**Zoomlion Heavy Industry Science and Technology Co., Ltd.***

**中聯重科股份有限公司**

*（於中華人民共和國註冊成立的股份有限公司）*

**（股份代號：1157）**

# 海外監管公告

本海外監管公告乃根據《香港聯合交易所有限公司證券上市規則》（「**上市規則**」）第13.09(2)條而刊發。

謹此提述中聯重科股份有限公司（「**本公司**」）於二零一二年十二月十二日及二零一二年十二月十三日就發債而刊發的公告（「**發債公告**」）。除另有界定外，本公告所用詞彙與發債公告所界定者具有相同涵義。

請參閱隨附有關發債的發售備忘錄（「**發售備忘錄**」）。發售備忘錄已於二零一二年十二月二十一日在新加坡證券交易所有限公司網站刊載。

在香港交易及結算所有限公司披露易網站刊載發售備忘錄純粹以便向香港的投資者發放同等信息，以及遵守《上市規則》第13.09(2)條的規定，此外別無其他目的。

發售備忘錄不構成向任何司法權區的公眾提呈出售任何證券的招股章程、通告、通函、宣傳冊或廣告，亦非邀請公眾提出認購或購買任何證券的要約，亦非旨在邀請公眾提出要約以認購或購買任何證券。

發售備忘錄不得被視為對認購或購買本公司任何證券的勸誘，而本公司亦無意進行有關勸誘。投資者不應依據發售備忘錄所載的資料作出投資決定。

承董事會命
**中聯重科股份有限公司**
*董事長*
**詹純新**

中國長沙
2012年12月23日

*於本公告刊發日期，本公司執行董事為詹純新博士及劉權先生；非執行董事為邱中偉先生；以及獨立非執行董事為劉長琨先生、錢世政博士、王志樂先生及連維增先生。*

* *僅供識別*

**OFFERING MEMORANDUM**
**CONFIDENTIAL**

# Zoomlion H.K. SPV Co., Limited

*(incorporated in Hong Kong with limited liability)*

**US$600,000,000 6.125% Senior Notes Due 2022**

*unconditionally and irrevocably guaranteed by*

ZOOMLION

**Zoomlion Heavy Industry Science and Technology Co., Ltd.**

**中聯重科股份有限公司**

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

**(HKSE Stock Code: 01157)**

**(SZSE Stock Code: 000157)**

Zoomlion H.K. SPV Co., Limited (the "Issuer") is offering US$600,000,000 aggregate principal amount of 6.125% Senior Notes due 2022 (the "Notes"). The Notes will bear interest at 6.125% per annum from December 20, 2012 and will mature on December 20, 2022. Interest on the Notes will be payable semi-annually in arrears on June 20 and December 20 of each year, beginning on June 20, 2013. The Notes will be issued only in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. The consummation of this offering is subject to certain conditions. See "Summary — Recent Developments — Solicitation of Consents to Amend an Existing Indenture" and "Summary — The Offering".

The Issuer may at its option redeem the Notes at any time, in whole or in part, at a price equal to 100% of the principal amount of such Notes plus a "make-whole premium" (as described in this offering memorandum) and accrued and unpaid interest, if any, to but excluding the redemption date. The Issuer may also redeem all of the Notes at any time at a price equal to 100% of the principal amount of such Notes plus accrued and unpaid interest, if any, to but excluding the redemption date if it becomes obligated to pay certain withholding taxes on the Notes as a result of a change in law. Upon the occurrence of specific kinds of change of control, the Issuer must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to but excluding the date of repurchase. There is no sinking fund for the Notes.

The Notes will be fully, unconditionally and irrevocably guaranteed on a senior basis (the "Guarantee") by Zoomlion Heavy Industry Science and Technology Co., Ltd., the Issuer's indirect parent (the "Company" or the "Guarantor"). The Notes and the Guarantee are the Issuer's and the Company's respective senior unsecured obligations and will (1) rank equally with all their respective other present and future unsecured and unsubordinated obligations, (2) be effectively subordinated to all their respective present and future secured obligations to the extent of the value of the collateral securing such obligations and (3) be senior to all their respective present and future unsecured and subordinated obligations. In addition, the Guarantee will also be structurally subordinated to all the present and future obligations (whether secured or unsecured) of the Company's subsidiaries.

For a more detailed description of the Notes, see "Description of the Notes" beginning on page 187.

**Investing in the Notes involves risks. See "Risk Factors" beginning on page 19.**

The Notes have been provisionally assigned a rating of BB+ and BBB- by Standard & Poor's Ratings Services and Fitch Inc., respectively. 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.

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**Issue Price: 99.08%**

**plus accrued interest, if any, from the issue date**

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**The Notes have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and are being offered and sold in the United States only to qualified institutional buyers in reliance on Rule 144A under the Securities Act ("Rule 144A") and in transactions outside the United States in reliance on Regulation S under the Securities Act ("Regulation S"). We are not required to and do not intend to register the Notes under the Securities Act or the securities laws of any state or any other jurisdiction and are not required to offer to exchange the Notes for Notes registered under the Securities Act or the securities laws of any state or any other jurisdiction. Prospective purchasers that are qualified institutional buyers are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Notes are not transferrable except in accordance with the restrictions described under "Transfer Restrictions".**

Approval in-principle has been received for the listing and quotation of the Notes on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Admission of the Notes to the Official List, and quotation of the Notes on, of the SGX-ST is not to be taken as an indication of the merits of the Notes or the Company. 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. Currently, there is no public market for the Notes.

It is expected that delivery of the Notes will be made to investors in book-entry form through the facilities of the Depositary Trust Company on or about December 20, 2012.

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***Sole Global Coordinator and Bookrunner***

**Goldman Sachs (Asia) L.L.C.**

**Offering Memorandum dated December 13, 2012.**

You should rely only on the information contained in this offering memorandum. None of the Issuer, the Company and its subsidiaries ("we," "us," "our," or "Zoomlion" as the context indicates, unless otherwise specifically defined) or the investment banking firms identified on the cover of this offering memorandum has authorized anyone to provide you with different information. Neither we nor the Initial Purchaser (as defined in the section headed "Plan of Distribution") is making an offer of these securities in any state or jurisdiction where the offer is not permitted. This offering memorandum does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities by any person in any circumstances in which such offer or solicitation is unlawful. You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date of this offering memorandum. Our business, financial condition, results of operations and prospects may have changed since that date.

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**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.**

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The distribution of this offering memorandum and the offering and sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this offering memorandum comes are required by us and the Initial Purchaser to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on the offering and sale of the Notes and distribution of this offering memorandum, see "Plan of Distribution" and "Transfer Restrictions." This offering memorandum may be used only for the purposes for which it has been published.

In making your investment decision, you should rely only on the information contained in this offering memorandum. None of us, the Initial Purchaser nor the Trustee has authorized anyone to provide you with any other information. If you receive any unauthorized information, you must not rely on it.

This offering memorandum is a confidential document that we are providing only to prospective buyers of our Notes. You should read this offering memorandum before deciding to buy any Notes. You must not:

- use this offering memorandum for any other purpose;
- make copies of any part of this offering memorandum or give a copy of it to any other person; or
- disclose any information in this offering memorandum to any other person. We have prepared this offering memorandum and we are solely responsible for its contents.

You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in our Notes. You may contact us if you need any additional information. By purchasing any Notes, you acknowledge that:

- you have reviewed this offering memorandum:

- you have had an opportunity to request from us any additional information that you need from us; and

- neither the Initial Purchaser nor the Trustee is responsible for, nor is either of them making any representations or warranties to you concerning our future performance or the accuracy or completeness of this offering memorandum.

The Initial Purchaser assumes no responsibility for the accuracy or completeness of, any of the information contained in this offering memorandum. To the fullest extent permitted by law, the Initial Purchaser does not accept any responsibility for the contents of this offering memorandum or for any statement made or purported to be made by the Initial Purchaser or on its behalf in connection with our Company or the issue and offering of the Notes. The Initial Purchaser accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which the Initial Purchaser might otherwise have in respect of this offering memorandum or any such statement.

We and the Initial Purchaser reserve the right to reject any offer to purchase any of the Notes for any reason, or to sell less than the principal amount of the Notes for which any prospective purchaser has subscribed.

This offering memorandum is personal to each offeree and is not an offer to any other person or to the public generally to subscribe for the Notes. You represent that you are basing your investment decision solely on this offering memorandum and your own examination of us and the terms of this offering.

Neither we, the Initial Purchaser, the Trustee nor any agent is providing you with any legal, business, tax or other advice in this offering memorandum. You should consult your own advisors to assist you in making your investment decision and to advise you whether you are legally permitted to purchase our Notes.

You must comply with all laws that apply to you in any place in which you buy, offer or sell any Notes or possess this offering memorandum. You must also obtain any consents or approvals that you need in order to purchase the Notes. Neither we nor the Initial Purchaser is responsible for your compliance with these legal requirements.

The Notes have not been recommended by any U.S. federal or state securities commission or regulatory authority or any regulatory authority in any other jurisdiction, and no such authority has determined that this offering memorandum is accurate or complete. Any representation to the contrary is a criminal offense.

The Notes are subject to restrictions on transfer and resale that are described under "Transfer Restrictions." By purchasing any Notes, you represent and agree to all of the provisions contained in that section of this offering memorandum. You may have to bear the financial risks of investing in our Notes for an indefinite period of time.

The Notes have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any state or other jurisdiction in the United States, and may not be offered, sold, pledged or otherwise transferred except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with applicable securities laws of any state or other jurisdictions. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. We do not intend to issue registered notes in exchange for the Notes to be privately placed in this offering and the absence of registration rights may adversely impact the transferability 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 (this settlement cycle being referred to as "T+5"). Under Rule 15c6-1 of the United States Exchange Act of 1934, as amended (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. "Business Day" as used in this offering memorandum means a day that is a business day in both the United States and Hong Kong.

In connection with this offering, the Initial Purchaser or any person acting for the Initial Purchaser may purchase and sell the Notes in the open market. These transactions may, to the extent permitted by applicable laws and regulations, include short sales, stabilizing transactions and purchases to cover positions created by short sales. These activities may stabilize, maintain or otherwise affect the market price of the Notes. As a result, the price of the Notes may be higher than the price that otherwise might exist in the open market: if these activities are commenced, they may be discontinued at any time and must in any event be brought to an end after a limited time. These activities will be undertaken solely for the account of the Initial Purchaser, and not for us or on our behalf.

## 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

We refer to the terms EBITDA, total debt, net debt/(net cash), EBITDA margin, interest coverage ratio, leverage ratio and net debt/(net cash) to EBITDA ratio (as defined in "Summary — Summary Financial Information") in various places in this offering memorandum. These non-GAAP financial data are supplemental financial measures that are not required by, or presented in accordance with, International Financial Reporting Standards ("IFRS") or United States generally accepted accounting principles ("US GAAP") and are therefore referred to as "non-GAAP" financial measures. They are not measurements of our financial performance under IFRS or US GAAP and should not be considered as an alternative to profit from operations or any other performance measures derived in accordance with IFRS or US GAAP or as an alternative to cash flows from operating activities or as a measure of our liquidity.

Our measurement of these non-GAAP items may not be comparable to those of other companies. See the section titled "Summary — Summary Financial Information" and "Selected Financial Information" for a more thorough discussion of our use of these non-GAAP items in this offering memorandum, including the reasons why we believe this information is useful to management and why they may be useful to investors, and a reconciliation of each non-GAAP item to the most closely comparable financial measure calculated in accordance with IFRS.

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# PRESENTATION OF INFORMATION

Unless expressly stated otherwise, all financial information, description and other information regarding our financial condition and results of operations as of and for the years ended December 31, 2009, 2010 and 2011 and as of and for the nine months ended September 30, 2011 and 2012 included in this offering memorandum are presented on a consolidated basis.

The financial statements of the Company are reported in Renminbi, the lawful currency of China. All references to "United States dollars," "US dollars" and "US$" are to United States dollars, all references to "RMB" and "Renminbi" are to Renminbi and all references to "HK$" are to Hong Kong dollars. Unless otherwise noted, all translations from Renminbi to US dollars were made at the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board (the "Noon Buying Rate") as of September 28, 2012, which was RMB6.2848 = US$1.00, and all translations from Hong Kong dollars to US dollars were made at a rate of HK$7.8 to US$1.00. All amounts translated into US dollars in this offering memorandum are provided solely for your convenience and no representation is made that the Renminbi or US dollar amounts referred to herein could have been or could be converted into US dollars or Renminbi, as the case may be, at any particular rate or at all. For further information relating to exchange rates, see "Exchange Rates". For information relating to the exchange rate of the Notes, see "Description of the Notes".

In this offering memorandum, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, the total of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

## FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements are contained principally in the sections headed "Summary," "Risk Factors," "Use of Proceeds," "Industry Overview," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" in this offering memorandum. These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under "Risk Factors," which may cause our actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business strategies;
- our future business development, financial condition and results of operations;
- our ability to successfully integrate acquired businesses;
- our ability to maintain and enhance our market position;
- our ability to develop new product lines and expand market share;
- the future of the construction machinery industry in China and overseas;
- competition from domestic and international construction machinery manufacturers;
- our beliefs as to the price and availability of our raw materials, parts, components and utilities;
- our ability to increase manufacturing capacity and efficiency;
- our ability to attract additional dealers, end users and other customers and maintain relationships with our existing dealers, end users and other customers;
- our beliefs as to market demand of our products;
- our beliefs as to our ability to make strategic acquisitions and investments to establish and maintain strategic relationships;
- our ability to maintain inventory levels that approximate the demand for our products;
- our ability to effectively protect our intellectual property and trade secrets and not infringe on the intellectual property and trade secrets of others;

- our ability to comply with environmental regulations;
- our ability to obtain the necessary permits, licenses, registrations and certificates to carry on our business;
- our dividend policy;
- our capital expenditure plans; and
- general economic and business condition in the countries in which we operate.

The words "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "seek," "will," "would" and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, including but not limited to:

- any changes in the laws, rules and regulations of the central and local governments in the People's Republic of China (the "PRC" or "China") and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business;
- general economic, market and business condition in the PRC;
- macroeconomic policies of the PRC government;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;
- the effects of competition in the construction machinery industry on the demand for and price of our products;
- various business opportunities that we may pursue; and
- the risk factors discussed in this offering memorandum as well as other factors beyond our control.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this offering memorandum, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this offering memorandum might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this offering memorandum are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in the section headed "Risk Factors" in this offering memorandum.

## ENFORCEABILITY OF FOREIGN JUDGMENTS AND CIVIL LIABILITIES

We are incorporated in the PRC with limited liability. Most of our assets are located in the PRC. In addition, except our independent director Mr. Qian Shizheng, our directors and officers are residents of the PRC, where substantially all of their assets may be located. As a result, it may be difficult for investors to effect service of process upon us or such persons, or to enforce against us or such persons judgments obtained in courts or arbitral tribunals outside the PRC, including judgments predicated upon the civil liability provisions of the U.S. federal or state securities laws.

Since 1979, the PRC government has promulgated laws and regulations in relation to general economic matters such as foreign investment, corporate organization and governance, commerce, taxation, foreign exchange and trade, with a view towards developing a comprehensive system of commercial law. In particular, legislation over the past 30 years has significantly enhanced the protections afforded to various forms of foreign investment in the PRC. Where adequate law exists in the PRC, the enforcement of existing laws or contracts based on existing law may be nevertheless uncertain or sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. In addition, the PRC legal system is based on written statutes and their interpretations, and prior court decisions may be referenced but carry limited weight as precedents.

We have been advised by our PRC legal counsel, Fangda Partners, that there is uncertainty as to whether the courts of the PRC would:

(1) enforce judgments of the U.S. courts obtained against us or our directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States, or upon any other basis, and China does not have treaties for the reciprocal enforcement of judgments with the United States; or

(2) entertain original actions brought in the courts of the PRC, against us or our directors and officers predicated upon the federal securities laws of the United States or the securities laws of any state or territory within the United States.

Fangda Partners has further advised us that the recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on reciprocity between jurisdictions. China does not have any treaties or other agreements that provide for the reciprocal recognition and enforcement of foreign judgments with the United States. In addition, according to the PRC Civil Procedures Law, courts in the PRC will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates the basic principles of PRC law or national sovereignty, security or public interest. Therefore, it is uncertain whether a PRC court would enforce a judgment rendered by a court in the United States.

We have been advised by Simpson Thacher & Bartlett, our Hong Kong legal advisors, that the Hong Kong legislation on reciprocal enforcement of judgments does not apply to judgments obtained from

U.S. courts and that at present there is no written arrangement in place between Hong Kong and the United States for mutual enforcement of judgments. However, some judgments rendered by a court in the United States are enforceable in Hong Kong under common law if they meet certain criterion. Accordingly, there is no certainty as to whether a judgment rendered by a court in the United States could be enforced in Hong Kong.

## 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

We are a leading China-based construction machinery manufacturer providing diversified products, including concrete machinery, crane machinery and environmental and sanitation machinery, with a presence in Asia, Europe and other regions. We have one of the most diversified and comprehensive product offerings in China's construction machinery industry. We currently offer more than 900 models of machinery and equipment covering 98 different product types across 13 product lines. Our diversified and comprehensive product offerings position us well to take advantage of the future development of the domestic and overseas construction machinery markets. Moreover, we enjoy a leading market position across all of our core product lines in China, including concrete machinery and crane machinery, as well as our environmental and sanitation machinery lines. Our acquisition of Compagnia Italiana Forme Acciaio S.p.A., or CIFA, in 2008 also helped to position us to become a global leading concrete machinery manufacturer by strategically combining our leading market position in the large and fast-growing construction machinery market in China with CIFA's overseas operational and technological capabilities and extensive distribution and service network in Europe.

We currently own and operate a total of 13 specialized industrial parks, of which 12 are located in Hunan Province, Shaanxi Province and Shanghai Municipality, China and one located in Senago, Italy, specializing in the manufacture and assembly of different types of construction machinery. We also operate three specialized factories located in Liaoning Province, Sichuan Province and Guangdong Province, China. Furthermore, we plan to establish another specialized industrial park at Jiangyin, Jiangsu Province and a specialized factory in India through a joint venture with ElectroMech Material Handling System (India) Pvt. Ltd., or ElectroMech, a leading crane machinery manufacturer in India. These specialized industrial parks and factories allow us to manufacture and assemble different products in order to increase efficiency and enhance product quality. In addition, our large-scale operations enable us to achieve cost-effective manufacturing and maintain a reliable and high-quality supply chain. Our stringent quality control system ensures the high quality of our products, which is evidenced by various domestic and international certifications for our product quality, including the China Compulsory Certifications for product quality and safety from the China Quality Certification Center and the CE Certification for product quality from TüV Rheinland and TüV SüD, independent certification institutions based in Germany.

We market our products globally under our "Zoomlion" and "CIFA" brand names, each of which has strong customer recognition and loyalty because of the track-record of high quality and performance of the products sold under those two brands. Two of our trademarks were recognized as "Well-Known Trademarks" nationwide. Similarly, our "CIFA" brand has enjoyed strong brand recognition in Europe and globally through over 80 years of operational history and is associated with the introduction of the first truck-mounted concrete mixer pumps in the world. Both our Zoomlion line and CIFA line of products are sold through an extensive distribution network in China, covering more than 300 cities and all provinces and autonomous regions in China. We also sell our products to over 120 different countries through an established and extensive overseas distribution and service network. Our strong and established overseas distribution and service network also evidences our established presence in the overseas markets.

We have established a global research and development platform with facilities in China and Italy. We are a leading participant in the establishment of national and industry standards for construction machinery in China. We have contributed to the establishment of over 170 national and industry standards that are currently in effect, including the first industry standard for truck-mounted concrete pumps in China and the industry standard for chassis specially designed for truck cranes. In addition, our technology center has been jointly accredited as a national technology enterprise center by the National Development and Reform Commission, or the NDRC, the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation since 2005. We also own and operate the National Key Laboratory on Key Technologies for Construction Machinery, the only national key laboratory in China's construction machinery industry, as well as the National Engineering Technology Research and Development Center for Concrete Machinery, the only national concrete machinery engineering technology research and development center in the construction machinery industry.

We have experienced significant growth benefiting from China's ongoing urbanization. Our consolidated turnover increased from RMB20,762 million in 2009 to RMB46,323 million (US$7,371 million) in 2011, and our profit for the year increased from RMB2,419 million in 2009 to RMB8,173 million (US$1,300 million) in 2011. In the nine months ended September 30, 2012, our consolidated turnover increased to RMB39,108 million (US$6,222 million) from RMB33,207 million for the same period in 2011, and our profit for the period increased to RMB7,127 million (US$1,134 million) from RMB5,992 million for the same period in 2011. Our A Shares have been listed on the Shenzhen Stock Exchange since October 12, 2000 and our H Shares have been listed on The Stock Exchange of Hong Kong Limited, or the Hong Kong Stock Exchange, since December 23, 2010, respectively. On December 13, 2012, our market capitalization was approximately US$10.6 billion.

