosed for him pursuant to the requirements under Rules 13.51(2)(h) to 13.51(2)(w) of the Listing Rules; (d) there are no other matters that need to be brought to the attention of holders of securities of our Company; and (e) all the requirements under Rule 13.51(2) of the Listing Rules have been fulfilled.

SENIOR MANAGEMENT

The table below sets forth information regarding our senior management:

Name	Age	Position	Date of joining our Group	Date of Appointment
Dr. Zhan Chunxin	56	Chairman and Chief Executive Officer	August 31, 1999	August 8, 1999
Dr. Zhang Jianguo	52	Senior President	August 31, 1999	August 1, 2007
Mr. Yin Zhengfu	55	Senior President	September 9, 2004	August 1, 2007
Mr. He Jianming	48	Senior President	April 17, 2001	August 1, 2007
Ms. Du Youqi	53	Senior President	August 31, 1999	November 13, 2007
Mr. Fang Minghua	54	Senior President	August 31, 1999	September 1, 2008
Mr. Wang Chunyang	56	Senior President	September 27, 2004	September 1, 2008
Mr. Xu Wuquan	54	Senior President	August 31, 1999	July 23, 2010
Mr. Xiong Yanming	47	Vice President	August 31, 1999	August 20, 2006
Dr. Su Yongzhuan	39	Vice President	September 9, 2004	August 20, 2006
Mr. Guo Xuehong	49	Vice President	September 9, 2004	August 20, 2006
Dr. Sun Changjun	49	Vice President	January 1, 2005	August 20, 2006
Mr. Li Jiangtao	48	Vice President	August 31, 1999	September 1, 2008
Ms. Hong Xiaoming	48	Vice President and Person in Charge of Financial Affairs	October 30, 2009	January 5, 2010
Mr. He Wenjin	41	Vice President	June 15, 2008	July 23, 2010
Mr. Chen Xiaofei	48	Vice President	August 31, 1999	July 23, 2010
Mr. Chen Peiliang	40	Vice President	September 23, 2002	July 23, 2010
Mr. Ajilore Akinola Odunayo	51	Vice President	April 26, 2012	April 26, 2012
Mr. Wang Yukun	45	Chief Information Officer	August 25, 2008	July 23, 2010
Mr. Shen Ke	40	Company Secretary	December 23, 1999	December 1, 2010

Dr. Zhan Chunxin is the chairman of our board of directors and our chief executive officer. See the subsection above under the heading of •Executive DirectorsŽ.

Dr. Zhang Jianguo is a senior president of our Company. He holds senior management positions in various subsidiaries and affiliates of ours. Dr. Zhang has served in various positions in our Company since 1999. He was appointed as an executive president of our Company in August 2006, and has been a senior president of our Company since August 2007. Dr. Zhang obtained a master•s degree in Technology from Shanghai University of Technology in Shanghai, the PRC in 1991, and a doctorate degree in Systems Engineering from Northwestern Polytechnical University in Xi•an City, the PRC in 2005.

Mr. Yin Zhengfu is a senior president of our Company. Mr. Yin holds senior management positions in various subsidiaries and affiliates of ours. Mr. Yin was appointed as an executive president of our Company in August 2006, and has been a senior president of our Company since August 2007. Currently, Mr. Yin is a senior chairman of Changsha Entrepreneurs Association and vice chairman of Hunan Association of Machinery Industry. Mr. Yin has received various titles and awards, including

Engineering College (currently known as Chongqing University) in Chongqing, the PRC in 1982, and a master•s degree in Executive Business Administration from Wuhan University in Wuhan City, the PRC in June 2007.

Mr. Xiong Yanming is a vice president of our Company. Mr. Xiong holds senior management positions in various subsidiaries and affiliates of ours besides being president of the Crane Machinery branch of our Company. Mr. Xiong was executive vice president of our Company from August 2002 to July 2006, and a member of our board of directors from September 2004 to July 2006. Mr. Xiong has received various awards, including the Award of Leadership Development Target for Academics and Technology of Changsha City in 2007 and the Outstanding Leaders• Award in the Hunan Province Quality Group Activity in 2009. 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 July 2007.

Dr. Su Yongzhuan is a vice president of our Company. Dr. Su obtained the certified qualification of Senior International Finance Controller as recognized by the International Financial Management Association in 2006. Dr. Su was our chief financial officer from September 2004 to July 2006, and the president of our concrete machinery branch from March 2006 to December 2008. Dr. Su was awarded the Outstanding Enterprise Management Personnel in Machinery Industry issued by CMMA in June 2007. Dr. Su obtained a bachelor•s degree in Business Administration from China University of Geosciences in Wuhan City, the PRC in June 2004, a master•s degree in Machinery Engineering from Wuhan University in Wuhan City, the PRC in June 2004. Dr. Su obtained a doctorate degree in Management Science and Engineering jointly conferred by the Wuhan University of Technology and the China University Geosciences in Wuhan City, the PRC in 2008.

Mr. Guo Xuehong is a vice president of our Company. Currently, Mr. Guo is the president of our earth working machinery branch whilst holding senior management positions at various subsidiaries and affiliates of ours. Mr. Guo was the president of our Puyuan branch from September 2004 to February 2006. Mr. Guo received a diploma from Hunan Radio and TV University in Technology and Equipment of Machinery Manufacturing in Changsha City, the PRC in 1985, completed a postgraduate program in Machinery Engineering and Management Science and Engineering at Hunan University in Changsha City, the PRC in March 2004. Mr. Guo obtained a master•s degree in Executive Business Administration at Wuhan University in Wuhan City, the PRC in June 2007.

Dr. Sun Changjun is a vice president and head of our risk management department. Dr. Sun has become a professor as recognized by the Leaders Team of the Working Group on the Titles Reform of Hunan Province since September 2005. Prior to joining us, he had assumed various positions including General Legal Counsel of the Research Institute from January 2005 to July 2006. Dr. Sun has won various titles and awards including the Outstanding Legal Counsels of the Provincial Supervisory Corporations in 2008 and Outstanding Research Paper (Grade I) of the Hunan State-owned Assets Forum in 2010. Dr. Sun graduated from the Southwest College of Law and Political Science (currently known as Southwest University of Political Science and Law) in Chongqing, the PRC with a bachelor•s degree in Laws in 1983, from Wuhan University in Wuhan City, the PRC with a doctorate degree in Laws in 1998.

Mr. Li Jiangtao is a vice president of our Company. He has been a senior engineer as recognized by Ministry of Construction since November 2000. Mr. Li was the vice mayor (in charge of science and technology) of Lengshuitan City, Hunan Province from April 1989 to June 1992. Mr. Li was General Manager of the Zhongbiao Business Department of our Company from November 2003 to February 2006, Deputy General Manager of our Company from December 2004 to July 2006, and Human Resources Chief Officer of our Company from August 2006 to August 2008. Mr. Li was appointed as Deputy Managing Director of the China Association of Urban Environmental and Sanitation from September 2004 to December 2008. Mr. Li graduated from Chongqing Construction Engineering College (currently known as Chongqing University) in Chongqing City, the PRC with a bachelor•s degree in Construction Machinery in 1986, and the China Europe International Business School with a master•s degree in Executive Business Administration in Shanghai, the PRC in September 2009.

Ms. Hong Xiaoming is a vice president of our Company and person in charge of financial affairs. Ms. Hong has been a non-practicing chartered accountant as qualified by the Institute of Certified Public Accountant of Shandong Province since 1999. Prior to joining us, Ms. Hong had obtained substantial experience working in accounting. Ms. Hong was Chief Accountant and Financial Officer of a public company, Qingdao Haier Co., Ltd., from October 2003 to January 2010. Ms. Hong has varied experience in directorship, including being the director of Qingdao Overseas Chinese Industrial Joint Stock Co., Ltd. from May 2000 to May 2007 and Haier Italy Factory from May 2007 to October 2009. Currently, she is an independent director of a public company, Qingdao Soda Ash Industrial Company Ltd., and has been since November 2009. Ms. Hong completed her postgraduate program in Politics and Economics at Shandong University in Jinan City, the PRC in May 2001, and she obtained a master•s degree in Executive Business Administration from the Business School of University of International Business and Economics in Beijing, the PRC in June 2010.

Mr. He Wenjin is a vice president of our Company. Currently, Mr. He is the president of Zoomlion International Trade. Prior to joining us in 2008, he had served in various sales and marketing roles, including as Manager of China and North Asia Region of Kodak (China) Investment Company Limited from October 2005 to March 2006, and Strategic Marketing Manager of General Motors (China) Investment Company Limited from May 2006 to May 2008. Mr. He was appointed as our chief marketing officer in June 2008, and became Vice-President in July 2010. Mr. He was selected in the first batch list of •313 PlanŽ Introduced International Talents of Changsha in 2009. Mr. He obtained a master•s degree in International Banking and Financial studies from Heriot-Watt University in Edinburgh, UK in July 1998.

Mr. Chen Xiaofei is a vice president of our Company. Currently, Mr. Chen is the president of our concrete machinery branch. Mr. Chen was previously our vice president from 2000 to 2006, executive vice president and vice president of our concrete machinery branch from 2006 to December 2008, and head of our marketing department from January 2010 to May 2010. Mr. Chen graduated from Chongqing Construction and Engineering College (subsequently known as Chongqing Construction University and currently merged with Chongqing University) in Chongqing, the PRC with a bachelor•s degree in Construction Machinery in 1984.

Mr. Chen Peiliang is a vice president of our Company. Currently, Mr. Chen is the executive vice president of our concrete machinery branch and holds management positions at various subsidiaries and affiliates of ours. Mr. Chen was also appointed as an assistant to our president in November 2007, and became a vice president of our Company in July 2010. Mr. Chen graduated from Hunan University of Finance and Economics (currently merged with Hunan University) in Changsha City, the PRC with a bachelor•s degree in International Trade in June 1994.

Mr. Ajilore Akinola Odunayo is a vice president of our Company. He was a manager at the engineering group of General Motors from 1999 to 2003. He also held various management positions at Caterpillar Inc. from 2003 to 2011, including business development director at the global mining department from 2003 to 2005, director at the commercial division of track-type tractors department from 2005 to 2007, director at the quality control division of U.S. operations department from 2007 to 2009 and director responsible for supply chain management from 2009 to 2011. Mr. Odunayo graduated from Southern University in the U.S. with a bachelor•s degree in Mechanical Engineering and a master•s degree in Mathematics.

Mr. Wang Yukun is our chief information officer. Prior to joining us, Mr. Wang was the assistant to the general manager of AVIC Information Technology Co., Ltd. from December 2000 to October 2007. Mr. Wang joined us as an information officer in September 2008 and was appointed as our chief information officer in July 2010. Mr. Wang graduated from Shenyang Aeronautical Engineering Colleague (currently known as Shenyang Aerospace University) with a bachelor•s degree in Electronic Engineering in Shenyang City, the PRC in July 1988 and completed a postgraduate program in Management Science and Engineering at University of Science and Technology of China in Hefei City, the PRC in June 1999.

Mr. Shen Ke is our company secretary and the secretary of our board of directors. Mr. Shen holds senior management positions at various subsidiaries and affiliates of ours. Mr. Shen was the vice president and head of our investment development department from July 2003 to August 2008, and the deputy head of our investment financing management department from September 2008 to July 2010. Mr. Shen graduated from Shenyang University of Technology with a bachelor•s degree in Industrial Management in Shenyang City, the PRC 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 Changsha City, the PRC in December 1998.

Remunerations of Directors, Supervisors and Senior Management

Our executive directors, non-executive directors and supervisors, if they are also members of our senior management or employees, receive compensation in the form of salaries, bonuses, benefits in cash as well as through our contribution to their social insurance plans and housing funds. If they are not members of our senior management or employees, they do not receive any compensation from us. Our independent non-executive directors receive director subsidies from us. The aggregate remuneration paid and benefits in kind granted to the directors and supervisors in 2009, 2010 and 2011 were approximately RMB5.2 million, RMB5.8 million and RMB5.4 million, respectively.

The aggregate amount of compensation we paid to our five highest paid individuals in 2009, 2010 and 2011 were approximately RMB6.8 million, RMB6.9 million and RMB7.2 million respectively.

Company Secretary

Mr. Shen Ke is our company secretary. See •„ Senior Management.Ž

Ms. Psyche Tai is an assistant to Mr. Shen in discharging the duties of a company secretary of the Company. Ms. Tai is a Hong Kong solicitor and is therefore qualified under Rule 8.17(2) of the Listing Rules to act as a company secretary of a listed company. Ms. Tai has been practicing as a solicitor in Hong Kong since 1995, and a partner of an international law firm. She has over 16 years of experience in legal corporate advisory on mergers and acquisitions and initial public offerings. Ms. Tai was appointed as an assistant to the company secretary on March 28, 2011. Ms. Tai is not a full-time

THE GUARANTEE

We will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Notes. Our obligations in that respect will be contained in the Guarantee of the Notes to be dated on or around the date of this offering memorandum.

Any guarantee of foreign indebtedness arisen from offshore bond issuance by a PRC-incorporated entity is subject to approval by the SAFE. On November 28, 2012, the Company obtained approval from SAFE to guarantee indebtedness of the Issuer incurred outside the PRC for a principal amount of up to US$1,065.53 million and all interest and relevant expenses incurred in relation to the Notes. The approval was granted by SAFE pursuant to the SAFE Foreign Security Notice and SAFE Circular 30. We will rely on the SAFE approval to discharge its obligations under the Guarantee.

The Company understands from its discussion with SAFE that:

i. the Guarantee will only be valid, binding and enforceable against the Company under PRC laws upon execution and completion of the approval from SAFE and registration procedures with the Hunan Branch of SAFE; and

ii. the Guarantee will cover all sums due under the Notes (including any US dollars principal, interest and relevant expenses) so long as the principal amount of the Notes does not exceed the equivalent of US$1,065.53 million on the issue date.

Pursuant to the SAFE Foreign Security Notice, all proceeds raised by the Issuer under the Notes outside the PRC (and guaranteed by us) may not be remitted into the PRC for any use directly or indirectly through any means, including without limitation, any loan, equity investment or securities investment. In addition, the Company is responsible for ensuring that the proceeds obtained by the Issuer will be used outside the PRC.

We are required by the Foreign Security Measures and the SAFE Foreign Security Notice to register the Guarantee with the Hunan Branch of SAFE as soon as possible and in any event before the registration deadline (being 15 days after the execution of the Guarantee of the Notes). The Guarantee may not be enforceable until the registration of the Guarantee is completed in accordance with the provisions of the Foreign Security Measures. The Guarantee and the Indenture will be governed by the laws of the State of New York. There is uncertainty relating to the enforceability of the Guarantee in the PRC. See •Risk Factors „ Risks Related to the Notes and the Guarantee „ There is uncertainty relating to the enforceability of the Guarantee of the NotesŽ and •Enforceability of Foreign Judgments and Civil LiabilitiesŽ. We intend to execute and register the Guarantee as soon as reasonably practicable after the pricing date. Prior to the performance or discharge of our obligations under the Guarantee, we are also required to complete a verification process with the Hunan Bureau of SAFE for each remittance under the Guarantee.

SHARE OWNERSHIP

The following table sets forth certain share ownership information as of September 30, 2012 with respect to the ten largest holders of record of our Shares and our board of directors, supervisors and executive officers as a group.

	Number of Shares	Percentage of Total Issued Shares
Directors Supervisors and Executive Officers		
Directors, supervisors and executive officers as a group	2,485,535	0.03%
Principal Shareholders		
HKSCC Nominees Limited[1]	1,427,686,565	18.53%
State-owned Assets Supervision and Administration Commission of Hunan Provincial Government	1,247,379,996	16.19%
Changsha Hesheng Science and Technology Investment Co., Ltd.	386,517,443	5.02%
Good Excel Group Limited	363,936,856	4.72%
Hony Capital Fund I (Tianjin), L.P.	171,047,500	2.22%
Real Smart International Limited	168,635,602	2.19%
Changsha Yifang Science and Technology Investment Co., Ltd.	163,314,942	2.12%
China Jianyin Investment Co., Ltd.	151,164,554	1.96%
Guangdong Hengjian Investment Holding Co., Ltd.	77,420,000	1.00%
Bank of China-E Fund SZSE100 ETF	68,682,535	0.89%
Total top 10 shareholders	4,225,785,993	54.84%

(1) The H Shares held by HKSCC Nominees Limited on behalf of various clients.

None of the major holders of our Shares has different voting rights from those of the other holders of our Shares.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

The following summary of the principal terms of the instruments governing our material indebtedness does not purport to be a complete description of all of the terms of these instruments and may not contain all of the information that may be important to prospective investors. Investors should read the consolidated financial information contained elsewhere is this offering memorandum for additional information about our indebtedness.

As of September 30, 2012, our total loans and borrowings amounted to RMB17,923 million (US$2,852 million), with the total short-term loans and borrowings being RMB9,263 million (US$1,474 million) and long-term loans and borrowings being RMB8,660 million (US$1,378 million), net of current portion. Our total loans and borrowings comprises of bank borrowings, including on-shore borrowings denominated in RMB, Japanese Yen, US dollars and Euros, as well as off-shore borrowings denominated in Euros and US dollars, as well as RMB and US dollars denominated bonds we issued. These loans and borrowings were entered into by either us or our PRC or overseas subsidiaries.

Secured Short-term Bank Loans

As of September 30, 2012, our total secured short-term bank loans amounted to RMB32 million (US$5 million).

RMB Denominated Bank Loans

The aggregate principal amount of our secured short-term RMB denominated bank loans was RMB10 million (US$2 million). Such loans were secured by fixed assets and receivables with an aggregate carrying value of RMB26 million (US$4 million).

Unsecured Short-term Bank Loans

As of September 30, 2012, our total unsecured short-term bank loans amounted to RMB6,046 million (US$962 million).

US Dollars Denominated Bank Loans

The aggregate principal amount of our unsecured short-term US dollars denominated bank loans was RMB5,667 million (US$902 million). RMB507 million (US$81 million) of such loans bore an interest rate between LIBOR plus 2% to 3.9% per annum and were subject to our fulfillment of certain financial covenants. Such financial covenants set limit or restrictions on our credit condition, profit-earning ability and use of proceeds. Besides the financial covenants, we have agreed to certain customary default or trigger events relating to, among other things, breach of the loan agreement, agreements and/or demand immediate repayment of all or part of the loans and any accrued interest upon the occurrence of an event of breach of financial covenants, default or certain triggering events.

Separately, RMB4,506 million (US$717 million) of our US dollar denominated unsecured short-term bank loans bore interest at LIBOR plus 1.0% to 4.3% per annum. The remaining US dollar denominated unsecured short-term bank loans of RMB654 million (US$104 million) and bore interest at 1.8% to 5.3% per annum.

Secured Long-term Bank Loans

As of September 30, 2012, our total secured long-term borrowings amounted to RMB1,473 million (US$234 million).

Euros Denominated Bank Loans

The aggregate principal amount of our secured long-term Euro denominated bank loans was RMB1,473 million (US$234 million). Such loans were secured by 100% equity interest of certain of our subsidiaries in Italy. Such loan bore interest at EURIBOR plus 2.2% per annum and was repayable in full in June 2013.

Unsecured Long-term Bank Loans

As of September 30, 2012, our total unsecured long-term bank loans amounted to RMB6,795 million (US$1,080 million).

RMB Denominated Bank Loans

The aggregate principal amount of our unsecured long-term RMB denominated bank loans was RMB1,100 million (US$175 million) as of September 30, 2012. RMB200 million (US$32 million) of our RMB denominated unsecured long-term bank loans bore interest at 80% of PBOC rate per annum and will be repayable in full in March 2015. The remaining RMB denominated unsecured long-term bank loans of RMB900 million (US$143 million) and bore interest at 70% of PBOC rate per annum and will be repayable in full in September 2015.

Euro Denominated Bank Loans

The aggregate principal amount of our unsecured long-term Euro denominated was RMB822 million (US$131 million) as of September 30, 2012. RMB818 million (US$130 million) of such loans bore interest at EURIBOR plus 2.0% per annum and were repayable in full in June 2013. The remaining unsecured long-term bank loans of RMB4 million (US$1 million) were repayable in quarterly installments through 2014.

US Dollar Denominated Bank Loans

The aggregate principal amount of our unsecured long-term US dollar denominated bank loans was RMB4,873 million (US$775 million) as of September 30, 2012. RMB970 million (US$154 million) of such loans bore interest at LIBOR plus 4.5% per annum and had maturity of 24 months from September 30, 2012. Such loan was subject to our fulfillment of certain financial covenants, which set limit or restrictions on our consolidated current assets to consolidated current liabilities ratio, consolidated EBITDA to consolidated interest expense, consolidated total net debt to shareholder

DESCRIPTION OF THE NOTES

The Notes are to be issued under an indenture (the •IndentureŽ) to be executed among Zoomlion H.K. SPV Co., Limited (the •IssuerŽ), Zoomlion Heavy Industry Science and Technology Co., Ltd. (the •GuarantorŽ) and The Bank of New York Mellon, as trustee (the •TrusteeŽ). Copies of the Notes, the Guarantee (as defined below) and the Indenture will be available for inspection during normal business hours at the offices of the Trustee. The following summaries of certain provisions of the Notes, the Guarantee and the Indenture do not purport to be complete and are subject to, and are qualified in their entirety by reference to, the provisions thereof, including the definitions therein of certain terms. Whenever particular defined terms from the Notes, the Guarantee or the Indenture are referred to, such defined terms are incorporated herein by reference.

General

The Notes will mature on December 20, 2022 and will initially be limited to US$600,000,000 aggregate principal amount. The Notes will bear interest at the rate per annum shown on the front cover of this offering memorandum from and including December 20, 2012 or, if interest has been paid or provided for, from and including the most recent interest payment date, to and excluding the next interest payment date or the maturity date, as the case may be, payable semiannually in arrears on June 20 and December 20 of each year, commencing and including June 20, 2013, to the person in whose name the Note (or any predecessor Note) is registered at the close of business (whether or not a Business Day) on the preceding June 5 and December 5, as the case may be. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. There is no sinking fund for the Notes.

Listing and Trading of the Notes

Approval-in-principle has been received from the SGX-ST for the listing of and quotation of the Notes on the Official List. The Notes will be traded on the SGX-ST in a minimum board lot size of US$200,000 or its equivalent in foreign currencies for so long as the Notes are listed on the SGX-ST. If and for so long as the Notes are listed on the SGX-ST, and the rules of the SGX-ST so require, in the event that the global certificates of the Notes are exchanged for certificates in definitive form, the Issuer will appoint and maintain a paying agent in Singapore where the Notes may be presented or surrendered for payment or redemption. The Issuer will announce through the SGX-ST any issue of certificates in definitive form in exchange for the global certificates of the Notes, including in the announcement all material information on the delivery of the certificates in definitive form, including details of the paying agent in Singapore.

Payments on the Notes; Paying Agent and Registrar

The Issuer will pay principal of, premium, if any, and interest on the Notes at the office or agency designated by the Issuer in the Borough of Manhattan, The City of New York (which will initially be the Corporate Trust Office), except that the Issuer may, at its option, pay interest on the Notes by check mailed to Holders at their registered address as it appears in the register of Notes. Payments of the principal amount of the Notes at maturity or the principal amount to be prepaid upon redemption or repayment in full, together with accrued interest due at maturity, redemption or repayment, as the case may be, will be made to the registered Holder thereof against presentation and surrender of the Notes at the specified office of the paying agent. Any payments of principal of, premium, if any, and interest on the Notes to be made on a date that is not a Business Day need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on such date, and no additional interest shall accrue as a result of such delayed payment. •Business DayŽ means any day, other than a Saturday or Sunday, that is not a day on which banking institutions are authorized or required by law or executive order to be closed in The City of New York or Hong Kong (or in the city where the relevant paying agent is located).

The Issuer has initially designated The Bank of New York Mellon in New York, New York to act as its paying agent (the •Paying AgentŽ) and its transfer agent (the •Transfer AgentŽ) and The Bank of New York Mellon, Hong Kong Branch to act as its registrar (the •RegistrarŽ). The Paying Agent, Transfer Agent and Registrar are each referred to as an •Agent.Ž The Issuer may, however, change the Paying Agent or Registrar without prior notice to the Holders, and the Guarantor or any of its Subsidiaries may act as Paying Agent or Registrar.

The Issuer will pay principal of, premium, if any, and interest on, Notes in global form registered in the name of or held by The Depository Trust Company (•DTCŽ) or its nominee in immediately available funds to DTC or its nominee, as the case may be, as the registered Holder of such Global Notes.

Transfer and Exchange

A Holder may transfer or exchange the Notes in accordance with the Indenture. The Registrar, a Transfer Agent or the Trustee may require a Holder to furnish appropriate endorsements and transfer documents. No service charge will be imposed by the Issuer, the Guarantor, the Trustee, the Registrar or any Transfer Agent for any registration of transfer or exchange of Notes, but the Issuer may require a Holder to pay a sum sufficient to cover any transfer tax or other governmental taxes and fees required by law or permitted by the Indenture. The Issuer is not required to recognize or give effect to a transfer or exchange of any Note selected for redemption. Also, the Issuer is not required to recognize or give effect to a transfer or exchange of any Note for a period of 15 days before a selection of Notes to be redeemed. The registered Holder of a Note will be treated as the owner of it for all purposes.

Rank

The Notes will constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will rank equally and without any preference among themselves. The payment obligations of the Issuer under the Notes will rank equally with all its other present and future unsecured and unsubordinated obligations, be effectively subordinated to all its present and future secured obligations to the extent of the value of the collateral securing such obligations and be senior to all its present and future unsecured and subordinated obligations.

Guarantee

The Guarantor will fully and unconditionally guarantee (the •GuaranteeŽ) to each Holder of a Note authenticated and delivered by the Trustee the due and punctual payment of all amounts due, including principal, premium (if any) and interest, on such Note (and any Additional Amounts (as defined in •„ TaxationŽ) payable in respect thereof), when and as the same shall become due and payable, whether at the stated maturity date of the Note, by declaration of acceleration, call for redemption, repurchase or otherwise, in accordance with the terms of such Note and of the Indenture. The Guarantee will constitute a direct, unconditional, unsecured and unsubordinated obligation of the Guarantor. The payment obligations of the Guarantor under the Guarantee will rank equally with all its other present and future unsecured and unsubordinated obligations, be effectively subordinated to all its present and future secured obligations to the extent of the value of the collateral securing such obligations, be senior to all its present and future unsecured and subordinated obligations and be structurally subordinated to all the present and future obligations (whether secured or unsecured) of its Subsidiaries.

Further Issues

The Issuer may from time to time, without the consent of the existing Holders, create and issue unlimited additional Notes under the Indenture having the same terms and conditions, as the Notes in all respects, except for issue date, issue price, and the first interest payment date with respect thereto (the •Additional NotesŽ). Additional Notes issued may be consolidated with and form a single series with the previously outstanding Notes; provided, however, that such Additional Notes will not be issued under the same CUSIP, ISIN or Common Code as the Notes unless such Additional Notes are fungible with such Notes for U.S. federal tax purposes.

Notes, Delivery and Form

The Notes sold in offshore transactions in reliance on Regulation S will be initially in the form of one or more Regulation S Global Notes in fully registered form without interest coupons, which will be deposited with The Bank of New York Mellon, as custodian for DTC (in such capacity, the •CustodianŽ), and registered in the name of Cede & Co., as nominee of DTC, for credit to the respective accounts of the purchasers, or to other accounts as they may direct, at Euroclear or Clearstream, each of which is a participant in DTC.

The Notes sold to QIBs in reliance on Rule 144A will be issued initially in the form of one or more Rule 144A Global Notes in fully registered form without interest coupons, which will be deposited with the Custodian and registered in the name of Cede & Co., as nominee of DTC.

The Notes will be issued in minimum denominations of US$200,000 and in integral multiples of US$1,000 in excess of that amount.

The Notes (including beneficial interests in the Global Notes) will be subject to certain restrictions on transfer set forth therein and in the Indenture and will bear a legend regarding such restrictions as set forth under •Transfer Restrictions.Ž Under certain circumstances, transfers may be made only upon receipt by the Registrar, a Transfer Agent or the Trustee of a written certification (in the form(s) provided in the Indenture).

Beneficial interests in a Rule l44A Global Note may be transferred to a person who takes delivery in the form of an interest in a Rule l44A Global Note without any written certification from the transferor or the transferee. Beneficial interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note only upon receipt by the Registrar, a Transfer Agent or the Trustee of written certifications (in the form(s) provided in the Indenture) from the transferor to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S or Rule 144 under the Securities Act (if available).

Any individual Notes issued in exchange for an interest in a Rule 144A Global Note under the circumstances described under •Individual NotesŽ below may be transferred only upon receipt by the Registrar, a Transfer Agent or the Trustee of a written certification from the transferor (in the form(s) provided in the Indenture) to the effect that such transfer is being made in accordance with the restrictions on transfer set forth under •Transfer Restrictions,Ž and in the case of any resale other than a •Safe Harbor ResaleŽ as defined under •Transfer Restrictions,Ž the execution and delivery by the transferee of a written certification (also in the form attached to the Indenture and delivery of any additional documents or other evidence (including, but not limited to, an opinion of counsel)) that the Issuer or the Registrar, a Transfer Agent or the Trustee may, in its sole discretion, deem necessary or appropriate to evidence compliance with such transfer restrictions.

Any beneficial interest in one of the Global Notes that is transferred to an entity which takes delivery in the form of an interest in the other Global Note will, upon transfer, cease to have an interest in such Global Note and receive an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such other Global Note for as long as it retains such an interest.

Investors may hold their interests in the Global Notes directly through DTC, Clearstream or Euroclear, as the case may be, if they are participants in such systems, or indirectly through organizations which are participants in such systems. Clearstream and Euroclear will hold interests in the Regulation S Global Notes on behalf of their participants through customers• securities accounts in their respective names on the books of their respective depositaries, which are participants in DTC.

Transfers between participants in DTC (the •ParticipantsŽ) will be effected in the ordinary way in accordance with DTC rules. Transfers between participants in Clearstream and Euroclear (•Clearstream ParticipantsŽ and •Euroclear Participants,Ž respectively) will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Initial settlement for the Notes will be made in same-day funds. So long as DTC continues to act as depositary for the Notes, the Notes will trade in DTC•s Same-Day Funds Settlement System and secondary market trading activity in such Notes will settle in immediately available funds.

Subject to compliance with the transfer restrictions applicable to the Notes, cross-market transfers between DTC, on the one hand, and Clearstream or Euroclear Participants, on the other hand, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be.

Persons who are not Participants may beneficially own interests in the Global Notes held by DTC only through Participants or Indirect Participants (as defined below) (including Euroclear and Clearstream). So long as Cede & Co., as the nominee of DTC, is the registered owner of the Global Notes, Cede & Co. for all purposes will be considered the sole Holder of such Notes.

Payment of interest and principal on the Global Notes will be made to Cede & Co., the nominee for DTC, or such other nominee as may be requested by an authorized representative of DTC, as the registered owner of the Global Notes by wire transfer of immediately available funds. None of the Issuer, the Guarantor, the Paying Agent or the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interest.

The Issuer has been informed by DTC that upon receipt of any payment of interest on or the principal of the Global Notes, DTC will credit Participants• accounts with payments in amounts proportionate to their respective beneficial interests in the Global Notes as shown on the records of DTC. Payments of interest on and principal of the Notes held through Clearstream or Euroclear will be credited to the cash accounts of Clearstream Participants or Euroclear Participants, as the case may be, in accordance with the relevant system•s rules and procedures. Payments by Participants to owners of beneficial interests in the Global Notes held through such Participants will be the responsibility of such Participants, as is the case with securities held by broker-dealers, either directly or through nominees, for the accounts of customers and registered in •street name.Ž

Because DTC can only act on behalf of Participants, who in turn act on behalf of Indirect Participants and certain banks, the ability of a person having a beneficial interest in the Global Notes to pledge such interest to persons or entities that do not participate in the DTC system, or to otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate.

So long as the Notes are represented by Global Notes and such Global Notes are held on behalf of DTC or any other clearing system, such clearing system or its nominee will be considered the sole Holder of the Notes represented by the applicable Global Notes for all purposes under the Indenture, including, without limitation, obtaining consents and waivers thereunder, and none of the Paying Agent, the Trustee, the Issuer or the Guarantor shall be affected by any notice to the contrary. None of the Paying Agent, the Trustee, the Issuer or the Guarantor shall have any responsibility or obligation with respect to the accuracy of any records maintained by any clearing system or any Participant of such clearing system. The clearing systems will take actions on behalf of their Participants (and any such Participants will take actions on behalf of any Indirect Participants) in accordance with their standard procedures. To the extent that any clearing system acts upon the direction of the Holders of the beneficial interests in the applicable Global Note and such beneficial Holders give conflicting instructions, the applicable clearing system may take conflicting actions in accordance with such instructions.

All interests in the Global Notes, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of their respective systems.

DTC has advised the Issuer that it will take any action permitted to be taken by a Holder of Notes (including, without limitation, the presentation of Notes for exchange as described below) only at the direction of one or more Participants and only in respect of the principal amount of the Notes represented by the Global Note as to which such Participant or Participants has or have given such direction.

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a •clearing corporationŽ within the meaning of the Uniform Commercial Code and a •Clearing AgencyŽ registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic book-entry changes in accounts of its Participants, thereby eliminating the need for the physical movement of certificates.

Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (•Indirect ParticipantsŽ).

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Guarantor, the Paying Agent or the Trustee will have any responsibility for the performance by DTC, Clearstream and Euroclear, or their respective Participants or Indirect Participants, of their respective obligations under the rules and procedures governing their operations.

Individual Notes

If DTC is at any time unwilling or unable to continue as depositary and a successor depositary is not appointed by the Issuer within 90 days or if there shall have occurred and be continuing an event of default (as described below) with respect to the Notes and the Trustee has received a written request from the Holders of more than 25% in aggregate principal amount of Notes outstanding (as defined in the Indenture) to issue the Notes in certificated form, the Issuer will issue individual Notes in certificated, definitive registered form in exchange for the Global Notes.

Subject to the transfer restrictions set forth on the individual Notes in certificated form, the Holder of such individual Notes in certificated form may transfer or exchange such Notes in whole or in part by surrendering them at the Corporate Trust Office. Prior to any proposed transfer of individual Notes in certificated form (other than pursuant to an effective registration statement), the Holder may be required to provide certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation to the Registrar, a Transfer Agent or the Trustee as described under •„ Notes; Delivery and FormŽ above. Upon the transfer, exchange or replacement of individual Notes in certificated form not bearing the legend referred to under •Transfer Restrictions,Ž the Trustee will deliver individual Notes in certificated form that do not bear the legend. Upon the transfer, exchange or replacement of individual Notes in certificated form bearing the legend, or upon specific written request for removal of the legend on an individual Note in certificated form, the Trustee will deliver only individual Notes in certificated form that bear such legend or shall refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Redemption

Unless earlier redeemed in the limited circumstances set forth below, the Notes will mature on December 20, 2022 at a price equal to 100% of the principal amount thereof. Except as set forth below, the Notes are not redeemable at the option of the Issuer.

Optional Redemption

The Issuer may, at its option, at any time upon giving not less than 30 nor more than 60 days• prior notice to the Holders (which notice shall be irrevocable), redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus the Applicable Premium as of, and any accrued and unpaid interest, if any, to but excluding, the date of redemption (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Optional Tax Redemption

The Issuer may, at its option, at any time upon giving not less than 30 nor more than 60 days• prior notice to Holders (which notice shall be irrevocable), redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts (defined below under •„ TaxationŽ)), if any, to but excluding, the date of redemption (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date) if, as a result of:

(1) any change in, repeal of or amendment to, the laws (or any regulations or rulings promulgated thereunder) or treaty or treaties of a Relevant Taxing Jurisdiction (defined below under •„ TaxationŽ), affecting taxation; or

(2) any change in the existing official position or the stating of an official position regarding the application, administration or interpretation of such laws, regulations, rulings or treaty or treaties (including a holding, judgment or order by a court of competent jurisdiction),

which change, repeal or amendment becomes effective or, in the case of an official position, is announced (i) with respect to the Issuer or the Guarantor on or after the Original Issue Date, or (ii) with respect to any Successor Entity (as defined under •„ Certain Covenants „ Consolidation, Merger and Sale of AssetsŽ), on or after the date such Successor Entity becomes a Successor Entity, the Issuer, the Guarantor or a Successor Entity, as the case may be, is, or on the next interest payment date would be, required to pay Additional Amounts with respect to any payment due or to become due under the Notes, the Guarantee or the Indenture, and such requirement cannot be avoided by the taking of reasonable measures by the Issuer, the Guarantor or a Successor Entity, as the case may be; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer, the Guarantor or a Successor Entity, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due. Notwithstanding anything to the contrary herein, the Issuer may not redeem the Notes in the case that Additional Amounts are payable in respect of PRC withholding tax at a rate of 10% or less.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Issuer will deliver to the Trustee at least 30 days but not more than 60 days before a redemption date:

(1) an officer•s certificate acceptable to the Trustee stating that such change or amendment referred to in the preceding paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Issuer, the Guarantor or a Successor Entity, as the case may be, taking reasonable measures; and

(2) an opinion of counsel or an opinion of a tax consultant, in either case of recognized international standing with respect to tax matters of the Relevant Taxing Jurisdiction, stating (subject to the customary assumptions and qualifications) that the requirement to pay such Additional Amounts results from such change or amendment referred to in the preceding paragraph.

The Trustee shall be entitled to accept such certificate and opinion as conclusive evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

Repurchase Upon a Change of Control

Unless previously redeemed under •RedemptionŽ above, upon a Change of Control, the Issuer will be required to make an offer to repurchase all of the Notes at a price in cash equal to 101% of the principal amount of the Notes repurchased, plus accrued and unpaid interest, if any, on the principal amount of Notes being repurchased to but excluding the date of repurchase (a •Change of Control OfferŽ).

Within 30 days following any Change of Control, unless previously redeemed under •RedemptionŽ above, the Issuer will be required to give written notice to Holders describing the transaction or transactions that constitute the Change of Control and offering to repurchase all of the Notes on the date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date e405the (e405)ss1s.0407 Tc2(constit)-469.21.2(are2 5dnlTD 0.041 Tc [(above,)R5)ss1520 requirements for a Change of Control Offer (and for at least the same purchase price payable in cash) and such third party purchases all Notes properly tendered and not withdrawn under its offer.

A Holder will have no right to require the Issuer to repurchase portions of Notes if it would result in the issuance of new Notes, representing the portion not repurchased, in an amount of less than US$200,000.

The Issuer will comply, to the extent applicable, with the requirements of applicable securities laws or regulations in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the Indenture, the Issuer shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations described in the Indenture by virtue of any conflict.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control has occurred or may occur, and shall be entitled to assume that no such event has occurred unless an officer of the Trustee has received written notice of the occurrence of such event. The Trustee shall not be responsible for determining or verifying whether a Note is to be accepted for purchase under a Change of Control Offer and will not be responsible to the Holders for any loss arising from any failure by it to do so. Neither the Trustee nor any Agent shall be under any duty to determine, calculate or verify the amount payable under a Change of Control Offer and will not be responsible to the Holders for any loss arising from any failure by it to do so.

Purchases

The Issuer, the Guarantor and their respective affiliates may at any time and from time to time purchase Notes in the open market, by tender offer, through negotiated transactions or otherwise, subject to applicable law. Such Notes may, at the option of the Issuer, the Guarantor or the relevant affiliate, be held or surrendered to the Trustee for cancellation. The Notes so purchased, while held by or on behalf of the Issuer, the Guarantor or any of their respective affiliates, shall not entitle the Holder to vote at any meeting of Holders and shall not be deemed to be outstanding for the purpose of calculating the quorum at such a meeting. All Notes redeemed or repurchased by the Issuer, the Guarantor or any of their respective affiliates may not be reissued or resold.

Taxation

All payments due, including principal, premium, if any, and interest, on the Notes or under the Guarantee will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Issuer, the Guarantor or a Successor Entity is organized or resident for tax purposes or which is imposing such withholding or deduction because of a connection between the Issuer, the Guarantor or a Successor Entity and such jurisdiction or through which payment is made or any political subdivision or taxing authority thereof or therein or any political subdivision or taxing authority thereof or therein (each, as applicable, a •Relevant Taxing JurisdictionŽ), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Issuer, the Guarantor or a Successor Entity, as the case may be, will pay such additional amounts (•Additional AmountsŽ) as will result (after the deduction of such taxes, duties, assessments or governmental charges payable in respect of such Additional Amounts) in receipt by the Holders of such amounts payable under the Notes or the Guarantee, as the case may be, as would have been received by such Holders had no such withholding or deduction been required, except that no such Additional Amounts will be payable:

(1) for or on account of:

(a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:

(i) the existence of any present or former connection between the Holder or beneficial owner of such Note, as the case may be, and the Relevant Taxing Jurisdiction other than merely holding such Note or the receipt of payments thereunder or under the Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Taxing Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;

(ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period; or

(iii) the failure of the Holder or beneficial owner to comply with a timely request of the Issuer, the Guarantor or a Successor Entity addressed to the Holder or beneficial owner, as the case may be, to provide information concerning such Holder•s or beneficial owner•s nationality, residence, identity, connection with any Relevant Taxing Jurisdiction or other similar information, if and to the extent that due and timely compliance with such request would have reduced or eliminated any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder;

(b) any taxes, assessments or other governmental charges payable other than by deduction or withholding from payments under, or with respect to, a Note or under the Guarantee;

(c) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;

(d) any withholding or deduction that is imposed or levied on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives;

(e) any tax, duty, assessment or other governmental charge to the extent such tax, duty, assessment or other governmental charge results from the presentation of the Note (where presentation is required) for payment and the payment can be made without such withholding or deduction by the presentation of the Note for payment elsewhere; or

(f) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b), (c), (d) and (e); or

(2) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Taxing Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

As a result of these provisions, there are circumstances in which taxes could be withheld or deducted but Additional Amounts would not be payable to some or all beneficial owners of Notes.

The Issuer (or the Guarantor) will (i) make such withholding or deduction and (ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law. The Issuer (or the Guarantor) will make reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any taxes so deducted or withheld from the Relevant Taxing Jurisdiction imposing such taxes. Upon request, the Issuer (or the Guarantor) will furnish to the Trustee (which the Trustee shall make available to a Holder upon written request), within 60 days after the date the payment of any taxes so deducted or withheld is due pursuant to applicable law, either certified copies of tax receipts evidencing such payment or, if such receipts are not obtainable, other evidence of such payments.

At least 30 days prior to each date on which any payment under or with respect to the Notes is due and payable, if the Issuer (or the Guarantor) will be obligated to pay Additional Amounts with respect to such payment, the Issuer (or the Guarantor) will deliver to the Trustee an officer•s certificate stating the fact that such Additional Amounts will be payable and the amounts so payable and will set forth such other information necessary to enable the Paying Agent to pay such Additional Amounts to the Holders on such payment date.

In addition, the Issuer will pay any stamp, issue, registration, documentary, value added or other similar taxes and other duties (including interest and penalties) payable in any Relevant Taxing Jurisdiction in respect of the creation, issue, offering, execution or enforcement of the Notes, or any documentation with respect thereto.

Whenever there is mentioned in any context the payment of principal of, and premium or interest on, any Note or under any Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Certain Covenants

Limitation on Liens

So long as any Note remains outstanding, the Issuer and the Guarantor will not, and the Guarantor will not permit any of its Significant Subsidiaries to, create or have outstanding, any mortgage, pledge, lien, charge, encumbrance or any other security interest (•LienŽ), upon the whole or any part of its property or assets (including any uncalled capital), present or future, to secure any Relevant Indebtedness (or to secure for the benefit of the holders thereof any guarantee or indemnity in respect thereof) without, in any such case, effectively providing that the Notes and the Guarantee will be secured equally and ratably with or prior to such Relevant Indebtedness (or such guarantee or indemnity in respect thereof).

Consolidation, Merger and Sale of Assets

The Issuer, without the consent of a majority of the Holders, may consolidate with, merge into, or sell, transfer, lease or convey its assets substantially as an entirety to any other entity, provided that (i) any successor entity (an •Issuer Successor EntityŽ) expressly assumes by an indenture supplemental to the Indenture the Issuer•s obligations (including payment of Additional Amounts, if any, resulting from such entity succeeding the Issuer) under the Notes and the Indenture, (ii) after giving effect to the transaction, no Event of Default (as defined below) and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing and (iii) the Issuer has delivered to the Trustee an officers• certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance, transfer or lease and such supplemental indenture comply with the Indenture and that all conditions precedent therein provided for relating to such transaction have been complied with.

The Guarantor, without the consent of a majority of the Holders, may consolidate with, merge into, or sell, transfer, lease or convey its assets substantially as an entirety to any other entity, provided that (i) any successor entity (a •Guarantor Successor Entity;Ž any Issuer Successor Entity or Guarantor Successor Entity is referred to as a •Successor EntityŽ) expressly assumes by an indenture supplemental to the Indenture the Guarantor•s obligations (including payment of Additional Amounts, if any, resulting from such entity succeeding the Guarantor) under the Notes, the Guarantee and the Indenture, (ii) after giving effect to the transaction, no Event of Default (as defined below) and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing and (iii) the Guarantor has delivered to the Trustee an officers• certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance, transfer or lease and such supplemental indenture comply with the Indenture and that all conditions precedent therein provided for relating to such transaction have been complied with.

A Successor Entity will succeed to, and be substituted for, and may exercise every right and power of, the Issuer or the Guarantor (as the case may be) under the Indenture, and the predecessor company shall be released from the obligation to pay the principal of, premium, if any, and interest on the Notes.

Although there is a limited body of case law interpreting the phrase •substantially all,Ž there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve •all or pursuant to Rule 12g3-2(b) thereunder, the Issuer or the Guarantor, as the case may be, will, upon request of any Holder or beneficial owner of a Note, supply to (i) any Holder or beneficial owner of a Note or (ii) a prospective purchaser of a Note or a beneficial interest therein designated by such Holder or beneficial owner, the information specified in, and meeting the requirements of Rule 144A(d)(4) under the Securities Act.

Payments for Consent

Neither the Issuer, the Guarantor nor any of the Guarantor•s Subsidiaries will, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fees or otherwise, to any Holder of any Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid and is paid to all Holders that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or amendment.

Events of Default

With respect to the Notes, the occurrence and continuance of the following events will constitute events of default (•Events of DefaultŽ):

(1) default in any payment of interest on any Note on the date such amount is due and payable, continued for 30 days;

(2) default in the payment of principal of, or premium, if any, on any Note on the date such amount is due and payable, upon optional redemption, required repurchase, acceleration or otherwise;

(3) failure by the Issuer or the Guarantor to comply with its obligations under the covenants described under •„ Repurchase Upon a Change of Control,Ž •„ Certain Covenants „ Consolidation, Merger and Sale of Assets;Ž

(4) failure by the Issuer or the Guarantor to comply, for 60 days after written notice by the Holders of 25% or more of the aggregate principal amount of the outstanding Notes, with its other agreements contained in the Indenture;

(5) default under any Indebtedness of the Issuer, the Guarantor or any of the Guarantor•s Significant Subsidiaries (or the payment of which is guaranteed by the Issuer, the Guarantor or any of the Guarantor•s Significant Subsidiaries), whether such Indebtedness or guarantee now exists, or is created after the date of the Indenture, which default: (a) is caused by a failure to pay principal of, or interest or premium, if any, on such Indebtedness prior to the expiration of the grace period provided in such Indebtedness; or (b) results in the acceleration of such Indebtedness prior to its maturity, and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a payment default or the maturity of which has been so accelerated, equals or exceeds US$30 million (or its equivalent in other currencies) (the •cross default/acceleration provisionŽ);

(6) failure by the Issuer, the Guarantor or any of the Guarantor•s Significant Subsidiaries to pay one or more final judgments from a court of competent jurisdiction aggregating in excess of US$30 million (or its equivalent in other currencies) (net of any amounts that are covered by insurance policies issued by solvent carriers), which judgments are not paid, discharged or stayed for a period of 30 days (the •judgment default provisionŽ);

(7) (i) the Issuer, the Guarantor or any Significant Subsidiary of the Guarantor (a) commences a voluntary case or proceeding under any applicable Bankruptcy Law, (b) consents to the entry of judgment, decree or order for relief against it in an involuntary case or proceeding under any applicable Bankruptcy Law, (c) consents to the appointment of a Receiver of it or for any substantial part of its property and assets, (d) makes a general assignment for the benefit of its creditors, (e) consents to or acquiesces in the institution of a bankruptcy or an insolvency proceeding against it; or (f) takes any corporate action to authorize or effect any of the foregoing; or (ii) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that (x) is for relief in an involuntary case against the Issuer, the Guarantor or such Significant Subsidiary, as the case may be, (y) appoints a Receiver for all or substantially all of the property and assets of the Issuer, the Guarantor or such Significant Subsidiary, as the case may be; or (z) orders the winding up or liquidation of the Issuer, the Guarantor or such Significant Subsidiary, as the case may be; and in each case under this clause (ii) such order, decree or relief has not been discharged or stayed for a period of 60 days; or

(8) the Guarantee shall cease to be in full force and effect or the Guarantor shall deny or disaffirm its obligations under the Guarantee.