## RECENT DEVELOPMENTS

### Proposed Disposal of Our Subsidiary

On March 15, 2012, we passed a board resolution approving the disposal of 80% equity interest in Changsha Zoomlion Environmental and Sanitation Machinery Co., Ltd. (the "ESM Company") by way of public tender. The public tender commenced on March 23, 2012, where the notice publication period for intended transferees to submit transfer applications would be consecutively extended for a period of five business days until December 31, 2012. As of the date of this offering memorandum, we have not received any official bid yet. See "Our History and Corporate Structure — Proposed Disposal of Our Subsidiary".

### Joint Venture in India

In August 2012, we entered into a joint venture agreement with ElectroMech, a leading crane machinery manufacturer in India, to establish a subsidiary in which we will own a 70% interest. Under the joint venture agreement, we will have control over the subsidiary. The principal activity of this subsidiary will be manufacturing of tower cranes, which we plan to sell in India. See "Our History and Corporate Structure — Our History".

**Solicitation of Consents to Amend an Existing Indenture**

The indenture (the "2017 Notes Indenture") governing the Issuer's 6.875% Notes due 2017 (the "2017 Notes") restricts the Issuer from incurring any additional indebtedness other than any additional 2017 Notes. The Issuer is currently conducting a consent solicitation (the "Consent Solicitation") to approve amendments (the "Proposed Amendment") to the 2017 Notes Indenture to allow it to incur indebtedness in addition to the existing 2017 Notes, whether through bank loans or the issuance of notes of one or more series. The Proposed Amendment provides that the Issuer shall not carry on any business activities other than the offering, sale or issuance of indebtedness and the advance of the proceeds thereof to the Company, any of the Company's subsidiaries or a company otherwise controlled by the Company and any other activities in connection therewith. The Issuer will make a cash payment (the "Consent Payment") of $2 per $1,000 in aggregate principal amount of the 2017 Notes held by each holder of the 2017 Notes who has validly consented to the Proposed Amendment at or prior to 11:00 p.m., New York City time, on December 13, 2012 (the "Expiration Date"), in accordance with the terms and conditions of the Consent Solicitation. The Issuer anticipates that, promptly after receipt of a majority in aggregate principal amount of all outstanding 2017 Notes voting as a single class (the "Requisite Consents") prior to the Expiration Date, the Issuer will give notice to the trustee under the 2017 Notes Indenture that the Requisite Consents have been obtained and the Issuer, the Company and such trustee will execute a supplemental indenture (the "Supplemental Indenture") to the 2017 Notes Indenture (such time, the "Effective Time"). The Supplemental Indenture will become effective at the Effective Time and shall thereafter bind every holder of the 2017 Notes; however, the Proposed Amendment will only become operative after the Company makes the Consent Payments to such holders who have consented in accordance with the terms and conditions of the Consent Solicitation.

The consummation of the Consent Solicitation (including the payment of the Consent Payment) is conditioned on (1) the Requisite Consents being received by the information and tabulation agent in the Consent Solicitation at or prior to the Expiration Date; (2) the Supplemental Indenture being executed and becoming effective; and (3) the absence of any existing or proposed law or regulation that would, and the absence of any injunction or action or other proceeding (pending or threatened) that (in the case of any action or proceeding, if adversely determined) would, make unlawful or invalid or enjoin or delay the implementation of the Proposed Amendment, the entering into of the Supplemental Indenture or the payment of any Consent Payment or question the legality or validity of any thereof. The consummation of this offering is, in turn, conditioned upon the execution and delivery of the Supplemental Indenture and the Proposed Amendment becoming operative in accordance with the terms of the Supplemental Indenture.

The Issuer may, in its discretion, (1) extend or amend the Expiration Date, from time to time, until the Requisite Consents for the Proposed Amendment have been obtained, (2) waive in whole or in part any conditions to the Consent Solicitation, (3) terminate the Consent Solicitation at any time, whether or not the Requisite Consents have been received and (4) amend the Consent Solicitation at any time, whether or not the Requisite Consents have been received.

This offering memorandum is not a solicitation of consents with respect to the Proposed Amendment or any securities. No recommendation is being made as to whether holders of the 2017 Notes should consent to the Proposed Amendment. The Consent Solicitation is made only by and pursuant to the terms of the Consent Solicitation Statement, dated December 3, 2012, and the related Letter of Consent, as such may be amended or supplemented.

**OUR COMPETITIVE STRENGTHS**

- Leading China-based Construction Machinery Manufacturer with an Established Global Presence and Strong Brand Recognition;

- Comprehensive Product and Service Offerings and Systematic Solutions;

- Leading Developer and Setter of Industry Standards in China with Innovation Capabilities;

- Highly Competitive Cost Structure and Product Quality Control System;

- Extensive and Effective Distribution and Service Network Providing Value-added Services;

- Proven Ability to Acquire and Integrate Strategic Targets to Augment Our Growth; and

- Experienced Management Team with Proven Track Record and Strong Corporate Governance.

**OUR BUSINESS STRATEGIES**

- Solidify and Strengthen Our Leading Market Position in China;

- Strategically Expand Our Global Presence in Diverse Overseas Markets;

- Enhance Our Global Research and Development Platform and Efforts;

- Continue to Broaden Our Product Offerings and Strengthen Our Manufacturing Capabilities; and

- Prudently Manage the Expansion of Our Finance Lease Services.

## SUMMARY FINANCIAL INFORMATION

The following summary historical consolidated balance sheet data as of December 31, 2009, 2010 and 2011 and summary historical consolidated statement of comprehensive income data and summary historical consolidate cash flow data for the years ended December 31, 2009, 2010 and 2011 have been derived from our audited consolidated financial statements included elsewhere in this offering memorandum. The following summary historical consolidated balance sheet data as of September 30, 2012 and the summary historical consolidated statements of comprehensive income data and summary historical consolidated cash flow data for the nine months ended September 30, 2011 and 2012 have been derived from our unaudited interim consolidated financial statements included elsewhere in this offering memorandum. We have prepared the unaudited interim consolidated financial statements on the same basis as our audited consolidated financial statements. The unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair presentation of our financial position and results of operations for the periods presented.

You should read the summary financial information below in conjunction with those financial statements and related notes and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this offering memorandum. Our consolidated financial statements are prepared and presented in accordance with IFRS. Our historical results do not necessarily indicate our results expected for any future period.

***Summary Historical Consolidated Statement of Comprehensive Income Data***

| | Year Ended December 31, | | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | | 2011 | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | RMB | US$ |
| | (in millions except for percentage) | | | | | | |
| Turnover | 20,762 | 32,193 | 46,323 | 7,371 | 33,207 | 39,108 | 6,222 |
| Cost of sales and services | (15,422) | (22,424) | (31,316) | (4,983) | (22,532) | (25,644) | (4,080) |
| Gross profit | 5,340 | 9,769 | 15,007 | 2,388 | 10,675 | 13,464 | 2,142 |
| Gross margin(1) | 25.7% | 30.3% | 32.4% | 32.4% | 32.1% | 34.4% | 34.4% |
| Operating expenses | (2,322) | (4,056) | (5,419) | (862) | 3,681 | 4,690 | 746 |
| Profit from operations | 3,123 | 5,767 | 9,602 | 1,528 | 7,067 | 8,652 | 1,377 |
| Operating margin(2) | 15.0% | 17.9% | 20.7% | 20.7% | 21.3% | 22.1% | 22.1% |
| Profit before taxation | 2,828 | 5,416 | 9,602 | 1,528 | 7,081 | 8,302 | 1,321 |
| Profit for the year / period | 2,419 | 4,588 | 8,173 | 1,300 | 5,992 | 7,127 | 1,134 |
| Net margin(3) | 11.7% | 14.3% | 17.6% | 17.6% | 18.0% | 18.2% | 18.2% |
| Profit attributable to: | | | | | | | |
| Equity shareholders of the Company | 2,447 | 4,666 | 8,066 | 1,283 | 5,961 | 6,960 | 1,107 |
| Non-controlling interests | (28) | (78) | 107 | 17 | 31 | 167 | 27 |

(1) Gross margin represents gross profit divided by turnover.

(2) Operating margin is calculated by dividing profit from operations by turnover.

(3) Net margin is calculated by dividing profit for the year/period by turnover.

*Summary Historical Consolidated Balance Sheet Data*

| | As of December 31, | | | | As of September 30, | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | US$ |
| | | | (in millions) | | | |
| **Assets** | | | | | | |
| Non-current assets | 13,861 | 19,372 | 23,701 | 3,771 | 29,141 | 4,637 |
| Current assets | 20,014 | 43,670 | 47,842 | 7,612 | 57,739 | 9,187 |
| **Total assets** | **33,875** | **63,042** | **71,543** | **11,383** | **86,880** | **13,824** |
| **Liabilities and equity** | | | | | | |
| Current liabilities | 19,468 | 26,067 | 26,652 | 4,241 | 35,212 | 5,603 |
| Non-current liabilities | 6,855 | 9,540 | 9,296 | 1,478 | 10,942 | 1,741 |
| Total liabilities | 26,323 | 35,607 | 35,948 | 5,719 | 46,154 | 7,344 |
| Total equity | 7,552 | 27,435 | 35,595 | 5,664 | 40,726 | 6,480 |
| **Total liabilities and equity** | **33,875** | **63,042** | **71,543** | **11,383** | **86,880** | **13,824** |

*Summary Historical Consolidated Cash Flow Data*

| | Year Ended December 31, | | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | | 2011 | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | RMB | US$ |
| | | | | (in millions) | | | |
| Net cash (used in) / generated from operating activities | (1,366) | 451 | 1,880 | 299 | 914 | (3) | — |
| Net cash used in investing activities | (1,360) | (1,833) | (1,287) | (205) | (1,752) | (1,859) | (296) |
| Net cash generated from / (used in) financing activities | 3,250 | 16,755 | (3,275) | (521) | 835 | 2,449 | 389 |
| Net increase / (decrease) in cash and cash equivalents | 524 | 15,373 | (2,682) | (427) | (3) | 587 | 93 |
| Effect of foreign exchange rate changes | 2 | (54) | (74) | (12) | (98) | 5 | 1 |
| Cash and cash equivalents at the beginning of the year/period | 2,913 | 3,439 | 18,758 | 2,985 | 18,758 | 16,002 | 2,546 |
| Cash and cash equivalents at the end of the year/period | 3,439 | 18,758 | 16,002 | 2,546 | 18,657 | 16,594 | 2,640 |

*Other Financial Data*

| | As of or For the Year Ended December 31, | | | | As of or For the Nine Months Ended September 30, | | As of or For the 12 Months Ended September 30,[1] | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | | 2012 | | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | US$ | RMB | US$ |
| | (in millions, unless otherwise stated) | | | | | | | |
| EBITDA[2][9] | 3,452 | 6,182 | 10,058 | 1,600 | 9,027 | 1,436 | 11,677 | 1,858 |
| EBITDA margin[3][9] (%) | 16.6% | 19.2% | 21.7% | 21.7% | 23.1% | 23.1% | 22.4% | 22.4% |
| Interest on loans and borrowings | 372 | 403 | 513 | 82 | 582 | 93 | 734 | 117 |
| Total debt[4] | 14,174 | 15,797 | 13,138 | 2,090 | 17,923 | 2,852 | 17,923 | 2,852 |
| Net debt / (net cash)[5][9] | 10,735 | (2,961) | (2,864) | (456) | 1,329 | 212 | 1,329 | 212 |
| Interest coverage ratio[6][9] (x) | 9.3x | 15.3x | 19.6x | 19.6x | 15.5x | 15.5x | 15.9x | 15.9x |
| Leverage ratio[7][9] (x) | 4.1x | 2.6x | 1.3x | 1.3x | n.m.[10] | n.m.[10] | 1.5x | 1.5x |
| Net debt / (net cash) to EBITDA ratio[8][9] (x) | 3.1x | (0.5)x | (0.3)x | (0.3)x | n.m.[10] | n.m.[10] | 0.1x | 0.1x |

(1) The financial data for the 12 months ended September 30, 2012 is calculated by subtracting the amount for the nine months ended September 30, 2011 from the amount for 2011, and then adding the amount for the nine months ended September 30, 2012.

(2) EBITDA is calculated from profit from operations, plus depreciation and amortization.

(3) EBITDA margin is calculated by dividing EBITDA by turnover.

(4) Total debt is the sum of short-term and long-term loans and borrowings.

(5) Net debt/(net cash) is calculated by subtracting cash and cash equivalents from total debt.

(6) Interest coverage ratio is calculated by dividing EBITDA by interest on loans and borrowings.

(7) Leverage ratio is calculated by dividing total debt by EBITDA.

(8) Net debt/(net cash) to EBITDA ratio is calculated by dividing net debt/(net cash) by EBITDA.

(9) We have presented various non-GAAP items because we consider them important supplemental measures of our operating performance and believe they are frequently used by analysts, investors and other interested parties in the evaluation of companies in our industry. Our management uses these non-GAAP items as additional measurement tools for purposes of business decision-making. Other companies in our industry may calculate these non-GAAP items differently than we do. These non-GAAP items are not measures of operating performance or liquidity under IFRS and should not be considered as substitutes for, or superior to, operating income or cash flow from operating activities in accordance with IFRS. These non-GAAP items have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results as reported under IFRS. Our presentation of these non-GAAP items should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

(10) Not meaningful.

The following table sets forth the reconciliation of profit from operations to EBITDA:

| | Year Ended December 31, | | | | Nine Months Ended September 30, | | 12 Months Ended September 30, | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | | 2012 | | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | US$ | RMB | US$ |
| | (in millions) | | | | | | | |
| Profit from operations | 3,123 | 5,767 | 9,602 | 1,528 | 8,652 | 1,377 | 11,187 | 1,780 |
| Depreciation and amortization | 329 | 415 | 456 | 72 | 375 | 59 | 490 | 78 |
| EBITDA | 3,452 | 6,182 | 10,058 | 1,600 | 9,027 | 1,436 | 11,677 | 1,858 |

The following table sets forth the calculation of our total debt and net debt/(net cash):

| | As of December 31, | | | | As of September 30, | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | US$ |
| | (in millions) | | | | | |
| Short-term loans and borrowings | 8,553 | 8,107 | 6,049 | 962 | 9,263 | 1,474 |
| Long-term loans and borrowings | 5,621 | 7,690 | 7,089 | 1,128 | 8,660 | 1,378 |
| Total debt | 14,174 | 15,797 | 13,138 | 2,090 | 17,923 | 2,852 |
| Cash and cash equivalents | (3,439) | (18,758) | (16,002) | (2,546) | (16,594) | (2,640) |
| Net debt/(net cash) | 10,735 | (2,961) | (2,864) | (456) | 1,329 | 212 |

The following table sets forth the calculation of our interest coverage ratio:

| | Year Ended December 31, | | | | Nine Months Ended September 30, | | 12 Months Ended September 30, | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | | 2012 | | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | US$ | RMB | US$ |
| | (in millions, unless otherwise stated) | | | | | | | |
| EBITDA | 3,452 | 6,182 | 10,058 | 1,600 | 9,027 | 1,436 | 11,677 | 1,858 |
| Interest on loans and borrowings | 372 | 403 | 513 | 82 | 582 | 93 | 734 | 117 |
| Interest coverage ratio (x) | 9.3x | 15.3x | 19.6x | 19.6x | 15.5x | 15.5x | 15.9x | 15.9x |

## 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".*

| | |
|---|---|
| **Issuer** | Zoomlion H.K. SPV Co., Limited |
| **Notes offered** | US$600,000,000 aggregate principal amount of 6.125% Senior Notes due 2022 |
| **Maturity** | December 20, 2022 |
| **Interest** | 6.125% per annum |
| **Interest payment dates** | June 20 and December 20 of each year, beginning on June 20, 2013. |
| **Guarantee** | The Notes will be fully, unconditionally and irrevocably guaranteed by Zoomlion Heavy Industry Science and Technology Co., Ltd. |
| **Ranking** | The Notes will:<br>• rank equally in right of payment with all the Issuer's and our other present and future senior unsecured indebtedness;<br>• be effectively subordinated to all of the Issuer's and our present and future secured indebtedness to the extent of the value of the collateral securing such obligations; and<br>• be senior to all of the Issuer's and our present and future subordinated obligations.<br>The Guarantee will be structurally subordinated to all the present and future indebtedness and other liabilities of the Issuer's and our subsidiaries. |

As of September 30, 2012, the Issuer had outstanding 2017 Notes of RMB2,483 million, and we had unsecured loans and borrowings of approximately RMB13,935 million (US$2,216 million) (excluding the guaranteed senior notes) that rank equally with the Notes, and we had outstanding secured loans and borrowings of approximately RMB1,505 million (US$239 million).

**Optional Redemption** .............. The Issuer may at its option redeem the Notes at any time, in whole or in part, at a price equal to 100% of the principal amount of such Notes plus a "make-whole premium" and accrued and unpaid interest, if any, to but excluding the redemption date. See "Description of the Notes — Optional Redemption".

**Change of Control** .................. Upon the occurrence of a Change of Control (as defined in "Description of the Notes"), the Issuer will be required to make an offer to purchase the Notes at a price equal to 101% of their principal amount plus accrued and unpaid interest to but excluding the date of repurchase. See "Description of the Notes — Repurchase upon Change of Control".

**Covenants** ........................ The indenture under which the Notes will be issued (the "Indenture") contains covenants for your benefit. These covenants restrict the Issuer's and our ability to:

- create certain liens; and
- consolidate, merge or transfer all or substantially all of the Issuer's and our assets and the assets of the Issuer's and our subsidiaries on a consolidated basis.

These covenants are, however, subject to important exceptions and qualifications, which are described in this offering memorandum. For a more detailed description, see "Description of the Notes" in this offering memorandum.

**Additional Amounts** ............... 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 any jurisdiction through which payment is made, 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, subject to certain exceptions, the Issuer, the Guarantor or a successor entity, as the case may be, will pay such additional amounts 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. See "Description of the Notes — Taxation." |
| **Optional Tax Redemption** .......... | The Issuer may redeem the Notes, in whole but not in part, at a price equal to 100% of their principal amount plus accrued and unpaid interest to but excluding the date of redemption, if it becomes obligated to pay certain withholding taxes on the Notes as a result of a change in law, as further described in "Description of the Notes — Optional Tax Redemption." |
| **Issuance of Additional Notes** ........ | The Issuer may create and issue additional Notes ranking equally and ratably with the Notes in all respects, so that such additional Notes shall be consolidated and form a single series with the presumably outstanding Notes, including for purposes of voting and redemptions. |
| **Conditions** ....................... | The consummation of this offering is conditioned upon, among other things, the execution and delivery of the Supplemental Indenture and the Proposed Amendment becoming operative in accordance with the terms of the Supplemental Indenture. |
| **Form and Denomination** ........... | The Notes will be issued in fully registered form in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. |
| **Use of Proceeds** .................. | The net proceeds we expect to receive from this offering, after deducting underwriting discounts and estimated offering expenses, will be approximately US$591.6 million. We intend to use the net proceeds of this offering to fund our overseas expansion plan, including enhancing our distribution and service network and establishing research and development centers and manufacturing facilities. See "Use of Proceeds." |
| **Listing** .......................... | The Notes will be listed on the SGX-ST. |

| | |
|---|---|
| **Transfer Restrictions** . . . . . . . . . . . . . . | The Notes have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any state or other jurisdiction. The Notes are subject to restrictions on transfer and resale that are described under "Transfer Restrictions." |
| **Trustee; Principal Paying and Transfer Agent and Registrar** . . . . . . . . . . . . . . . . . . | The Bank of New York Mellon will act as trustee and principal paying and transfer agent. The Bank of New York Mellon, Hong Kong Branch will act as registrar. |
| **Governing law** . . . . . . . . . . . . . . . . . . . . | New York |
| **Risk factors** . . . . . . . . . . . . . . . . . . . . . . | See "Risk Factors" and other information contained or incorporated by reference in this offering memorandum for a discussion of factors you should consider carefully before investing in the Notes. |

# 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

***We may be unable to effectively manage the supply and the quality of our raw materials, parts and components.***

Our manufacturing outputs are highly dependent upon reliable and sufficient sources of high-quality raw materials, parts and components. Although we have acquired domestic parts and components manufacturers in recent years to strengthen our supply chain for hydraulic pumps, cylinders and valves, our current in-house manufacturing capacity does not meet our production demands. Therefore, we had to source from other third-party suppliers in China from time to time, even though such suppliers may not always be able to produce the components that meet our quality standards, or from overseas third party suppliers, whose products are generally more costly than domestic suppliers. We procure our raw materials and certain types of parts and components, including hydraulic pumps, valves and cylinders and chassis, from both domestic and overseas suppliers. We do not maintain significant inventories of raw materials, parts and components in our facilities, nor do we have long-term supply agreements with most of our suppliers. In the first half of 2008, we experienced shortage in imported steel and hydraulic pumps, cylinders and valves, which negatively affected our operations. However, as a result of the global financial crisis beginning in the second half of 2008 and an increase in the percentage of in-house production of certain key parts and components and the strategic cooperation framework agreements we entered into with our suppliers, we had not experienced any shortage of raw materials, parts and components that could have materially and adversely affected our operation since the second half of 2008. Although we generally have multiple suppliers for most of our raw materials, parts and components, certain raw materials, parts and components such as imported high-strength steel and branded chassis, can only be sourced from a limited number of suppliers in the market. Furthermore, certain parts and components are manufactured based on each individual product's specifications and cannot be used in other products. As a result, our ability to source certain parts and components from alternative suppliers is further limited. Even if alternative supply sources can be found, their supply may not be cost-effective and of the same quality. For example, there are a relatively small number of suppliers in China who are able to provide high quality hydraulic pumps, cylinders and valves, all of which are key components for many of our products, including our concrete machinery and our crane machinery. As a result, we are subject to supply shortages for such components from time to time. A shortage in any of our key raw materials, parts and components may increase our manufacturing lead time for our products and result in significant strain on our manufacturing outputs and may result in the decrease of the product quality, which could harm our reputation, reduce our sales or gross margins, and cause us to lose market share. Any of the above could materially and adversely affect our business, financial condition and results of operations.

***We provide our customers with various payment options, including installment payment options, financial guarantees and finance lease services, which expose us to additional risks and uncertainties.***

The availability of various payment options is an important factor affecting demand for our products. We currently provide certain customers with full payment or installment payment options, or provide financial guarantees for bank loans of such customers that are used to purchase our products. In addition, starting in 2007, we began to offer finance lease services directly to our customers in China via our subsidiary Zoomlion Finance and Leasing (Beijing) Co., Ltd. ("Beijing Zoomlion Leasing"). We established Zoomlion Capital (H.K.) Co., Limited ("Zoomlion Capital (H.K.)") in 2008 to expand our finance lease services overseas and Zoomlion Finance and Leasing (China) Co., Ltd. ("Zoomlion Finance and Leasing (China)") in 2009 to further expand our finance lease services in China, and we have also obtained the relevant licenses and/or permits in China, Hong Kong, Australia, Italy, Russia and South Africa to provide finance lease services in those jurisdictions.

These payment options, however, may expose us to additional risks and uncertainties, such as credit risk resulting from default by customers on the payments under various payment options and market risk resulting from the fluctuation in interest rates. These payment options may also expose us to liquidity risk resulting from our reliance on cash flow from factoring of receivables under finance lease, borrowing and loans and securities offering, as well as a potential inability to obtain suitable and stable capital sources because of any potential significant negative cash flow from operating activities. The provision of financial guarantee services may also expose us to various contingent liabilities depending on our customers' ability to pay and default rate. Although we have floating interest rate arrangements in our finance lease contracts for minimizing our exposure to fluctuation of market interest rates, there can be no assurance that our exposure to fluctuation of interest rates can be fully covered. Furthermore, such risks and uncertainties may be exacerbated as we begin to extend our finance lease services to our customers overseas, given our limited experience in providing such services in the overseas markets. In order to expand our finance lease services in the overseas markets, we also need to strengthen our local capabilities by, for example, hiring and relying on professionals and experts familiar with local finance lease practices, who may not be available on favorable terms or at all.

The risks and uncertainties for various payment options, including full payment, installment payments, financial guarantees and finance lease services, could become more acute in times of an economic slowdown or recession and may result in increased delinquencies, foreclosures and losses. Litigation and servicing costs may also increase as a result. In the event of such delinquencies or foreclosures, equipment for which the customer defaults on relevant payments is typically repossessed. Under our non-recourse factoring agreements, we have agreed to repurchase equipment at fair market value from banks to which we factored our receivables upon repossession of the equipment under the relevant finance lease by such banks. We may not be able to sell the repossessed or repurchased equipment at fair market value. During economic slowdowns or recessions, the demand for used construction machinery may decrease and we may not be able to sell the repossessed equipment at a reasonable price, if at all. As of December 31, 2009, 2010, 2011 and September 30, 2012, the amounts of overdue receivables under finance leases were RMB94 million, RMB422 million, RMB464 million (US$74 million) and RMB1,554 million (US$247 million), respectively. Overdue receivables refer to those amounts as to which any payment or part thereof remains unpaid after the relevant payment due date, including receivables that are overdue for only one day. If we are not able to manage the credit risks, market risks, liquidity risks and other risks associated with finance lease services and/or other payment options, our financial condition, results of operations and cash flow may be materially and adversely affected.

***Certain of our products are sold through third-party dealers and the failure to maintain relationships with our existing dealers, attract additional dealers or effectively manage our dealers may materially and adversely affect our business.***

Certain of our products are sold through third-party dealers. Going forward, as part of our growth strategy, we will increase the use of third-party dealers in China. Many of our dealers also provide after-sales services to our customers. We typically enter into one-year agreements with our domestic dealers and one- to two-year agreements with our international dealers. As our existing agreements expire, we may be unable to renew these agreements with our dealers on favorable terms or at all. Competition for dealers is intense, as we must compete for dealers in China and internationally with other leading construction machinery manufacturers. Such competitors may benefit from higher visibility, greater brand recognition and financial resources and a broader product offering than we do, providing them with a competitive advantage in securing dealers. Our competitors may also enter into long-term and/or exclusive agreements that effectively prevent their dealers from selling our products. Consequently, engaging new dealers, maintaining relationships with existing dealers and replacing dealers can be difficult, disruptive to our operations and time-consuming. Any disruption to our distribution network, including a failure on our part to renew our existing agreements with our preferred dealers or to attract new dealers, could negatively affect our ability to effectively sell our products, provide adequate and timely after-sales services to our customers, which would materially and adversely affect our business, financial condition, results of operations and prospects.

We have limited ability to manage and control the activities of those of our dealers who are independent from us. Such dealers could take certain actions that potentially have a material and adverse effect on our brands, reputation, business and prospects, such as selling products that compete with our products, focusing only on the sales of those products that provide them with higher margins or commissions thus undermining our efforts to maintain a well-balanced portfolio of our products, selling our products outside their designated territory, failing to adequately promote our products and to provide proper training and after-sales services to our customers or conducting their business in violation of the relevant laws or regulations in their respective jurisdictions. Our reputation, business or prospects could be adversely affected as a result of any improper or illegal actions taken by our dealers.

***We recorded negative operating cash flow in 2009 and the nine months ended September 30, 2012 and there can be no assurance that we will record positive operating cash flow in the future.***

We recorded negative operating cash flow of RMB1,366 million in 2009, which was primarily attributable to increases in our receivables under finance lease, which were the result of a significant increase in sales of our machinery products under finance lease arrangement. Our finance lease contracts typically have a term of two to four years and lease payments to which we are entitled but have not yet received are accounted as receivables under finance lease. Although we aim to prudently manage the expansion of our finance lease services, and we will be gradually collecting the lease payments, there can be no assurance that we will be able to fully collect the receivables under finance lease. Beginning in the fourth quarter of 2010, we have increased the use of non-recourse factoring terms that meet the conditions for de-recognition of financial assets to obtain cash. As a result, the cash proceeds obtained through such non-recourse factoring terms were presented as cash flow from operating activities. Therefore, we began to record net cash inflow from operating activities in 2010 and continued to recorded net cash inflow from operating activities in 2011. However, there can be no assurance that we will be able to successfully factor our receivables under finance lease under reasonable commercial terms, or at all. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting our Financial Condition and Results of Operations — Our Ability to Effectively Manage our Finance Lease Services" and " — Liquidity and Capital Resources — Operating Activities."

In the nine months ended September 30, 2012, we recorded negative operating cash flow of RMB3 million (US$477 thousand), primarily as a result of an increase in the balance of our trade receivables. This was primarily attributable to an increase in sales of products with installment payment option both in absolute terms and as a percentage of our total product sales, which was due to the prevailing market condition in China. In addition, we typically strengthen our collection efforts during the fourth quarter of a year. While we have established a collection center at our headquarters and have implemented various measures, including incentive schemes for our personnel responsible for collecting receivables, there can be no assurance that we will be able to fully collect our trade receivables. In addition, there can be no assurance that we will generate sufficient net cash inflow from our operations in the future. If we are unable to continuously finance our operations by funds generated from our operating activities or otherwise, our operations and financial positions could be materially and adversely affected.

Moreover, significant corporate transactions or reorganizations, such as an acquisition or a disposal, may also have an impact on our liquidity and cashflows. As part of our strategy to focus our efforts on our core business of manufacturing construction machinery, on March 15, 2012, we passed a board resolution to dispose of 80% equity interest in one of our wholly-owned subsidiaries principally engaged in our environmental and sanitation business, by way of a public tender at a tender price of not less than RMB2,783.0561 million representing 80% of the appraised value of such subsidiary as at February 29, 2012. See "Our History and Corporate Structure — Proposed Disposal of Our Subsidiary". While we believe the proposed disposal will help us focus on our core products and business and rationalize our resources allocation, if we are unable to successfully expand our core products and businesses to make up for the loss in revenues from our environmental and sanitation business, such disposal could have a material adverse effect on our results of operations, financial condition and cashflows.

***Certain of our products are manufactured and assembled by third-party contractors, and a failure to successfully manage our relationships with our third-party contractors could adversely affect our ability to market and sell our products.***

Starting in 2010, we have increased the use of third-party contractors to manufacture and assemble our products. Reliance on third parties for manufacturing, assembling and testing capabilities presents significant risks to us, including the following:

- limited control over delivery schedules, quality assurance, manufacturing yields and production costs;

- potential failure to obtain, or delay in obtaining key process technologies;
- capacity shortages during periods of high demand;
- shortages of materials;
- misappropriation of our intellectual property; and
- potential increases in prices.

The ability and willingness of our third-party contractors to adequately perform is largely outside our control. If one or more of these contractors or other outsourcers fails to perform its obligations in a timely manner or at satisfactory quality levels, our ability to bring products to market and our reputation could suffer. For example, in the event that manufacturing capacity becomes constrained at one or more third-party facilities, we could face difficulties in fulfilling our customers' orders and our total turnover could decline. In addition, if these third parties fail to deliver quality products and components to us on time and at reasonable prices, we could face difficulties in fulfilling our customers' orders, our total net operating revenues could decline and our business, financial condition and results of operations would be adversely affected.

***We face risks associated with the expansion of our scale of operations globally, and if we are unable to effectively manage these risks, they could impair our ability to expand our business abroad.***

As part of our growth strategy, we plan to expand our scale of operations globally, including establishing more manufacturing facilities overseas and strengthening our distribution and service network overseas. In particular, we entered into a joint venture agreement to establish a subsidiary in India, and we plan to establish additional manufacturing facilities in Russia and Brazil. As we continue to grow our business and expand our operations globally, we will continue to enter into or develop markets in which we have limited or no experience and in which our brands may be less recognized. The expansion exposes us to a number of risks, including:

- difficulty in managing multinational operations;
- difficulty with staffing and managing overseas operations, including managing an increasing number of employees on a global basis and complying with the various labor regulatory requirements of the different jurisdictions;
- fluctuations in currency exchange rates;
- increased costs associated with setting-up and maintaining marketing and selling efforts, establishing overseas offices providing adequate after-sales services and timely delivery of parts and components in various countries;
- difficulty in securing dealers with strong local presence;

- challenges in providing customer services and support in these markets;
- challenges in managing our sales channels and overseas distribution network effectively;
- unexpected transportation delays or interruptions or increases in international transportation costs;
- difficulties in and costs of exporting products overseas while complying with the different commercial, legal and regulatory requirements of the overseas markets in which we offer our products;
- additional product liability exposure due to different legal systems in overseas markets;
- failure to establish appropriate risk management and internal control structures tailored to overseas operations;
- difficulty in collecting receivables from international customers;
- difficulty in ensuring the compliance of our dealers and customers with the sanctions imposed by the office of Foreign Assets Control, or the OFAC, an office within the United States Department of the Treasury, on various foreign states, organizations and individuals;
- inability to obtain, maintain or enforce intellectual property rights;
- inability to effectively enforce contractual or legal rights or intellectual property rights in certain jurisdictions under which we operate;
- changes in a specific country or region's political or economic conditions or policies;
- unanticipated changes in prevailing economic conditions, local market conditions and regulatory requirements; and
- governmental policies favoring domestic companies in certain foreign markets or trade barriers including export requirements, tariffs, taxes and other restrictions and charges. These government policies or trade barriers could increase the prices of our products and make us less competitive in such countries.

If we are unable to effectively manage these risks, our ability to expand our business abroad will be impaired, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

***Our future growth depends in part on our ability to successfully identify and make strategic acquisitions, integrate them into our existing business operations and to establish and maintain strategic relationships. The failure to do so could have a material and adverse effect on our current and future business operations.***

As part of our growth strategy, we have made strategic acquisitions in the past and we expect to make such strategic acquisitions in the future. For example, in 2008, we acquired CIFA, a concrete machinery manufacturer based in Italy, as part of our strategy to grow our business globally and to expand our concrete machinery product offerings. We also acquired four domestic companies and their respective subsidiaries in 2008 and 2009 as part of our ongoing efforts to increase our product offerings and manufacturing capacity. In addition to engaging in strategic acquisitions, we may also make investments in joint ventures and establish and maintain strategic relationships with third parties. We may engage in such activities in order to gain expertise in the performance of certain manufacturing and logistical activities, obtain access to raw materials, parts and components, expand our existing manufacturing capacity, support our marketing and sales activities, expand our product portfolio or services, or enter into new markets. We cannot assure you, however, that we will be able to successfully make such strategic acquisitions and investments or establish strategic relationships with third parties that will prove to be beneficial to our business. Any failure in this regard could have a material and adverse effect on our market penetration, turnover growth and profitability. In addition, strategic acquisitions, investments and establishing and maintaining relationships with third parties could subject us to a number of risks, including disputes and disagreements with joint venture or strategic relationship partners, as well as defaults and breaches under the relevant joint venture or shareholders' agreements.

In addition, the integration of the operations and corporate culture of any acquired business requires significant efforts, including the integration of accounting and internal control systems, consolidation of information technology systems, alignment of manufacturing, sales and distribution networks, and the reallocation of research and development and financial resources. Our efforts to integrate the operations of any acquired business, such as CIFA, with our existing operations and our ability to execute integration plans for an acquired business may be affected and in some cases even limited by applicable laws and regulations. Successful integration of acquired businesses depends in part on our ability to manage the combined operations, to realize opportunities for turnover growth presented by broader product offerings and expanded geographic coverage and to eliminate redundant and excessive costs. Successful integration also requires us to manage the cultural and language related differences between various geographic locations and diverse organizational cultures. Furthermore, the integration of acquired businesses into our operations involves a number of other risks, including, but not limited to, demands on management and diversion of their attention; unforeseen or hidden liabilities, including exposure to unforeseen lawsuits or disputes associated with newly acquired companies or businesses; management of employee relations; and increases in regulatory compliance costs relating to the acquired businesses. If our integration efforts for any acquired businesses are not successful, we may not be able to realize the expected business and operational synergies, efficiencies and other benefits and our competitive position could suffer as a result. In addition, if we do not realize the expected synergies from our acquisitions or, if for any reason, our acquisitions do not perform as expected, we may incur unexpected impairment charges, which would have a material and adverse effect on our financial condition and results of operations.

***Our success depends in part on our ability to enhance our manufacturing capabilities, which is subject to risks and uncertainties.***

Our future success, in part, depends on our ability to enhance our manufacturing capabilities, which include expanding our manufacturing capacity, improving our manufacturing efficiency or modifying our manufacturing lines to meet the varying demands for our products. If we are unable to do so, we may not be able to achieve the desired level of economies of scale in our operations, to reduce manufacturing costs to the level that will allow us to compete effectively or to maintain our pricing and other competitive advantages. Our ability and efforts to enhance our manufacturing capabilities are subject to significant risks and uncertainties, including:

- our ability to obtain funding for the additional capital expenditures, working capital and other corporate requirements to be used to enhance our manufacturing capabilities. We may be unable to obtain such funds in a timely manner or on commercially reasonable terms or at all;

- unexpected delays and cost overruns resulting from a number of factors, many of which may be beyond our control. These include increases in the prices of raw materials, parts and components and utilities, shortages of workers, transportation constraints, disputes with contractors, engineering firms, construction firms and equipment vendors as well as equipment malfunctions and breakdowns;

- our ability to obtain the required permits, licenses and approvals from relevant government authorities;

- availability of the necessary technology or equipment from third parties or our internal research and development department;

- diversion of management attention and other resources; and

- manufacturing interruptions caused by natural disasters or other unforeseen events.

Our efforts to enhance our manufacturing capabilities may not achieve the expected benefits. In February 2010, we completed a non-public offering of our domestic shares that are listed on the Shenzhen Stock Exchange in the PRC and traded in Renminbi, with a nominal value of RMB1.00 each, or the A Shares. In December 2010, we completed a public offering of our ordinary shares that are listed on the Hong Kong Stock Exchange, with Renminbi denominated nominal value of RMB1.00 each, or the H Shares. We are using part of the proceeds from these offerings to further enhance our manufacturing capabilities, including improving our manufacturing capacity for key parts and components of crane machinery and excavators. We cannot assure you that the demand for our products will continue to increase, or remain at the current levels, which is affected by various factors beyond our control, including underlying economic conditions and market competitiveness. If the demand for our products is weaker than anticipated, we may experience problems associated with overcapacity and under-utilization of headcounts, which may have an adverse effect on our financial condition, results of operations and business.

***Failure to maintain inventory levels in line with the approximate level of demand for our products could cause us to lose sales or face excess inventory risks and holding costs, either of which could have a material adverse effect on our business, financial condition and results of operations.***

To operate our business successfully and meet our customers' demands and expectations, we must maintain a certain level of finished goods inventory for all of our products to ensure immediate delivery when required. Furthermore, we are required to maintain an appropriate level of inventory of our raw materials, parts and components for our manufacturing. However, forecasts are inherently uncertain. If our forecasted demands are lower than actual demands, we may not be able to maintain an adequate inventory level of our products or manufacture our products in a timely manner, and may lose sales and market share to our competitors. On the other hand, we may also be exposed to increased inventory risks due to accumulated excess inventory of our products or raw materials, parts and components for our products. We also record the equipment we repurchased as a result of our customers' defaults under the terms of the non-recourse factoring agreements with banks as our inventory. As a result, our inability to resell such repurchased equipment will result in an increase in our inventory level. Excess inventory levels may increase our inventory holding costs, risk of inventory obsolescence, markdown allowances or write-offs.

***Our research and development efforts may not yield the benefits that we expect and we may not be able to introduce market-leading products and maintain the competitiveness of our product offerings.***

In order to maintain and increase our current competitive position and to continue to grow our business, we need to continuously introduce market-leading products. The market for our products is characterized by continuous technological developments and innovation to provide better product performance and address the increasingly complex market needs. As a result, we have been focusing on our research and development activities, which require considerable human resources and capital investments. However, our research and development efforts may not be successful or yield the anticipated level of economic benefit. In addition, even if our research and development efforts are successful, we may not be able to apply these newly developed technologies to products that will be accepted by the market, or we may not be able to apply them in a timely manner to take advantage of first-mover opportunities in the market. Furthermore, the success of our new products depends on a number of factors, some of which are beyond our control, such as the prevailing economic conditions and the inherent uncertainty in market demand forecast. The level of economic benefit that can be derived from newly developed technologies or products may also be affected by the ability and promptness of our competitors to replicate these technologies or products or develop more advanced or cheaper alternatives. If our technologies or products are replicated, replaced or made redundant, or if the demand for our products is not as anticipated, our turnover associated with such technologies or products may not offset the costs that we have incurred in developing such new technologies. Furthermore, if we are unable to anticipate trends in technological or product development and rapidly develop the new and innovative technologies or products that are required by our customers, we may not be able to produce sufficiently advanced products at competitive prices, which in turn may have a material and adverse impact on our business, financial position and results of operations.

***We may not be able to protect our patents and non-patented intellectual property rights, or we may be subject to claims for the infringement of intellectual property rights of others.***

Our commercial success depends in part on our ability to obtain and maintain trade secrets, patents and other intellectual property protection for our products, technologies, designs and know-how as well as our ability to successfully protect our intellectual properties and to defend ourselves against third-party challenges. As of September 30, 2012, we had 1,530 patents, 598 registered trademarks including eight registered trademarks for CIFA, and 57 copyrights for our software in China, along with 27 patents held by CIFA in the European Union and 122 active trademark applications overseas. As of September 30, 2012, we also had 1,445 pending patent applications in China and 11 pending patent application outside of China. We cannot assure you that the measures we currently adopt to protect our patents or non-patented intellectual property rights are adequate to efficiently enforce such protection or to prevent any unauthorized use of our intellectual property by third parties. On the other hand, the existence of any particular intellectual property right may not necessarily protect us from competition, as it may be challenged, invalidated or held to be unenforceable. Competitors may successfully challenge our patents, produce similar products that do not infringe our patents or produce products in countries that do not recognize our patents. Our patent priority in the PRC, European Union or other foreign countries may be defeated by third-party patents issued on a later date but applied for earlier than ours. Additionally, the existence of a patent does not provide assurance that the manufacturing, sale or use of our products does not infringe upon others' patent rights. Third parties may also have blocking patents that might be used to prevent us from marketing our own patented products or utilizing our patented technologies or processes. As it may take years for patent applications to be approved, there may be pending applications, known or unknown to us, that may later result in issued patents upon which we may infringe on. Therefore, we may initiate lawsuits in order to defend our ownership or proprietary design of our products and trade secrets, or we may be subject to litigation brought by third parties based on claims that we have infringed upon their intellectual property rights or that we have misappropriated the trade secrets of others, either of which scenarios will be time-consuming and costly to defend. We cannot assure you that we can achieve a favorable outcome in any such litigation. If we are unable to protect our patents, trademarks and other intellectual property rights or to successfully defend ourselves from infringement claims, our reputation, financial condition and results of operations may be materially and adversely affected.