If an Event of Default (other than an Event of Default described in clause (7) above) occurs and is

The Holders of a majority in principal amount of the outstanding Notes may waive all past defaults (except with respect to nonpayment of principal, premium or interest) and rescind any such acceleration with respect to the Notes and its consequences if (1) rescission would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived.

Subject to the provisions of the Indenture relating to the duties of the Trustee, if an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture unless security and/or indemnity and/or prefunding satisfactory to the Trustee against any loss, liability or expense shall have been offered to the Trustee. Except to enforce the right to receive payment of principal, premium, if any, or interest when due, no Holder may pursue any remedy with respect to the Indenture or the Notes unless:

(1) such Holder has previously given the Trustee written notice that an Event of Default is continuing;

(2) Holders of at least 25% in principal amount of the outstanding Notes have requested in writing the Trustee to pursue the remedy;

(3) such Holders have offered the Trustee security and/or indemnity and/or prefunding satisfactory to the Trustee against any loss, liability or expense;

(4) the Trustee has not complied with such written request within 60 days after the receipt of the written request and the offer of such security and/or indemnity and/or prefunding; and

(5) the Holders of a majority in principal amount of the outstanding Notes have not given the Trustee a direction that is inconsistent with such written request within such 60-day period.

Subject to certain restrictions, the Holders of a majority in principal amount of the outstanding Notes are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. The Indenture provides that in the event an Event of Default has occurred and is continuing, the Trustee will be required in the exercise of its powers to use the degree of care that a prudent person would use in the conduct of its own affairs. The Trustee, however, may refuse to follow any direction that conflicts with law, the Indenture or the Notes or that is unduly prejudicial to the rights of any other Holder or that would involve the Trustee in personal liability. If the Trustee is not provided with security and/or indemnity and/or pre-funding to its reasonable satisfaction, it may take any other action it deems proper that is not inconsistent with any such direction received from the Holders. In addition, the Trustee will not be required to expend its own funds under any circumstances.

In addition, the Guarantor is required to deliver to the Trustee, within 90 days after the end of each fiscal year, a certificate stating that a review has been conducted of the Issuer•s and the Guarantor•s performance under the Indenture and the Notes and that the Issuer and the Guarantor have fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Trustee shall not be deemed to have knowledge of an Event of Default unless and until it obtains written notification of such Event of Default describing the circumstances of such, and identifying the circumstances constituting the Event of Default.

Amendments and Waivers

Except as provided in this paragraph and the next succeeding paragraph, the Indenture and the Notes may be amended or supplemented by the Issuer, the Guarantor and the Trustee with the consent of the Holders of a majority in principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes) and, subject to certain exceptions, any past default or compliance with any provisions may be waived with the consent of the Holders of a majority in principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes). However, without the consent of each Holder of an outstanding Note affected, no amendment may, among other things:

(1) reduce the principal amount of Notes whose Holders must consent to an amendment, supplement or waiver;

(2) reduce the stated rate of or extend the stated time for payment of interest on any Note;

(3) reduce the principal of or extend the stated maturity of any Note;

(4) reduce the premium payable upon the redemption or repurchase of any Note or change the time at which any Note may be redeemed or required to be repurchased as described above under •„ RedemptionŽ or •„ Repurchase Upon a Change of Control,Ž whether through an amendment or waiver of provisions in the covenants, definitions or otherwise;

(5) make any Note payable in money other than that stated in the Note;

(6) impair the right of any Holder to receive payment of principal of, premium, if any, and interest on such Holder•s Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such Holder•s Notes; or

(7) make any change in the amendment or waiver provisions which require each Holder•s consent.

Notwithstanding the foregoing, without the consent of any Holder, the Issuer, the Guarantor and the Trustee may amend the Indenture and the Notes to:

(1) cure any ambiguity, omission, defect or inconsistency;

(2) provide for the assumption by a Successor Entity of the obligations of the Issuer or the Guarantor (or any previous Successor Entity) under and in accordance with the Indenture;

(3) provide for uncertificated Notes in addition to or in place of certificated Notes;

(4) add guarantees with respect to the Notes;

(5) secure the Notes;

(6) add to the covenants of the Issuer or the Guarantor for the benefit of the Holders or surrender any right or power conferred upon the Issuer or the Guarantor;

(7) make any change that does not materially prejudice the rights of any Holder;

(8) conform the text of the Indenture, the Notes or the Guarantee to any provision of this •Description of the NotesŽ to the extent that the relevant provision in the Indenture, the Notes or the Guarantee was intended to be a verbatim recitation of the relevant provision of this •Description of the Notes;Ž

(9) provide for the appointment of a successor trustee, provided that the successor trustee be otherwise qualified and eligible to act as such under the terms of the Indenture;

(10) comply with the rules of any applicable depositary;

(11) make any amendment to the provisions of the Indenture relating to the transfer and legending of Notes as permitted by the Indenture, including, but not limited to, facilitating the issuance and administration of the Notes or, if incurred in compliance with the Indenture, Additional Notes; provided, however, that (A) compliance with the Indenture as so amended would not result in Notes being transferred in violation of the Securities Act or any applicable securities law and (B) such amendment does not materially prejudice the rights of Holders to transfer Notes; or

(12) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture.

The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment, supplement or waiver. It is sufficient if such consent approves the substance of the proposed amendment. A consent to any amendment, supplement or waiver under the Indenture by any Holder of Notes given in connection with a tender of such Holder•s Notes will not be rendered invalid by such tender. After an amendment, supplement or waiver under the Indenture becomes effective, the Issuer is required to mail to the Holders a notice briefly describing such amendment, supplement or waiver. However, the failure to give such notice to all the Holders, or any defect in the notice, will not impair or affect the validity of the amendment, supplement or waiver.

Defeasance and Covenant Defeasance

The Indenture provides that the Issuer and the Guarantor, at the option of the Issuer and the Guarantor:

(i) will be deemed to have been discharged from any and all obligations in respect of the Notes (except for certain obligations to (1) pay any Additional Amounts (as described above under •„ TaxationŽ) then unknown, (2) register the transfer of or exchange Notes, to replace stolen, lost, destroyed or mutilated Notes upon satisfaction of certain requirements (including, without limitation, providing such security and/or indemnity and/or prefunding as the Trustee may require), (3) maintain Paying Agents and (4) hold certain monies in trust for payment); or

(ii) need not comply with certain restrictive covenants of the Notes (including those described under •„ Certain CovenantsŽ and the following provisions described under •„ Events of DefaultŽ above: (a) the cross default/acceleration provision and (b) the judgment default provision),

in each case if the Issuer or the Guarantor deposits, in trust with the Trustee, (1) money in an amount, (2) U.S. Government Obligations that through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than one business day before the due date of any payment, money in an amount or (3) a combination thereof, in each case, sufficient to pay all the principal of, interest on, and any Additional Amounts known at such time and required to be paid with regard to, the Notes, on the dates such payments are due in accordance with the terms of the Indenture and the Notes.

In the case of discharge pursuant to clause (i) in the preceding paragraph, the Issuer or the Guarantor, as the case may be, is required to deliver to the Trustee an opinion of counsel (subject to customary assumptions and qualifications) stating that (a) the Issuer or the Guarantor has received from, or there has been published by, the United States Internal Revenue Service, a ruling, or (b) since the date of the Indenture, there has been a change in the applicable United States federal income tax law, in either case to the effect that the Holders will not recognize gain or loss for United States federal income tax purposes as a result of the exercise of the option under clause (i) above and will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if such option had not been exercised.

Trustee

The Bank of New York Mellon is appointed as the Trustee under the Indenture and as principal paying and transfer agent with regard to the Notes. The Bank of New York Mellon, Hong Kong Branch is appointed as registrar with regard to the Notes. Except during the continuance of a Default, the Trustee will not be liable, except for the performance of such duties as are specifically set forth in the Indenture and no implied covenant or obligation shall be read into the Indenture against the Trustee. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person•s own affairs. The Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any

Holder, unless such Holder shall have offered to the Trustee security and/or indemnity and/or pre-funding reasonably satisfactory to it against any loss, liability or expense.

Pursuant to the terms of the Indenture, the Issuer and the Guarantor will reimburse the Trustee and the Agents for all properly incurred expenses. The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Guarantor to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions, including normal banking and trustee relationships, with the Guarantor and its affiliates; provided, however, that if it acquires any conflicting interest, it must eliminate such conflict or resign.

Furthermore, each Holder, by accepting the Notes, will agree, for the benefit of the Trustee, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Notes and has not relied on and will not at any time rely on the Trustee in respect of such risks.

Obligation Currency

To the fullest extent permitted by law, the obligations of the Issuer to any Holder under the Indenture or the Notes, as the case may be, shall, notwithstanding any judgment in a currency (the •Judgment CurrencyŽ) other than U.S. Dollars (the •Obligation CurrencyŽ), be discharged only to the extent that on the Business Day following receipt by such holder or the Trustee, as the case may be, of any amount in the Judgment Currency, such Holder or the Trustee, as the case may be, may in accordance with normal banking procedures purchase the Obligation Currency with the Judgment Currency. If the amount of the Obligation Currency so purchased is less than the amount originally to be paid to such Holder or the Trustee, as the case may be, in the Obligation Currency, the Issuer agrees, as a separate obligation and notwithstanding such judgment, to pay the difference. If the amount of the Obligation Currency so purchased exceeds the amount originally to be paid to such Holder, such Holder or the Trustee, as the case may be, agrees to pay to or for the account of the Issuer such excess, provided that such Holder shall not have any obligation to pay any such excess as long as a default by the Issuer in its obligations under the Indenture or the Notes has occurred and is continuing, in which case such excess may be applied by such Holder to such obligations.

Prescription

Any monies paid by the Issuer or the Guarantor to the Paying Agent for the payment of the principal of or interest on any Notes and remaining unclaimed at the end of two years after such principal or interest shall have become due and payable shall then be repaid to the Issuer or the Guarantor, as the case may be, and upon such repayment, all liability of the Paying Agent with respect to such monies shall thereupon cease and any Holder representing a claim therefor shall thereafter look only to the Issuer or the Guarantor for payment thereof.

Under New York law, any legal action upon the Notes must be commenced within six years after the payment thereof is due. Thereafter, the Notes will generally become unenforceable.

Governing Law

The Indenture, the Notes and the Guarantee will be governed by, and construed in accordance with, the laws of the State of New York.

Each of the Issuer and the Guarantor has consented to the non-exclusive jurisdiction of the state and federal courts in the Borough of Manhattan, the State and City of New York, United States of America, with respect to any action that may be brought in connection with the Notes, the Guarantee or the Indenture and has appointed Law Debenture Corporate Services Inc. as its authorized agent upon whom process may be served in any such action. The Issuer, the Guarantor and the Trustee irrevocably and unconditionally waive, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to the Notes, the Guarantee or the Indenture and the transactions contemplated thereby.

•Bankruptcy LawŽ means any applicable bankruptcy, insolvency or other similar law now or hereafter in effect.

•Board of DirectorsŽ means, with respect to any Person, the board of directors of such Person or any duly authorized committee thereof.

•Capital StockŽ means any and all shares, interests, rights to purchase, warrants, options, participation or other equivalents of or interests in (however designated) equity of such Person, including any preferred stock, but excluding any debt securities convertible into such equity.

•Change of ControlŽ means the occurrence of one or more of the following events:

(1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transaction, of all or substantially all of the assets of the Guarantor and its Subsidiaries, taken as a whole, to another Person (other than one or more Permitted Holders);

(2) any •personŽ or •groupŽ (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the •beneficial ownerŽ (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of total voting power of the Voting Stock of the Guarantor greater than such total voting power held beneficially by the Permitted Holders;

(3) individuals who on the Original Issue Date constituted the Board of Directors, together with any new directors whose election or nomination to the Board of Directors was approved by a vote of at least two thirds of the directors then still in office who were either directors on the Original Issue Date or whose election or nomination was previously so approved, cease for any reason to constitute a majority of the Board of Directors then in office; or

(4) the adoption of a plan relating to the liquidation or dissolution of the Guarantor.

•Comparable Treasury IssueŽ means the U.S. Treasury security having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such Notes.

•Comparable Treasury PriceŽ means, with respect to any redemption date: (1) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such redemption date, as set forth in the daily statistical release (of any successor release) published by the Federal Reserve Bank of New York and designated •Composite 3:30 p.m. Quotations for U.S. Government Securities;Ž or (2) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (b) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations.

•Exchange ActŽ means the United States Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

•GAAPŽ means International Financial Reporting Standards as in effect from time to time. •HolderŽ means a Person in whose name a Note is registered on the Registrar•s books.

•IndebtednessŽ means any indebtedness for or in respect of money borrowed that has a final maturity of one year or more from its date of incurrence or issuance.

•Original Issue DateŽ means the date on which the Notes are originally issued under the Indenture.

•Permitted HoldersŽ means the State-owned Assets Supervision and Administration Commission of Hunan Provincial People•s Government.

•PersonŽ means any state-owned enterprise, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, limited liability company, government, governmental entity or any agency or political subdivision thereof or any other entity.

•PRCŽ means the People•s Republic of China, excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan.

•ReceiverŽ means any receiver, trustee, assignee, liquidator, custodian or similar official under any Bankruptcy Law.

•Reference Treasury DealerŽ means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Issuer in good faith.

•Reference Treasury Dealer QuotationsŽ means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Issuer, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Issuer by such Reference Treasury Dealer at 5:00 p.m. on the third Business Day preceding such redemption date.

•Relevant IndebtednessŽ means any indebtedness which is in the form of, or represented or evidenced by, bonds, Notes, debentures, loan stock or other securities which for the time being are, or are intended to be or are commonly, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market.

•SECŽ means the United States Securities and Exchange Commission.

•Securities ActŽ means the United States Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder.

•Significant SubsidiaryŽ means any Subsidiary that would be, or any group of Subsidiaries (each of which is not itself a Significant Subsidiary) that together would constitute, a •significant subsidiaryŽ of the Guarantor within the meaning of Rule 1-02 under Regulation S-X promulgated by the SEC; provided that in each instance in such definition in which the term •10 percentŽ is used, the term •5 percentŽ shall be substituted therefor.

•SubsidiaryŽ means in relation to any Person and at any particular time any entity of which more than 50% of the issued share capital is then beneficially owned by such Person and/or one or more of its Subsidiaries or any company or other business entity which at any time has its accounts consolidated with those of that Person under the laws or regulations of Hong Kong or pursuant to GAAP.

•Treasury RateŽ means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield in maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

•Voting StockŽ of any specified Person as of any date means Capital Stock or other ownership interest that is at the time entitled to vote in the election of the members of the Board of Directors of such Person.

or sale in connection with, any distribution of the Notes in violation of the Securities Act, subject to any requirement of law that the disposition of your property or the property of that investor account or accounts be at all times within your or their control and subject to your or their ability to resell the Notes pursuant to Rule 144A or any other available exemption from registration under the Securities Act.

With respect to purchasers of Notes offered pursuant to Rule 144A of the Securities Act (the •Restricted NotesŽ), you agree on your own behalf and on behalf of any investor account for which you are purchasing Notes, and each subsequent holder of the Notes by its acceptance of the Notes will agree, that until the end of the Resale Restriction Period (as defined below), the Notes may be offered, sold or otherwise transferred only:

(a) to the Issuer, us or any of their respective affiliates;

(b) under a registration statement that has been declared effective under the Securities Act;

(c) for so long as the Notes are eligible for resale under Rule 144A, to a person the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom notice is given that the transfer is being made in reliance on Rule 144A;

(d) through offers and sales that occur outside the United States within the meaning of Regulation S under the Securities Act; or

(e) under any other available exemption from the registration requirements of the Securities Act;

subject in each of the above cases to any requirement of law that the disposition of the seller•s property or the property of an investor account or accounts be at all times within the seller•s or account•s control, and that you will, and each subsequent holder is required to, notify any subsequent purchaser of the Notes from you or it of the resale restrictions referred to above.

You also acknowledge that:

— the above restrictions on resale will apply from the closing date until the date that is one year after the later of the closing date and the last date that we or any of our affiliates was the owner of the Notes or any predecessor of the Notes, a period we call the Resale Restriction Period, and will not apply after the applicable Resale Restriction Period ends;

— we and the Trustee reserve the right to require in connection with any offer, sale or other transfer of Notes under clauses (d) and (e) above the delivery of an opinion of counsel, certifications and/or other information satisfactory to us and the Trustee; and

— each Note will contain a legend substantially to the following effect (the •Restricted Notes LegendŽ):

THIS NOTE AND THE GUARANTEE IN RESPECT HEREOF (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE •SECURITIES ACTŽ), AND THIS NOTE AND THE GUARANTEE IN RESPECT HEREOF MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS NOTE AGREES FOR THE BENEFIT OF THE ISSUER THAT (A) THIS NOTE MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) TO THE ISSUER, THE GUARANTOR OR ANY OF THEIR RESPECTIVE AFFILIATES, (II) UNDER A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT; (III) FOR SO LONG AS THE NOTES ARE ELIGIBLE FOR RESALE UNDER RULE 144A, TO A PERSON THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER THAT IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER AND TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A; (IV) THROUGH OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT; OR (V) UNDER ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

With respect to purchasers of Notes offered in reliance on Regulation S, you acknowledge that each Note will contain a legend substantially to the following effect (the •Regulation S LegendŽ):

THIS NOTE AND THE GUARANTEE IN RESPECT HEREOF (OR ITS PREDECESSOR) WERE ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE •SECURITIES ACTŽ), AND MAY NOT BE TRANSFERRED IN THE UNITED STATES EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM IN REGULATION S UNDER THE SECURITIES ACT.

Restricted Notes may be exchanged for Notes not bearing the Restricted Note Legend but bearing the Regulation S Legend upon certification by the transferor in the form set forth in the Indenture that the transfer of any such Restricted Note has been made in accordance with Rule 904 under the Securities Act.

You acknowledge that we, the Initial Purchaser and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of Notes is no longer accurate, you will promptly notify us and the Initial Purchaser. If you are purchasing any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

You agree that you will give to each person to whom you transfer the Notes notice of any restriction on transfer of such Notes, including those described in the Indenture under which the Notes were issued and this offering memorandum. No representation is being made as to the availability of the exemption provided by Rule 144 for resales of the Notes.

EXCHANGE RATES

This offering memorandum contains translations of certain RMB amounts into U.S. dollar amounts at specified rates. Unless otherwise stated, the translations of RMB into U.S. dollars have been made at the Noon Buying Rate as of September 28, 2012, which was RMB6.2848 to US$1.00. We make no representation that the RMB or U.S. dollar amounts referred to in this offering memorandum could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, the rates stated below, or at all. See •Risk Factors „ Risks Related to Doing Business in China „ Government control of currency conversion and the fluctuation in foreign exchange rates may adversely affect the value of your investments.Ž for discussions of the effects of fluctuating exchange rates and currency control on the value of your investment in the Notes.

The following table sets forth (1) the noon buying rate for U.S. dollars in New York City for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for and as of the period ends indicated through December 31, 2008 and (2) the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Board for and as of the period ends indicated from and after January 1, 2009:

Period	Period end	Average[1]	High	Low

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, rules and regulations in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

PRC

Taxation on Interest

Pursuant to the EIT Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) whose •de facto management bodiesŽ are within the territory of the PRC shall be treated as PRC tax resident enterprises for the purpose of the EIT Law and they shall pay enterprise income tax at the rate of 25% in respect of their income sourced from both within and outside China. If the relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the •de facto management bodyŽ of the Issuer is within the territory of the PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the EIT Law and be subject to enterprise income tax at the rate of 25% for its income sourced from both within and outside PRC. As confirmed by the Issuer, as of the date of this offering memorandum, the Issuer has not been given notice or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the EIT Law. On that basis, holders of the Notes will not be subject to withholding tax, income tax or any other taxes or duties (including stamp duty) imposed by any governmental authority in the PRC in respect of the holding of the Notes or any repayment of principal and payment of interest made thereon. However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future.

EIT Law, and its implementation regulations impose withholding tax at the rate of 10% on income paid to •non-resident enterprisesŽ so long as such •non-resident enterpriseŽ does not have an establishment or place of business in China or, despite the existence of establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China, to the extent such income is sourced within China, and such income tax shall be withheld by sources with the PRC payer acting as the obligatory withholder, who shall withhold tax from each payment or payment due. Pursuant to these provisions of the EIT Law, in the event the Issuer is considered a PRC resident enterprise by the PRC tax authorities in the future, interest payable to non-resident enterprise holders on the Notes will be treated as income derived from sources within China and be subject to such PRC withholding tax. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified non-PRC resident enterprise holders of the Notes.

In addition, as the Guarantor is a PRC resident enterprise, in the event that the Guarantor is required to fulfill its obligations under the Guarantee by making interest payments on behalf of the Issuer, the Guarantor will be obliged to withhold PRC enterprise income tax at the rate up to 10% on such payments of interest to non-PRC resident enterprise holders of the Notes as such interest payments will be deemed as being derived from sources within the PRC. To the extent that the PRC has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, which allows a lower rate of withholding tax, such lower rate may apply to qualified non-PRC resident enterprise holders of the Notes. Repayment of the principal will not be subject to PRC withholding tax.

Taxation on Capital Gains

The EIT Law and its implementation regulations impose a tax at the rate of 10% on capital gains realized by holders of the Notes that are •non-resident enterprisesŽ so long as any such •non-resident enterpriseŽ holder does not have an establishment or place of business in China or, despite the existence of establishment or place of business in China, the relevant gain is not effectively connected with such establishment or place of business in China, to the extent such capital gains are sourced within China. Pursuant to these provisions of the EIT Law, if the Issuer is considered a PRC resident enterprise by the PRC tax authorities in the future, the capital gains realized by non-resident enterprise holders of the Notes will be treated as income derived from sources within China and be subject to the PRC withholding tax. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified non-PRC resident enterprise holders of the Notes, if both the Issuer and the investors qualify for benefits under the applicable tax treaty.

Stamp Duty

No PRC stamp tax will be chargeable upon the issue or transfer of a Note to the extent that the register of holders of the Notes is maintained outside mainland China. The Issuer intends to maintain the register of holders of the Notes outside mainland China.

HONG KONG

Withholding tax

No withholding tax in Hong Kong is payable on payments of principal, premium, if any, or interest with respect to the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong with respect to profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the •Inland Revenue OrdinanceŽ) as it is currently applied by the Inland Revenue Department, interest on the Notes may be jointly and severally to pay any unpaid stamp duty and also any penalties for late payment. If stamp duty is not paid on or before the due date (two days after the sale or purchase if effected in Hong Kong or 30 days if effected elsewhere) a penalty of up to 10 times the duty payable may be imposed. In addition, stamp duty is payable at the fixed rate of HK$5 on each instrument of transfer executed in relation to any transfer of the Notes where stamp duty is payable.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS FOR U.S. HOLDERS

To ensure compliance with Internal Revenue Service Circular 230, you are hereby notified that any discussion of tax matters set forth in this offering memorandum was written in connection with the promotion or marketing of the transactions or matters addressed herein and was not intended or written to be used, and cannot be used by any prospective investor, for the purpose of avoiding tax-related penalties under federal, state or local tax law. Each prospective investor should seek advice based on its particular circumstances from an independent tax advisor.

The following is a summary of certain United States federal income tax consequences of the purchase, ownership and disposition of Notes as of the date hereof. Except where noted, this summary deals only with Notes that are held as capital assets by a U.S. holder (as defined below) who acquired our Notes upon original issuance at their •issue priceŽ (the first price at which a substantial amount of the Notes is sold to the public).

A •U.S. holderŽ means a person that is for United States federal income tax purposes any of the following:

— an individual citizen or resident of the United States;

— a corporation (or any other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

— an estate the income of which is subject to United States federal income taxation regardless of its source; or

— a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This summary is based upon provisions of the Internal Revenue Code of 1986, as amended (the •CodeŽ), and regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in United States federal income tax consequences different from those summarized below. This summary does not address all aspects of United States federal income taxes and does not deal with foreign, state, or local or other tax considerations that may be relevant to U.S. holders in light of their personal circumstances. In addition, it does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws. For example, this summary does not address:

— tax consequences to holders who may be subject to special tax treatment, such as dealers in securities or currencies, traders in securities that elect to use the mark-to-market method of accounting for their securities, financial institutions, regulated investment companies, real estate investment trusts, partnerships or other pass-through entities for United States federal income tax purposes, tax-exempt entities or insurance companies;

— tax consequences to persons holding the Notes as part of a hedging, integrated, constructive sale or conversion transaction or a straddle;

— tax consequences to holders of the Notes whose •functional currencyŽ is not the United States dollar;

— alternative minimum tax consequences, if any; or

— any state, local or foreign tax consequences.

If an entity treated as a partnership for United States federal income tax purposes holds our Notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our Notes, you should consult your tax advisors.

If you are considering the purchase of Notes, you should consult your own tax advisors concerning the particular United States federal income tax consequences to you of the ownership of the Notes, as well as the consequences to you arising under the laws of any other taxing jurisdiction.

Payments of Interest

Interest on a Note will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for tax purposes. In addition to interest on the Notes (which includes any PRC or Hong Kong tax withheld from the interest payments you receive), you will be required to include in income any Additional Amounts paid in respect of such PRC or Hong Kong tax withheld. You may be entitled to deduct or credit this tax, subject to certain limitations (including that the election to deduct or credit foreign taxes applies to all of your foreign taxes for a particular tax year). Interest income (including any Additional Amounts) on a Note generally will be considered foreign source income and, for purposes of the United States foreign tax credit, generally will be considered passive category income. You will generally be denied a foreign tax credit for foreign taxes imposed with respect to the Notes where you do not meet a minimum holding period requirement during which you are not protected from risk of loss. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

Sale, Exchange and Retirement of Notes

Your tax basis in a Note will, in general, be your cost for that Note. Upon the sale, exchange, retirement or other disposition of a Note, you will recognize gain or loss equal to the difference between the amount you realize upon the sale, exchange, retirement or other disposition (less an amount equal to any accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income) and the adjusted tax basis of the Note. Such gain or loss will be capital gain or loss and will generally be treated as United States source gain or loss. Consequently, you may not be able to claim a credit for any PRC or Hong Kong tax imposed upon a disposition of a Note unless such credit can be applied (subject to applicable limitation) against tax due on other income treated as derived from foreign sources. Capital gains of individuals derived in respect of capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Backup Withholding and Information Reporting

Generally, information reporting requirements will apply to all payments we make to you and the proceeds from a sale of a Note paid to you, unless you are an exempt recipient such as a corporation. Additionally, if you fail to provide your taxpayer identification number, or in the case of interest payments, fail either to report in full dividend and interest income or to make certain certifications, you may be subject to backup withholding.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is furnished to the Internal Revenue Service.

PLAN OF DISTRIBUTION

management strategy with the Initial Purchaser, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral.

The Initial Purchaser or certain of its affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution.

The Initial Purchaser or its respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Company or their respective subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this offering memorandum relates (notwithstanding that such selected counterparties may also be purchasers of the Notes).

We expect that delivery of the Notes will be made against payment therefor on or about the closing date specified on the cover page of this offering memorandum, which will be on or about the fifth Business Day following the pricing date of the Notes. Under Rule 15c6-l of the Exchange Act, trades in the secondary market generally are required to settle in three business days (as such term is used under Rule 15c6-1 of the Exchange Act), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes on the date of pricing or the next succeeding Business Day will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or the next succeeding Business Day should consult their own legal advisor.

Selling restrictions

United States

The Notes and the Guarantee have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States except (1) to qualified institutional buyers in reliance on Rule 144A, and (2) outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

The Initial Purchaser has represented and agreed that, except as permitted by the Purchase Agreement, it has not offered, sold or delivered and will not offer, sell or deliver any Notes as part of its distribution in the United States.

United Kingdom

The Initial Purchaser has represented and agreed that (A) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the •FSMAŽ) with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom;

and (B) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to it.

Singapore

The Initial Purchaser represents and agrees that the offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289 of Singapore) (the •SFAŽ). Accordingly, it has represented that the Notes will not be offered or sold, or cause the Notes to be made the subject of an invitation for subscription or purchase, and have not circulated or distributed, nor will they circulate or distribute, whether directly or indirectly, this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Notes to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA; (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries• rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor under Section 274 of the SFA or to a relevant person defined in Section 275(2) of the SFA; or (in the case of such corporation) where the transfer arises from an offer referred to in Section 276(3)(i)(B) of the SFA, or (in the case of such trust), where the transfer arises from an offer referred to in Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law; or

(4) pursuant to Section 276(7) of the SFA.

Hong Kong

The Initial Purchaser has represented and agreed that (1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to •professional investorsŽ as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a •prospectusŽ as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and (2) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue any advertisement, invitation or document relating to the Notes, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to •professional investorsŽ as defined in the Securities and Futures Ordinance (Cap. 571) and any rules made thereunder.

Japan

The Initial Purchaser has represented, warranted and undertaken that the Notes have not been and will not be registered under the Securities and Exchange Law of Japan, or the Securities and Exchange Law, and that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws and regulations of Japan.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, or a Relevant Member State, the Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, or the •Relevant Implementation Date,Ž it has not made and will not make an offer of the Notes to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

(a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to the Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;

(b) at any time to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000; and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts; or

(d) at any time in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an •offer of Notes to the publicŽ in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Cayman Islands

The Initial Purchaser has represented and agreed that it has not offered or sold, and will not offer or sell, any Notes to the public in the Cayman Islands.

People•s Republic of China

The Initial Purchaser has represented and agreed that it has not circulated and will not circulate the offering memorandum and it has not offered or sold and will not offer or sell the Notes, directly or indirectly, in the PRC.

RATINGS

The Notes have been provisionally rated •BB+Ž by Standard and Poor•s Ratings Services, and •BBB-Ž by Fitch Ratings. The ratings reflect the rating agencies• assessment of the likelihood of timely payment of the principal of and interest on the Notes. Ratings are limited in scope, and do not address all material risks relating to an investment in the Notes, but rather reflect only the view of each rating agency at the time the rating is issued. An explanation of the significance of a rating may be obtained from the relevant rating agency. Ratings are not recommendations to buy, sell or hold securities, and there can be no assurance that ratings will remain in effect for any given period of time or that ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in each rating agency•s judgment, circumstances so warrant. Each rating should be evaluated independently of any other rating on the Notes, on any other of our securities, or on us. See •Risk Factors „ Risks Relating to the Notes „ The ratings assigned to the Notes may be lowered, suspended or withdrawn; changes in such credit ratings may adversely affect the value of the Notes.Ž

LEGAL MATTERS

Certain legal matters in connection with this offering as to Hong Kong law and United States Federal and New York State Law will be passed upon for us by Simpson Thacher & Bartlett and for the Sole Global Coordinator and Sole Bookrunner as to United States Federal and New York State Law by Skadden, Arps, Slate, Meagher & Flom LLP. Certain legal matters in connection with this offering as to PRC law will be passed upon for us by Fangda Partners and for the Sole Global Coordinator and Sole Bookrunner by Jun He Law Offices.

INDEPENDENT AUDITORS

Our consolidated financial statements as of and for the years ended December 31, 2009, 2010 and 2011 included in this offering memorandum have been audited by KPMG, Certified Public Accountants, Hong Kong, our independent auditors, as indicated in their report with respect thereto, included herein.

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Index to financial statements

Independent auditor•s report
To the shareholders of Zoomlion Heavy Industry Science and Technology Co., Ltd.

(Incorporated in The People•s Republic of China with limited liability)

We have audited the consolidated financial statements of Zoomlion Heavy Industry Science and Technology Co., Ltd. (formerly •Changsha Zoomlion Heavy Industry Science and Technology Development Co., Ltd.Ž) (the •CompanyŽ) and its subsidiaries (together the •GroupŽ) set out on pages F-4 to F-79, which comprise the consolidated and company balance sheets as at December 31, 2009, 2010 and 2011, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for the years then ended and a summary of significant accounting policies and other explanatory information.

Directors• responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board 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.

Auditor•s responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor•s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity•s preparation of the consolidated financial statements that give a true and fair view 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 entity•s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2009, 2010 and 2011, and of the Group•s profit and cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG
Certified Public Accountants
8/F, Prince•s Building
10 Chater Road
Hong Kong, China

March 15, 2012

Consolidated statements of comprehensive income
For the years ended December 31, 2009, 2010 and 2011
(Expressed in RMB)

	Note	2009	2010	2011
		RMB millions	RMB millions	RMB millions
Turnover	3	20,762	32,193	46,323
Cost of sales and services		(15,422)	(22,424)	(31,316)
Gross profit		5,340	9,769	15,007
Other revenues and net income	4	105	54	14
Sales and marketing expenses		(1,250)	(2,146)	(3,160)
General and administrative expenses		(878)	(1,645)	(1,861)
Research and development expenses		(194)	(265)	(398)
Profit from operations		3,123	5,767	9,602
(Loss)/gain on disposal of subsidiaries and associates		(6)	„	12
Net finance costs	5(a)	(295)	(365)	(36)
Share of profits less losses of associates		6	14	24
Profit before taxation	5	2,828	5,416	9,602
Income tax	6	(409)	(828)	(1,429)
Profit for the year		2,419	4,588	8,173
Other comprehensive income for the year (after tax)				
Change in fair value of available-for-sale equity securities		3	(2)	(1)
Others		„	11	„
Exchange differences on translation of financial statements of subsidiaries outside PRC		44	(74)	(2)
Total other comprehensive income for the year		47	(65)	(3)
Total comprehensive income for the year		2,466	4,523	8,170
Profit attributable to:				
Equity shareholders of the Company		2,447	4,666	8,066
Non-controlling interests		(28)	(78)	107
Profit for the year		2,419	4,588	8,173
Total comprehensive income attributable to:				
Equity shareholders of the Company		2,497	4,580	8,050
Non-controlling interests		(31)	(57)	120
Total comprehensive income for the year		2,466	4,523	8,170
Basic and diluted earnings per share (RMB) (Restated)	7	0.45	0.74	1.05

The notes on pages F-12 to F-79 form part of these financial statements.

Consolidated balance sheets
As at December 31, 2009, 2010 and 2011
(Expressed in RMB)

	Note	2009 RMB millions	2010 RMB millions	2011 RMB millions
Non-current assets				
Property, plant and equipment	9	3,683	4,135	4,886
Lease prepayments		907	1,119	1,390
Intangible assets	10	1,432	1,256	1,216
Goodwill	11	2,082	1,907	1,793
Interests in associates	12	71	86	103
Other financial assets		15	50	43
Trade and other receivables	14	229	585	912
Receivables under finance lease	15	5,060	9,775	12,780
Pledged bank deposits	16	234	185	261
Deferred tax assets	20(b)	148	274	317
Total non-current assets		13,861	19,372	23,701
Current assets				
Inventories	13	6,272	8,678	9,656
Trade and other receivables	14	6,265	8,260	13,614
Receivables under finance lease	15	3,283	6,397	7,089
Pledged bank deposits	16	755	1,577	1,481
Cash and cash equivalents	17	3,439	18,758	16,002
Total current assets		20,014	43,670	47,842
Total assets		33,875	63,042	71,543
Current liabilities				
Loans and borrowings	18(a)	8,553	8,107	6,049
Trade and other payables	19	10,632	17,203	19,314
Income tax payable	20(a)	283	757	1,289
Total current liabilities		19,468	26,067	26,652
Net current assets		546	17,603	21,190
Total assets less current liabilities		14,407	36,975	44,891

The notes on pages F-12 to F-79 form part of these financial statements.

Consolidated balance sheets
As at December 31, 2009, 2010 and 2011 (continued)
(Expressed in RMB)

	Note	2009	2010	2011
		RMB millions	RMB millions	RMB millions
Non-current liabilities				
Loans and borrowings	18(b)	5,621	7,690	7,089
Other non-current liabilities	22	684	1,379	1,789
Deferred tax liabilities	20(b)	550	471	418
Total non-current liabilities		6,855	9,540	9,296
NET ASSETS		7,552	27,435	35,595
CAPITAL AND RESERVES				
Share capital	23(a)	1,673	5,797	7,706
Reserves	23(b)	5,755	21,579	27,701
Total equity attributable to equity shareholders of the Company		7,428	27,376	35,407
Non-controlling interests		124	59	188
TOTAL EQUITY		7,552	27,435	35,595

Approved and authorized for issue by the board of directors on March 15, 2012.

Zhan Chunxin
Chairman and Chief Executive Officer

Hong Xiaoming
Vice president and the person in-charge of financial affairs

The notes on pages F-12 to F-79 form part of these financial statements.

Company balance sheets
As at December 31, 2009, 2010 and 2011
(Expressed in RMB)

	Note	2009	2010	2011
		RMB millions	RMB millions	RMB millions
Non-current assets				
Property, plant and equipment	9	2,397	2,819	3,586
Lease prepayments		448	615	861
Intangible assets	10	59	58	135
Investments in subsidiaries	30	1,882	3,364	8,570
Interests in associates	12	52	60	57
Other financial assets		11	47	40
Trade and other receivables	14	215	525	887
Pledged bank deposits	16	147	145	261
Deferred tax assets	20(b)	62	96	107
Total non-current assets		5,273	7,729	14,504
Current assets				
Inventories	13	4,209	6,920	7,694
Trade and other receivables	14	8,242	16,824	28,839
Pledged bank deposits	16	631	1,470	1,406
Cash and cash equivalents	17	2,292	16,638	8,095
Total current assets		15,374	41,852	46,034
Total assets		20,647	49,581	60,538
Current liabilities				
Loans and borrowings	18(a)	1,644	3,867	4,095
Trade and other payables	19	9,792	15,393	16,388
Income tax payable	20(a)	270	712	1,177
Total current liabilities		11,706	19,972	21,660
Net current assets		3,668	21,880	24,374
Total assets less current liabilities		8,941	29,609	38,878

The notes on pages F-12 to F-79 form part of these financial statements.

Company balance sheets
As at December 31, 2009, 2010 and 2011 (continued)
(Expressed in RMB)

	Note	2009	2010	2011
		RMB millions	RMB millions	RMB millions
Non-current liabilities				
Loans and borrowings	18(b)	1,575	2,346	4,152
Other non-current liabilities		„	99	112
Deferred tax liabilities	20(b)	5	„	„
Total non-current liabilities		1,580	2,445	4,264
NET ASSETS		7,361	27,164	34,614
CAPITAL AND RESERVES				
Share capital	23(a)	1,673	5,797	7,706
Reserves	23(b)	5,688	21,367	26,908
TOTAL EQUITY		7,361	27,164	34,614

Approved and authorized for issue by the board of directors on March 15, 2012.

Zhan Chunxin
Chairman and Chief Executive Officer

Hong Xiaoming
Vice president and the person in-charge of financial affairs

The notes on pages F-12 to F-79 form part of these financial statements.

Consolidated statements of changes in equity
For the years ended December 31, 2009, 2010 and 2011
(Expressed in RMB)

	Attributable to equity shareholders of the Company								
	Share capital (Note 23(a))	Capital reserve (Note 23(b)(i))	Statutory surplus reserve (Note 23(b)(ii))	Exchange reserve (Note 23(b)(iii))	Fair value reserve (Note 23(b)(iv))	Retained earnings	Total	Non-controlling interests	Total equity
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Balance at January 1, 2009	1,521	12	529	(18)	(2)	3,029	5,071	140	5,211
Appropriation (Note 23(b)(ii))	„	„	240	„	„	(240)	„	„	„
Cash dividends (Note 23(c)(i))	„	„	„	„	„	(152)	(152)	„	(152)
Bonus shares (Note 23(c)(ii))	152	„	„	„	„	(152)	„	„	„
Acquisition of non-controlling interests	„	10	„	„	„	„	10	(25)	(15)
Acquisition of subsidiaries	„	„	„	„	„	„	„	11	11
Contributions from non-controlling interests	„	2	„	„	„	„	2	29	31
Total comprehensive income for the year	„	„	„	47	3	2,447	2,497	(31)	2,466
Balance at December 31, 2009	1,673	24	769	29	1	4,932	7,428	124	7,552
Appropriation (Note 23(b)(ii))	„	„	443	„	„	(443)	„	„	„
Issuance of A Shares in Non-public Offering (Note 23(a))	298	5,181	„	„	„	„	5,479	„	5,479
Cash dividends (Note 23(c)(i))	„	„	„	„	„	(827)	(827)	„	(827)
Bonus shares (Note 23(c)(ii))	2,957	„	„	„	„	(2,957)	„	„	„
Acquisition of non-controlling interests	„	(2)	„	„	„	„	(2)	2	„
Dividends paid by subsidiaries to non-controlling interests	„	„	„	„	„	„	„	(10)	(10)
Issuance of H Shares in Global Offering (Note 23(a))	869	9,849	„	„	„	„	10,718	„	10,718
Total comprehensive income for the year	„	11	„	(95)	(2)	4,666	4,580	(57)	4,523
Balance at December 31, 2010	5,797	15,063	1,212	(66)	(1)	5,371	27,376	59	27,435
Appropriation (Note 23(b)(ii))	„	„	751	„	„	(751)	„	„	„
Over-allotment of H Shares in Global Offering (Note 23(a))	131	1,376	„	„	„	„	1,507	„	1,507
Cash dividends (Note 23(c)(i))	„	„	„	„	„	(1,541)	(1,541)	„	(1,541)
Bonus shares (Note 23(c)(ii))	1,778	(1,778)	„	„	„	„	„	„	„
Acquisition of a subsidiary	„	„	„	„	„	„	„	34	34
Contributions from non-controlling interests	„	„	„	„	„	„	„	2	2
Acquisition of non-controlling interests	„	15	„	„	„	„	15	(15)	„
Dividends paid by subsidiaries to non-controlling interests	„	„	„	„	„	„	„	(12)	(12)
Total comprehensive income for the year	„	„	„	(15)	(1)	8,066	8,050	120	8,170
Balance at December 31, 2011	7,706	14,676	1,963	(81)	(2)	11,145	35,407	188	35,595

The notes on pages F-12 to F-79 form part of these financial statements.

Consolidated cash flow statements
For the years ended December 31, 2009, 2010 and 2011
(Expressed in RMB)

	Note	2009	2010	2011
		RMB millions	RMB millions	RMB millions
Operating activities				
Profit before taxation		2,828	5,416	9,602
Adjustments for:				
Depreciation of property, plant and equipment		245	327	369
Amortization of lease prepayments		21	24	27
Amortization of intangible assets		63	64	60
Share of profits less losses of associates		(6)	(14)	(24)
Interest income		(34)	(96)	(214)
Interest expense		438	740	695
Loss on disposal of property, plant and equipment, and intangible assets		10	37	6
Loss/(gain) on disposal of subsidiaries and associates		6	„	(12)
Gain on remeasurement of derivate financial instruments at fair value		„	„	(19)
Impairment loss on property, plant and equipment		5	5	8
		3,576	6,503	10,498
Increase in inventories		(1,093)	(2,416)	(965)
Increase in trade and other receivables		(1,703)	(2,371)	(5,670)
Increase in receivables under finance lease		(6,096)	(7,829)	(3,697)
Increase in trade and other payables		4,206	7,083	2,689
Cash (used in)/generated from operations		(1,110)	970	2,855
Income tax paid		(256)	(519)	(975)
Net cash (used in)/generated from operating activities carried forward		(1,366)	451	1,880

The notes on pages F-12 to F-79 form part of these financial statements.

Consolidated cash flow statements
For the years ended December 31, 2009, 2010 and 2011 (continued)
(Expressed in RMB)

	Note	2009	2010	2011
		RMB millions	RMB millions	RMB millions
Net cash (used in)/generated from operating activities brought forward		(1,366)	451	1,880
Investing activities				
Payment for the purchase of property, plant and equipment		(829)	(910)	(1,210)
Lease prepayments		(3)	(236)	(260)
Payment for purchase of intangible assets		(70)	(27)	(112)
Dividends received from associates		„	6	„
Payment for acquisition of investments in associates and equity investments		(15)	(44)	(7)
Proceeds from disposal of investments in associates		7	„	„
Proceeds from disposal of property, plant and equipment and intangible assets		79	55	37
Payment for acquisition of subsidiary, net of cash acquired	11(b)	(28)	„	„
Cash acquired in step acquisition	11(b)	„	„	31
Interest received		34	96	214
(Increase)/decrease in pledged bank deposits		(535)	(773)	20
Net cash used in investing activities		(1,360)	(1,833)	(1,287)
Financing activities				
Proceeds from loans and borrowings		11,581	10,840	9,454
Repayments of loans and borrowings		(7,712)	(8,906)	(11,847)
Interest paid		(498)	(743)	(695)
Dividends paid to equity shareholders		(152)	(711)	(1,657)
Dividends paid by subsidiaries to non-controlling interests		„	„	(12)
Contribution from non-controlling interests		31	„	2
Prepayment for acquisition of non-controlling interests		„	„	(27)
Net proceeds from issuance of A Shares in Non-public Offering		„	5,479	„
Net proceeds from issuance of H Shares in Global Offering		„	10,796	„
Net proceeds from over-allotment of H Shares in Global Offering		„	„	1,507
Net cash generated from/(used in) financing activities		3,250	16,755	(3,275)
Net increase/(decrease) in cash and cash equivalents		524	15,373	(2,682)
Cash and cash equivalents at beginning of year		2,913	3,439	18,758
Effect of foreign exchange rate changes		2	(54)	(74)
Cash and cash equivalents at end of year	17	3,439	18,758	16,002

The notes on pages F-12 to F-79 form part of these financial statements.

Notes to the consolidated financial statements
For the years ended December 31, 2009, 2010 and 2011

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

(a) Principal activities of reporting entity

Zoomlion Heavy Industry Science and Technology Co., Ltd. (formerly •Changsha Zoomlion Heavy Industry Science and Technology Development Co., Ltd.Ž) (the •CompanyŽ) and its subsidiaries (collectively, referred to as the •GroupŽ) are principally engaged in the research, development, manufacturing and sale and leasing of concrete machinery, crane machinery, environmental and sanitation equipment, road construction and pile foundation machinery and other related heavy machinery and capital equipment in the People•s Republic of China (•PRCŽ), and manufacturing and sale of concrete machinery in Italy.

(b) Organization

The Company was incorporated in the PRC on August 31, 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 InstituteŽ), 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 October 12, 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 (•SZSEŽ). 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 2004, 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 RMB507 million, which remained unchanged up to March 2007 when another stock split in the form of bonus shares took place.

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 then 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 SASACŽ), and 16.9% equity interest transferred to the four other shareholders of Research Institute.

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 December 23, 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 (•SEHKŽ). In this connection, Hunan SASAC and Hunan Development Group, the Company•s state-owned shareholders, transferred a total of 86,958,280 A Shares to the National Council for Social Security Fund of the PRC (•NSSFŽ), 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 January 5, 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 June 3, 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.

(c) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (•IFRSsŽ) as issued by the International Accounting Standards Board (•IASBŽ). IFRSs include all individual International Financial Reporting Standards, International Accounting Standards (•IASsŽ) and related interpretations. A summary of the significant accounting policies adopted by the Group are set out in Note 2.

The IASB has issued a number of new and revised IFRSs that are first effective for the accounting year of 2011. Of these, the following developments are relevant to the Group•s financial statements:

— IAS 24 (revised 2009), •Related party disclosuresŽ

— Improvements to IFRSs (2010)

— IFRIC 19, •Extinguishing financial liabilities with equity instrumentsŽ

The adoption of these new and revised IFRSs has had no significant effect on the consolidated financial statements.

As set out in Note 31, the IASB has issued certain new and revised IFRSs that are not yet effective for the year ended December 31, 2011. The Group has not early adopted these IFRSs in preparing the financial statements for the year then ended.

(ii) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the re-measurement of available-for-sale equity securities and derivative financial instruments (Note 2(h)) to fair value.

(iii) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

(a) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the acquirer. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

— the fair value of the consideration transferred; plus

— the recognized amount of any non-controlling interests in the acquiree; plus

— if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less

— the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Transaction costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree•s employees (acquiree•s awards) and relate to past services, 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 value of the replacement awards compared with the market-based value of the acquiree•s awards and the extent to which the replacement awards relate to past and/or future service.

(b) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account.

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 and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity ie

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

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

Unrealized 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 unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

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 recognized in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(h)).

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

(d) Goodwill

Goodwill represents the excess of

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

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

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

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

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

(e) Intangible assets

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

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (Note 2(i)).

Amortization 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 amortized from the date they are available for use and their estimated useful lives are as follows:

— technical know how	14 years
— software, patents and similar rights	4 to 10 years
— customer relationships	12 years
— capitalized development costs	5 years

Both the period and method of amortization are reviewed annually.

Intangible assets are not amortized 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 amortization of intangible assets with finite lives as set out above.

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

(f) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost, less accumulated depreciation and impairment losses (Note 2(i)). The cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized 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 recognized as an expense in profit or loss in the period in which it is incurred.