***Fluctuations in foreign currency exchange rates could adversely affect our business.***

Our sales, costs of sales and services, expenses and our borrowings and loans are currently denominated primarily in Renminbi, Euros, U.S. dollars or Japanese Yen, while our financial statements are reported in Renminbi. As a result, fluctuations in exchange rates, particularly among the Renminbi, Euros, U.S. dollars, or the Japanese Yen, could affect our profitability and result in foreign currency exchange losses of our foreign currency-denominated assets and liabilities. We cannot accurately predict the impact of exchange rate fluctuations on our results of operations and may incur net foreign currency losses that may have a material and adverse effect on our financial condition and results of operations.

In addition, an appreciation in the value of the Renminbi against foreign currencies could increase the prices of certain of our products, thereby making them less appealing to our overseas customers, which could adversely affect our strategy to further expand the sales of our Zoomlion product lines in the overseas markets. On the other hand, depreciation in the value of the Renminbi against foreign currencies could result in an increase in the costs of certain raw materials, parts and components that are primarily sourced from overseas suppliers, such as branded chasses, which could in return adversely affect our profit margin for certain products.

***We are subject to product liability exposure which could harm our reputation and materially and adversely affect our business, financial condition and results of operations.***

Although we have not previously experienced any significant product liability claims, our products can expose us to potential product liability claims if they fail to perform as expected, or are proven to be defective, or if their use causes, results in, or is alleged to have caused or resulted in personal injuries, project delays or damages or other adverse effects. Any product liability claim, whether relating to personal injuries or project delays or damages, or related regulatory actions could prove costly and time-consuming to defend and could potentially harm our brand reputation. If successful, product liability claims may require us to pay substantial damages. We currently do not maintain product liability insurance to cover potential product liability arising from the use of our products and may be unable to obtain sufficient product liability insurance coverage on commercially reasonable terms, or at all. Furthermore, certain product liability claims may be the result of defects from parts and components purchased from third-party suppliers. Such third-party suppliers may not indemnify us for defects as to such parts and components or would only provide us with limited indemnification that is insufficient to cover our damages resulting from the product liability claim. A product liability claim, with or without merit, may result in significant negative publicity and thus materially and adversely affect the marketability of our products and our reputation, as well as our business, financial condition and results of operations.

Moreover, a material design, manufacturing or quality related failure or defect in our automotive products or other safety issues could each warrant a product recall by us in the PRC and result in increased product liability claims. During 2009, 2010, 2011 and the nine months ended September 30, 2012, and up to the date of this offering memorandum, we have not experienced any product recall that materially and adversely impact our reputation, business operations and financial condition. If authorities in the jurisdictions in which we sell our products decide that our products fail to conform to applicable quality and safety requirements and standards, including the vehicle safety, exhaust and performance standards for certain products of ours, we could be subject to regulatory actions. For example, in China, violation of PRC product quality and safety requirements may subject us to the confiscation of related earnings and relevant products, penalties, an order to cease sales of relevant products, or an order to cease operations pending the required rectification. Furthermore, if the violation is determined to be serious in nature, our business license to manufacture or sell relevant products could potentially be suspended or revoked, and in the worst scenario, we could be subject to criminal liability. In a similar way, in Italy, violation of the Italian product quality and safety requirements (which are under the European Directives) may subject us to fines, penalties and prohibition to market the products until relevant products are made compliant with the applicable requirements. In case of defects, we may be required to recall the defective products and effect any modification to render them safe before they can be distributed again on the market. Criminal liability can be triggered by violations of the general obligation to offer safe products or can arise from significant damages caused to the users of any defective products.

***If we experience a significant number of warranty claims, our costs might increase substantially, and our reputation and brand name could suffer.***

Typically, we sell our products with warranty terms covering a period of three to 12 months after the sale, except for normal wear and tear parts and certain parts that are subject to special warranty terms ranging from 15 days to 12 months. Our product warranty typically requires us to provide after-sales services that cover parts and labor for non-maintenance repairs, except that the repairs are caused by operator abuses or improper uses or negligence and are not attributable to normal wear and tear. Repair and replacement of certain parts and components of our products are not covered by us but are covered by the manufacturers of such parts and components, such as the branded chassis used in certain of our products. However, in the event that such third party suppliers refuse to perform their warranty obligations or to indemnify us for providing warranty services to customers to repair such parts and components, we may incur additional warranty costs or incurred costs may not be recovered. We accrue liabilities for potential warranty claims at the time of sale. 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. If we experience an increase in warranty claims or if our repair and replacement costs associated with warranty claims increase significantly, we may incur greater warranty costs. Moreover, an increase in warranty claims could substantially increase our costs and may result in a material adverse effect on our reputation, financial condition, results of operations and prospects.

***Our business depends substantially on our senior management's continuing services and our ability to maintain a skilled labor force, and our business may be severely disrupted if we were to lose the services of our management or other key personnel.***

Our future success depends substantially on the continued services of our management team. In particular, it depends on the service of our chairman and chief executive officer Dr. Zhan Chunxin, who has over 33 years of experience in the construction machinery industry in China and has successfully led our operations and helped us achieve significant growth in the past decade. Our ability to retain and attract other skilled professionals, including the members of our research and development, manufacturing, marketing and sales and after-sales services teams, is also crucial to our future success. Our domestic and international competitors, and companies in industries related to our industry, compete with us for personnel. Competition for such skilled labor is intense and may require us to offer higher compensation and other benefits in order to attract and retain them, which could materially and adversely affect our financial condition and results of operations. We may be unable to attract or retain the personnel required to achieve our business objectives and the failure to do so could severely disrupt our business and prospects. In addition, as the process of hiring and training qualified personnel is often costly in terms of time and money, if our recruitment and retention efforts are unsuccessful, qualified personnel may not be integrated into our workforce in a timely manner to meet the needs of our business.

We do not maintain key-man insurance for members of our management team or any of our other key personnel. If we lose the services of any senior management and key personnel, we may not be able to locate suitable or qualified replacements, and may incur additional expenses to recruit and train new personnel, which could severely disrupt our business and prospects. Our key employees, including members in our senior management team, are subject to a non-competition term of two years. However, there is no assurance that the non-competition term can be fully enforced or at all. If any of the senior management or other personnel joins a competitor or establishes a competing company, we may lose some of our intellectual property, customers and more importantly, our proprietary technologies and trade secrets.

***Restrictive covenants in our credit agreements could limit our financial and operating flexibility and subject us to other risks.***

We and certain of our subsidiaries are subject to affirmative and negative covenants contained in certain bank credit facilities, to which they are a party. Such covenants include, among others, financial covenants that require us or such subsidiaries to maintain certain financial ratios and that place limitations on various aspects of ours and such subsidiaries' businesses and operations, including capital expenditures, incurrence of additional indebtedness or liens, acquisitions or dispositions of assets and distribution of dividends. As of September 30, 2012, our US dollar denominated unsecured short-term loans with an aggregate outstanding principal amount of RMB507 million and our US dollar denominated unsecured long-term loan with an aggregate outstanding principal amount of RMB970 million, subject us to certain financial covenants. See "Description of Other Material Indebtedness." In 2009, 2010, 2011 and the nine months ended September 30, 2012 and as of the date of this offering memorandum, we were in compliance with those financial covenants. However, we cannot assure you that we or any such subsidiary will not be in breach of these covenants in the future. If we or any such subsidiary breach any of these covenants and if waivers for the breached covenants cannot be obtained from the relevant financial institutions, some actions may be taken or enforced against us or such subsidiary, including, among others, the acceleration of obligations under the credit agreements and enforcement of security interests by lenders, which may, in turn, have a material and adverse effect on our overall financial condition and operations.

***We require a number of permits, licenses, registrations and certificates in order to carry on our business and the failure to obtain or maintain these permits, licenses, registrations and certificates could materially harm our business and prospects.***

The manufacturing, export and sale of our products are subject to regulation in China and in countries where we conduct our business. For example, some of our products and/or businesses require special licenses or permits from or registrations with the relevant government authorities in China, such as those required for the manufacturing and/or export of our cranes and automotive products, as well as the approvals on our provision of finance lease services. Another example is the need to obtain the relevant CE certificate prior to the sale of our products to European Union countries, which serves to demonstrate that our products have conformed to the relevant health and safety requirements set out in the European Directives. Furthermore, our manufacturing facilities will need to install and maintain sufficient safety equipment and meet certain production safety requirements and pass safety inspections conducted by relevant government authorities. In addition, some of these licenses and permits are subject to periodical renewal. Failure to obtain or renew any of these permits, licenses and registrations could have a material and adverse effect on our business and prospects.

In addition, we currently hold licenses and/or permits to provide finance lease services in various jurisdictions. The withdrawal or suspension of such licenses, permits and approvals, or the imposition of any penalties, as a result of infringement of any regulatory requirements may have an adverse impact on our business and results of operations. Moreover, in markets in which we operate, such as the PRC, licensing requirements are subject to changes. There is no assurance that we will be able to continue to satisfy the requirements for, or otherwise obtain, such licenses, permits or approvals for current and future projects. The failure to obtain, maintain or renew our licenses, permits and approvals from the government in connection with our finance lease services may impede or hinder our operations and may adversely affect our results of operations and financial condition.

***Noncompliance with environmental regulations both in China and overseas markets may result in significant monetary damages, fines or even criminal liabilities as well as negative publicity and damages to our brand name and reputation.***

Our manufacturing processes generate noise, waste water, and gaseous and other industrial wastes and we are subject to national and local environmental regulations applicable to us in jurisdictions where we operate. In addition, we are required to comply with the relevant emission standards applicable to certain of our products. In the case of our noncompliance with present or future environmental regulations, we may be required to pay substantial fines and/or civil damages, suspend production or cease operations, and the management might even be subject to criminal liabilities under certain circumstances. We may also be subject to adverse publicity and damages to our brand name and reputation. Also, if more stringent regulations are adopted in the future, the costs of compliance with these new regulations could be substantial.

In addition, we currently do not carry any insurance for potential liabilities relating to the release of hazardous materials. If we are held liable for damages in the event of contamination or injury, it could have a material and adverse effect on our financial condition and results of operations.

***We may continue to engage in certain sales of products to third-party dealers for end use by countries, governments, entities, or persons targeted by economic sanctions of the United States government, which may adversely affect our reputation and prevent U.S. persons from purchasing our Notes.***

The U.S. government and its various agencies, including the OFAC, have enacted laws and regulations, including laws and regulations administered by the OFAC, or the U.S. Economic Sanctions Laws, that impose restrictions upon U.S. persons with respect to activities or transactions with certain countries, governments, entities or individuals that are the target of U.S. economic sanctions. U.S. persons are also prohibited from facilitating such activities or transactions. In addition, the Iran Sanctions Act, the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, the National Defense Authorization Act for Fiscal Year 2012, the Iran Threat Reduction and Syria Human Rights Act of 2012 and other similar laws, regulations and executives orders (collectively, "Iran Sanctions") allow for the imposition of sanctions against non-U.S. entities for certain dealings with or relating to Iran. Other countries, including the United Kingdom and Canada, have also implemented separate measures aimed at prohibiting or severely restricting their citizens from engaging in financial dealings with Iran. In 2009, 2010, 2011 and the nine months ended September 30, 2012, we sold a limited amount of our products to dealers which we understand sold such products in sanctioned countries. To the best of our knowledge, in 2009, 2010, 2011 and the nine months ended September 30, 2012, we sold, directly or indirectly, tower cranes, truck-mounted concrete pumps, truck-mounted concrete mixers, concrete mixing plants, concrete placing booms, motor graders, road rollers, road sweepers and truck cranes, in sanctioned countries, including Sudan, Iran and Syria (and also Burma, Congo and Belarus). While we have not engaged in, or expect to engage in any actions subject to sanctions administered by the OFAC or the Iran Sanctions, there can be no assurance that we will not be sanctioned in the future. In addition, we cannot assure you that we will not make any direct or indirect sales of our products in the sanctioned countries in the future. If such transactions occur, our reputation could be adversely affected, some of our investors in the United States may be required to sell their interests in our Company under U.S. laws or under internal investment policies or may decide for reputational reasons to sell such interests, and some investors in the United States may forgo the purchase of our Notes, all of which could have a material and adverse effect on the value of your investment in us.

***We enjoy certain government grants and incentives and the expiration of, or changes to, these incentives may materially and adversely affect our business, financial position and results of operations.***

We and several of our subsidiaries have enjoyed preferential tax treatments and/or received government grants relating to the development of construction machinery, such as refunds of value-added tax and subsidies for technological improvement, research and development projects. We and certain of our subsidiaries are qualified as "high-tech enterprises" which are entitled to a preferential income tax rate of 15% for three years starting from 2011. One of our subsidiaries was entitled to the same preferential tax rate of 15% between 2009 and 2011. Currently, we are in the process of applying for renewal of the qualification. Such qualification is subject to periodic review, and if we and such subsidiaries fail to qualify as "high-tech enterprises", we and such subsidiaries may not be able to continue enjoying the preferential tax rate. There can be no assurance that we will be able to renew or obtain the high-tech enterprise status. If there are any changes in the preferential tax treatment that we currently enjoy and in the incentives that we currently receive, our financial condition and results of operations may be materially and adversely affected.

***We may incur additional costs, experience manufacturing disruptions or fail to satisfy our contractual requirements if we were forced to relocate as a result of any disputes over the title or ownership rights of the properties we own or lease.***

Properties owned or leased by us primarily comprise of manufacturing facilities, offices and ancillary buildings. In particular, we have not obtained the land use right certificate for 14 parcels of land and building ownership certificates for 89 buildings. We may not obtain such land use right certificate and building ownership certificates and the timing for obtaining such certificates is beyond our control. Before we obtain the land use right certificate of such land and the building ownership certificates of such buildings, our right on such properties might not be entirely protected. Any dispute or claim related to the title of the properties owned or leased by us may result in us relocating our manufacturing facilities or offices. There is no assurance that we would be able to find alternative properties for our business on favorable terms or at all. Further, unplanned relocation may cause us to incur additional relocation costs and interrupt our production schedule. As a result, we may be unable to meet the output requirements under our sales contracts or otherwise meet out sales targets. All such consequences could have a material adverse effect on our business, financial condition, results of operations and prospects.

## RISKS RELATED TO OUR INDUSTRY

***The industry in which we operate is highly dependent on the level and scale of construction activities which are subject to risks, fluctuations and uncertainties beyond our control.***

A significant portion of our consolidated turnover is derived from the sales of our concrete machinery and cranes machinery. In 2009, 2010, 2011 and the nine months ended September 30, 2012, the sales of our concrete machinery accounted for approximately 34.5%, 43.8%, 45.8% and 54.2% of our consolidated turnover, while the sales of our cranes machinery accounted for approximately 40.0%, 34.4%, 33.7% and 26.4% of our consolidated turnover. Our business operations in those two sectors are directly tied to the prevailing levels of construction activities from industrial production, infrastructures projects and real estate investments, all of which are sensitive to government monetary and fiscal policies. Many of our customers depend substantially on government funding for infrastructure projects or municipal works, and any decrease or delay in such government funding or a decrease in overall government spending could have an adverse effect on our customers, which in turn may have a material and adverse effect on our business and results of operations. For example, our consolidated turnover had significantly increased in 2010 as compared to 2009, which we believe was in part driven by the RMB4 trillion economic stimulus package and other extensive monetary policies announced by the PRC government in response to the global financial crisis and worsening economic environment starting from 2008. A substantial portion of the stimulus package was targeted spending on public infrastructure projects and affordable housing real estate projects. We cannot assure you that the level of such support from the central government will continue or will not decrease. Similarly, increases in interest rates affect overall economic growth, the demand for residential and nonresidential real estate developments, fixed asset investment decisions by our customers and the availability of financing and leasing options to our customers, which may also have a material and adverse effect on our business and results of operations. In 2011, the PRC government increased the interest rate and tightened the credit policy. In 2012, the economic growth in China slowed down and resulted in a downturn in the construction machinery industry for the nine months ended September 30, 2012. Such downturn in the construction machinery industry has resulted in a decrease in our growth rate and the utilization rate of our manufacturing capacity as compared with previous years. While we have not experienced a decrease in our consolidated turnover and profitability, such downturn in the construction machinery industry may be prolonged and may result in significant losses to us during affected periods. If any adverse change occurs, construction activities may be significantly affected, which may decrease the demand for our products and adversely affect our results of operations.

***We are subject to risks associated with volatility in the prices of raw materials, parts and components.***

Increases in the prices of raw materials, parts, and components for our products may materially and adversely affect our results of operations. At certain price levels of raw materials, parts and components, the continued production of certain products may become unprofitable. The significance and relative impact of factors affecting the prices of raw materials, parts and components are difficult to predict or quantify. Prior to 2008, we experienced increases in the prices of certain type of the key raw materials, parts, and components for certain of our products, such as steel, due to the growth of China's economy and the increase in the demand for steel. As a result, our production costs increased during that period. In 2008, global economic downturn resulted in a slow-down in construction machinery spending and manufacturing activities in China and globally, which led to a decrease in the costs of our raw materials, parts and components. In 2011, as a result of global economic recovery, the prices of our raw materials, parts and components increased slightly. In the nine months ended September 30, 2012, as a result of the general economic condition globally and particularly in China, the prices of our raw materials decreased. We cannot assure you that the price of such raw materials, parts and components will not increase again in the future.

***We face competition in the industry in which we operate.***

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, 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 more international companies are currently seeking to enter the PRC market while more domestic Chinese manufacturers are enhancing their international penetration and competitiveness.

Some of our competitors, especially multinational companies, are larger than we are, which, in some cases, provides them with a competitive advantage with respect to brand recognition, economies of scale, access to financing and their ability to purchase raw materials, parts and components at lower prices. Our competitors may also be able to devote greater resources to research and development technology, and design innovation and adapt more quickly to new or emerging technology and changes in customer demand and requirements. Furthermore, our competitors may be able to offer more flexible payment options than we do and/or more attractive purchasing terms. Current and potential competitors have established or may establish financial or strategic relationships among themselves or with existing or potential customers, suppliers and other third parties. Accordingly, new competitors or alliances among competitors might emerge and rapidly acquire significant market share. Our failure to maintain a competitive position with respect to pricing, product quality, brand name recognition, financial resources and technological advances, adapt to changing market conditions or otherwise compete successfully against our competitors may have a material and adverse effect on our business, financial condition, results of operations and prospects.

***Our business is subject to seasonal variations in demand, and our operating results may experience significant fluctuations from quarter to quarter.***

Our business is subject to seasonal variations in demand. Our sales have been, and are expected to continue to be, affected by the seasonality as construction activities in northern China are curtailed during the winter, which would lead to a decrease in demand for our major products and in turn, an adverse effect on our business, financial condition and results of operations. In particular, sales of our construction machinery are typically weaker in the first quarter and stronger in the rest of the year. As a result of seasonal variations, our quarterly results may fluctuate and you should not rely on our operating results for prior periods as an indication of our future results.

## RISKS RELATED TO DOING BUSINESS IN CHINA

***Adverse changes in political and economic policies of the PRC government could have a material and adverse effect on the overall economic growth of China, which could in turn reduce the demand for our products, thus materially and adversely affecting our business and prospects.***

Economic, political and legal developments in China significantly affect our business, financial condition, results of operations and prospects. In many respects, the Chinese economy differs from those of most developed countries, including the degree of government involvement, the level of development, growth rate, control of foreign exchange, access to financing and allocation of resources.

While the Chinese economy has grown significantly in the past two decades, the growth has been uneven, both geographically and among various economic sectors. The PRC government has implemented various measures to foster economic growth and guide the allocation of resources. While certain of these measures have benefited the overall Chinese economy, they may also negatively impact us. For example, our financial condition and results of operations may be adversely affected by government control over applicable capital investments or changes in tax regulations that are applicable to us.

The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. In recent years, the PRC government has implemented measures emphasizing the use of market forces for economic reform. In addition, the PRC government has reduced state ownership of productive assets while establishing sound corporate governance in business enterprises. Nonetheless, a substantial portion of the productive assets in China continues to be owned by the PRC government. The PRC government's control of these assets and other aspects of the national economy could materially and adversely affect our business. The PRC government exercises significant control over China's economic growth through its allocation of resources. In addition to controlling payment of foreign currency-denominated obligations, the government sets monetary policy and provides preferential treatment to particular industries and companies. Over the course of recent years, the PRC government has implemented a number of measures, such as raising bank reserves against deposit rates. This action placed additional limitations on the ability of commercial banks to make loans and raise interest rates in order to decrease the growth rate of specific sectors of China's economy that the government believed to be overheating. Such actions, as well as other PRC policies, may materially and adversely affect our liquidity and access to capital as well as our ability to operate our business.