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

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

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment, are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized 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	10 years
Motor vehicles	10 years
Office equipment	5 years

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

(g) Lease prepayments

Lease prepayments represent cost paid to the relevant government authorities for land use rights. Land use rights are carried at cost less the accumulated amount charged to expense and impairment losses (Note 2(i)). The cost of lease prepayments is charged to profit or loss on a straight-line basis over the respective periods of the rights, which range from 34 to 50 years.

(h) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, receivables under finance lease, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not classified as at fair value through profit or loss, any directly attributable transaction costs.

A financial instrument is recognized when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if the Group•s contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Financial liabilities are derecognized if the Group•s obligations specified in the contract expire or are discharged or cancelled.

Financial assets and liabilities are offset and the net amount presented in the balance sheets when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Investments in equity securities

Investments in quoted securities that are classified as available-for-sale are carried at fair value with any change in fair value recognized in other comprehensive income and accumulated separately in equity in the fair value reserve. When these investments are derecognized or impaired, the cumulative gain or loss is reclassified from equity to profit or loss. Investments in equity securities, other than investments in associates that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are recognized in the balance sheet at cost less impairment losses (Note 2(i)).

Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less impairment losses for bad and doubtful debts (Note 2(i)), except where the effect of discounting would be immaterial. In such case, the receivables are stated at cost less impairment losses for bad and doubtful debts (Note 2(i)).

Receivables are derecognized when the contractual rights to receive the cash flows from the receivables expire, or where the receivables together with substantially all the risks and rewards of ownership, have been transferred.

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.

Interest-bearing borrowings

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

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

— For investments in subsidiaries and associates (including those recognized using the equity method (Note 2(c))), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 2(i)(ii). The impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount in accordance with Note 2(i)(ii).

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

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

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

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

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

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

(ii) Impairment of other assets

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

— property, plant and equipment;

— lease prepayments;

— intangible assets; and

— goodwill.

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).

— Recognition of impairment losses

An impairment loss is recognized 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 recognized 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 to sell, 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 favorable 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 recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

(j) Inventories

Inventories are carried at the lower of cost and net realizable 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 realizable 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 recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(k) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values. Further information of the Group•s retirement plans is set out in Note 21.

Termination benefits, such as employee reduction expenses, are recognized when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(l) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to business combinations, or items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized 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 balance sheet date, and any adjustment to tax payable in respect of previous years.

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

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. 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 utilized.

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 recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date 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 utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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 realize 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 realize

(ii) Other provisions and contingent liabilities

Provisions are recognized 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.

(n) Revenue recognition

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

(i) Sale of goods

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

(ii) Finance income under finance lease

Where the Group provides finance leasing of its machinery products to customers, the Group recognizes 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 recognized 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 amortized to the profit or loss over the expected life of the lease as an adjustment to finance income.

(iii) Government grants

Government grants are recognized in the balance sheet initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as other revenues in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss on a systematic basis over the useful life of the asset by way of reduced depreciation expense.

(o) Translation of foreign currencies

The presentation currency of the Group is Renminbi (•RMBŽ). 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 (•EURŽ). The functional currency of the Company•s subsidiaries in the Hong Kong Special Administrative Region (•HKSARŽ) is United States Dollars (•USDŽ) 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 balance sheet date. Exchange gains and losses are recognized in profit or loss and are reported in net finance costs on a net basis.

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

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. Balance sheet items are translated into RMB at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognized 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 recognized.

(p) Finance income and finance costs

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

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

Capitalization 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. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(q) Lease

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

(i) Classification

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

(ii) Finance lease (as lessor)

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

(iii) Operating lease (as lessee)

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

(r) Dividends

Dividends are recognized as a liability in the period in which they are declared.

(s) 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 of a parent of the Group.

(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 same 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 indentified 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).

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.

(t) 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 Turnover

The principal activities of the Group are research, development, manufacturing and sale and leasing of concrete machinery, crane machinery, environmental and sanitation machinery, road construction and pile foundation machinery and other related heavy machinery and capital equipment in the PRC and manufacturing and sale of concrete machinery in Italy.

Turnover represents revenue from sales and lease of the Group•s machinery products, net of value-added tax and is after deduction of any trade discounts.

The amounts of each significant category of revenue recognized in turnover are as follows:

	2009	2010	2011
	RMB millions	RMB millions	RMB millions
Sales of:			
Concrete machinery	7,157	14,085	21,212
Crane machinery	8,298	11,077	15,618
Environmental and sanitation machinery	1,230	1,874	2,978
Road construction and pile foundation machinery	787	1,246	1,737
Earth working machinery	445	772	1,048
Material handling machinery and systems	873	422	504
Other machinery products	1,575	1,674	1,643
Finance income under finance lease	397	1,043	1,583
	20,762	32,193	46,323

4 Other revenues and net income

	2009	2010	2011
	RMB millions	RMB millions	RMB millions
Government grants (Note)	74	70	87
Loss on disposal of property, plant and equipment, and intangible assets	(10)	(37)	(6)
Others	41	21	(67)
	105	54	14

Note: Government grants mainly represent value-added tax refunds, operating subsidies and other grants. There were no unfulfilled conditions and other contingencies attached to these grants.

5 Profit before taxation

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

(a) Net finance costs:

	2009	2010	2011
	RMB millions	RMB millions	RMB millions
Finance income:			
Interest income on bank deposits.	(34)	(96)	(214)
Gain on remeasurement of derivative financial instruments at fair value. . .	„	„	(19)
	(34)	(96)	(233)
Finance costs:			
Interest on loans and borrowings (Note).	372	403	513
Less: Interest expense capitalized*.	(35)	„	„
Net interest expense.	337	403	513
Net exchange (gains)/losses.	(8)	58	(244)
	329	461	269
	295	365	36
*Interest rates per annum at which borrowing costs have been capitalized for construction in progress.	1.0% to 7.2%	„	„

Note: Interest expense on factoring the Group•s receivables under finance lease with recourse amounted to RMB122 million, RMB337 million and RMB182 million for the years ended December 31, 2009, 2010 and 2011, respectively, and was included in cost of sales and services.

(b) Staff costs:

	2009	2010	2011
	RMB millions	RMB millions	RMB millions
Salaries, wages and other benefits.			

(c) Other items:

	2009	2010	2011
	RMB millions	RMB millions	RMB millions
Cost of inventories	15,307	22,070	31,109
Depreciation of property, plant and equipment (Note 9)	245	327	369
Amortization of lease prepayments	21	24	27
Amortization of intangible assets (Note 10)	63	64	60
Operating lease charges	58	74	128
Auditors• remuneration „ audit services	6	12	11
Product warranty costs (Note 19(b))	87	135	154
Impairment losses:			
„ trade receivables (Note 14(b))	87	258	(3)
„ receivables under finance lease (Note 15(c))	„	„	140
„ inventories	(9)	24	81
„ property, plant and equipment (Note 9)	5	5	8

6 Income tax

Income tax in the consolidated statements of comprehensive income represents:

	2009	2010	2011
	RMB millions	RMB millions	RMB millions
Current tax „ PRC income tax			
Provision for the year	459	988	1,504
Current tax „ Income tax in other tax jurisdictions			
Provision for the year	9	5	2
Deferred taxation (Note 20(b))			
Origination and reversal of temporary differences	(41)	(165)	(77)
Effect on deferred tax balances resulting from a change in tax rate/ tax status	(18)	„	„
	409	828	1,429

Reconciliation between actual income tax expense and notional tax on profit before taxation is as follows:

	2009	2010	2011
	RMB millions	RMB millions	RMB millions
Profit before taxation	2,828	5,416	9,602
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned (Note (a))	705	1,354	2,401
Tax effect of non-deductible expenses	52	33	36
Tax effect of non-taxable income	(5)	(20)	(35)
Tax effect of tax concessions (Note (b))	(251)	(472)	(862)
Additional deduction for qualified research and development expenses (Note (c))	(73)	(67)	(111)
Effect of change in tax rate / tax status (Note (b))	(18)	„	„
Tax credit for PRC equipment purchased	(1)	„	„
Actual income tax expense	409	828	1,429

Notes:

(a) The PRC statutory income tax rate is 25% for 2009, 2010 and 2011.

The Company•s subsidiaries in Italy, CIFA and its subsidiaries, are subject to income tax at rates ranging from 27.5% to 31.4% for 2009, 2010 and 2011.

The Company•s subsidiaries in the HKSAR are subject to Hong Kong Profits Tax at 16.5% for 2009, 2010 and 2011. No income tax provision was made for certain Hong Kong subsidiaries for 2009, 2010 and 2011, as these subsidiaries either derived no income subject to Hong Kong Profits Tax or sustained tax losses for Hong Kong Profits Tax purposes during these years.

(b) According to the income tax law and its relevant regulations, entities that qualified as high-technology enterprises under the tax law are entitled to a preferential income tax rate of 15%. In 2008, the Company and certain of its subsidiaries were recognized as high-technology enterprises and accordingly were subject to income tax at 15% for the years from 2008 to 2010. The Company and certain of its subsidiaries obtained the renewal approval of high-technology enterprises in 2011 and accordingly were subject to income tax at 15% for the years from 2011 to 2013. In 2009, a subsidiary of the Company was recognized as a high-technology enterprise for 2009 to 2011 and accordingly, its income tax rate was reduced from 25% in 2008 to 15% for the years from 2009 to 2011.

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.

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

7 Basic and diluted earnings per share

For the purpose of calculating earnings per share for the years 2009 and 2010, the number of ordinary shares used in the calculation has been retrospectively adjusted to reflect the stock split in the form of bonus shares issued in May 2009, July 2010 and July 2011 (see Note 23(c)) as if it had occurred at the beginning of the earliest period presented and such shares had been outstanding for all years.

The calculation of basic earnings per share for the years ended December 31, 2009, 2010 and 2011 is based on the profit attributable to equity shareholders of the Company of RMB2,447 million, RMB4,666 million and RMB 8,066 million respectively, and the weighted average number of shares of 5,438 million shares, 6,341 million shares and 7,700 million shares in issue for the years ended December 31, 2009, 2010 and 2011, respectively, after adjusting for the stock split mentioned in the above paragraph.

There were no dilutive potential ordinary shares in issue as at December 31, 2009, 2010 and 2011.

8 Segment reporting

The Group manages its businesses by divisions, which are organized by business lines. 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.

(i) Concrete machinery segment: this segment primarily researches, develops, manufactures and sells various concrete machineries, including truck-mounted concrete pumps, trailer-mounted concrete pumps, concrete placing booms, concrete mixing plants, truck-mounted concrete mixers, truck-mounted line concrete pumps and self-propelled boom concrete pumps.

(ii) Crane machinery segment: this 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.

(iii) Environmental and sanitation machinery segment: this segment primarily researches, develops, manufactures and sells a wide range of environmental and sanitation machineries, including road sweepers, washing vehicles and waste treatment equipment.

(iv) Road construction and pile foundation machinery segment: this segment primarily researches, develops, manufactures and sells different types of road construction and pile foundation machineries, including road surface heaters, motor graders, road rollers, pavers, road surface cold planners, asphalt mixing equipment and rotary drilling rigs.

(v) Earth working machinery: this segment primarily researches, develops, manufactures and sells a variety of earth working machineries, including loaders, bulldozers and excavators.

(vi) Material handling machinery and systems segment: this segment primarily researches, develops, manufactures and sells different types of machineries and systems for handling huge materials, including stackers and reclaimers, pipe conveyors, port loading/unloading equipment and portal cranes.

(vii) Finance lease segment: this segment primarily provides finance lease services to customers for purchasing machinery products of the Group and from other vendors.

Other operating segments of the Group include research, development, manufacturing and sale of other machinery products, including specialized vehicles and vehicle axles. None of these segments met any of the quantitative thresholds for determining reportable segments for the years ended December 31, 2009, 2010 and 2011.

(a) Segment results, assets and liabilities

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

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

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

Information regarding the Group•s reportable segments as provided to the Group•s most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended December 31, 2009, 2010 and 2011 is set out below:

	2009	2010	2011
	RMB millions	RMB millions	RMB millions
Reportable segment revenue:			
Concrete machinery	7,157	14,085	21,212
Crane machinery	8,298	11,077	15,618
Environmental and sanitation machinery	1,230	1,874	2,978
Road construction and pile foundation machinery	787	1,246	1,737
Earth working machinery	445	772	1,048
Material handling machinery and systems	873	422	504
Finance lease services	397	1,043	1,583

(c) Geographic information

The following tables set out information about the geographical location of (i) the Group•s revenue from external customers and (ii) the Group•s property, plant and equipment, and lease prepayments (•specified non-current assetsŽ). 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, which are determined to be outside PRC.

	2009	2010	2011
	RMB millions	RMB millions	RMB millions
Revenue from external customers			
„ Mainland PRC	18,993	30,663	44,085
„ Outside PRC	1,769	1,530	2,238
Total	20,762	32,193	46,323

	2009	2010	2011
	RMB millions	RMB millions	RMB millions
Specified non-current assets			
„ Mainland PRC	4,287	5,014	6,088
„ Outside PRC, primarily in Italy	303	240	188
Total	4,590	5,254	6,276

9 Property, plant and equipment

The Group

	Buildings	Machinery, plant and equipment	Motor vehicles and office equipment	Construction in progress	Total
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Cost:					
Balance at January 1, 2009	1,258	1,027	333	822	3,440
Additions	45	95	128	706	974
Transferred from construction in progress	555	421	12	(988)	„
Acquired through business combinations	16	15	1	„	32
Disposals	(42)	(39)	(54)	„	(135)
Effect of exchange rate difference	2	7	1	„	10
Balance at December 31, 2009	1,834	1,526	421	540	4,321
Balance at January 1, 2010	1,834	1,526	421	540	4,321
Additions	96	134	88	585	903
Transferred from construction in progress	419	198	23	(640)	„
Disposals	(10)	(55)	(86)	(8)	(159)
Reclassification	„	(38)	38	„	„
Effect of exchange rate difference	(7)	(23)	(6)	„	(36)
Balance at December 31, 2010	2,332	1,742	478	477	5,029
Balance at January 1, 2011	2,332	1,742	478	477	5,029
Acquisition from business combination	„	1	1	4	6
Additions	59	220	170	721	1,170
Transferred from construction in progress	300	96	22	(418)	„
Disposals	(21)	(63)	(31)	„	(115)
Reclassification	„	(18)	18	„	„
Effect of exchange rate difference	(5)	(13)	(5)	„	(23)
Balance at December 31, 2011	2,665	1,965	653	784	6,067
Accumulated depreciation and impairment:					
Balance at January 1, 2009	(140)	(212)	(82)	„	(434)
Depreciation charge for the year	(70)	(124)	(51)	„	(245)
Impairment losses for the year	„	„	(5)	„	(5)
Written back on disposals	10	24	13	„	47
Effect of exchange rate difference	„	(1)	„	„	(1)
Balance at December 31, 2009	(200)	(313)	(125)	„	(638)
Balance at January 1, 2010	(200)	(313)	(125)	„	(638)
Depreciation charge for the year	(84)	(175)	(68)	„	(327)
Impairment charge for the year	(3)	(1)	(1)	„	(5)
Written back on disposals	3	28	36	„	67
Reclassification	„	4	(4)	„	„
Effect of exchange rate difference	2	5	2	„	9
Balance at December 31, 2010	(282)	(452)	(160)	„	(894)
Balance at January 1, 2011	(282)	(452)	(160)	„	(894)
Depreciation charge for the year	(104)	(193)	(72)	„	(369)
Impairment charge for the year	(1)	(1)	(6)	„	(8)
Written back on disposals	15	44	20	„	79
Reclassification	„	7	(7)	„	„
Effect of exchange rate difference	3	5	3	„	11
Balance at December 31, 2011	(369)	(590)	(222)	„	(1,181)
Net book value:					
Balance at December 31, 2009	1,634	1,213	296	540	3,683
Balance at December 31, 2010	2,050	1,290	318	477	4,135
Balance at December 31, 2011	2,296	1,375	431	784	4,886

The Company

	Buildings	Machinery, plant and equipment	Motor vehicles and office equipment	Construction in progress	Total
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Cost:					
Balance at January 1, 2009	726	493	228	810	2,257
Additions	39	60	113	458	670
Transferred from construction in progress	404	352	4	(760)	„
Disposals	(25)	(19)	(26)	„	(70)
Balance at December 31, 2009	1,144	886	319	508	2,857
Balance at January 1, 2010	1,144	886	319	508	2,857
Additions	69	79	63	493	704
Transferred from construction in progress	412	161	18	(591)	„
Disposals	(4)	(24)	(76)	(7)	(111)
Transferred to subsidiaries	„	(30)	(8)	(2)	(40)
Reclassification	„	(37)	37	„	„
Balance at December 31, 2010	1,621	1,035	353	401	3,410
Balance at January 1, 2011	1,621	1,035	353	401	3,410
Additions	46	138	141	654	979
Transferred from construction in progress	276	88	18	(382)	„
Transferred from subsidiaries	„	29	3	„	32
Disposals	(4)	(3)	(15)	„	(22)
Transferred to subsidiaries	„	(1)	„	(2)	(3)
Reclassification	1	(9)	8	„	„
Balance at December 31, 2011	1,940	1,277	508	671	4,396
Accumulated depreciation and impairment:					
Balance at January 1, 2009	(123)	(165)	(69)	„	(357)
Depreciation charge for the year	(30)	(55)	(37)	„	(122)
Impairment losses for the year	„	„	(5)	„	(5)
Written back on disposals	3	13	8	„	24
Balance at December 31, 2009	(150)	(207)	(103)	„	(460)
Balance at January 1, 2010	(150)	(207)	(103)	„	(460)
Depreciation charge for the year	(47)	(86)	(47)	„	(180)
Written back on disposals	1	12	28	„	41
Transferred to subsidiaries	„	5	3	„	8
Reclassification	„	4	(4)	„	„
Balance at December 31, 2010	(196)	(272)	(123)	„	(591)
Balance at January 1, 2011	(196)	(272)	(123)	„	(591)
Depreciation charge for the year	(61)	(105)	(49)	„	(215)
Transferred from subsidiaries	„	(6)	(2)	„	(8)
Written back on disposals	„	1	3	„	4
Transferred to subsidiaries	„	„	„	„	„
Reclassification	(1)	2	(1)	„	„
Balance at December 31, 2011	(258)	(380)	(172)	„	(810)
Net book value:					
Balance at December 31, 2009	994	679	216	508	2,397
Balance at December 31, 2010	1,425	763	230	401	2,819
Balance at December 31, 2011	1,682	897	336	671	3,586

10 Intangible assets

The Group

	Trademarks	Technical know how	Software, patents and similar rights	Customer relationships	Capitalized development costs	Total
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Cost:						
Balance at January 1, 2009	882	94	40	408	19	1,443
Additions	—	—	57	—	13	70
Disposals	—	—	(1)	—	—	(1)
Effect of exchange rate difference	24	3	1	12	1	41
Balance at December 31, 2009	906	97	97	420	33	1,553
Balance at January 1, 2010	906	97	97	420	33	1,553
Additions	—	—	14	—	13	27
Effect of exchange rate difference	(87)	(10)	(3)	(43)	(4)	(147)
Balance at December 31, 2010	819	87	108	377	42	1,433
Balance at January 1, 2011	819	87	108	377	42	1,433
Additions	—	32	69	—	11	112
Disposal	—	—	(7)	—	—	(7)
Effect of exchange rate difference	(57)	(6)	(3)	(27)	(4)	(97)
Balance at December 31, 2011	762	113	167	350	49	1,441
Accumulated amortization and impairment:						
Balance at January 1, 2009	(37)	(2)	(8)	(8)	(2)	(57)
Amortization for the year	—	(7)	(14)	(34)	(8)	(63)
Effect of exchange rate difference	—	—	—	(1)	—	(1)
Balance at December 31, 2009	(37)	(9)	(22)	(43)	(10)	(121)
Balance at January 1, 2010	(37)	(9)	(22)	(43)	(10)	(121)
Amortization for the year	—	(7)	(14)	(32)	(11)	(64)
Effect of exchange rate difference	—	1	1	5	1	8
Balance at December 31, 2010	(37)	(15)	(35)	(70)	(20)	(177)
Balance at January 1, 2011	(37)	(15)	(35)	(70)	(20)	(177)
Amortization for the year	—	(6)	(12)	(31)	(11)	(60)
Effect of exchange rate difference	—	1	2	7	2	12
Balance at December 31, 2011	(37)	(20)	(45)	(94)	(29)	(225)
Net book value:						
Balance at December 31, 2009	869	88	75	377	23	1,432
Balance at December 31, 2010	782	72	73	307	22	1,256
Balance at December 31, 2011	725	93	122	256	20	1,216

The Company

	Trademarks	Technical know how	Software, patents and similar rights	Total
	RMB millions	RMB millions	RMB millions	RMB millions
Cost:				
Balance at January 1, 2009	36	2	21	59
Additions	„	„	45	45
Balance at December 31, 2009	36	2	66	104
Balance at January 1, 2010	36	2	66	104
Additions	„	„	7	7
Balance at December 31, 2010	36	2	73	111
Balance at January 1, 2011	36	2	73	111
Additions	„	32	58	90
Disposal	„	„	(5)	(5)
Balance at December 31, 2011	36	34	126	196
Accumulated amortization and impairment:				
Balance at January 1, 2009	(36)	(1)	(5)	(42)
Amortization for the year	„	„	(3)	(3)
Balance at December 31, 2009	(36)	(1)	(8)	(45)
Balance at January 1, 2010	(36)	(1)	(8)	(45)
Amortization for the year	„	„	(8)	(8)
Balance at December 31, 2010	(36)	(1)	(16)	(53)
Balance at January 1, 2011	(36)	(1)	(16)	(53)
Amortization for the year	„	„	(8)	(8)
Balance at December 31, 2011	(36)	(1)	(24)	(61)
Net book value:				
Balance at December 31, 2009	„	1	58	59
Balance at December 31, 2010	„	1	57	58
Balance at December 31, 2011	„	33	102	135

11 Goodwill and business combination

	2009	2010	2011
	RMB millions	RMB millions	RMB millions
Balance at January 1	2,029	2,082	1,907
Effect of exchange rate difference	53	(175)	(114)3.76 169 355

The goodwill arose from the acquisition of the following entities:

Name of entity	Date of acquisition	Carrying amount		
		2009	2010	2011
		RMB millions	RMB millions	RMB millions
Compagnia Italiana Forme Acciaio S.p.A (•CIFAŽ)	September 2008	1,868	1,693	1,579
Shaanxi Zoomlion Earth Working Machinery Co., Ltd (formerly •Shaanxi Xinhuanggong Machinery Co., Ltd.Ž)	June 2008	135	135	135
Hunan Zoomlion Axle Co., Ltd.	June 2008	12	12	12
Zoomlion Material Handling Equipment Co., Ltd. (formerly •Huatai Machinery Manufacturing Co., Ltd.Ž)	July 2008	67	67	67
		2,082	1,907	1,793

During the years presented, the Company had the following business combinations:

(a) Business combination in 2009

In January 2009, the Company acquired 75% of the equity interests in Changde Zoomlion Hydraulic Pressure Co., Ltd. (formerly known as Changde Xincheng Hydraulic Pressure Co., Ltd.), which is a manufacturer of hydraulic components in the PRC, in order to strengthen the supply chain of hydraulic components. The purchase price was RMB30 million cash which approximated the Company•s share of fair value of the acquiree•s identifiable net assets at the acquisition date.

(b) Business combination in 2011

In April 2011, the Company increased its equity interest in Changsha Zoomlion Fire Control Machinery Co., Ltd. (•Fire ControlŽ) from 49% to 65% with a cash consideration of RMB37 million through additional capital injection into Fire Control.

The step acquisition was accounted for under the acquisition method. The Company allocated the purchase price to identifiable assets acquired and liabilities assumed based on their estimated fair values. Management determined the fair values of the identifiable assets acquired and liabilities assumed based on valuation performed by an independent appraiser. The purpose of the business combination was to broaden the Group•s product line.

12 Interests in associates

	The Group			The Company		
	2009	2010	2011	2009	2010	2011
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Unlisted share, at cost	„	„	„	52	60	57
Share of net assets	71	86	103	„	„	„
	71	86	103	52	60	57

The following list contains particulars of the principal associates of the Group as at December 31, 2011:

Name of company	Particulars of issued and paid up capital (millions)	The Group•s effective interest in the company	Principal activities
Bichamp Cutting Technology (Hunan) Co., Ltd.	RMB 100	32%	Manufacture of metallic products and materials
Hubei Zoomlion Crane Machinery Co., Ltd.	RMB 10	35%	Sales of crane machinery

None of the above associates was individually and in aggregate material to the Group•s and the Company•s financial condition or results of operations for all years presented.

13 Inventories

	The Group			The Company		
	2009	2010	2011	2009	2010	2011
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Raw materials	3,055	3,706	4,762	1,768	2,688	3,670
Work in progress	1,620	2,122	1,691	1,194	1,518	1,222
Finished goods	1,597	2,850	3,203	1,247	2,714	2,802
	6,272	8,678	9,656	4,209	6,920	7,694

14 Trade and other receivables

	The Group			The Company		
	2009	2010	2011	2009	2010	2011
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Trade receivables	5,401	7,504	12,096	3,826	6,195	10,272
Less: provision for impairment (Note (b))	(340)	(557)	(533)	(249)	(418)	(353)
	5,061	6,947	11,563	3,577	5,777	9,919
Less: trade receivables due after one year	(229)	(585)	(912)	(215)	(525)	(887)
	4,832	6,362	10,651	3,362	5,252	9,032
Bills receivable (Note (c))	491	627	1,138	171	368	677
	5,323	6,989	11,789	3,533	5,620	9,709
Amounts due from related parties (Note 28(b))	29	27	99	25	15	99
Amounts due from subsidiaries	„	„	„	4,405	10,561	18,163
Prepayments for purchase of raw materials	394	388	508	128	298	263
Prepaid expenses	113	178	310	24	74	193
VAT recoverable	81	179	247	55	48	162
Others	325	499	661	72	208	250
	6,265	8,260	13,614	8,242	16,824	28,839

All of the trade and other receivables (including amounts due from subsidiaries), except those described below, are expected to be recovered or recognized as expense within one year.

The Group allows certain customers with appropriate credit standing to make payments in equal monthly installments over a maximum period of 36 months (•installment payment methodŽ). Installment 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 years ended December 31, 2009, 2010 and 2011, the weighted average discount rate was approximately 5.3%, 5.85% and 6.65%, respectively. As at December 31, 2009, 2010 and 2011, trade receivables due after one year of RMB229 million, RMB585 million and RMB912 million were presented net of unearned interest of RMB14 million, RMB38 million and RMB80 million, respectively.

During the year ended December 31, 2011, trade receivables of RMB1,000 million (2009 and 2010: Nil) were factored to banks without recourse, and were therefore derecognized.

(a) Ageing analysis of trade receivables

Ageing analysis of trade receivables (net provision for impairment) as at the balance sheet dates is as follows:

	The Group			The Company		
	2009	2010	2011	2009	2010	2011
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Within 1 month.	2,133	2,642	4,547	1,252	1,796	3,932
Over 1 month but less than 3 months.	382	921	2,362	259	911	2,102
Over 3 months but less than 1 year	1,427	2,403	3,401	1,074	2,277	2,855
Over 1 year but less than 2 years.	931	772	932	834	600	802
Over 2 years but less than 3 years.	161	174	249	143	167	179
Over 3 years but less than 5 years.	27	35	72	15	26	49
	5,061	6,947	11,563	3,577	5,777	9,919

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 terms normally range from 1 to 3 months from the date of billing, except that for certain products, customers are allowed to withhold retention money amounting to 5%-10% of the invoice amount until the product•s warranty period expires. Credit exposure limits are established to avoid concentration risk with respect to any single customer.

(b) Impairment of trade receivables

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

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

	The Group			The Company		
	2009	2010	2011	2009	2010	2011
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Balance at January 1.	(255)	(340)	(557)	(182)	(249)	(418)
Impairment losses recognized.	(87)	(258)	3	(68)	(189)	61
Uncollectible amounts written off	2	41	21	1	20	4
Balance at December 31	(340)	(557)	(533)	(249)	(418)	(353)

(c) Bills receivable primarily 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 1 to 6 months from the date of issuance. Historically, the Group had experienced no credit losses on bills receivable.

15 Receivables under finance lease

	The Group		
	2009	2010	2011
	RMB millions	RMB millions	RMB millions
Gross investment	9,190	17,841	22,135
Unearned finance income	(847)	(1,669)	(2,126)
	8,343	16,172	20,009
Less: provision for impairment (Note (c))	„	„	(140)
	8,343	16,172	19,869
Less: receivables under finance lease due after one year	(5,060)	(9,775)	(12,780)
Receivables under finance lease due within one year	3,283	6,397	7,089

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 of 2 to 4 years. 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.

As at December 31, 2009, 2010 and 2011, receivables under finance lease of RMB4,671 million, RMB4,125 million and RMB586 million were factored to banks with recourse.

During the years ended December 31, 2009, 2010 and 2011, receivables under finance lease of Nil, RMB714 million and RMB12,258 million were factored to banks without recourse, and were therefore derecognized.

(a) ageing analysis of receivables under finance lease

The minimum lease payments receivable as at the balance sheet dates are as follows:

	The Group		
	2009	2010	2011
	RMB millions	RMB millions	RMB millions
Present value of the minimum lease payments			
Within 1 year	3,283	6,397	7,139
Over 1 year but less than 2 years	2,665	5,655	6,300
Over 2 years but less than 3 years	1,865	3,154	4,178
Over 3 years	530	966	2,392
	8,343	16,172	20,009
Unearned finance income			
Within 1 year	478	941	1,024
Over 1 year but less than 2 years	252	513	671
Over 2 years but less than 3 years	96	177	318
Over 3 years	21	38	113
	847	1,669	2,126
Gross investment			
Within 1 year	3,761	7,338	8,163
Over 1 year but less than 2 years	2,917	6,168	6,971
Over 2 years but less than 3 years	1,961	3,331	4,496
Over 3 years	551	1,004	2,505
	9,190	17,841	22,135

(b) Overdue analysis

Overdue analysis of receivables under finance lease as at the balance sheet dates is as follows:

	The Group		
	2009	2010	2011
	RMB millions	RMB millions	RMB millions
Not yet due	9,096	17,419	21,671
Less than 1 month past due	20	54	39
1 to 3 months past due	57	122	74
3 to 12 months past due	17	219	219
More than 12 months past due	„	27	132
Total past due	94	422	464
Gross investment	9,190	17,841	22,135

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

(c) Impairment of receivables under finance lease

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

The movement in the provision for impairment during the years, is as follows:

The Group

18 Loans and borrowings

(a) Short-term loans and borrowings:

	Note	The Group 2009 RMB millions	The Group 2010 RMB millions	The Group 2011 RMB millions	The Company 2009 RMB millions	The Company 2010 RMB millions	The Company 2011 RMB millions
Secured short-term bank loans							
„ RMB denominated	(i)	55	20	304	„	„	„
„ EUR denominated	(ii)	2,475	3	5	„	„	„
Unsecured short-term bank loans							
„ RMB denominated		1,012	31	265	470	„	240
„ JPY denominated		568	777	50	133	753	50
„ EUR denominated		144	330	132	„	293	127
„ USD denominated	(iii)	2,002	3,013	3,986	1,041	2,433	3,385
„ HKD denominated		„	60	57	„	„	„
Current portion of long-term bank loans		2,297	3,873	1,250	„	388	293
		8,553	8,107	6,049	1,644	3,867	4,095

Notes:

(i) The RMB denominated secured short-term bank loans as at December 31, 2009, 2010 and 2011 respectively, were secured by fixed assets and receivables with an aggregate carrying value of RMB85 million, RMB28 million and RMB339 million.

(ii) As at December 31, 2009, EUR denominated secured short-term bank loan of RMB2,475 million was secured by trade receivables and 100% equity interests of the Company•s certain subsidiaries in Italy. The loan was subject to the fulfilment of certain quarterly financial covenants applicable to the Company•s subsidiaries in Italy. Such loan was fully repaid in June 2010.

(iii) As at December 31, 2009, 2010 and 2011, USD denominated unsecured short-term loans of Nil, RMB1,192, and RMB1,197 million bore interest at LIBOR plus 2% to 4.7% per annum. Such loans were subject to the fulfilment of certain financial covenants of the Group. As at December 31, 2010 and 2011, the Group was in compliance with these financial covenants.

(b) Long-term loans and borrowings:

	Note	The Group			The Company		
		2009	2010	2011	2009	2010	2011
		RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Secured long-term bank loans							
„ RMB denominated	(i)	4,515	3,949	560	„	„	„
„ EUR denominated	(ii)	„	1,585	1,476	„	„	„
Unsecured long-term bank loans							
„ RMB denominated	(iii)	486	849	460	485	848	460
„ EUR denominated	(iv)	12	883	819	„	„	„
„ USD denominated	(v)	1,815	3,206	3,931	„	795	2,892
Unsecured bond	(vi)	1,090	1,091	1,093	1,090	1,091	1,093
		7,918	11,563	8,339	1,575	2,734	4,445
Less: Current portion of long-term bank loans . .		(2,297)	(3,873)	(1,250)	„	(388)	(293)
		5,621	7,690	7,089	1,575	2,346	4,152

Notes:

(i) The RMB denominated secured long-term bank loans as at December 31, 2009, 2010 and 2011 were secured by certain receivables under finance lease with a carrying value of RMB4,671 million, RMB4,125 million and RMB586 million and had maturities ranging from 1 to 3 years from balance sheet date.

(ii) As at December 31, 2010 and 2011, EUR denominated secured long-term bank loans of RMB1,583 million and RMB1,468 million were secured by 100% equity interest of certain Company•s subsidiaries in Italy. Such loans bore interest at EURIBOR plus 2.2% per annum and were repayable in full in June 2013.

(iii) The RMB denominated unsecured long-term bank loans as at December 31, 2009, 2010 and 2011 had maturities ranging from 9 to 21 months from the balance sheet date. As at December 31, 2009, 2010 and 2011, Nil, RMB 230 million and RMB230 million of such long-term loan was subject to the fulfillment of certain annual financial covenants of the Group. As at December 31, 2010 and 2011, the Group was in compliance with these financial covenants.

(iv) As at December 31, 2009, 2010 and 2011, EUR denominated unsecured long-term bank loans of Nil, RMB877 million and RMB814 million bore interest at EURIBOR plus 2.0% per annum and were repayable in full in June 2013.

As at December 31, 2009, 2010 and 2011, EUR denominated unsecured long-term bank loans of RMB12 million, RMB6 million and RMB5 million were repayable in quarterly installments through 2014.

(v) As at December 31, 2009, 2010 and 2011, the USD denominated unsecured long-term bank loans of RMB1,351 million, RMB1,319 million and RMB964 million bore interest at LIBOR plus 0.9% to 4.5% per annum and had maturities of 9 to 33 months from the balance sheet date. Such loan was subject to the fulfillment of certain semi-annual and annual financial

The remaining USD denominated unsecured long-term bank loans of RMB221 million as at December 31, 2011 bore interest at 3.9% to 4.2% per annum and had maturity of 17 months from the balance sheet date.

(vi) In April 2008, the Company issued bonds with principal amount of RMB1,100 million to public and institutional investors. The bonds bear interest at a fixed rate of 6.5% per annum and mature in April 2016. The holders of the bonds have an option to redeem, in whole or in part, of the principal amount of the bond on the fifth anniversary date of the bond issuance date at par value.

(c) Except as disclosed in Notes 18(a)(ii), 18(a)(iii), 18(b)(iii) and 18(b)(v) above, none of the Group•s loans and borrowings contains any financial covenants.

19 Trade and other payables

	The Group			The Company		
	2009	2010	2011	2009	2010	2011
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Trade creditors	4,369	6,841	7,136	2,108	5,989	6,429
Bills payable	3,843	5,441	4,967	3,499	5,307	4,771
Trade creditors and bills payable (Note (a))	8,212	12,282	12,103	5,607	11,296	11,200
Amounts due to related parties (Note 28(b))	„	12	13	„	„	„
Amounts due to subsidiaries	„	„	„	2,659	1,046	626
Receipts in advance	446	1,021	1,166	331	676	733
Payable for acquisition of property, plant and equipment	386	375	403	358	339	372
Accrued staff costs	402	642	940	224	446	646
VAT payable	265	722	1,224	163	602	1,096
Security deposits (Note 22)	270	608	864	217	194	172
Product warranty provision (Note (b))	87	113	131	36	58	68
Sundry taxes payable	63	325	546	20	286	423
Dividend payable	„	116	„	„	116	„
Payables for factoring discount (Note (c))	„	53	687	„	„	74
Others	501	934	1,237	177	334	978
	10,632	17,203	19,314	9,792	15,393	16,388

Notes:

(a) Ageing analysis of trade creditors and bills payable as at the respective balance sheet dates is as follows:

	The Group			The Company		
	2009	2010	2011	2009	2010	2011
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Due within 1 month or on demand	1,901	4,640	4,974	1,788	4,598	4,933
Due after 1 month but within 3 months	2,105	3,567	3,938	1,761	3,509	3,666
Due after 3 months but within 6 months	2,238	3,067	2,496	1,968	2,701	2,091
Due after 6 months but less than 12 months						

(b) Product warranty provision

	The Group	The Company
	RMB millions	RMB millions
Balance at January 1, 2009	127	44
Provision for the year	87	85
Utilization during the year	(127)	(93)
Balance at December 31, 2009	87	36
Balance at January 1, 2010	87	36
Provision for the year	135	115
Utilization during the year	(109)	(93)
Balance at December 31, 2010	113	58
Balance at January 1, 2011	113	58
Provision for the year	154	128
Utilization during the year	(136)	(118)
Balance at December 31, 2011	131	68

A provision for warranties is recognized 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.

(c) According to the arrangement with banks, the discount on factoring of the Group•s trade receivables and receivables under finance lease without recourse (see Notes 14 and 15) will be paid to the banks by installments over a period of 1 to 5 years. The amounts expected to be paid after one year are recorded under the caption •Other non-current liabilitiesŽ.

20 Income tax in the balance sheets

(a) Income tax payable in the balance sheets represents:

	The Group			The Company		
	2009	2010	2011	2009	2010	2011
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Provision for PRC income tax	281	756	1,286	270	712	1,177
Provision for income tax in other tax jurisdictions	2	1	3	„	„	„
	283	757	1,289	270	712	1,177

(b) Deferred tax assets and liabilities recognized:

The components of deferred tax assets/(liabilities) recognized in the consolidated balance sheets and the movements during the years are presented as follows:

The Group

Year ended December 31, 2009

	Balance at January 1, 2009	Credited/ (charged) to profit or loss	Acquired through business combinations	Effect of exchange rate	Balance at December 31, 2009
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Deferred tax assets arising from:					
Receivables	36	10	„	3	49
Inventories	29	(1)	„	„	28
Accrued expenses	44	(3)	„	5	46
Tax losses	„	17	„	„	17
Others	15	(7)	„	„	8
Total	124	16	„	8	148
Deferred tax liabilities arising from:					
Property, plant and equipment	(37)	26	„	(1)	(12)
Intangible assets	(465)	17	„	(12)	(460)
Lease prepayments	(52)	4	(1)	„	(49)
Others	(18)	(4)	„	(7)	(29)
Total	(572)	43	(1)	(20)	(550)

Year ended December 31, 2010

	Balance at January 1, 2010	Credited/ (charged) to profit or loss	Effect of exchange rate	Balance at December 31, 2010
	RMB millions	RMB millions	RMB millions	RMB millions
Deferred tax assets arising from:				
Receivables	49	34	(1)	82
Inventories	28	14	(2)	40
Accrued expenses	46	8	(2)	52
Tax losses	17	55	(5)	67
Others	8	25	„	33
Total	148	136	(10)	274
Deferred tax liabilities arising from:				
Property, plant and equipment	(12)	2	1	(9)
Intangible assets	(460)	21	46	(393)
Lease prepayments	(49)	1	„	(48)
Others	(29)	5	3	(21)
Total	(550)	29	50	(471)

Year ended December 31, 2011

	Balance at January 1, 2011	Credited/ (charged) to profit or loss	Effect of exchange rate	Balance at December 31, 2011
	RMB millions	RMB millions	RMB millions	RMB millions
Deferred tax assets arising from:				
Receivables	82	28	(1)	109
Inventories	40	(4)	(1)	35
Accrued expenses	52	8	(2)	58
Tax losses	67	11	(5)	73
Others	33	11	(2)	42
Total	274	54	(11)	317
Deferred tax liabilities arising from:				
Property, plant and equipment	(9)	„	„	(9)
Intangible assets	(393)	15	29	(349)
Lease prepayments	(48)	2	„	(46)
Others	(21)	6	1	(14)
Total	(471)	23	30	(418)

The Company

Year ended December 31, 2009

	Balance at January 1, 2009	Credited/ (charged) to profit or loss	Balance at December 31, 2009
	RMB millions	RMB millions	RMB millions
Deferred tax assets arising from:			
Receivables	28	10	38
Inventories	2	(2)	„
Accrued expenses	13	10	23
Others	2	(1)	1
Total	45	17	62
Deferred tax liabilities arising from:			
Property, plant and equipment	(1)	1	„
Others	„	(5)	(5)
Total	(1)	(4)	(5)

Year ended December 31, 2010

	Balance at January 1, 2010	Credited/ (charged) to profit or loss	Balance at December 31, 2010
	RMB millions	RMB millions	RMB millions
Deferred tax assets arising from:			
Receivables	38	26	64
Accrued expenses	23	6	29
Others	1	2	3
Total	62	34	96
Deferred tax liabilities arising from:			
Others	(5)	5	„

Year ended December 31, 2011

	Balance at January 1, 2011	Credited/ (charged) to profit or loss	Balance at December 31, 2011
	RMB millions	RMB millions	RMB millions
Deferred tax assets arising from:			
Receivables	64	(7)	57
Accrued expenses	29	12	41
Others	3	6	9
Total	96	11	107
Deferred tax liabilities arising from:			
Others	”	”	”

21 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 organized by municipal and provincial governments for the Group•s PRC employees. These entities are required to make contributions to the retirement plans at rates ranging from 18% to 22% 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 7.5% 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.

22 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 or guarantee sales arrangement (Note 27(a)), and non-recourse factoring discounts payable to banks (Note 19(c)). 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 or upon full repayment of the guaranteed bank loans by the customers. The amount of security deposits expected to be refunded after one year

On January 5, 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 at a price of HKD14.98 per share, which raised gross proceeds of approximately HKD1,954 million (RMB equivalent 1,659 million). Direct transaction costs of RMB152 million were offset against the gross proceeds, giving rise to net proceeds of RMB1,507 million. The amount of net proceeds in excess of the par value of the new shares issued was RMB1,376 million and recorded in the capital reserve.

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

(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 change in equity. Details of the changes in the Company's individual component of reserves between the beginning and the end of the respective years are as follows:

	The Company		
	2009	2010	2011
	RMB millions	RMB millions	RMB millions
Capital reserve			
Balance at January 1	9	9	15,050
Share premium of Non-public Offering (Note 23(a))	—	5,181	—
Share premium of Global Offering (Note 23(a))	—	9,849	—
Share premium of Over-allotment of H Shares in Global Offering (Note 23(a))	—	—	1,376
Bonus shares (Note 23(c)(ii))	—	—	(1,778)
Other comprehensive income	—	11	—
Balance at December 31	9	15,050	14,648
Statutory reserve			
Balance at January 1	528	768	1,211
Appropriation (Note 23(b)(ii))	240	443	751
Balance at December 31	768	1,211	1,962
Fair value reserve			
Balance at January 1	(2)	1	(1)
Other comprehensive income	3	(2)	(1)
Balance at December 31	1	(1)	(2)
Retained earnings			
Balance at January 1	3,060	4,910	5,107
Appropriation (Note 23(b)(ii))	(240)	(443)	(751)
Cash dividends (Note 23(c)(i))	(152)	(827)	(1,541)
Bonus shares (Note 23(c)(ii))	(152)	(2,957)	—
Profit for the year	2,394	4,424	7,485
Balance at December 31	4,910	5,107	10,300
Total			
Balance at January 1	3,595	5,688	21,367
Balance at December 31	5,688	21,367	26,908

(i) Capital reserve

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

(ii) Statutory surplus reserve

Under PRC rules and regulations, the Company and its PRC subsidiaries are required to set aside 10% of the net income determined in accordance with the PRC accounting rules and regulations to a statutory surplus reserve until such reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of any dividend to shareholders. For the years ended December 31, 2009, 2010 and 2011, the Company transferred RMB240 million, RMB443 million and RMB751 million, respectively, being 10% of the respective years• 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 utilized for business expansion or converted into ordinary shares by the issuance of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by the shareholders, provided that the balance after such issuance is not less than 25% of the registered capital. No such statutory surplus reserve is required for the Group•s subsidiaries outside the mainland PRC.

(iii) Exchange reserve

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

(iv) Fair value reserve

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

(c) Profit appropriations

(i) Cash dividends

Pursuant to the shareholders• approval at the Annual General Meeting held on May 21, 2009, a final cash dividend of RMB0.10 per share based on 1,521 million ordinary shares totalling RMB152 million in respect of the year ended December 31, 2008 was declared, and was paid in July 2009.

Pursuant to the shareholders• approval at the Annual General Meeting held on May 25, 2010, a final cash dividend of RMB0.25 per share based on 1,971 million ordinary shares totalling RMB492 million in respect of the year ended December 31, 2009 was declared, and was paid in June 2010.

Pursuant to the shareholders• approval at the Extraordinary General Meeting held on July 22, 2010, a cash dividend of RMB0.17 per share based on 1,971 million ordinary shares totalling RMB335 million was declared, of which RMB234 million was paid in the second half of 2010, and the remaining balance was paid in 2011.

Pursuant to the shareholders• approval at the Annual General Meeting held on June 3, 2011, a final cash dividend of RMB0.26 per share based on 5,928 million ordinary shares totalling RMB1,541 million in respect of the year ended December 31, 2010 was declared, and was fully paid by the end of 2011.

(ii) Bonus shares

Pursuant to the shareholders• approval at the Annual General Meeting held on May 21, 2009, the Company executed a stock split in the form of bonus shares on the basis of 0.1 share for every outstanding ordinary share. The total number of A Shares issued was 152 million. The par value of the ordinary shares issued of RMB152 million was charged against retained earnings in accordance with the Board of Directors• resolution as approved by the shareholders.

Pursuant to the shareholders• approval at the Extraordinary General Meeting held on July 22, 2010, the Company executed a stock split in the form of bonus shares on the basis of 1.5 shares for every outstanding ordinary share on August 27, 2010. The total number of shares issued was 2,957 million. The par value of the ordinary shares issued of RMB2,957 million was charged against retained earnings in accordance with the Board of Directors• resolution as approved by the shareholders.

Pursuant to the shareholders• approval at the Annual General Meeting held on June 3, 2011, the Company executed a stock split in the form of bonus shares on the basis of 0.3 share for every outstanding ordinary share on July 15, 2011. The total number of shares issued was 1,778 million. The par value of the ordinary shares issued of RMB1,778 million was charged to capital reserve in accordance with the Board of Directors• resolution as approved by the shareholders.

24 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 commensurate 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 adjusted debt-to-equity ratio. For this purpose, the Group defines debt as total loans and borrowings excluding loans arising from factoring of receivables with recourse and loans obtained to finance business combinations. Management considers that although factoring of receivables with recourse does not satisfy the derecognition criteria as set out in Note 2(h)(ii), the residual risk on these receivables are low. Management also evaluates and manages the loans obtained to finance business combination separately, which take into consideration, the terms of the loans, including interest rate and the related projected cash flows from the acquired business, etc. As such, loans arising from factoring of receivables with recourse and loans obtained to finance business combination are excluded for the purpose of calculating the debt-to-equity ratio. The Group defines equity as all components of equity attributable to equity shareholders of the Company.

For the years ended 2009, 2010 and 2011, the Group•s strategy was to maintain the adjusted debt-to-equity ratio at less than 100%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

As at December 31, 2009, 2010 and 2011, the Group•s adjusted debt-to-equity ratio was as follows:

	2009	2010	2011
	RMB millions	RMB millions	RMB millions
Short-term loans and borrowings	8,553	8,107	6,049
Long-term loans and borrowings	5,621	7,690	7,089
	14,174	15,797	13,138
Less:			
Loans arising from factoring of receivables with recourse	(4,515)	(3,954)	(843)
Loans obtained to finance business combinations	(3,826)	(3,779)	(2,282)
Adjusted debt	5,833	8,064	10,013
Total equity attributable to equity shareholders	7,428	27,376	35,407
Adjusted debt-to-equity ratio	79%	29%	28%

25 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group•s business. The Group•s exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

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

The Group•s credit risk is primarily attributable to bank deposits, trade and other receivables, and receivables under finance lease. The maximum exposure to credit risk is represented by the carrying amount of these financial assets.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer•s background and financial strengths, past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as the economic environment in which the customer operates. Trade receivables under credit sales arrangement are normally due within 1 to 3 months from the date of billing, and an upfront payment ranging from 10% to 30% of the product price is normally required from the customer. For sales under installment payment method that has a maximum installment payment period of 36 months, customers are required to make an upfront payment ranging from 30% to 60% 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. Debtors overdue by 3 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, individual credit evaluations are performed which are similar to those of credit and installment sales. 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, including interest rate, lease period and percentage of deposit, etc. The risk control 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 repossession and subsequent sale of machineries in case of customer default.