***Uncertainties with respect to the PRC legal system could have a material and adverse effect on us.***

We are governed by our articles of association and organized under the laws of China, making us subject to the PRC's laws, regulations and judicial and administrative rulings. The PRC legal system is a civil law system based on written statutes. Unlike common law systems, prior court decisions may be cited for reference but have limited presidential value. Since 1979, the Chinese legislative bodies have promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, China has not developed a fully integrated legal system, so newly enacted laws and regulations may not adequately cover all aspects of economic activities that take place in China. As these laws and regulations are relatively new, their interpretation is not always consistent and predictable. In addition, the PRC legal system continues to rapidly evolve, meaning that the enforcement of these laws, regulations and rulings involve uncertainties that may limit legal protections available to us. For example, we may have to resort to administrative and court proceedings in order to enforce the legal protection that we enjoy either by law or contract. As PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcomes of administrative and court proceedings and the level of legal protection we enjoy than in the legal system of certain countries. These uncertainties may impede our ability to enforce the contracts into which we have entered with our business partners, customers and suppliers.

In addition, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation and enforcement thereof, and the preemption of local regulations by national laws. The PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of any violations of these policies and rules until sometime after their promulgation. Furthermore, legal protections available in China may be less effective than in other countries, potentially resulting in substantial costs, and diversion of resources and management attention.

***Government control of currency conversion and the fluctuation in foreign exchange rates may adversely affect the value of your investments.***

Most of our cash generated from sales of products and provision of services are denominated in Renminbi, which is also our reporting currency, but not a freely convertible currency. A portion of our cash may be required to be converted into other currencies in order to meet our foreign currency needs. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies generally without prior approval from the State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. However, approval from SAFE or its local counterparts is required where RMB is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. These limitations could affect our ability to obtain foreign exchange through equity financing, or to obtain foreign exchange for capital expenditures.

The Issuer and the Company do not intend to remit any proceeds from this offering into the PRC. To the extent the Company is required to make any payments under the Guarantee of the Notes, such payments will be converted into foreign currency and remitted by the Company out of the PRC according to the approval issued by SAFE on November 28, 2012. The Company, or through its overseas subsidiaries, may also from time to time make remittances out of the PRC to the Issuer either as inter-company loans to or capital increases in the Issuer in order for the Issuer to meet its payment obligations under the Notes. The Renminbi is not a freely convertible currency and remittance of Renminbi into and outside the PRC is subject to controls under PRC law.

Among other things, the change in value of the Renminbi against U.S. dollars and other currencies is affected by changes in domestic and international political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to U.S. dollars. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed range in relation to a basket of specified foreign currencies. Since then, the PRC government has made, and may in the future make, further adjustments to the exchange rate system. On June 19, 2010, the PRC government announced its intention to further relax its currency policy, and the Renminbi slightly appreciated against U.S. dollars. We cannot assure you that the Renminbi will not experience significant appreciation against U.S. dollars again. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against U.S. dollars. Fluctuations of the Renminbi could adversely affect the value of our foreign currency-denominated transactions along with the value of cash flow generated from our operations or any interests payable on the Notes in foreign currency terms. In 2009, 2011 and the nine months ended September 30, 2011 and 2012, we incurred net foreign currency exchange gains of RMB8 million, RMB244 million (US$39 million), RMB150 million and RMB62 million (US$10 million), respectively, while in 2010, we incurred net foreign currency exchange loss of RMB58 million. Following this offering, our exposure to risks associated with foreign currency fluctuations may further increase as the net proceeds from the offering cannot be remitted into the PRC and are expected to be deposited in currencies other than Renminbi. On the other hand, as we expect to expand our international markets, future Renminbi devaluations could increase our costs and expenses or lead to fluctuations in the exposure of our foreign currency-denominated liabilities, thereby adversely affecting our profitability.

***The enforcement of the Labor Contract Law and a potential resulting increase in labor costs in the PRC may adversely affect our business and our profitability.***

The Labor Contract Law of the PRC came into effect on January 1, 2008 with the Implementation Rules of Labor Contract Law of the PRC promulgated on September 18, 2008. The Labor Contract Law and its implementation rules impose more stringent requirements on employers with regard to entering into written employment contracts, hiring temporary employees and dismissing employees. In addition, the Labor Contract Law requires the payment of a statutory severance pay upon the termination of an employment contract in most cases, including in cases of the expiration of a fixed-term employment contract. Under the Regulations on Paid Annual Leave for Employees, which came into effect on January 1, 2008, and its implementation measures, which was promulgated on September 18, 2008, employees who have served an employer for over one year are entitled to a paid vacation ranging from five to 15 days, depending on length of service. Employees who waive such vacation time at the request of employers shall be compensated for three times their normal salaries for each waived vacation day. The Labor Contract Law also requires the employer to contribute to social insurance and housing funds on behalf of its employees. As one of the largest construction machinery manufacturers in China, our business operations require a large number of employees and workers. As a result of the such law and regulations, our labor costs are expected to increase. Increases in our labor costs and potential future disputes with our employees with respect to the implementation of the Labor Contract Law and its implementation rules could adversely affect our business, financial condition or results of operations.

***We face risks related to natural disasters, acts of nature, adverse weather conditions and occurrences of epidemics in China and other place around the world, which could have a material adverse effect on our business and operations results.***

Our business is subject to the general economic, environmental and social conditions in China. In particular, it is possible for our business to be materially and adversely affected by natural disasters, acts of nature, adverse weather conditions or the occurrence of epidemics in China. For example, in May 2008, Sichuan Province experienced a strong earthquake, measuring approximately 8.0 on the Richter scale and causing widespread damage and casualties. Over the past few decades, the PRC also has suffered health epidemics related to the outbreak of avian influenza, H1N1 virus and severe acute respiratory syndrome, or SARS. Any prolonged recurrence of avian influenza, SARS or other adverse public health developments in China may have a material and adverse effect on our business operations. These could include restrictions on our ability to travel or ship products within China, as well as temporary closure of our manufacturing facilities. Such closures and/or travel or shipment restrictions would severely disrupt our business operations and adversely affect our results of operations. Furthermore, severe weather conditions, such as a prolonged winter season, excessive rain or sandstorms may result in a delay or even cancellation of construction projects. Such conditions would lead to a decrease in demand for our products and in turn, an adverse effect on our business, financial condition and results of operations.

Similarly, war, terrorist activity, threats of war or terrorist activity, social unrest and the corresponding heightened travel security measures instituted in response to such events, as well as geopolitical uncertainty and international conflict and tension, including the current heightened level of hostility on the Korean Peninsula, would affect economic development and construction projects. In turn, there could be a material adverse effect on our business, financial condition and results of operations. In addition, we may not be adequately prepared in terms of contingency planning or have recovery capabilities in place to deal with a major incident or crisis. As a result, our operational continuity may be adversely and materially affected and our reputation seriously harmed.

## RISKS RELATED TO THE NOTES AND THE GUARANTEES

***The Notes will be structurally subordinated to the existing and future indebtedness and other liabilities of the Issuer's and our existing and future subsidiaries and effectively subordinated to the Issuer's and our secured debt to the extent of the value of the collateral securing such indebtedness.***

The Notes will be structurally subordinated to any debt and other liabilities and commitments, including trade payables and lease obligations, of the Issuer's and our existing and future subsidiaries, whether or not secured. The Notes will not be guaranteed by any of the Issuer's and our subsidiaries and the Issuer and we may not have direct access to the assets of such subsidiaries unless these assets are transferred by dividend or otherwise to the Issuer or us. The ability of such subsidiaries to pay dividends or otherwise transfer assets to the Issuer and us is subject to various restrictions under applicable law. Each of the Issuer's and our subsidiaries are separate legal entities that have no obligation to pay any amounts due under the Notes or make any funds available therefor, whether by dividends, loans or other payments. The Issuer's and our right to receive assets of any of the Issuer's and our subsidiaries, respectively, upon that subsidiary's liquidation or reorganization will be effectively subordinated to the claim of that subsidiary's creditors (except to the extent that the Issuer or we are creditors of that subsidiary). Consequently, the Notes will be effectively subordinated to all liabilities, including trade payables and lease obligations, of any of the Issuer's and our subsidiaries and any subsidiaries that the Issuer or we may in the future acquire or establish.

The Notes are the Issuer's and our unsecured obligations and will (i) rank equally in right of payment with all the Issuer's and our other present and future senior unsecured indebtedness; (ii) be effectively subordinated to all of the Issuer's and our present and future secured indebtedness to the extent of the value of the collateral securing such obligations; and (iii) be senior to all of the Issuer's and our present and future subordinated obligations. As a result, claims of secured lenders, whether senior or junior, with respect to assets securing their loans will be prior with respect to those assets. In the event of the Issuer's or our bankruptcy, insolvency, liquidation, reorganization, dissolution or other winding up, or upon any acceleration of the Notes, these assets will be available to pay obligations on the Notes only after all other debt secured by these assets has been repaid in full. Any remaining assets will be available to you ratably with all of our other unsecured and unsubordinated creditors, including trade creditors. If there are not sufficient assets remaining to pay all these creditors, then all or a portion of the Notes then outstanding would remain unpaid. As of September 30, 2012, the Issuer had outstanding 2017 Notes of RMB2,483 million and we had unsecured loans and borrowings of approximately RMB13,935 million (US$2,216 million) (excluding the guaranteed senior notes) that rank equally with the Notes, and we had outstanding secured loans and borrowings of approximately RMB1,505 million (US$239 million).

***There is uncertainty relating to the enforceability of the Guarantee of the Notes.***

The Company will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Notes. Any guarantee of foreign indebtedness by a PRC-incorporated entity is subject to approval by SAFE. On November 28, 2012, the Company obtained approval from SAFE to guarantee indebtedness payable by the Issuer under the Notes incurred outside the PRC. The approval was granted by SAFE pursuant to the Notice on Issues relating to the Administration of Foreign Security by Domestic Institutions promulgated by SAFE on July 30, 2010, or the SAFE Foreign Security Notice, and the Notice on Deciding the External Financing Guarantee Balance Quota of Domestic Banks in 2011 issued by SAFE on July 27, 2011, or the SAFE Circular 30.

The Company is required to register the Guarantee with the Hunan Branch of SAFE within 15 days after the date of 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 Measures for the Administration of Foreign Security by Domestic Institutions promulgated by the People's Bank of China, or PBOC, on September 25, 1996, or the Foreign Securities Measures. The Company intends to execute and register the Guarantee with Hunan Branch of SAFE as soon as reasonably practicable after the date of this offering memorandum, although the Guarantee will not be deemed effective until the Notes are issued on the issue date. Prior to the performance or discharge of its obligations under the Guarantee, the Company is also required to complete a verification process with the Hunan Branch of SAFE for each remittance under the Guarantee.

The SAFE Foreign Security Notice and SAFE Circular 30 are recent regulations and may be subject to a degree of executive and policy discretion and interpretation by SAFE. On the basis of the SAFE Foreign Security Notice, the Guarantee will, upon execution, be valid, binding and enforceable against the Company under PRC law. There can be no assurance, however, that the approval obtained by the Company will not be revoked or amended in the future or that future changes in PRC law, or that in the application or interpretation of SAFE Foreign Security Notice and SAFE Circular 30 will not adversely affect the enforceability of the Guarantee in the PRC. See "The Guarantee".

The Guarantee and the Indenture, which sets out the terms of the Guarantee, will be governed by the laws of the State of New York. Judgments of foreign courts, including New York courts, will unlikely be recognized or enforced in the PRC unless there is a treaty between China and the country where the judgment is made or on reciprocity between jurisdictions. China does not have any treaties or other agreements that provide for reciprocal recognition and enforcement of foreign judgments with the United States. As a result, you may need to pursue claims based on the Guarantee and the Indenture in the PRC courts. See "Enforceability of Foreign Judgments and Civil Liabilities".

***We may not be able to generate sufficient cash to service all of our indebtedness, including the Notes, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.***

Our ability to make scheduled payments on or refinance our debt obligations, including the Notes, depends on our financial condition and operating performance, which are subject to prevailing economic, industry and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. We may be unable to maintain a level of cash flow from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness, including the Notes.

If our cash flow and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness, including the Notes. We may not be able to effect any such alternative measures on commercially reasonable terms or at all and, even if successful, those alternative actions may not allow us to meet our scheduled debt service obligations.

***The Notes and the Guarantee are unsecured obligations.***

As the Notes and the Guarantee are unsecured obligations, their repayment may be compromised if:

- we or the Issuer enter into bankruptcy, liquidation, reorganization or other winding-up proceedings;
- there is a default in payment under the Issuer's of our future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's of our indebtedness.

Although we do not expect any of these events to occur with respect to the Issuer, since it is not permitted under the terms of the Indenture to carry on any business activities other than in connection with the issuance of the Notes and advance of the proceeds therefrom to us or our subsidiaries, if any of these events occur, the Issuer's and our assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Notes.

***The Indenture does not restrict the amount of additional debt that we may incur.***

Although the Notes and Indenture restrict and limit the business activities of the Issuer, they do not limit the amount of unsecured debt that may be incurred by us and permits us to incur secured debt under specified circumstances and our subsidiaries to incur debt, whether secured or unsecured, without restriction. Our and our subsidiaries' incurrence of additional debt may have important consequences for you as a holder of the Notes, including making it more difficult for us to satisfy our obligations with respect to the Notes, a loss in the market value of your Notes and a risk that the credit rating of the Notes is lowered or withdrawn.

***We may be unable to repurchase the Notes upon a change of control.***

Upon the occurrence of a Change of Control (as defined in "Description of the Notes"), the Issuer will be required to repurchase all outstanding Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to but excluding the date of repurchase. If we experience a Change of Control, there can be no assurance that the Issuer or we would have sufficient financial resources available to satisfy the obligations to repurchase the Notes. A Change of Control may also trigger a cross default under some of our debt agreements, including the 2017 Notes Indenture. The Issuer or we may require additional financing from third parties to fund any such repurchases, and the Issuer and we may be unable to obtain adequate financing on satisfactory terms or at all. The failure to repurchase the Notes as required under the Indenture would result in a default under the Indenture, which could have material adverse consequences for the Issuer, us and the holders of the Notes. See "Description of the Notes — Repurchase upon a Change of Control." In order to avoid the obligations to repurchase the Notes and potential breaches under our other debt agreements, we may have to avoid certain change of control transactions that would otherwise be beneficial to us.

In addition, some important corporate events, such as leveraged recapitalizations, may not, under the Indenture, constitute a "Change of Control" that would require the Issuer to repurchase the Notes, even though those corporate events could increase the level of our indebtedness or otherwise adversely affect our capital structure, credit ratings, financial condition or the value of the Notes. See "Description of the Notes — Repurchase Upon a Change of Control."

***You may not be able to determine when a change of control has occurred giving rise to your right to having your Notes repurchased by us following a sale of "substantially all" of our assets.***

The definition of "Change of Control" applicable to the Notes as described in "Description of the Notes — Repurchase upon a Change of Control" includes a clause relating to the sale, lease, transfer, conveyance or other disposition of "all or substantially all" of our assets and the assets of our subsidiaries taken as a whole. Although there is a limited body of case law interpreting the term "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, your ability to require the Issuer to repurchase your Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of our assets and the assets of our subsidiaries taken as a whole to another person may be uncertain in some circumstances.

***An active trading market may not develop for the Notes and the trading price of the Notes could be materially and adversely affected.***

The Notes are a new issue of securities with no established trading market. Although approval-in-principle has been received for the listing and quotation of the Notes on the SGX-ST, we cannot assure you that the Notes will become or remain listed. Although no assurance is made as to the liquidity of the Notes as a result of the admission to trading on the SGX-ST, failure to be approved for listing on or the delisting of the Notes from, as applicable, the SGX-ST may have a material effect on a holder's ability to resell the Notes in the secondary market. We do not intend to apply for listing of the Notes on any U.S. securities exchange or for quotation through an automated dealer quotation system. The Initial Purchaser has advised us that it presently intends to make a market in the Notes as permitted by applicable laws. However, the Initial Purchaser is not obligated to make a market in the Notes and may discontinue its market-making activities at any time at its discretion without notice. In addition, the liquidity of the trading market in the Notes, and the market price quoted for the Notes, may be adversely affected by changes in the overall market for securities and by changes in our financial performance or prospects of companies in our industry in general. As a result, we cannot assure you that an active trading market will develop or be maintained for the Notes. If a market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

In addition, the Notes may trade at prices that are higher or lower than the price at which the Notes have been issued. The price at which the Notes trade depends on many factors, including:

- prevailing interest rates and interest rate volatility;
- our results of operations, financial condition and future prospects;
- changes in our industry and competition;
- the market conditions for similar securities; and
- general economic conditions such as the recent downgrade of the long-term sovereign credit rating of the U.S. and the ongoing European debt crisis, almost all of which are beyond our control.

As a result, there can be no assurance that you will be able to resell the Notes at attractive prices or at all.

***The terms of the Indenture and the Notes provide only limited protection against significant corporate events that could adversely impact your investment in the Notes.***

While the Indenture and the Notes contain terms intended to provide protection to holders of the Notes upon the occurrence of certain events involving significant corporate transactions that may affect the Issuer's and our creditworthiness, these terms are limited and may not be sufficient to protect your investment in the Notes.

The "Change of Control" definition as described under "Description of the Notes — Repurchase upon a Change of Control" does not cover a variety of transactions (such as acquisitions by us or recapitalizations) that could negatively affect the value of the Notes, increase the amount of our outstanding indebtedness or adversely affect our capital structure or credit ratings. If we were to enter into a significant corporate transaction that would negatively affect the value of the Notes but would not involve a change in voting power or beneficial ownership and hence would not constitute a Change of Control, we would not be required to offer to repurchase your Notes prior to their maturity.

The Indenture governing the Notes also does not:

- require us to maintain any financial ratios or specific levels of net worth, revenues, income, cash flow or liquidity;
- limit our ability to incur indebtedness that is equal in right of payment to the Notes;
- restrict our subsidiaries' ability to incur unsecured indebtedness that would be senior to our equity interests in our subsidiaries and therefore rank effectively senior to the Notes;
- limit the ability of our subsidiaries to service indebtedness;
- restrict our ability to repurchase or prepay any other of our securities or other indebtedness;
- restrict our ability to make investments or to repurchase or pay dividends or make other payments in respect of our common stock or other securities ranking junior to the Notes; or
- limit our ability to optimize our operations, including conducting transactions similar to the Disposal; or
- limit our ability to sell, merge or consolidate any of our subsidiaries.

As a result of the foregoing, when evaluating the terms of the Notes, you should be aware that although the terms of the Indenture and the Notes do not restrict our ability to engage in, or to otherwise be a party to, a variety of corporate transactions, circumstances and events, any of which could have an adverse impact on your investment in the Notes.

***Holders of the Notes will not be entitled to registration rights, and we do not currently intend to register the Notes under applicable securities laws. There are restrictions on your ability to transfer or resell the Notes.***

The Notes are being offered and sold pursuant to an exemption from registration under the Securities Act and applicable securities laws, and we do not currently intend to register the Notes in any jurisdiction. The holders of the Notes will not be entitled to require the Issuer to register the Notes for resale or otherwise. Therefore, you may transfer or resell the Notes only in a transaction registered under or exempt from the registration requirements of the Securities Act and applicable securities laws of your jurisdiction and/or state, and you may be required to bear the risk of your investment for an indefinite period of time. See "Transfer Restrictions."

***We will not be subject to the Sarbanes-Oxley Act of 2002.***

Since the Notes will not be registered under the Securities Act, after the offering neither the Issuer nor we will be subject to the Sarbanes-Oxley Act of 2002, which requires public companies to have and maintain effective disclosure controls and procedures to ensure timely disclosure of material information, and have management review the effectiveness of those controls on a quarterly basis. That Act also requires public companies to have and maintain effective internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements, and have management review the effectiveness of those controls on an annual basis (and have the independent auditor attest to the effectiveness of such internal controls). Neither the Issuer nor we will be required to comply with these requirements and therefore neither the Issuer nor we will have comparable procedures in place as compared to public companies in the United States.

***The ratings of the Notes may be lowered, suspended or withdrawn; changes in such credit ratings may adversely affect the value of the Notes.***

The Notes have been provisionally assigned a rating of BB+ and BBB- by Standard & Poor's Ratings Services and Fitch Inc., respectively. 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. Actual or anticipated changes or downgrades in our credit ratings, including any announcement that our ratings are under further review for a downgrade, could affect the market value of your Notes and increase our corporate borrowing costs.

***The insolvency laws of the PRC and Hong Kong may differ from those of another jurisdiction with which the holders of the Notes are familiar.***

Because the Company was incorporated under PRC laws and the Issuer was incorporated under Hong Kong laws, any insolvency proceeding relating to the Company or the Issuer would likely involve PRC or Hong Kong insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Notes are familiar.

***The Issuer may be deemed as a PRC tax resident enterprise by the PRC tax authorities and certain withholding taxes may be applicable.***

The Issuer is incorporated under the laws of Hong Kong. Pursuant to the new Enterprise Income Tax Laws of the PRC, or the EIT Law, effective as of January 1, 2008, and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose "de facto management bodies" 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 body" 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 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 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.