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

The Group•s exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. As at December 31, 2009, 2010 and 2011, 1.9%, 1.6% and 1.9% of the total trade and bills receivables was due from the Group•s largest customer and 7.3%, 2.0% and 5.7% of the total trade and bills receivables was due from the Group•s five largest customers respectively.

Further quantitative disclosures in respect of the Group•s exposure to credit risk arising from trade and other receivables are set out in Note 14. Overdue analysis of the Group•s receivables under finance lease is set out in Note 15.

In the normal course of business, certain customers of the Group may finance their purchase of the Group•s machinery products through bank loans. The Group provides guarantees for such bank loans drawn by customers. Pursuant to the guarantee arrangement the Group agrees to pay any outstanding loan principal and interest due to the banks should such customers default. Details of the Group•s exposure and credit control policy in respect of such guarantees provided are disclosed in Note 27(a).

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group•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 at the balance sheet date of the Group•s and the Company•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 respective balance sheet dates) and the earliest date the Group and the Company would be required to repay.

The Group

	As at December 31, 2009					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Loans and borrowings	14,174	15,158	9,015	3,458	1,491	1,194
Trade and other payables	10,632	10,632	10,632	„	„	„
Other non-current liabilities	684	684	„	159	525	„
	25,490	26,474	19,647	3,617	2,016	1,194
Financial guarantees issued Maximum amount guaranteed		3,369	3,369	„	„	„

	As at December 31, 2010					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Loans and borrowings	15,797	16,878	8,650	2,520	4,590	1,118
Trade and other payables	17,203	17,203	17,203	„	„	„
Other non-current liabilities	1,379	1,379	„	387	992	„
	34,379	35,460	25,853	2,907	5,582	1,118
Financial guarantees issued Maximum amount guaranteed		7,284	7,284	„	„	„

	As at December 31, 2011					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Loans and borrowings	13,138	13,989	6,487	5,226	2,276	„
Trade and other payables	19,314	19,314	19,314	„	„	„
Other non-current liabilities	1,789	1,829	„	710	1,119	„
	34,241	35,132	25,801	5,936	3,395	„
Financial guarantees issued Maximum amount guaranteed		10,726	10,726	„	„	„

The Company

	As at December 31, 2009					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Loans and borrowings	3,219	3,725	1,749	566	216	1,194
Trade and other payables	9,792	9,792	9,792	„	„	„
	13,011	13,517	11,541	566	216	1,194
Financial guarantees issued						
Maximum amount guaranteed		3,369	3,369	„	„	„

	As at December 31, 2010					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Loans and borrowings	6,213	6,767	4,051	474	1,124	1,118
Trade and other payables	15,393	15,393	15,393	„	„	„
Other non-current liabilities	99	99	„	99	„	„
	21,705	22,259	19,444	573	1,124	1,118
Financial guarantees issued						
Maximum amount guaranteed		7,284	7,284	„	„	„

	As at December 31, 2011					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Loans and borrowings	8,247	8,925	4,403	3,261	1,261	„
Trade and other payables	16,388	16,388	16,388	„	„	„
Other non-current liabilities	112	112	„	8	104	„
	24,747	25,425	20,791	3,269	1,365	„
Financial guarantees issued						
Maximum amount guaranteed		10,726	10,726	„	„	„

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.

(c) Interest rate risk

The Group•s interest rate risk exposure arises primarily from bank deposits, receivables under finance lease, short-term and long-term loans and borrowings. These financial instruments bearing interest at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk, respectively. The following table sets out the interest rate profile of the Group•s and the Company•s bank deposits, receivables under finance lease and loans and borrowings at the end of each year presented.

	The Group					
	2009		2010		2011	
	Weighted average interest rate	Amount RMB millions	Weighted average interest rate	Amount RMB millions	Weighted average interest rate	Amount RMB millions
	%		%		%	
Fixed rate financial instruments:						
Short-term loans and borrowings	3.8%	(4,280)	3.3%	(1,234)	4.8%	(1,090)
Long-term loans and borrowings	5.7%	(3,320)	6.7%	(1,091)	6.1%	(1,314)
		(7,600)		(2,325)		(2,404)
Variable rate financial instruments:						
Pledged bank deposits	0.4%	989	0.4%	1,762	0.5%	1,742
Bank deposits	0.4%	3,439	0.3%	18,756	1.0%	16,000
Receivables under finance lease	8.0%	8,343	7.8%	16,172	8.0%	19,869
Short-term loans and borrowings	3.5%	(4,273)	3.4%	(6,873)	4.2%	(4,959)
Long-term loans and borrowings	4.8%	(2,301)	3.6%	(6,599)	3.9%	(5,776)
		6,197		23,218		26,876
Net amount		(1,403)		20,893		24,472

	The Company					
	2009		2010		2011	
	Weighted average interest rate	Amount RMB millions	Weighted average interest rate	Amount RMB millions	Weighted average interest rate	Amount RMB millions
	%		%		%	
Fixed rate financial instruments:						
Short-term loans and borrowings	2.2%	(470)	3.2%	(1,159)	4.3%	(764)
Long-term loans and borrowings	6.7%	(1,090)	6.7%	(1,091)	6.1%	(1,314)
		(1,560)		(2,250)		(2,078)
Variable rate financial instruments:						
Pledged bank deposits	0.4%	778	0.4%	1,615	0.5%	1,667
Bank deposits	0.4%	2,292	0.3%	16,637	1.3%	8,094
Short-term loans and borrowings	1.4%	(1,174)	2.9%	(2,708)	4.4%	(3,331)
Long-term loans and borrowings	4.2%	(485)	3.5%	(1,255)	4.9%	(2,839)
		1,411		14,289		3,591
Net amount		(149)		12,039		1,513

As at December 31, 2009, 2010 and 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group•s profit after taxation for the year 2009 and retained earnings by approximately RMB44 million, and increase/decrease the Group•s profit after taxation for the year 2010 and retained earnings by approximately RMB195 million, and increase/decrease the Group•s profit after taxation for the year 2011 and retained earnings by approximately RMB215 million respectively.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and the change was applied to the Group•s debts outstanding at the balance sheet date 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 balance sheet date. The analysis is performed on the same basis for the years ended December 31, 2009, 2010 and 2011.

(d) 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, HK dollars, Japanese Yen and Euro.

The following table details the Group•s and the Company•s exposure at the respective balance sheet date to currency risk arising from recognized 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 year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group•s presentation currency are excluded.

The Group

	Exposure to foreign currencies (expressed in equivalent RMB millions)										
	2009			2010				2011			
	USD	EUR	Yen	USD	EUR	Yen	HKD	USD	EUR	Yen	HKD
Trade debtors	298	4	„	397	9	„	„	304	211	126	„
Cash and cash equivalents	99	19	23	243	56	30	5,362	115	52	37	29
Trade creditors	(360)	(151)	(120)	(268)	(429)	(700)	(3)	(113)	(399)	(272)	(1)
Loans and borrowings	(1,404)	(118)	(568)	(2,433)	(318)	(777)	(60)	(6,289)	(127)	(50)	(56)
Net exposure arising from recognized assets and liabilities	(1,367)	(246)	(665)	(2,061)	(682)	(1,447)	5,299	(5,983)	(263)	(159)	(28)

The Company

	Exposure to foreign currencies (expressed in equivalent RMB millions)										
	2009			2010				2011			
	USD	EUR	Yen	USD	EUR	Yen	HKD	USD	EUR	Yen	HKD
Trade debtors	263	2	„	374	9	„	„	234	168	79	„
Cash and cash equivalents	7	1	14	135	10	27	5,352	79	6	14	„
Trade creditors	(9)	(1)	„	(246)	(367)	(592)	„	(94)	(382)	(238)	„
Loans and borrowings	(1,041)	„	(133)	(2,433)	(293)	(753)	„	(6,277)	(127)	(50)	„
Net exposure arising from recognized assets and liabilities	(780)	2	(119)	(2,170)	(641)	(1,318)	5,352	(6,058)	(335)	(195)	„

The following table indicates the change in the Group•s profit after taxation (and retained profits) 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 balance sheet date had changed at that date, assuming all other risk variables remained constant. The analysis is performed on the same basis for the years ended December 31, 2009, 2010 and 2011.

	The Group					
	2009		2010		2011	
	Increase/ decrease in foreign exchange rates	Effect on profit after taxation and retained profits	Increase/ decrease in foreign exchange rates	Effect on profit after taxation and retained profits	Increase/ decrease in foreign exchange rates	Effect on profit after taxation and retained profits
		RMB millions		RMB millions		RMB millions
USD	5%	(58)	5%	(88)	5%	(254)
	-5%	58	-5%	88	-5%	254
EUR	5%	(10)	5%	(29)	5%	(11)
	-5%	10	-5%	29	-5%	11
Yen	5%	(28)	5%	(61)	5%	(7)
	-5%	28	-5%	61	-5%	7
HKD	„	„	5%	225	5%	(1)
	„	„	-5%	(225)	-5%	1

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.

(e) Fair values

(i) Financial instruments carried at fair value

The fair values of the Group•s financial instruments (other than long-term loans and borrowings and available-for-sale equity securities) approximate their carrying amounts due to the short-term maturity of these instruments. The fair values of the Group•s non-current receivables under finance lease and non-current trade receivables are stated at discounted present values which are not materially different from their fair values as at December 31, 2009, 2010 and 2011.

The Group•s available-for-sale listed equity securities are stated at fair value measured using the quoted market prices on a PRC stock exchange. The fair value of the Group•s available-for-sale listed equity securities was RMB9 million, RMB5 million and RMB4 million as at December 31, 2009, 2010 and 2011, respectively.

(ii) Fair values of financial instruments carried at other than fair value

The disclosures of the fair value estimates, and their methods and assumptions of the Group•s financial instruments should be read in conjunction with the Group•s consolidated financial statements and related notes. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Group•s investments in unlisted equity securities have no quoted market prices and accordingly, a reasonable estimate of their fair values could not be made without incurring excessive costs. Such securities are stated at cost less impairment losses.

The fair values of the Group•s long-term bank loans are estimated by discounting future cash flows using current market interest rates, having considered the foreign currency denomination of the loans and borrowings, which ranged from 5.3% to 6.8% for 2009, 5.4% to 6.2% for 2010 and 6.1% to 7.1% for 2011. The fair value of the Group•s bond is determined based on quoted market price of the bond in the PRC Stock Exchange as of the balance sheet date. The following table presents the carrying amount and fair value of the Group•s and the Company•s long-term loans and borrowings as at December 31, 2009, 2010 and 2011:

The Group

	2009		2010		2011	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	RMB millions		RMB millions		RMB millions	
Long-term bank loans	6,828	6,712	10,472	10,455	7,246	7,244
Bond	1,090	1,125	1,091	1,139	1,093	1,111

The Company

	2009		2010		2011	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	RMB millions		RMB millions		RMB millions	
Long-term bank loans	485	482	1,643	1,634	3,352	3,354
Bond	1,090	1,125	1,091	1,139	1,093	1,111

26 Commitments

(a) Capital commitments

As at December 31, 2009, 2010 and 2011, the Group and the Company had capital commitments as follows:

	The Group			The Company		
	2009	2010	2011	2009	2010	2011
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Authorized and contracted for						
„ property, plant and equipment	115	164	434	102	132	279
„ equity investments	8	„	100	„	„	100
„ intangible assets	„	10	51	„	10	51
„ lease prepayments	„	„	31	„	„	31
	123	174	616	102	142	461
Authorized but not contracted for						
„ property, plant and equipment	12	388	303	„	311	142
„ lease prepayments	„	„	1,880	„	„	1,880
	12	388	2,183	„	311	2,022

(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 December 31, 2009, 2010 and 2011, the future minimum lease payments under operating lease are as follows:

	The Group			The Company		
	2009	2010	2011	2009	2010	2011
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Within 1 year	38	73	95	29	38	60
After 1 but within 2 years	24	32	43	20	16	39
After 2 but within 3 years	19	15	27	17	15	25
After 3 but within 4 years	14	9	15	14	9	15
After 4 but within 5 years	9	8	5	9	8	4
Thereafter	26	19	4	25	18	3
	130	156	189	114	104	146

27 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 collateralizing 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 December 31, 2009, 2010 and 2011, the Group•s maximum exposure to such guarantees was RMB3,369 million, RMB5,950 million and RMB9,092 million. The terms of these guarantees coincide with the tenure of bank loans which generally range from 2 to 4 years. The Group, when called upon by the banks to fulfill 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 years ended December 31, 2009, 2010 and 2011, the Group made payments of RMB117 million, RMB102 million and RMB190 million respectively, to the banks under the guarantee arrangement as a result of customer default.

Starting from October 2010, certain of the Group•s finance lease contracts with end-user customers are jointly provided by the Group•s leasing subsidiaries and a third-party leasing company. Under the joint leasing arrangement, the Group provides guarantee to the third-party leasing company that in the event of customer default, the Group is required to make payment to the leasing company for its share of 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 company. As at December 31, 2010 and 2011, the Group•s maximum exposure to such guarantees was RMB1,334 million and RMB1,634 million, respectively. The terms of these guarantees coincide with the tenure of the lease contracts which generally range from 2 to 4 years. For the year ended December 31, 2010 and 2011, there was no customer default which required the Group to make guarantee payments to the leasing company.

(b) Contingent liability in respect of legal claims

In March 2010, Italian tax authorities issued formal tax inspection assessment reports to Cifa Mixers S.r.l., a 59.32% owned subsidiary of the Company. The tax authorities have challenged the deductibility of certain costs incurred by this entity for income tax and value added tax purposes for tax years 2003 to 2007 and have sought for additional taxes of approximately EUR10.7 million before interest and penalties, if any. In January 2011, the court ruled in favor of Cifa Mixers S.r.l. at the first degree of judgment and dismissed the claim for additional taxes from the tax authorities. No appeal against the court ruling was made by the tax authority during the statute of limitations, therefore the case is deemed to be closed.

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 unfavorable 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.

(a) Transactions with related parties

	2009	2010	2011
	RMB millions	RMB millions	RMB millions
Transactions with associates:			
Sales of products	(4)	(4)	(157)
Lease of properties and equipment	(3)	„	„
Purchase of raw materials	10	39	148

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and in accordance with the agreements governing such transactions which are comparable to normal commercial terms.

(b) Outstanding balances with related parties

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

(c) Key management personnel emoluments

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:

	2009	2010	2011
	RMB thousands	RMB thousands	RMB thousands
Short-term employee benefits	19,830	24,363	26,225
Retirement scheme contributions	274	375	375
	20,104	24,738	26,600

Total emoluments are included in •staff costsŽ as disclosed in Note 5(b).

(d) Contributions to retirement plans

The details of the Group•s employee benefit plans are disclosed in Note 21.

29 Accounting estimates and judgments

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 judgments 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 judgments 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 11 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 recognized 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 trade receivables and receivables under finance lease

Management estimates impairment losses of trade receivables (which are recorded in an allowance account for doubtful debts) resulting from the inability of the customers to make the required payments. Management bases its estimates on the ageing of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs may be higher than expected and could significantly affect the results of future periods.

(b) Warranty provision

As explained in Note 19(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,

(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 •impairedŽ, and an impairment loss would be recognized in accordance with accounting policy for impairment of long-lived assets as described in Note 2(i)(ii). The carrying amounts of the Group•s long-lived assets, including property, plant and equipment, intangible assets and investments in subsidiaries and associates are reviewed periodically to determine whether there is any indication of impairment. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. For goodwill and trademarks with indefinite useful lives, the impairment testing is performed at least annually at the end of each year. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and the fair value less costs to sell. An impairment loss is recognized 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 judgment relating to level of revenue, amount of operating costs and applicable discount rate. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

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

(e) Depreciation and amortization

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.

Amortization of intangible assets is recognized 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 amortization 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 amortization expense for future periods is adjusted if there are significant changes from previous estimates.

30 Investments in subsidiaries

	The Company		
	2009	2010	2011
	RMB millions	RMB millions	RMB millions
Unlisted shares, at cost	1,882	3,364	8,570

The following list contains particulars of subsidiaries as at December 31, 2011 which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

	Proportion of ownership interest				
Name of company	Particulars of issued and paid up capital (millions)	Group•s effective interest	held by the Company	held by subsidiary	Principal activities
Compagnia Italiana Forme Acciaio S.p.A. (CIFA)	EUR 15	59.32%	„	59.32%	Manufacture of concrete machinery
Shaanxi Zoomlion Earth Working Machinery Co., Ltd.	RMB 474	100%	100%	„	Manufacture of earth working machinery
Hunan Zoomlion Axle Co., Ltd.	RMB 289	88.86%	88.86%	„	Manufacture of motor vehicle components
Zoomlion Material Handling Equipment Co., Ltd.	RMB 100	82%	82%	„	Manufacture of material handling machinery
Zoomlion Finance and Leasing (Beijing) Co., Ltd.	RMB 1,502	100%	100%	„	Leasing of Construction equipment and machinery
Hunan Zoomlion International Trade Co., Ltd.	RMB 5	100%	100%	„	Trading of equipment and machinery
Hunan Teli Hydraulic Co., Ltd.	RMB 166	79%	79%	„	Manufacture of hydraulic products
Hunan Zoomlion Special Vehicles Co., Ltd.	RMB 69	100%	100%	„	Manufacture of specialized vehicles
Zoomlion Finance and Leasing (China) Co., Ltd.	USD 280	100%	„	100%	Leasing of equipment and machinery
Hunan Zoomlion Crawling Crane Ltd.	RMB 72	100%	100%	„	Manufacture of crawling cranes
Hunan Zoomlion Hardware Co., Ltd.	RMB 100	75.6%	75.6%	„	Manufacture of crane components
Shanghai Zoomlion Pile Foundation Machinery Co., Ltd.	RMB 50	100%	100%	„	Manufacture of pile foundation machinery
Changsha Zoomlion Fire Control Machinery Co., Ltd.	RMB 45	65%	65%	„	Manufacture of fire fighting vehicles and equipment

All of the above subsidiaries are incorporated and operate in the PRC, except for CIFA which is incorporated and operates in Italy. All of the above subsidiaries are limited liability companies.

31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended December 31, 2011

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting year ended December 31, 2011:

	Effective for accounting period beginning on or after
Amendment to IFRS 1, •First-time adoption of International Financial Reporting Standards-Severe hyperinflation and removal of fixed dates for first-time adoptersŽ	July 1, 2011
Amendments to IFRS 7, •Financial instruments: Disclosures „ Transfers of financial assetsŽ	July 1, 2011
Amendments to IAS 12, •Income taxes „ Deferred tax: Recovery of underlying assetsŽ	January 1, 2012
Amendments to IAS 1, •Presentation of financial statements -Presentation of items of other comprehensive incomeŽ	July 1, 2012
IFRS 10, •Consolidated financial statementsŽ	January 1, 2013
IFRS 11, •Joint arrangementsŽ	January 1, 2013
IFRS 12, •Disclosure of interests in other entitiesŽ	January 1, 2013
IFRS 13, •Fair value measurementŽ	January 1, 2013
IAS 27, •Separate financial statements (2011)Ž	January 1, 2013
IAS 28, •Investments in associates and joint ventures (2011)Ž	January 1, 2013
Revised IAS 19, •Employee benefitsŽ	January 1, 2013
Amendments to IFRS 7 •Financial instruments: Disclosures „ Offsetting financial assets and financial liabilitiesŽ	January 1, 2013
Amendments to IAS 32 •Financial instruments: Presentation „ Offsetting financial assets and financial liabilitiesŽ	January 1, 2014
IFRS 9, •Financial instrumentsŽ	January 1, 2015
Amendments to IFRS 9, •Financial instrumentsŽ and IFRS 7, •Financial instruments: Disclosures „ Mandatory effective date and transition disclosuresŽ	January 1, 2015

The Company has not early adopted the above amendments, new standards and interpretations. Company management is still in the process of assessing what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application and is not yet in a position to determine whether or not the adoption of these amendments, new standards and interpretations will have a significant impact on the Group•s results of operations and financial position.

32 Reconciliation of financial information prepared under PRC GAAP to IFRSs

(a) Reconciliation of total equity of the Group

	2009	2010	2011
	RMB millions	RMB millions	RMB millions
Total equity reported under PRC GAAP	7,592	27,475	35,635
„ Acquisition-related costs incurred on prior year business combination	(40)	(40)	(40)
Total equity reported under IFRSs	7,552	27,435	35,595

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

33 Post balance sheet events

(a) Pursuant to a board of directors resolution passed on March 15, 2012, a final dividend in respect of the year ended December 31, 2011 of RMB0.25 per share totalling RMB1,927 million was proposed for shareholders• approval at the Annual General Meeting. The final dividend proposed after the balance sheet date has not been recognized as a liability at the balance sheet date.

(b) In February 2012, the Company established a wholly-owned subsidiary, Changsha Zoomlion Environmental and Sanitation Machinery Co., Ltd. (•ESM CompanyŽ) with a registered capital of RMB2,100 million, and transferred to ESM Company the Company•s environmental and sanitation business and related assets at a consideration of RMB1,943 million. On March 15, 2012, the Company passed a board of directors resolution approving the disposal of 80% equity interest in ESM Company by way of a public tender on Hunan Province United Assets and Equity Exchange, the completion of which is subject to various conditions. Upon completion, ESM Company will cease to be a subsidiary of the Group and the Company will retain 20% equity interest in ESM Company.

Independent review report
To the directors of Zoomlion Heavy Industry Science and Technology Co., Ltd.

(Incorporated in The People•s Republic of China with limited liability)

Introduction

We have reviewed the interim financial report set out on page F-81 to F-103, which comprises the consolidated balance sheet of Zoomlion Heavy Industry Science and Technology Co., Ltd. (the •CompanyŽ) and its subsidiaries (the •GroupŽ) as at September 30, 2012, the related consolidated statement of comprehensive income for the three-month and nine-month periods ended September 30, 2012, the consolidated statement of changes in equity and the consolidated statement of cash flows for the nine-month period ended September 30, 2012, and explanatory notes. The Company•s directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34 •Interim Financial ReportingŽ.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, •Review of Interim Financial Information Performed by the Independent Auditor of the EntityŽ ,issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards of Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at September 30, 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 •Interim Financial ReportingŽ.

KPMG
Certified Public Accountants
8/F Prince•s Building
10 Chater Road
Hong Kong, China

December 11, 2012

Consolidated Statements of Comprehensive Income (Unaudited)
For the three-month and nine-month periods ended September 30, 2012
(expressed in Renminbi)

	Note	For the three-month period ended September 30,		For the nine-month period ended September 30,	
		2012	2011	2012	2011
		RMB millions	RMB millions	RMB millions	RMB millions
Turnover	3	9,988	9,059	39,108	33,207
Cost of sales and services		(6,436)	(6,241)	(25,644)	(22,532)
Gross profit		3,552	2,818	13,464	10,675

Consolidated Balance Sheet (Unaudited)
As at September 30, 2012
(expressed in Renminbi)

	Note	As at September 30, 2012	As at December 31, 2011
		RMB millions	RMB millions
Non-current assets			
Property, plant and equipment		6,165	4,886
Lease prepayments		1,439	1,390
Intangible assets		1,235	1,216
Goodwill		1,798	1,793
Interests in associates		161	103
Other financial assets		116	43
Trade and other receivables	9	3,405	912
Receivables under finance lease	10	13,806	12,780
Pledged bank deposits		628	261
Deferred tax assets		388	317
Total non-current assets		29,141	23,701
Current assets			
Inventories	8	12,088	9,656
Trade and other receivables	9	19,503	13,614
Receivables under finance lease	10	7,985	7,089
Pledged bank deposits		1,569	1,481
Cash and cash equivalents	11	16,594	16,002
Total current assets		57,739	47,842
Total assets		86,880	71,543
Current liabilities			
Loans and borrowings	12(a)	9,263	6,049
Trade and other payables	13	24,949	19,314
Income tax payable		1,000	1,289
Total current liabilities		35,212	26,652
Net current assets		22,527	21,190
Total assets less current liabilities		51,668	44,891

The notes on pages F-87 to F-103 form part of the interim financial report.

Consolidated Balance Sheet (Unaudited)
As at September 30, 2012 (continued)

(expressed in Renminbi)

	Note	As at September 30, 2012 RMB millions	As at December 31, 2011 RMB millions
Non-current liabilities			
Loans and borrowings	12(b)	8,660	7,089
Other non-current liabilities		1,831	1,789
Deferred tax liabilities		451	418
Total non-current liabilities		10,942	9,296
NET ASSETS		40,726	35,595
CAPITAL AND RESERVES	14		
Share capital		7,706	7,706
Reserves		32,687	27,701
Total equity attributable to equity shareholders of the Company		40,393	35,407
Non-controlling interests		333	188
TOTAL EQUITY		40,726	35,595

Approved and authorized for issue by the board of directors on December 11, 2012.

Zhan Chunxin
Chairman and Chief Executive Officer

Hong Xiaoming
Vice-president and the person in-charge of financial affairs

The notes on pages F-87 to F-103 form part of the interim financial report.

Consolidated Statement of Changes in Equity (Unaudited)
For the nine-month period ended September 30, 2012
(expressed in Renminbi)

	Attributable to equity shareholders of the Company								
	Share capital	Capital reserve	Statutory surplus reserve	Exchange reserve	Fair value reserve	Retained earnings	Total	Non-controlling interests	Total equity
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Balance at January 1, 2011	5,797	15,063	1,212	(66)	(1)	5,371	27,376	59	27,435
Over-allotment of H Shares in Global Offering	131	1,376	„	„	„	„	1,507	„	1,507
Cash dividends	„	„	„	„	„	(1,541)	(1,541)	„	(1,541)
Bonus shares	1,778	(1,778)	„	„	„	„	„	„	„
Acquisition of a subsidiary	„	„	„	„	„	„	„	34	34
Contributions from non-controlling interests	„	„	„	„	„	„	„	2	2
Acquisition of non-controlling interests	„	15	„	„	„	„	15	(15)	„
Dividends paid by subsidiaries to non-controlling interests	„	„	„	„	„	„	„	(12)	(12)
Total comprehensive income for the period	„	„	„	52	(1)	5,961	6,012	43	6,055
Balance at September 30, 2011	7,706	14,676	1,212	(14)	(2)	9,791	33,369	111	33,480
Balance at January 1, 2012	7,706	14,676	1,963	(81)	(2)	11,145	35,407	188	35,595
Cash dividends (Note 14)	„	„	„	„	„	(1,926)	(1,926)	„	(1,926)
Contribution from non-controlling interests	„	(1)	„	„	„	„	(1)	27	26
Acquisition of non-controlling interests	„	(69)	„	„	„	„	(69)	(9)	(78)
Dividends paid by subsidiaries to non-controlling interests	„	„	„	„	„	„	„	(39)	(39)
Total comprehensive income for the period	„	„	„	22	„	6,960	6,982	166	7,148
Balance at September 30, 2012	7,706	14,606	1,963	(59)	(2)	16,179	40,393	333	40,726

The notes on pages F-87 to F-103 form part of the interim financial report.

Consolidated Cash Flow Statement (Unaudited)
For the nine-month period ended September 30, 2012
(expressed in Renminbi)

	For the nine-month period ended September 30,	
	2012	2011
	RMB millions	RMB millions
Operating activities		
Profit before taxation	8,302	7,081
Adjustments for:		
Depreciation of property, plant and equipment	306	275
Amortization of lease prepayments	22	19
Amortization of intangible assets	47	47
Share of profits less losses of associates	(6)	(18)
Interest income	(182)	(176)
Interest expense	616	496
Loss on disposal of property, plant and equipment, and intangible assets	14	5
Impairment loss on property, plant and equipment	3	2
Gain on disposal of an associate	„	(12)
Loss/(gain) on remeasurement of derivative financial instruments at fair value	18	(19)
	9,140	7,700
Increase in inventories	(2,431)	(1,852)
Increase in trade and other receivables	(8,355)	(6,111)
Increase in receivables under finance lease	(1,922)	(1,446)
Increase in trade and other payables	5,068	3,513
Cash generated from operations	1,500	1,804
Income tax paid	(1,503)	(890)
Net cash (used in)/generated from operating activities carried forward	(3)	914

The notes on pages F-87 to F-103 form part of the interim financial report.

Consolidated Cash Flow Statement (Unaudited)
For the nine-month period ended September 30, 2012 (continued)
(expressed in Renminbi)

	Note	For the nine-month period ended September 30, 2012 RMB millions	2011 RMB millions
Net cash (used in)/generated from operating activities brought forward		(3)	914
Investing activities			
Payment for the purchase of property, plant and equipment		(1,334)	(891)
Lease prepayments		(71)	(55)
Payment for purchase of intangible assets		(27)	(30)
Payment for acquisition of investments in associates and equity investments		(168)	(7)
Proceeds from disposal of property, plant and equipment, and intangible assets		14	21
Cash acquired in step acquisition		„	31
Interest received		182	176
Increase in pledged bank deposits		(455)	(997)
Net cash used in investing activities		(1,859)	(1,752)
Financing activities			
Proceeds from loans and borrowings		16,902	9,568
Repayments of loans and borrowings		(12,176)	(8,491)
Interest paid		(628)	(513)
Dividends paid		(1,615)	(1,226)
Dividends paid by subsidiaries to non-controlling shareholders		(18)	(12)
Payment for acquisition of non-controlling interests		(50)	„
Contributions from non-controlling shareholders		34	2
Net proceeds from over-allotment of H Shares in Global Offering		„	1,507
Net cash generated from financing activities		2,449	835
Net increase /(decrease) in cash and cash equivalents		587	(3)
Cash and cash equivalents at beginning of period		16,002	18,758
Effect of foreign exchange rate changes		5	(98)
Cash and cash equivalents at end of period	11	16,594	18,657

The notes on pages F-87 to F-103 form part of the interim financial report.

Notes to the Interim Financial Report
For the nine-month period ended September 30, 2012

1 Principal activities of reporting entity

Zoomlion Heavy Industry Science and Technology Co., Ltd. (the •CompanyŽ) and its subsidiaries (collectively, referred to as the •GroupŽ) are principally engaged in the research, development, manufacturing and sale and leasing of concrete machinery, crane machinery, environmental and sanitation equipment, road construction and pile foundation machinery and other related heavy machinery and capital equipment.

2 Basis of preparation

(a) The interim financial report has been prepared in accordance with International Accounting Standard (•IASŽ) 34 •Interim Financial ReportingŽ issued by the International Accounting Standards Board (•IASBŽ).

The preparation of interim financial report in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

This interim financial report contains consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 annual financial statements. The consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (•IFRSsŽ).

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410 •Review of Interim Financial Report Performed by the Independent Auditor of the EntityŽ, issued by the Hong Kong Institute of Certified Public Accountants.

(b) The IASB has issued certain new and revised IFRSs that are first effective for the current accounting period of the Group. The adoption of these new and revised IFRSs has had no significant effect on the interim financial statements and there have been no significant changes to the accounting policies applied in the preparation of the interim financial statements comparing to those adopted in the preparation of the 2011 annual financial statements.

The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period.

3 Turnover

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2012	2011	2012	2011
	RMB millions	RMB millions	RMB millions	RMB millions
Sales of				
Concrete machinery	4,279	3,875	21,185	15,009
Crane machinery	3,297	2,997	10,341	11,205
Environmental and sanitation machinery	839	769	2,040	2,033
Road construction and pile foundation machinery	308	298	1,087	1,304
Earth working machinery	424	239	1,748	912
Material handling machinery and systems	65	121	269	403
Other machinery products	340	393	1,219	1,225
Finance income under finance lease	436	367	1,219	1,116
	9,988	9,059	39,108	33,207

4 Profit before taxation

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

(a) Net finance costs:

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2012	2011	2012	2011
	RMB millions	RMB millions	RMB millions	RMB millions
Finance income:				
Interest income on bank deposits	(50)	(65)	(182)	(176)
Loss/(gain) on remeasurement of derivative financial instruments at fair value	„	(8)	18	(19)
	(50)	(73)	(164)	(195)
Finance costs:				
Interest on loans and borrowings (note)	201	143	582	361
Net exchange (gains) /losses	2	(162)	(62)	(150)
	203	(19)	520	211
	153	(92)	356	16

Note:

Interest expense on factoring the Group•s receivables under finance lease with recourse amounted to RMB1 million for the three-month period ended September 30, 2012 (three-month period ended September 30, 2011: RMB32 million), and RMB25 million for the nine-month period ended September 30, 2012 (nine-month period ended September 30, 2011: RMB135 million), and was included in cost of sales and services.

(b) Staff costs:

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2012	2011	2012	2011
	RMB millions	RMB millions	RMB millions	RMB millions
Salaries, wages and other benefits	631	700	2,160	1,979
Contributions to retirement schemes	93	35	200	113
	724	735	2,360	2,092

(c) Other items:

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2012	2011	2012	2011
	RMB millions	RMB millions	RMB millions	RMB millions
Cost of inventories	6,427	6,212	25,610	22,351
Depreciation of property, plant and equipment	105	97	306	275
Amortization of lease prepayments	7	6	22	19
Amortization of intangible assets	16	16	47	47
Operating lease charges	64	35	144	91
Product warranty costs	38	29	120	100
Impairment losses				
„ trade receivables	18	54	213	296
„ receivables under finance lease	22	„	89	„
„ inventories	106	18	146	42

5 Income tax

Income tax in the consolidated statements of comprehensive income represents:

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2012	2011	2012	2011
	RMB millions	RMB millions	RMB millions	RMB millions
Current tax „ PRC income tax	204	303	1,209	1,159
Current tax „ Income tax in other tax jurisdictions	2	2	4	5
Deferred taxation	19	(9)	(38)	(75)
	225	296	1,175	1,089

Reconciliation between actual income tax expense and notional tax on profit before taxation is as follows:

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2012	2011	2012	2011
	RMB millions	RMB millions	RMB millions	RMB millions
Profit before taxation	1,603	1,637	8,302	7,081
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned (note (a))	401	409	2,076	1,770
Tax effect of non-deductible expenses	4	7	18	19
Tax effect of non-taxable income	(2)	(3)	(8)	(22)
Tax effect of tax concessions (note (b))	(153)	(109)	(829)	(597)
Additional deduction for qualified research and development expenses (note (c))	(25)	(8)	(82)	(81)
Actual income tax expense	225	296	1,175	1,089

Notes:

(a) The PRC statutory income tax rate is 25% (2011: 25%).

The Company•s subsidiaries in Italy are subject to income tax at rates ranging from 27.5% to 31.4% (2011: 27.5% to 31.4%).

The Company•s subsidiaries in the HKSAR are subject to Hong Kong Profits Tax at 16.5% (2011: 16.5%).

(b) According to the income tax law and its relevant regulations, entities that qualified as high-technology enterprises under the tax law are entitled to a preferential income tax rate of 15%.

The Company and certain of its subsidiaries obtained the renewal approval of high-technology enterprises in 2011 and accordingly were subject to income tax at 15% for the years from 2011 to 2013.

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

6 Basic and diluted earnings per share

Pursuant to the shareholders• approval at the Annual General Meeting held on June 3, 2011, the Company executed a stock split in the form of bonus shares on the basis of 0.3 share for every outstanding ordinary share on July 15, 2011. For the purpose of calculating earnings per share for the three-month and nine-month periods ended September 30, 2011, the number of ordinary shares used in the calculation has been retrospectively adjusted to reflect the above-mentioned stock split as if it had occurred at the beginning of the earliest periods presented and such shares had been outstanding for the periods.

The calculation of basic earnings per share for the three-month period ended September 30, 2012 is based on the profit attributable to equity shareholders of the Company of RMB1,338 million (three-month period ended September 30, 2011: RMB1,333 million), and the weighted average number of shares of 7,706 million during the three-month period ended September 30, 2012 (three-month period ended September 30, 2011: 7,706 million after adjusting for the stock split mentioned in the above paragraph).

The calculation of basic earnings per share for the nine-month period ended September 30, 2012 is based on the profit attributable to equity shareholders of the Company of RMB6,960 million (nine-month period ended September 30, 2011: RMB5,961 million), and the weighted average number of shares of 7,706 million during the nine-month period ended September 30, 2012 (nine-month period ended September 30, 2011: 7,698 million after adjusting for the stock split mentioned in the above paragraph).

There were no dilutive potential ordinary shares in issue as at September 30, 2012 (2011: nil).

7 Segment reporting

Information regarding the Group•s reportable segments as provided to the Group•s most senior executive management for the purposes of resource allocation and assessment of segment performance for the three-month and nine-month periods ended September 30, 2012 is set out below.

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2012	2011	2012	2011
	RMB millions	RMB millions	RMB millions	RMB millions
Reportable segment revenue:				
Concrete machinery	4,279	3,875	21,185	15,009
Crane machinery	3,297	2,997	10,341	11,205
Environmental and sanitation machinery	839	769	2,040	2,033
Road construction and pile foundation machinery	308	298	1,087	1,304
Earth working machinery	424	239	1,748	912
Material handling machinery and systems	65	121	269	403
Finance lease services	436	367	1,219	1,116
Total reportable segment revenue	9,648	8,666	37,889	31,982
Revenue from all other segments	340	393	1,219	1,225
Total	9,988	9,059	39,108	33,207
Reportable segment profit:				
Concrete machinery	1,746	1,330	7,869	5,371
Crane machinery	911	695	2,838	2,854
Environmental and sanitation machinery	260	234 t 4 5 (6 2 5 0 . . . , 8 3 8 2 5 0 (3)] T J		

Reconciliation of segment profit

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2012	2011	2012	2011
	RMB millions	RMB millions	RMB millions	RMB millions
Total segment profit	3,552	2,818	13,464	10,675
Other revenues and net (loss)/income	(35)	7	(122)	73
Sales and marketing expenses	(1,031)	(725)	(2,504)	(1,955)
General and administrative expenses	(455)	(464)	(1,662)	(1,485)
Research and development expenses	(273)	(96)	(524)	(241)
Gain on disposal of an associate	„	„	„	12
Net finance costs	(153)	92	(356)	(16)
Share of profits less losses of associates	(2)	5	6	18
Consolidated profit before taxation	1,603	1,637	8,302	7,081

8 Inventories

	As at September 30, 2012	As at December 31, 2011
	RMB millions	RMB millions
Raw materials	5,570	4,762
Work in progress	2,259	1,691
Finished goods	4,259	3,203
	12,088	9,656

9 Trade and other receivables

	As at September 30, 2012	As at December 31, 2011
	RMB millions	RMB millions
Trade receivables	20,275	12,096
Less: provision for impairment (Note (b))	(739)	(533)
	19,536	11,563
Less: trade receivables due after one year	(3,405)	(912)
	16,131	10,651
Bills receivable (Note(c))	1,071	1,138
	17,202	11,789
Amounts due from related parties (Note 17(b))	173	99
Prepayments for purchase of raw materials	735	508
Prepaid expenses	384	310
VAT recoverable	241	247
Deposit	145	118
Others	623	543
	19,503	13,614

During the nine-month period ended September 30, 2012, trade receivables of RMB2,699 million (nine-month period ended September 30, 2011: nil) were factored to banks and other financial institutions without recourse, and were therefore derecognized.

(a) Ageing analysis of trade receivables

Ageing analysis of trade receivables based on the date of billing (net of provision for impairment) as at the balance sheet date is as follows:

	As at September 30, 2012	As at December 31, 2011
	RMB millions	RMB millions
Within 1 month	5,617	4,547
Over 1 month but less than 3 months	5,215	2,362
Over 3 months but less than 1 year	6,821	3,401
Over 1 year but less than 2 years	1,443	932
Over 2 years but less than 3 years	313	249
Over 3 years but less than 5 years	127	72
	19,536	11,563

Trade receivables under credit sales arrangement are generally due within 1 to 3 months from the date of billing, and customers are required to make an upfront payment ranging from 10% to 30% of the product price. For sales under installment payment method that has installment payment period generally ranging from 3 to 36 months, customers are required to make an upfront payment ranging from 10% to 40% of the product price.

(b) Impairment of trade receivables

The movement in the provision for impairment during the period, including both specific and collective loss components, is as follows:

	2012	2011
	RMB millions	RMB millions
Balance at January 1	(533)	(557)
Impairment losses recognized	(213)	3
Uncollectible amounts written off	7	21
Balance at September 30/December 31	(739)	(533)

(c) Bills receivable primarily 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 1 to 6 months from the date of issuance. Historically, the Group had experienced no credit losses on bills receivable.

10 Receivables under finance lease

	As at September 30, 2012	As at December 31, 2011
	RMB millions	RMB millions
Gross investment	24,387	22,135
Unearned finance income	(2,367)	(2,126)
	22,020	20,009
Less: provision for impairment (Note(c))	(229)	(140)
	21,791	19,869
Less: receivables under finance lease due after one year	(13,806)	(12,780)
Receivables under finance lease due within one year	7,985	7,089

As at September 30, 2012, no receivables under finance lease (December 31, 2011: RMB586 million) were factored to banks with recourse.

During the nine-month period ended September 30, 2012, receivables under finance lease of RMB11,538 million (nine-month period ended September 30, 2011: RMB7,932 million) were factored to banks without recourse, and were therefore derecognized.

(a) Ageing analysis of receivables under finance lease

The minimum lease payments receivable at the balance sheet date is as follows:

	As at September 30, 2012	As at December 31, 2011
	RMB millions	RMB millions
Present value of the minimum lease payments		
Within 1 year	8,114	7,139
Over 1 year but less than 2 years	6,425	6,300
Over 2 years but less than 3 years	4,441	4,178
Over 3 years	3,040	2,392
	22,020	20,009
Unearned finance income		
Within 1 year	1,209	1,024
Over 1 year but less than 2 years	705	671
Over 2 years but less than 3 years	288	318
Over 3 years	165	113
	2,367	2,126
Gross investment		
Within 1 year	9,323	8,163
Over 1 year but less than 2 years	7,130	6,971
Over 2 years but less than 3 years	4,729	4,496
Over 3 years	3,205	2,505
	24,387	22,135

Generally, sales under finance lease arrangement has lease periods ranging from two to five years, customers are required to make an upfront payment ranging from 5% to 20% of the product price and pay a security deposit ranging from 1% to 10% of the product price.

(b) Overdue analysis

Overdue analysis of receivables under finance lease at the balance sheet date is as follows:

	As at September 30, 2012	As at December 31, 2011
	RMB millions	RMB millions
Not yet due	22,833	21,671
Less than 1 month past due	274	123
1 to 3 months past due	509	117
3 to 12 months past due	591	175
More than 12 months past due	180	49
Total past due	1,554	464
Gross investment	24,387	22,135

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.

12 Loans and borrowings

(a) Short-term loans and borrowings:

	Note	As at September 30, 2012	As at December 31, 2011
		RMB millions	RMB millions
Secured short-term bank loans			
„ RMB denominated	(i)	10	304
„ EUR denominated		22	5
Unsecured short-term bank loans			
„ RMB denominated		„	265
„ JPY denominated		33	50
„ EUR denominated		346	132
„ USD denominated	(ii)	5,667	3,986
„ HKD denominated		„	57
Current portion of long-term bank loans	12(b)	3,185	1,250
		9,263	6,049

Notes:

(i) The RMB denominated secured short-term bank loans as at September 30, 2012 were secured by fixed assets and receivables with an aggregate carrying value of RMB26 million (December 31, 2011: RMB339 million).

(ii) As at September 30, 2012, USD denominated unsecured short-term bank loans of RMB507 million (December 31, 2011: RMB1,197 million), bore interest at LIBOR plus 2.0% to 3.9% per annum. Such loans were subject to the fulfillment of certain financial covenants of the Group. As at September 30, 2012, the Group was in compliance with these financial covenants.

As at September 30, 2012, USD denominated unsecured short-term bank loans of RMB4,506 million (December 31, 2011: RMB2,579 million) bore interest at LIBOR plus 1.0% to 4.3% per annum.

As at September 30, 2012, the remaining USD denominated unsecured short-term bank loans of RMB654 million (December 31, 2011: RMB210 million) bore interest at 1.8% to 5.3% per annum.

(b) Long-term loans and borrowings:

	Note	As at September 30, 2012	As at December 31, 2011
		RMB millions	RMB millions
Secured long-term bank loans			
„ RMB denominated		„	560
„ EUR denominated	(i)	1,473	1,476
Unsecured long-term bank loans			
„ RMB denominated	(ii)	1,100	460
„ EUR denominated	(iii)	822	819
„ USD denominated	(iv)	4,873	3,931
Unsecured bond	(v)	1,094	1,093
Guaranteed senior notes	(vi)	2,483	„
		11,845	8,339
Less: Current portion of long-term bank loans	12(a)	(3,185)	(1,250)
		8,660	7,089

Notes:

(i) As at September 30, 2012, EUR denominated secured long-term bank loan of RMB1,473 million (December 31, 2011: RMB1,468 million) were secured by 100% equity interest of the Company•s certain subsidiaries in Italy. Such loan bore interest at EURIBOR plus 2.2% per annum and will be repayable in full in June 2013.

(ii) As at September 30, 2012, RMB denominated unsecured long-term bank loan of RMB200 million (December 31, 2011: nil) bore 80% of PBOC rate per annum and will be repayable in full in March 2015.

As at September 30, 2012, the remaining RMB denominated unsecured long-term bank loan of RMB900 million (December 31, 2011: nil) bore 70% of PBOC rate per annum and will be repayable in full in September 2015.

(iii) As at September 30, 2012, EUR denominated unsecured long-term bank loan of RMB818 million (December 31, 2011: RMB814 million) bore interest at EURIBOR plus 2.0% per annum and will be repayable in full in June 2013. The remaining unsecured long-term bank loans of RMB4 million (December 31, 2011: RMB5 million) will be repayable in quarterly installments through 2014.

(iv) As at September 30, 2012, USD denominated unsecured long-term bank loan of RMB970 million (December 31, 2011: 964 million) bore interest at LIBOR plus 4.5% per annum and had maturity of 24 months from the balance sheet date. Such loan is subject to the fulfillment of certain financial covenants of the Group. As at September 30, 2012, the Group was in compliance with these financial covenants.

As at September 30, 2012, USD denominated unsecured long-term bank loan of RMB1,205 million (December 31, 2011: nil) bore interest at LIBOR plus 2.6% to 3.6% per annum and had maturities ranging from 14 months to 32 months from the balance sheet date. Such loan is subject to the fulfillment of certain annual financial covenants of the Group.

As at September 30, 2012, USD denominated unsecured long-term bank loans of RMB2,327 million (December 31, 2011: RMB2,746 million) bore interest at LIBOR plus 1.8% to 4.0% per annum and had maturities ranging from 2 months to 32 months from the balance sheet date.

The remaining USD denominated unsecured long-term bank loans of RMB371 million (December 31, 2011: RMB221 million) bore interest at 3.5% to 4.2% per annum and had maturities of 8 months to 23 months from the balance

Note:

Ageing analysis of trade creditors and bills payable as at the balance sheet date is as follows:

	As at September 30, 2012	As at December 31, 2011
	RMB millions	RMB millions
Due within 1 month or on demand	4,846	4,974
Due after 1 month but within 3 months	5,407	3,938
Due after 3 months but within 6 months	4,418	2,496
Due after 6 months but within 12 months	725	695
	15,396	12,103

14 Profit appropriation and dividend payable

Pursuant to the shareholders• approval at the Annual General Meeting held on June 29, 2012, a final cash dividend of RMB0.25 per share based on 7,706 million ordinary shares totaling RMB1,926 million in respect of the year ended December 31, 2011 was declared, and was fully paid by the end of November 2012.

15 Commitments

(a) Capital commitments

As at September 30, 2011, the Group had capital commitments as follows:

	As at September 30, 2012	As at December 31, 2011
	RMB millions	RMB millions
Authorized and contracted for		
„ property, plant and equipment	512	434
„ equity investments	„	100
„ intangible assets	22	51
„ lease prepayments	10	31
	544	616
Authorized but not contracted for		
„ property, plant and equipment	157	303
„ lease prepayments	1,819	1,880
	1,976	2,183

(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 company. As at September 30, 2012, the Group•s maximum exposure to such guarantees was RMB1,082 million (December 31, 2011: RMB1,634 million). The terms of these guarantees coincide with the tenure of the lease contracts which generally range from 2 to 4 years. For the nine-month period ended September 30, 2012, there was no material default of payments from end-user customers which required the Group to make guarantee payments to the third-party leasing company.

(b) Contingent liability in respect of legal claims

The Group is a defendant in certain lawsuits as well as the named party in certain proceedings arising in the ordinary course of business. Management has assessed the likelihood of any unfavorable 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.

17 Related party transactions

(a) Transactions with related parties

	For the nine-month period ended September 30,	
	2012	2011
	RMB millions	RMB millions
Transactions with associates:		
Sales of products	596	2
Purchase of raw materials and finished goods	464	45

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and in accordance with the agreements governing such transactions which are comparable to normal commercial terms.

(b) Outstanding balances with related parties

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

18 Reconciliation of financial information prepared under PRC GAAP to IFRSs

(a) Reconciliation of total equity of the Group

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