Pursuant to the EIT Law and its implementation regulations, any non-resident enterprise without establishment within the PRC or whose income has no actual connection to its establishment within the PRC must pay enterprise income tax at the rate of 10% on its income sourced inside the PRC, and such income tax must be withheld, with the PRC payor acting as the obligatory withholder, withholding the tax amount from each payment or payment due. Accordingly, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Issuer will be required to withhold income tax from the payments of interest in respect of the Notes to any non-PRC enterprise holders of the Notes, and any gain realized by non-PRC enterprise from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly would be subject to a 10% PRC withholding tax. See "Taxation — PRC."

***You may experience difficulties in effecting service of legal process and enforcing judgments against us, our directors, supervisors or senior management.***

We are a company incorporated under the laws of the PRC and most of our assets and subsidiaries are located in China. Except for our independent director Mr. Qian Shizheng, our directors, supervisors and senior management reside within the PRC. The assets of these directors, supervisors and senior management also may be located within the PRC. As a result, it may not be possible to effect service of process upon most of our directors, supervisors and senior management outside the PRC. Moreover, the PRC does not have treaties providing for reciprocal recognition and enforcement of court judgments in the United States, the United Kingdom, Japan or most other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, in the PRC and Hong Kong, recognition and enforcement of court judgments from the jurisdictions mentioned above may be difficult or impossible in relation to any matter that is not subject to a binding arbitration provision. See “Enforceability of Foreign Judgments and Civil Liabilities.”

# CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization and indebtedness as of September 30, 2012 and as adjusted to give effect to this offering. You should read this table in conjunction with our unaudited interim consolidated financial statements as of and for the nine months ended September 30, 2012, and related notes included elsewhere in this offering memorandum.

Except as otherwise disclosed in this offering memorandum, there has been no material change in our capitalization since September 30, 2012.

| | As of September 30, 2012 | | | |
|---|---|---|---|---|
| | Actual | | As Adjusted | |
| | RMB | US$[1] | RMB | US$[1] |
| | (in millions) | | | |
| **Short-term borrowings:** | | | | |
| Bank borrowings — due within one year | 9,263 | 1,474 | 9,263 | 1,474 |
| **Long-term borrowings:** | | | | |
| Bank borrowings — due more than one year | 5,083 | 809 | 5,083 | 809 |
| Unsecured bond | 1,094 | 174 | 1,094 | 174 |
| Guaranteed senior notes | 2,483[2] | 395 | 2,483[2] | 395 |
| The Notes[3] | — | — | 3,771 | 600 |
| Total long-term borrowings | 8,660 | 1,378 | 12,431 | 1,978 |
| **Total borrowings** | **17,923** | **2,852** | **21,694** | **3,452** |
| **Equity:** | | | | |
| Share capital | 7,706 | 1,226 | 7,706 | 1,226 |
| Reserves | 32,687 | 5,201 | 32,687 | 5,201 |
| Non-controlling interests | 333 | 53 | 333 | 53 |
| **Total equity** | **40,726** | **6,480** | **40,726** | **6,480** |
| **Total capitalization[4]** | **49,386** | **7,858** | **53,157** | **8,458** |

(1) Amounts in RMB have been translated into US$ for convenience only based on an exchange rate of RMB6.2848 to US$1.00.

(2) Representing the US$400 million of outstanding principal amount of the 2017 Notes, excluding the offering expenses and discounts related to the 2017 Notes of approximately US$8 million that will be amortized (and thereafter reflected as liabilities) over the tenor of the 2017 Notes. The amount is translated into RMB based on the PBOC foreign exchange rate as at September 30, 2012.

(3) The aggregate principal amount of the Notes, without taking into account and before deduction of underwriting discounts and commissions and estimated offering expenses, is US$600 million. Proceeds from the Notes have been translated into RMB at the rate of RMB6.2848 to US$1.00.

(4) Total capitalization comprises total long-term borrowings and total equity.

The following table sets forth the capitalization and indebtedness of the Issuer as of September 30, 2012, as adjusted to give effect to this offering.

| | As of September 30, 2012 | |
|---|---|---|
| | **Actual** | **As Adjusted** |
| | **US$** | **US$** |
| | **(in millions)** | |
| **Short-term borrowings:** | | |
| Bank borrowings — due within one year | — | — |
| **Long-term borrowings:** | | |
| 2017 Notes | 392[1] | 392[1] |
| The Notes[2] | — | 600 |
| Total long-term borrowings | 392 | 992 |
| **Total borrowings** | **392** | **992** |
| **Equity:** | | |
| Share capital | — | — |
| Reserves | (14) | (14) |
| **Total equity** | **(14)** | **(14)** |
| **Total capitalization** | **378** | **978** |

(1) Representing the US$400 million of outstanding principal amount of the 2017 Notes, excluding the offering expenses and discounts related to the 2017 Notes of approximately US$8 million that will be amortized (and thereafter reflected as liabilities) over the tenor of the 2017 Notes. The guaranteed senior notes of RMB2,483 million shown in our unaudited consolidated balance sheet was translated into RMB based on the PBOC foreign exchange rate as at September 30, 2012, and the US$395 million included elsewhere in this offering memorandum is a convenience translation of such amount.

(2) The aggregate principal amount of the Notes, without taking into account and before deduction of underwriting discounts and commissions and estimated offering expenses, is US$600 million. Proceeds from the Notes have been translated into RMB at the rate of RMB6.2848 to US$1.00.

# DESCRIPTION OF THE ISSUER

**Formation**

The Issuer is a limited liability company incorporated under the Companies Ordinance (Cap. 32) of Hong Kong (CR No. 1663041). It was incorporated in Hong Kong on September 7, 2011. Its registered office is located at Suite 406-409, 4/F, Three Pacific Place, 1 Queen's Road East, Hong Kong. The Issuer is our wholly owned subsidiary.

**Business Activity**

The Issuer is principally engaged in investment holding and, as at the date of this offering memorandum, has no business operation and does not have any employees. Under the terms of the 2017 Notes Indenture, the Issuer may not carry on any business activities other than those in connection with issuance of the 2017 Notes and advance of the net proceeds of the issuance of the 2017 Notes to the us or our subsidiaries. The Proposed Amendment will allow us to incur indebtedness in addition to the existing 2017 Notes. As amended, the 2017 Notes Indenture will still prohibit the Issuer from carrying any business activities other than the offering, sale or issuance of indebtedness and the advance of the proceeds thereof to the us, any of the our subsidiaries or a company otherwise controlled by us and any other activities in connection therewith.

**Directors and Officers**

The directors of the Issuer are Xiong Yanming and Shen Ke. The directors of the Issuer do not hold any shares or options to acquire shares of the Issuer.

**Share Capital**

The authorized share capital of the Issuer is HK$10,000.00, divided into 10,000 ordinary shares of HK$1.00 each, all of which have been issued and are fully paid. No part of the equity securities of the Issuer is listed or dealt in on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought.

**Summary Financial Information of the Issuer**

The Issuer has not engaged, since its incorporation, in any activities other than those incidental to its incorporation, the authorization, execution and issue of the 2017 Notes and the Notes, and the documents and matters in connection with the offer, sale and issue of the 2017 Notes and the Notes (including those referred to or contemplated in this offering memorandum to which the Issuer is or will be a party) and matters which are incidental or ancillary to the foregoing.

Save for the 2017 Notes and as disclosed elsewhere in this offering memorandum, at the date of this offering memorandum, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unused), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

There are no other outstanding loans or subscriptions, allotments or options in respect of the Issuer.

The financial year of the Issuer runs from January 1 to December 31. There has been no material change in the activities of the Issuer since its incorporation.

Set forth below is the Issuer's balance sheet as of September 30, 2012:

| | As of September 30, 2012 |
|---|---|
| | US$ |
| | (in millions) |
| **Assets** | |
| **Non-current assets** | |
| **Total non-current assets** | **—** |
| **Current assets** | |
| Cash | — |
| Other receivables | 378[1] |
| **Total current assets** | **378** |
| **Total assets** | **378** |
| **Liabilities and equity** | |
| **Current liabilities** | |
| Other payables | 1 |
| **Total current liabilities** | **1** |
| **Non-current liabilities** | |
| 2017 Notes | 392[2] |
| **Total non-current liabilities** | **392** |
| **Total liabilities** | **392** |
| **Capital and reserves** | |
| Share capital | — |
| Reserves | (14) |
| **Total equity** | **(14)** |

(1) Representing amounts due from another subsidiary of ours.

(2) Representing the US$400 million of outstanding principal amount of the 2017 Notes, excluding the offering expenses and discounts related to the 2017 Notes of approximately US$8 million that will be amortized (and thereafter reflected as liabilities) over the tenor of the 2017 Notes. The guaranteed senior notes of RMB2,483 million shown in our unaudited consolidated balance sheet was translated into RMB based on the PBOC foreign exchange rate as at September 28, 2012, and the US$395 million included elsewhere in this offering memorandum is a convenient translation of such amount.

# USE OF PROCEEDS

The net proceeds we expect to receive from this offering, after deducting underwriting discounts and estimated offering expenses, will be approximately US$591.6 million. We intend to use the net proceeds of this offering to fund our overseas expansion plan, including enhancing our distribution and service network and establishing research and development centers and manufacturing facilities.

The foregoing represents our current intentions based upon our present plans and business conditions to use and allocate the net proceeds of this offering. Our management, however, will have significant flexibility and discretion to apply the net proceeds of this offering subject to applicable PRC laws and regulations. If an unforeseen event occurs or business conditions change, we may use the proceeds of this offering differently than as described in this offering memorandum subject to the applicable PRC laws and regulations.

# OUR HISTORY AND CORPORATE STRUCTURE

**Our History**

We were founded in 1999 as a joint stock company with a registered capital of 100 million ordinary shares, par value of RMB1.00 per share, through the combination of the Changsha Construction Machinery Research Institute Co., Ltd.'s, or the Research Institute's, wholly-owned equity interest in Zoomlion Construction Machinery Industrial Co., Ltd., and certain of the Research Institute's other assets, equity interests in certain companies held by Changsha Hi-Tech Industrial Development Zone Zhongbiao Industrial Co., Ltd., or Changsha Zhongbiao, and cash contributions from four other shareholders. The Research Institute and Changsha Zhongbiao owned approximately 74.75% and 23.76% of our Company, respectively, while the other four shareholders each owned approximately 0.37% of our Company.

In 2000, after obtaining approvals from the China Securities Regulatory Commission, or the CSRC, we conducted an initial public offering in China and issued a total of 50 million ordinary shares, par value RMB1.00 per share, at RMB12.74 per share. We were listed on the Shenzhen Stock Exchange on October 12, 2000 under the code "000157". As a result of our initial public offering in China, our registered capital was increased to RMB150 million and public shareholders owned approximately 33.33% of our Company. The remaining shares that were not traded on the Shenzhen Stock Exchange, or non-tradable shares, were held by the Research Institute and Changsha Zhongbiao, which represented approximately 49.83% and 15.83% of the outstanding equity interests in our Company, respectively, and four other shareholders, each owning approximately 0.25% of our Company.

In June 2004, Changsha Zhongbiao transferred the equity interest of our Company it held to Shenzhen Jinxinan Investment Co., Ltd., or Jinxinan Investment. After this transaction, Jinxinan Investment owned approximately 15.83% of our Company.

In May 2006, Jinxinan Investment entered into a share transfer agreement with Good Excel Group Limited, a PRC company wholly owned by Rise Honor Investments Limited, a company incorporated in the Cayman Islands and wholly owned by Hony Capital II, L.P., an exempted limited partnership formed under the laws of the Cayman Islands, to transfer the equity interest of our Company held by Jinxinan Investment to Good Excel Group Limited. After this transaction, Good Excel Group Limited owned approximately 15.83% of our Company.

In May 2006, our shareholders undertook an effort to reform our non-tradable shares to tradable shares. Under relevant regulations, administrative measures, notices and opinions, non-tradable shares could become tradable, after the expiration of a lock-up period, if shareholders of non-tradable shares, or nonpublic shareholders, distribute a certain portion of the non-tradable shares held by them to public shareholders, subject to super-majority approval of all shareholders and the public shareholders. Thus, our nonpublic shareholders transferred 54,080,000 of their non-tradable shares, divided pro rata amongst the nonpublic shareholders in accordance with their shareholdings, to our public shareholders, each of whom received an additional 3.2 shares for every 10 shares that they held. The share transfer was completed in July 2006, after which approximately 44.00% of our Company was held by public shareholders, with the equity interest of the Research Institute and Good Excel Group Limited reduced from approximately 49.83% and 15.83% to approximately 41.86% and 13.30%, respectively. Equity interests held by the other four nonpublic shareholders were similarly reduced.

In June 2007, we entered into agreements with the Research Institute, its subsidiaries and certain third parties to purchase equity interests in certain companies, as well as certain assets of the Research Institute.

Following the completion of the asset purchases, the Research Institute entered into a liquidation procedure in which the remaining assets of the Research Institute, including the equity interests held in us by the Research Institute, were distributed amongst the shareholders of the Research Institute. In July 2007, the relevant PRC government authorities approved the dissolution of the Research Institute and on December 31, 2008, the dissolution of the Research Institute was completed.

On June 20, 2008, Magenta SGR S.p.A., Fadorè S.àr.l., Intesa Sanpaolo S.p.A., Immobiliare BA.STE.DO. S.r.l., Immobiliare Duemila S.r.l., Immobiliare Novanta S.r.l., Pasquale Di Iorio, Simone Rafael Emdin and Maurizio Ferrari, as the sellers, and Hony Capital Fund III. L.P., Mandarin Capital Partners, and GS Hony Holdings I Ltd. and our Company, as the buyers, entered into the Sale and Purchase Agreement relating to 100% of the issued and fully paid-in share capital and voting rights of CIFA, a concrete machinery manufacturer based in Italy. We currently hold 59.3% of equity interest in CIFA. In September 2008, a shareholders' agreement was entered into among the Company, Hony Capital Fund III. L.P., Mandarin Capital Partners and GS Hony Holdings I Ltd., an indirect wholly-owned subsidiary of The Goldman Sachs Group Inc., to govern their rights and obligations as shareholders of ZoomlionCifa (Hong Kong) Holdings Limited. Such agreement was subsequently amended to include the five management shareholders of CIFA upon completion of their investment in ZoomlionCifa (Hong Kong) Holdings Limited in June 2009. The shareholders' agreement contains customary minority shareholders' rights such as nomination rights, reserved matters protection rights, pre-emptive rights, tag-along rights, drag-along rights and anti-dilution rights. The acquisition of CIFA enabled us to take advantage of CIFA's extensive distribution and service network in Europe, strong research and development capabilities and proprietary technologies, and become a leading global concrete machinery manufacturer.

In January 2010, we issued 297,954,705 A Shares to nine institutional investors in a non-public offering. The net proceeds from the non-public offering were applied for the upgrade and expansion of our existing production facilities, the construction of new production facilities, and to fund working capital and other general corporate purpose. These A Shares were listed on the Shenzhen Stock Exchange on February 12, 2010 and were subject to a lock-up period of 12 months.

In December 2010, after obtaining approvals from the CSRC, we conducted an initial public offering in Hong Kong and issued 869,582,800 H Shares, with a par value RMB1.00 per share, at HK$14.98 per share. Our H Shares were listed on the Hong Kong Stock Exchange on December 23, 2010 under the code "1157". In January 2011, we issued an additional 130,437,400 H Shares at HK$14.98 per share pursuant to the over-allotment option we granted in the initial public offering in Hong Kong.

In June 2011, as approved by the annual general meeting of our shareholders, we changed our name to Zoomlion Heavy Industry Science and Technology Co., Ltd. In October 2011, we completed the amendment of our registration with the government authority and the change of name became effective.

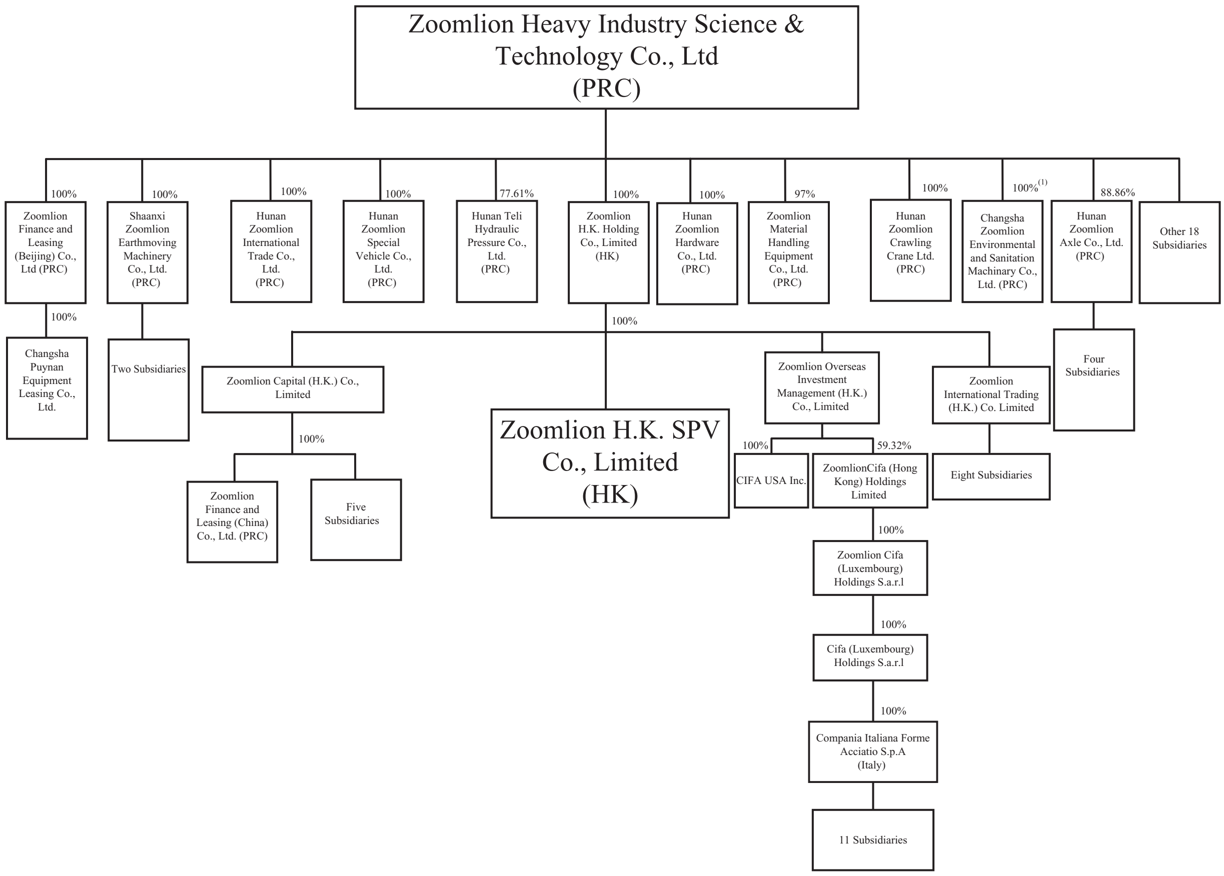
In August 2012, we entered into a joint venture agreement with ElectroMech, a leading crane machinery manufacturer in India, to establish a subsidiary in which we will own a 70% interest. Under the joint venture agreement, we will have full control over the subsidiary. The principal activity of this subsidiary will be manufacturing of tower cranes, which we plan to sell in India. We are in the process of establishing an investment vehicle to hold the interest in this subsidiary and negotiating a definitive capital commitment schedule with ElectroMech. We believe that cooperation with ElectroMech and the establishment of the subsidiary will enable us to combine the strong local presence of ElectroMech and our expertise in crane machinery to capture the expected growth in demand for crane machinery in India.

**Proposed Disposal of Our Subsidiary**

In February 2012, we established a wholly-owned subsidiary, the ESM Company, with a registered capital of RMB2,100 million, and transferred to the ESM Company our environmental and sanitation business and related assets for a consideration of RMB1,943.28 million. On March 15, 2012, in order to focus our efforts on our core business of manufacturing construction machinery and to optimize resource allocation, we passed a board resolution approving the disposal of an 80% equity interest in the ESM Company (the "Proposed Sale Interest") by way of a public tender on the Hunan Province United Assets and Equity Exchange (the "Hunan Province Equity Exchange") (the "Disposal"). The resolution provides that we will not accept any tender price lower than the appraised value of the equity interest to be disposed. We have engaged an independent appraisal firm to carry out a valuation of the ESM Company and as at February 29, 2012, the appraised value of the ESM Company was RMB3,478.8201 million, and the 80% of the appraised value is RMB2,783.0561 million. Such valuation was filed with Hunan State-owned Assets Supervision and Administrative Commission of the People's Government of Hunan Province. The tender price for the proposed Disposal was RMB3,200 million, representing a valuation of the ESM Company at RMB4,000 million, which is higher than the appraised value of the ESM Company as at February 29, 2012. The final consideration for the sale of the Proposed Sale Interest will be determined in accordance with the transaction rules of the equity exchange. We were informed that Bliss Success Holdings Limited and Changsha Hesheng Investment and Development Co., Ltd. ("Hesheng Investment") intend to participate jointly in our public tender as intended transferees. We were informed that Bliss Success Holdings Limited is an affiliate of our shareholders, Good Excel Group Limited and Real Smart International Limited. Hesheng Investment is a company controlled and owned by our senior management, including Dr. Zhan Chunxin (our Chairman and Chief Executive Officer) who owns 30% of Hesheng Investment. As the tender process is open to the general public, there can be other potential transferees. Due to the imminent nature of the proposed Disposal, the terms and conditions of the tender offering, including the pricing and structure of the deals, are subject to further changes. The public tender commenced on March 23, 2012, where the notice publication period for intended transferees to submit transfer applications has been consecutively extended for a period of five business days ("Extended Notice Period") until December 31, 2012. If an intended transferee is identified within any Extended Notice Period before December 31, 2012, the publication period of the tender notice will end on the expiry date of such relevant Extended Notice Period. If an intended transferee has not been identified as of December 31, 2012, the Company will decide whether to further extend the notice publication period according to the actual circumstances. Completion of the Disposal is subject to various conditions, including the entering into definitive agreement(s) between the Company and the successful bidder(s), the obtaining of shareholders' approval at a general meeting of our Company and where applicable, independent shareholders' approval if the successful bidder is a related party of our Company and approvals by the relevant PRC regulatory authorities. Upon completion of the Disposal, the ESM Company will cease to be our subsidiary and we will retain 20% equity interest in the ESM Company. The environmental and sanitation business contributed 5.9%, 5.8%, 6.4% and 5.2% of our consolidated turnover and 7.6%, 6.1%, 6.1% and 4.4% of our gross profit for 2009, 2010, 2011 and the nine months ended September 30, 2012, respectively. We do not expect the sale of the Proposed Sale Interest will have any material adverse impact on the Company's financial conditions or operating results or have any impact on our ability to sustain our operations.

**Our Corporate Structure**

We have established and acquired various subsidiaries to carry out different operations, including research and development, the provision of financing lease services and the manufacture of different machineries and certain key components. The diagram below illustrates our corporate structure as of the date of this offering memorandum:




(1) On March 15, 2012, we passed a board resolution approving the disposal of 80% equity interest in the ESM Company by way of a public tender on Hunan Province Equity Exchange. Upon completion of such disposal, the ESM Company will cease to be our subsidiary and we will retain 20% equity interest in the ESM Company. For details, please see "Our History and Corporate Structure – Proposed Disposal of Our Subsidiary".

## SELECTED FINANCIAL INFORMATION

The following selected historical consolidated balance sheet data as of December 31, 2009, 2010 and 2011, selected historical consolidated statement of comprehensive income data and selected historical consolidated cash flow data for the years ended December 31, 2009, 2010 and 2011 have been derived from our audited consolidated financial statements included elsewhere in this offering memorandum. The following selected historical consolidated balance sheet data as of September 30, 2012 and the selected historical consolidated statements of comprehensive income data and selected historical consolidated cash flow data for the nine months ended September 30, 2011 and 2012 have been derived from our unaudited interim consolidated financial statements included elsewhere in this offering memorandum. We have prepared the unaudited interim consolidated financial statements on the same basis as our audited consolidated financial statements. The unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair presentation of our financial position and results of operations for the periods presented.

You should read the selected consolidated financial information in conjunction with those financial statements and related notes and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this offering memorandum. Our consolidated financial statements are prepared and presented in accordance with IFRS. Our historical results do not necessarily indicate our results expected for any future period.

### *Selected Historical Consolidated Statement of Comprehensive Income Data*

| | Year Ended December 31, | | | | | | | Nine Months Ended September 30, | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2010 | | 2011 | | | 2011 | | 2012 | | |
| | RMB | % | RMB | % | RMB | US$ | % | RMB | % | RMB | US$ | % |
| | (in millions, except for percentages) | | | | | | | | | | | |
| **Turnover** | 20,762 | 100.0 | 32,193 | 100.0 | 46,323 | 7,371 | 100.0 | 33,207 | 100.0 | 39,108 | 6,222 | 100.0 |
| Cost of sales and services | (15,422) | (74.3) | (22,424) | (69.7) | (31,316) | (4,983) | (67.6) | (22,532) | (67.9) | (25,644) | (4,080) | (65.6) |
| **Gross profit** | **5,340** | **25.7** | **9,769** | **30.3** | **15,007** | **2,388** | **32.4** | **10,675** | **32.1** | **13,464** | **2,142** | **34.4** |
| Other revenues and net income/(loss) | 105 | 0.5 | 54 | 0.2 | 14 | 2 | — | 73 | 0.2 | (122) | (19) | (0.3) |
| Sales and marketing expenses | (1,250) | (6.0) | (2,146) | (6.7) | (3,160) | (503) | (6.8) | (1,955) | (5.8) | (2,504) | (398) | (6.4) |
| General and administrative expenses | (878) | (4.2) | (1,645) | (5.1) | (1,861) | (296) | (4.0) | (1,485) | (4.5) | (1,662) | (265) | (4.3) |
| Research and development expenses | (194) | (0.9) | (265) | (0.8) | (398) | (63) | (0.9) | (241) | (0.7) | (524) | (83) | (1.3) |
| **Profit from operations** | **3,123** | **15.1** | **5,767** | **17.9** | **9,602** | **1,528** | **20.7** | **7,067** | **21.3** | **8,652** | **1,377** | **22.1** |
| (Loss)/gain on disposal of subsidiaries and associates | (6) | — | — | — | 12 | 2 | — | 12 | — | — | — | — |
| Net finance cost | (295) | (1.4) | (365) | (1.1) | (36) | (6) | — | (16) | — | (356) | (57) | (0.9) |
| Share of profits less losses of associates | 6 | — | 14 | — | 24 | 4 | — | 18 | — | 6 | 1 | — |
| **Profit before taxation** | **2,828** | **13.7** | **5,416** | **16.8** | **9,602** | **1,528** | **20.7** | **7,081** | **21.3** | **8,302** | **1,321** | **21.2** |
| Income tax | (409) | (2.0) | (828) | (2.6) | (1,429) | (228) | (3.1) | (1,089) | (3.3) | (1,175) | (187) | (3.0) |
| **Profit for the year/period** | **2,419** | **11.7** | **4,588** | **14.2** | **8,173** | **1,300** | **17.6** | **5,992** | **18.0** | **7,127** | **1,134** | **18.2** |
| **Other comprehensive income for the year/period (after tax)** | | | | | | | | | | | | |
| Change in fair value of available-for-sale equity securities | 3 | — | (2) | — | (1) | (0.2) | — | (1) | — | — | — | — |
| Others | — | — | 11 | — | — | — | — | — | — | — | — | — |
| Exchange differences on translation of financial statements of subsidiaries outside of PRC | 44 | 0.2 | (74) | (0.2) | (2) | (0.3) | — | 64 | 0.2 | 21 | 3 | 0.1 |
| **Total other comprehensive income for the year/period** | **47** | **0.2** | **(65)** | **(0.2)** | **(3)** | **(0.5)** | **—** | **63** | **0.2** | **21** | **3** | **0.1** |
| **Total comprehensive income for the year/period** | **2,466** | **11.9** | **4,523** | **14.0** | **8,170** | **1,300** | **17.6** | **6,055** | **18.2** | **7,148** | **1,137** | **18.3** |
| **Profit attributable to:** | | | | | | | | | | | | |
| Equity shareholders of the Company | 2,447 | 11.8 | 4,666 | 14.5 | 8,066 | 1,283 | 17.4 | 5,961 | 18.0 | 6,960 | 1,107 | 17.8 |
| Non-controlling interests | (28) | (0.1) | (78) | (0.3) | 107 | 17 | 0.2 | 31 | 0.1 | 167 | 27 | 0.4 |
| **Total comprehensive income attributable to:** | | | | | | | | | | | | |
| Equity shareholders of the Company | 2,497 | 12.0 | 4,580 | 14.2 | 8,050 | 1,281 | 17.4 | 6,012 | 18.1 | 6,982 | 1,111 | 17.8 |
| Non-controlling interests | (31) | (0.1) | (57) | (0.2) | 120 | 19 | 0.2 | 43 | 0.1 | 166 | 26 | 0.5 |

*Selected Historical Consolidated Balance Sheet Data*

| | As of December 31, | | | | As of September 30, | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | US$ |
| | | | (in millions) | | | |
| **Assets** | | | | | | |
| **Non-current assets** | | | | | | |
| Property, plant and equipment | 3,683 | 4,135 | 4,886 | 777 | 6,165 | 981 |
| Lease prepayments | 907 | 1,119 | 1,390 | 221 | 1,439 | 229 |
| Intangible assets | 1,432 | 1,256 | 1,216 | 193 | 1,235 | 197 |
| Goodwill | 2,082 | 1,907 | 1,793 | 286 | 1,798 | 286 |
| Interests in associates | 71 | 86 | 103 | 17 | 161 | 25 |
| Other financial assets | 15 | 50 | 43 | 7 | 116 | 18 |
| Trade and other receivables | 229 | 585 | 912 | 145 | 3,405 | 542 |
| Receivables under finance lease | 5,060 | 9,775 | 12,780 | 2,033 | 13,806 | 2,197 |
| Pledged bank deposits | 234 | 185 | 261 | 42 | 628 | 100 |
| Deferred tax assets | 148 | 274 | 317 | 50 | 388 | 62 |
| **Total non-current assets** | **13,861** | **19,372** | **23,701** | **3,771** | **29,141** | **4,637** |
| **Current assets** | | | | | | |
| Inventories | 6,272 | 8,678 | 9,656 | 1,536 | 12,088 | 1,923 |
| Trade and other receivables | 6,265 | 8,260 | 13,614 | 2,166 | 19,503 | 3,103 |
| Receivables under finance lease | 3,283 | 6,397 | 7,089 | 1,128 | 7,985 | 1,271 |
| Pledged bank deposits | 755 | 1,577 | 1,481 | 236 | 1,569 | 250 |
| Cash and cash equivalents | 3,439 | 18,758 | 16,002 | 2,546 | 16,594 | 2,640 |
| **Total current assets** | **20,014** | **43,670** | **47,842** | **7,612** | **57,739** | **9,187** |
| **Total assets** | **33,875** | **63,042** | **71,543** | **11,383** | **86,880** | **13,824** |
| **Liabilities and equity** | | | | | | |
| **Current liabilities** | | | | | | |
| Loans and borrowings | 8,553 | 8,107 | 6,049 | 962 | 9,263 | 1,474 |
| Trade and other payables | 10,632 | 17,203 | 19,314 | 3,073 | 24,949 | 3,970 |
| Income tax payable | 283 | 757 | 1,289 | 206 | 1,000 | 159 |
| **Total current liabilities** | **19,468** | **26,067** | **26,652** | **4,241** | **35,212** | **5,603** |
| **Net current assets** | **546** | **17,603** | **21,190** | **3,371** | **22,527** | **3,584** |
| **Total assets less current liabilities** | **14,407** | **36,975** | **44,891** | **7,142** | **51,668** | **8,221** |
| **Non-current liabilities** | | | | | | |
| Loans and borrowings | 5,621 | 7,690 | 7,089 | 1,128 | 8,660 | 1,378 |
| Trade and other payables | 684 | 1,379 | 1,789 | 284 | 1,831 | 291 |
| Income tax payable | 550 | 471 | 418 | 66 | 451 | 72 |
| **Total non-current liabilities** | **6,855** | **9,540** | **9,296** | **1,478** | **10,942** | **1,741** |
| **Total liabilities** | **26,323** | **35,607** | **35,948** | **5,719** | **46,154** | **7,344** |
| **Net assets** | **7,552** | **27,435** | **35,595** | **5,664** | **40,726** | **6,480** |
| **Capital and reserves** | | | | | | |
| Share capital | 1,673 | 5,797 | 7,706 | 1,226 | 7,706 | 1,226 |
| Reserves | 5,755 | 21,579 | 27,701 | 4,408 | 32,687 | 5,201 |
| **Total equity attributable to equity shareholders** | **7,428** | **27,376** | **35,407** | **5,634** | **40,393** | **6,427** |
| **Non-controlling interests** | **124** | **59** | **188** | **30** | **333** | **53** |
| **Total equity** | **7,552** | **27,435** | **35,595** | **5,664** | **40,726** | **6,480** |

### *Selected Historical Consolidated Cash Flow Data*

| | Year Ended December 31, | | | | Nine Months ended September 30, | | |
|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | | 2011 | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | RMB | US$ |
| | | | (in millions) | | | | |
| Net cash (used in) / generated from operating activities | (1,366) | 451 | 1,880 | 299 | 914 | (3) | — |
| Net cash used in investing activities | (1,360) | (1,833) | (1,287) | (205) | (1,752) | (1,859) | (296) |
| Net cash generated from / (used in) financing activities | 3,250 | 16,755 | (3,275) | (521) | 835 | 2,449 | 389 |
| Net increase / (decrease) in cash and cash equivalents | 524 | 15,373 | (2,682) | (427) | (3) | 587 | 93 |
| Effect of foreign exchange rate changes | 2 | (54) | (74) | (12) | (98) | 5 | 1 |
| Cash and cash equivalents at the beginning of the year/period | 2,913 | 3,439 | 18,758 | 2,985 | 18,758 | 16,002 | 2,546 |
| Cash and cash equivalents at the end of the year/period | 3,439 | 18,758 | 16,002 | 2,546 | 18,657 | 16,594 | 2,640 |

### *Other Financial Data*

| | As of or For the Year Ended December 31, | | | | As of or For the Nine Months Ended September 30, | | As of or For the 12 Months ended September 30,[1] | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | | 2012 | | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | US$ | RMB | US$ |
| | | | (in millions, unless otherwise stated) | | | | | |
| EBITDA[2][9] | 3,452 | 6,182 | 10,058 | 1,600 | 9,027 | 1,436 | 11,677 | 1,858 |
| EBITDA margin[3][9] (%) | 16.6% | 19.2% | 21.7% | 21.7% | 23.1% | 23.1% | 22.4% | 22.4% |
| Interest on loans and borrowings | 372 | 403 | 513 | 82 | 582 | 93 | 734 | 117 |
| Total debt[4] | 14,174 | 15,797 | 13,138 | 2,090 | 17,923 | 2,852 | 17,923 | 2,852 |
| Net debt / (net cash)[5][9] | 10,735 | (2,961) | (2,864) | (456) | 1,329 | 212 | 1,329 | 212 |
| Interest coverage ratio[6][9] (x) | 9.3x | 15.3x | 19.6x | 19.6x | 15.5x | 15.5x | 15.9x | 15.9x |
| Leverage ratio[7][9] (x) | 4.1x | 2.6x | 1.3x | 1.3x | n.m.[10] | n.m.[10] | 1.5x | 1.5x |
| Net debt / (net cash) to EBITDA ratio[8][9] (x) | 3.1x | (0.5)x | (0.3)x | (0.3)x | n.m.[10] | n.m.[10] | 0.1x | 0.1x |

(1) The financial data for the 12 months ended September 30, 2012 is calculated by subtracting the amount for the nine months ended September 30, 2011 from the amount for 2011, and then adding the amount for the nine months ended September 30, 2012.

(2) EBITDA is calculated from profit from operations, plus depreciation and amortization.

(3) EBITDA margin is calculated by dividing EBITDA by turnover.

(4) Total debt comprises of short-term and long-term loans and borrowings.

(5) Net debt/(net cash) is calculated by subtracting cash and cash equivalents from total debt.

(6) Interest coverage ratio is calculated by dividing EBITDA by interest on loans and borrowings.

(7) Leverage ratio is calculated by dividing total debt by EBITDA.

(8) Net debt/(net cash) to EBITDA ratio is calculated by dividing net debt/(net cash) by EBITDA.

(9) We have presented various non-GAAP items because we consider them important supplemental measures of our operating performance and believe they are frequently used by analysts, investors and other interested parties in the evaluation of companies in our industry. Our management uses these non-GAAP items as additional measurement tools for purposes of business decision-making. Other companies in our industry may calculate these non-GAAP items differently than we do. These non-GAAP items are not measures of operating performance or liquidity under IFRS and should not be considered as substitutes for, or superior to, operating income or cash flow from operating activities in accordance with IFRS. These non-GAAP items have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results as reported under IFRS. Our presentation of these non-GAAP items should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

(10) Not meaningful.

The following table sets forth the reconciliation of profit from operations to EBITDA:

| | Year Ended December 31, | | | | Nine Months Ended September 30, | | 12 Months ended September 30, | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | | 2012 | | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | US$ | RMB | US$ |
| | (in millions) | | | | | | | |
| Profit from operations | 3,123 | 5,767 | 9,602 | 1,528 | 8,652 | 1,377 | 11,187 | 1,780 |
| Depreciation and amortization | 329 | 415 | 456 | 72 | 375 | 59 | 490 | 78 |
| EBITDA | 3,452 | 6,182 | 10,058 | 1,600 | 9,027 | 1,436 | 11,677 | 1,858 |

The following table sets forth the calculation of our total debt and net debt/(net cash position):

| | As of December 31, | | | | As of September 30, | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | US$ |
| | (in millions) | | | | | |
| Short-term loans and borrowings | 8,553 | 8,107 | 6,049 | 962 | 9,263 | 1,474 |
| Long-term loans and borrowings | 5,621 | 7,690 | 7,089 | 1,128 | 8,660 | 1,378 |
| Total debt | 14,174 | 15,797 | 13,138 | 2,090 | 17,923 | 2,852 |
| Cash and cash equivalents | (3,439) | (18,758) | (16,002) | (2,546) | (16,594) | (2,640) |
| Net debt/(net cash) | 10,735 | (2,961) | (2,864) | (456) | 1,329 | 212 |

The following table sets forth the calculation of our interest coverage ratio:

| | Year Ended December 31, | | | | Nine Months Ended September 30, | | 12 Months ended September 30, | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | | 2012 | | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | US$ | RMB | US$ |
| | (in millions, unless otherwise stated) | | | | | | | |
| EBITDA | 3,452 | 6,182 | 10,058 | 1,600 | 9,027 | 1,436 | 11,677 | 1,858 |
| Interest on loans and borrowings | 372 | 403 | 513 | 82 | 582 | 93 | 734 | 117 |
| Interest coverage ratio (x) | 9.3x | 15.3x | 19.6x | 19.6x | 15.5x | 15.5x | 15.9x | 15.9x |

# 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.*

*Potential investors should read the entire financial statements included elsewhere in this offering memorandum and not rely merely on the information contained in this section. Our historical results do not necessarily indicate future results. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this* offering memorandum.

## OVERVIEW

We are a leading China-based construction machinery manufacturer providing comprehensive and diversified products and value-added services and have experienced significant growth in the last decade benefiting from China's ongoing urbanization and significant growth in the infrastructure sector. We derive our turnover from several business lines, including the following: (i) concrete machinery, (ii) crane machinery, (iii) environmental and sanitation machinery, (iv) road construction and pile foundation machinery, (v) earth working machinery, (vi) material handling machinery and systems, and (vii) finance lease services.

We currently offer more than 900 models of machinery and equipment covering 98 different product types in 13 product categories. Concrete machinery and crane machinery are our core product lines, which together represented approximately 74.5%, 78.2%, 79.5%, 79.0% and 80.6% of our consolidated turnover in 2009, 2010, 2011 and the nine months ended September 30, 2011 and 2012, respectively. Both our Zoomlion line and CIFA line of products are sold through an extensive distribution network in China, covering more than 300 cities and all provinces and autonomous regions in China. We currently sell our products to over 120 countries through our established distribution network.

Our large-scale operations enable us to enjoy economies of scale and maintain a cost-effective and high-quality supply chain. Leveraging on our purchasing power, we are able to enter into strategic cooperation framework agreements with certain suppliers of key raw materials, parts and components that are important to our manufacturing process. Such agreements enable us to procure sufficient quantities of high-quality raw materials, parts and components at relatively lower prices on a sustainable basis.

We have experienced significant growth in our business. Our consolidated turnover increased from RMB20,762 million in 2009 to RMB46,323 million (US$7,371 million) in 2011. Our profit for the year increased from RMB2,419 million in 2009 to RMB8,173 million (US$1,300 million) in 2011. In the nine months ended September 30, 2012, our consolidated turnover increased to RMB39,108 million (US$6,222 million) from RMB33,207 million for the same period in 2011 and our profit for the period increased to RMB7,127 million (US$1,134 million) from RMB5,992 million for the same period in 2011.

## FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We believe the most significant factors that directly or indirectly affect our financial performance and results of operations include:

- general economic conditions in China;
- product mix and our ability to offer new products;
- our ability to manage and expand our scale of operation globally;
- our ability to control our production costs; and
- our ability to effectively manage our finance lease services.

### *General Economic Conditions in China*

We derived substantially all of our consolidated turnover from the sales of our products in China during 2009, 2010, 2011 and the nine months ended September 30, 2012. Demand for construction machinery is affected by the general economic conditions in China. Historically, our business expansion and the growth of the construction machinery industry have been driven by the rapid economic growth in China and the associated urbanization and increase in fixed asset investments. In recent years, China has been one of the fastest growing economies in the world. Between 2001 and 2011, China's GDP increased from approximately RMB11.0 trillion to approximately RMB47.2 trillion, representing a CAGR of 15.7%. As a result of the strong economic growth, China has experienced an ongoing urbanization and industrialization process and a significant increase in the general public's spending power in China. The urbanization level in China increased from 35.8% in 2000 to 50.6% in 2011, according to the statistics published by the United Nations. The urbanization level in China is estimated to be 54.2% and 58.9% in 2015 and 2020, respectively, according to Euromonitor International Ltd, a London-based intelligence firm. The urbanization of and the increasing spending power in China have led to increasing demand for infrastructure, industrial, commercial and residential developments. Fixed asset investment in urban areas in China increased from approximately RMB3.0 trillion in 2001 to approximately RMB30.2 trillion in 2011, according to the National Bureau of Statistics, representing a CAGR of 26.0%. Meanwhile, our growth has benefited from China's favorable government policies toward fixed asset investments and the infrastructure sector, including favorable government infrastructure investment policies to expand, modernize and upgrade China's infrastructure system. We expect the urbanization and the increases in infrastructure and fixed asset investment in China to continue as the economy continues to grow, which in turn will drive the growth of the construction machinery industry. In particular, according to China Construction Machinery Association, or the CCMA, the market for construction machinery in China is expected to reach RMB900 billion in 2015. As a leading manufacturer of construction machinery in China, we believe we are well positioned to take advantage of the growth of the construction machinery industry in China. However, in 2012, the economic growth in China slowed down and resulted in a downturn in the construction machinery industry. While we were able to sustain our growth in the nine months ended September 30, 2012, if China's economic growth continues to slow down and the economy deteriorates, the construction machinery industry could suffer further, which may materially and adversely affect our financial condition and results of operations.

*Product Mix and Our Ability to Offer New Products*

Our turnover is primarily affected by the sales volume and, to a lesser extent, by fluctuations in the selling prices of our products. The profitability of our products varies across our product lines. Changes in product mix have in the past affected, and are expected to continue to affect, our turnover and gross margin. From time to time, we adjust our product mix across product lines and within specific product lines to capitalize on the prevailing market demand and maximize our overall turnover. Meanwhile, our capability to offer new products and improve existing products has been and is expected to be an important driver to increase our turnover and profitability.

We derived the majority of our turnover from sales of concrete machinery and crane machinery, which in aggregate accounted for 74.5%, 78.2%, 79.5%, 79.0% and 80.6% of our consolidated turnover for each year of 2009, 2010, 2011 and the nine months ended September 30, 2011 and 2012, respectively. We expect sales of our concrete machinery and crane machinery to continue to increase in absolute terms and continue to be a major source of our turnover. However, we expect the turnover generated from the sales of concrete machinery and crane machinery to decrease as a percentage of our consolidated turnover in the future with the expansion of our other product lines. Furthermore, in view of China's ongoing urbanization and significant investment in infrastructure projects, we believe there is strong growth potential in the earth working machinery market. As a result, we aim to focus on the growth of this product line to capitalize on prevailing industry trends, we expect sales of our earth working machinery to increase in absolute terms and as a percentage of our consolidated turnover.

We believe that our comprehensive product offerings, including innovative products and the flexibility in adjusting our product mix, allows us to respond to different market conditions in a timely manner and maintain relatively stable and high turnover and profitability.

*Our Ability to Manage and Expand our Scale of Operations Globally*

In order to capture the market opportunity, we are currently expanding, and will continue to expand, our scale of operations in China and globally by establishing new manufacturing and research and development facilities, expanding our distribution and service network and selectively conducting strategic acquisitions and alliances. By doing so, we may broaden our customer base, expand our product offerings, enhance our research and development capabilities and increase our manufacturing capacity and capabilities. In particular, we intend to expand our global footprint and the overseas sales of our products so as to capitalize on the growing international demand for competitively priced construction machinery manufactured in China. By expanding our distribution and service network overseas, we may strengthen our ability to provide value-added services to our customers in the overseas market and increase our sales in the overseas market. All of the measures mentioned above may increase our turnover or our profitability. An increase in our sales from the overseas market will also diversify the geographic concentration of our sources of turnover, which may help reduce our reliance on the demand for our products within China and limit our exposure to any adverse changes in China's economic conditions and the PRC government's policies which might affect the sales of our construction machinery.

However, expanding our scale of operations globally, including strategic acquisitions and alliances, is associated with high investment costs. If we are unable to balance the costs of establishing additional manufacturing and research and development facilities with the growth in demand for our products or if such investment costs are higher than we expect, we may be unable to generate an adequate return for such investments and may experience an increase in financial obligations and unit manufacturing costs that may negatively affect our results of operations. In order to sell our products in certain jurisdictions, we may need to refine or enhance certain products to meet the applicable regulatory requirements for that jurisdiction, which would increase our aggregate manufacturing costs. Furthermore, the parts depots and after-sales services centers, as well as the additional overseas branch offices and representative offices we plan to establish as part of our distribution and service network expansion plan will also result in an increase in our operating expenses.

***Our Ability to Control Our Production Costs***

In 2009, 2010, 2011 and the nine months ended September 30, 2011 and 2012, costs of raw materials, parts and components amounted to RMB14,281 million, RMB20,740 million, RMB29,463 million (US$4,688 million), RMB21,127 million and RMB24,286 million (US$3,864 million), respectively, representing 68.8%, 64.5%, 63.7%, 63.6% and 62.1% of our consolidated turnover for the respective periods. The key raw materials, parts and components for our production include steel, branded chassis and hydraulic pumps, valves and cylinders. The production costs of our products are subject to fluctuations in the prices of steel and steel components. In recent years, market demand for steel has been strong. There are a limited number of steel suppliers and it may be difficult for us to find alternative suppliers for steel when demand exceeds supply. Due to strong market demand, supply of certain imported parts and components, including branded chassis and hydraulic pumps, valves and cylinders, may be limited. As a result, we typically keep higher levels of inventories of certain imported parts and components for which the supply may be limited. As we expand our scale of operation and as we gain better access to foreign-based suppliers through the integration of CIFA, we are able to enter into strategic framework agreements with certain suppliers to ensure a sufficient supply of high-quality raw materials, parts and components at relatively lower prices on a sustainable basis. While we have not experienced significant increases in our cost of labor in the past, the competitive environment in which we operate and the continued economic growth in China will continue to increase demand for skilled labor, which we believe may increase our cost of labor in the future. Starting in 2010, we have increased the use of third-party contractors to manufacture and assemble certain of our products. We believe the increase in use of third-party contractors further helps to control our production costs, as we are able to avoid the capital investment and depreciation and amortization associated with the expansion of our in-house production capacity.

We have taken initiatives in recent years to improve our manufacturing efficiency, such as improving our manufacturing technology and equipment and reorganizing our manufacturing activities among different facilities to improve efficiency and manufacturing cycle times and increase the flexibility of our manufacturing processes. However, if we are unable to continue to improve our manufacturing efficiency, thereby controlling our manufacturing costs, we may not be able to maintain or continue to improve our gross margin, which may have an adverse affect on our results of operations.

### *Our Ability to Effectively Manage Our Finance Lease Services*

We started providing finance lease services as a payment option to our customers in 2007. The finance lease contracts are generally for two to four years. For certain products that have longer useful lives, such as tower cranes, crawler cranes and large-capacity truck cranes, we may extend the length of the lease to five years. The length of a finance lease contract is typically much shorter than the useful life of the leased equipment. Terms of the finance lease contracts are determined based on various factors, including our customer relationship and their credit quality. We believe finance lease services provide customers with an additional flexible payment option, which may help attract more customers and increase the sales of our products. Sales of our products under finance lease arrangement increased rapidly and contributed significantly to our turnover growth in 2009, 2010, 2011 and the nine months ended September 30, 2011 and 2012. During the same periods, sales of our products under finance lease arrangement amounted to RMB7,463 million, RMB9,720 million, RMB15,586 million (US$2,480 million), RMB9,589 million and RMB11,925 million (US$1,897 million), respectively, which accounted for 36.6%, 31.2%, 34.8%, 29.9% and 31.5% of the turnover from sales of our products for the respective periods.

We receive the sale proceeds generated through finance lease services in periodic installments. Although our sales of machinery products under finance lease arrangement are recognized as turnover once we deliver the products to our customers, we would not receive the full amount of the sale proceeds in cash until the end of the finance lease contracts. The lease payments we are entitled to but have not yet received under the finance lease contracts are accounted for as receivables under finance lease. As a result, while our turnover and profits from operations continued to grow, we recorded negative net operating cash flow in 2009 and the nine months ended September 30, 2012. In 2009, 2010, 2011 and the nine months ended September 30, 2012, the gross balance of our receivables under finance leases increased by RMB6,096 million, RMB7,829 million, RMB3,837 million (US$611 million) and RMB2,011 million (US$320 million), respectively. From 2008 to 2011, we factored a significant portion of our receivables under finance lease with recourse terms to banks to obtain cash in order to provide additional funding for our operations. As of December 31, 2009, 2010, 2011 and September 30, 2012, the balance of the loans from factoring of receivables under finance lease with recourse terms amounted to RMB4,515 million, RMB3,949 million, RMB560 million (US$89 million) and nil, respectively. Beginning in the fourth quarter of 2010, we increased the use of non-recourse factoring terms that meet the conditions for de-recognition of financial assets to obtain cash. In 2010, 2011 and the nine months ended September 30, 2012, the amounts of factored receivables under finance lease with non-recourse terms were RMB714 million, RMB12,258 million (US$1,950 million) and RMB11,538 million (US$1,836 million), respectively. As a result, the cash proceeds obtained through such non-recourse factoring terms were presented as cash flow from operating activities. Therefore, we recorded net cash inflow from operating activities in 2010 and 2011. However, there can be no assurance that we will be able to successfully factor our receivables under finance lease under a reasonable commercial term, or at all.

## DESCRIPTION OF SELECTED PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

### *Turnover*

We generate turnover primarily from the following operating segments:

- Concrete machinery;
- Crane machinery;
- Environmental and sanitation machinery;
- Road construction and pile foundation machinery;
- Earth working machinery;
- Material handling machinery and systems; and
- Finance lease services.

The following table sets forth the breakdown of our consolidated turnover by our operating segments, and each expressed as a percentage of our consolidated turnover, for the periods indicated:

| | Year Ended December 31, | | | | | | | Nine Months Ended September 30, | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2010 | | 2011 | | | 2011 | | 2012 | | |
| | RMB | % | RMB | % | RMB | US$ | % | RMB | % | RMB | US$ | % |
| | (in millions, except for percentages) | | | | | | | | | | | |
| Concrete machinery | 7,157 | 34.5 | 14,085 | 43.8 | 21,212 | 3,375 | 45.8 | 15,009 | 45.2 | 21,185 | 3,371 | 54.2 |
| Crane machinery | 8,298 | 40.0 | 11,077 | 34.4 | 15,618 | 2,485 | 33.7 | 11,205 | 33.8 | 10,341 | 1,645 | 26.4 |
| Environmental and sanitation machinery | 1,230 | 5.9 | 1,874 | 5.8 | 2,978 | 474 | 6.4 | 2,033 | 6.1 | 2,040 | 324 | 5.2 |
| Road construction and pile foundation machinery | 787 | 3.8 | 1,246 | 3.9 | 1,737 | 276 | 3.7 | 1,304 | 3.9 | 1,087 | 173 | 2.8 |
| Earth working machinery | 445 | 2.1 | 772 | 2.4 | 1,048 | 167 | 2.3 | 912 | 2.7 | 1,748 | 278 | 4.5 |
| Material handling machinery and systems | 873 | 4.2 | 422 | 1.3 | 504 | 80 | 1.1 | 403 | 1.2 | 269 | 43 | 0.7 |
| Finance lease services | 397 | 1.9 | 1,043 | 3.2 | 1,583 | 252 | 3.5 | 1,116 | 3.4 | 1,219 | 194 | 3.1 |
| Total of reportable segments | 19,187 | 92.4 | 30,519 | 94.8 | 44,680 | 7,109 | 96.5 | 31,982 | 96.3 | 37,889 | 6,028 | 96.9 |
| All other segments | 1,575 | 7.6 | 1,674 | 5.2 | 1,643 | 262 | 3.5 | 1,225 | 3.7 | 1,219 | 194 | 3.1 |
| Total | 20,762 | 100.0 | 32,193 | 100.0 | 46,323 | 7,371 | 100.0 | 33,207 | 100.0 | 39,108 | 6,222 | 100.0 |

We derive the majority of our consolidated turnover from sales of concrete machinery and crane machinery. As a result of strong market demand and the expansion of our finance lease services, sales volume of products under these two operating segments have increased in 2009, 2010 and 2011. In the nine months ended September 30, 2012, sales of our concrete machinery continued to increase, primarily as a result of strong market demand, particularly for our advanced truck-mounted concrete pumps with long carbon fiber concrete placing booms, while sales of our crane machinery decreased as a result of weaker market demand for our truck cranes, which was due to the general economic condition in China during such period. The decrease in sales of our truck cranes was partially offset by an increase in sales of our tower cranes, which is attributable to an increase in our penetration into additional markets, particularly second- and third-tier cities.

Sales of our environmental and sanitation machinery and our earth working machinery have also increased significantly in 2009, 2010 and 2011 as a result of strong market demand driven by China's ongoing urbanization and significant investment in infrastructure projects. Such increase was also due to our strategy to devote more sales and marketing and other resources in these two segments in order to capture the growth potential. In the nine months ended September 30, 2012, sales of our earth working machinery continued to increase significantly primarily due to our strengthened sales and marketing efforts.

Sales of certain of our products are affected by seasonality. For construction machinery, as construction activities in northern China are curtailed during the winter, sales are typically weaker in the first quarter and stronger in the rest of the year. For environmental and sanitation machinery, as the major customers are local governments that tend to order machinery during the second half of a year, the sales are typically stronger in the third and fourth quarters.

Our products are currently sold in China as well as in overseas markets. 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, our overseas distribution network 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.

The following table sets forth the breakdown of our turnover by geographic sales location, expressed as a percentage of our consolidated turnover, for the periods indicated:

| | Year Ended December 31, | | | | | | | Nine Months Ended September 30, | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2010 | | 2011 | | | 2011 | | 2012 | | |
| | RMB | % | RMB | % | RMB | US$ | % | RMB | % | RMB | US$ | % |
| | (in millions, except for percentages) | | | | | | | | | | | |
| PRC | 18,993 | 91.5 | 30,663 | 95.2 | 44,085 | 7,015 | 95.2 | 31,606 | 95.2 | 36,948 | 5,879 | 94.5 |
| Outside PRC | 1,769 | 8.5 | 1,530 | 4.8 | 2,238 | 356 | 4.8 | 1,601 | 4.8 | 2,160 | 343 | 5.5 |
| Total | 20,762 | 100.0 | 32,193 | 100.0 | 46,323 | 7,371 | 100.0 | 33,207 | 100.0 | 39,108 | 6,222 | 100.0 |

The following table sets forth the breakdown of our turnover by the end-users' geographic location, and each expressed as a percentage of our consolidated turnover, for the periods indicated:

| | Year Ended December 31, | | | | | | | Nine Months Ended September 30, | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2010 | | 2011 | | | 2011 | | 2012 | | |
| | RMB | % | RMB | % | RMB | US$ | % | RMB | % | RMB | US$ | % |
| | (in millions, except for percentages) | | | | | | | | | | | |
| China | 18,147 | 87.4 | 30,350 | 94.3 | 43,755 | 6,962 | 94.5 | 31,364 | 94.4 | 36,490 | 5,806 | 93.3 |
| Overseas(1) | 2,615 | 12.6 | 1,843 | 5.7 | 2,568 | 409 | 5.5 | 1,843 | 5.6 | 2,618 | 416 | 6.7 |
| Total | 20,762 | 100.0 | 32,193 | 100.0 | 46,323 | 7,371 | 100.0 | 33,207 | 100.0 | 39,108 | 6,222 | 100.0 |

*(1) The presentation of geographic location above is different from the geographic analysis of sales based on sales location. Under the sales location basis, the products that are ultimately sold to end-users located in overseas markets through our dealers located in the PRC are presented as turnover from the PRC and the amounts and the percentages of the PRC and*

*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.*

From 2009 to 2010, sales of our products to overseas end-users decreased by 29.5% in absolute terms and from 12.6% to 5.7% as a percentage of our consolidated turnover. The decrease was primarily due to (i) the decrease in the purchasing power of customers in the overseas markets where our performance has traditionally been strong, such as the Persian Gulf countries, Russia and India, and (ii) a stronger economic recovery and corresponding stronger demand for our products in China, and our strategy to prioritize sales to domestic customers. From 2010 to 2011, sales of our products to overseas end-users increased by 39.3% in absolute terms and remained stable at 5.5% as a percentage of our consolidated turnover. Turnover from the sales of our products to overseas end-users increased by 42.1% in absolute terms for the nine months ended September 30, 2012 compared to the same period in 2011 and increased from 5.6% to 6.7% as a percentage of our consolidated turnover during such period. The growth in our overseas sales both in terms of absolute terms and as a percentage of our consolidated turnover is primarily attributable to growth in the South and Central American, Asia Pacific and African markets.

Our products have been sold to a diversified customer base and for each of the years ended December 31, 2009, 2010, 2011 and the nine months ended September 30, 2012, we did not have a single customer, including sales to our dealers, which accounted for more than 10.0% of our consolidated turnover on an individual basis.

***Cost of Sales and Services***

Our cost of sales and services primarily consists of:

- raw materials, i.e., costs of raw materials, parts and components, including steel, branded chassis, hydraulic parts and components, engines, tires and electric controls, and a variety of other raw materials and fabricated or manufactured components;

- staff costs, including salaries and benefits for personnel directly involved in manufacturing activities;

- depreciation and amortization of property, plant and equipment used for manufacturing purposes;

- costs of finance lease services, including fees, other surcharges and interest related to factoring of receivables under finance lease; and

- others, including manufacturing overhead, such as maintenance of production equipment and utility costs, including electricity, steam and water and costs associated with waste treatment.

The following table sets forth the major components of our cost of sales and services both in absolute terms and as a percentage of our consolidated turnover for the periods indicated:

| | Year Ended December 31, | | | | | | | Nine Months Ended September 30, | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2010 | | 2011 | | | 2011 | | 2012 | | |
| | RMB | % | RMB | % | RMB | US$ | % | RMB | % | RMB | US$ | % |
| | (in millions, except for percentages) | | | | | | | | | | | |
| Raw materials | 14,281 | 68.8 | 20,740 | 64.5 | 29,463 | 4,688 | 63.7 | 21,127 | 63.6 | 24,286 | 3,864 | 62.1 |
| Staff costs | 533 | 2.6 | 842 | 2.6 | 1,047 | 167 | 2.3 | 777 | 2.3 | 902 | 144 | 2.3 |
| Depreciation and amortization | 150 | 0.7 | 239 | 0.7 | 253 | 40 | 0.5 | 199 | 0.6 | 202 | 32 | 0.5 |
| Costs of finance lease services | 165 | 0.8 | 354 | 1.1 | 207 | 33 | 0.4 | 181 | 0.6 | 34 | 5 | 0.1 |
| Others | 293 | 1.4 | 249 | 0.8 | 346 | 55 | 0.7 | 248 | 0.8 | 220 | 35 | 0.6 |
| Total cost of sales and services | **15,422** | **74.3** | **22,424** | **69.7** | **31,316** | **4,983** | **67.6** | **22,532** | **67.9** | **25,644** | **4,080** | **65.6** |

Costs of raw materials, parts and components account for the majority of our cost of sales and services. As a percentage of our consolidated turnover, costs of raw materials, parts and components as well as our staff costs have been relatively stable in 2009, 2010 and 2011. In the nine months ended September 30, 2012, costs of raw materials decreased as a percentage of our consolidated turnover compared with the same period in 2011 as the prices of steel decreased, which was due to the general economic condition in China in 2012.

The following table sets forth the breakdown of our cost of sales and services by our operating segments, and each expressed as a percentage of our segment turnover, for the periods indicated:

| | Year Ended December 31, | | | | | | | Nine Months Ended September 30, | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2010 | | 2011 | | | 2011 | | 2012 | | |
| | RMB | % | RMB | % | RMB | US$ | % | RMB | % | RMB | US$ | % |
| | (in millions, except for percentages) | | | | | | | | | | | |
| Concrete machinery | 5,115 | 71.5 | 9,575 | 68.0 | 13,668 | 2,175 | 64.4 | 9,638 | 64.2 | 13,316 | 2,119 | 62.9 |
| Crane machinery | 6,335 | 76.3 | 7,995 | 72.2 | 11,595 | 1,845 | 74.2 | 8,351 | 74.5 | 7,503 | 1,194 | 72.6 |
| Environmental and sanitation machinery | 824 | 67.0 | 1,282 | 68.4 | 2,061 | 328 | 69.2 | 1,392 | 68.5 | 1,447 | 230 | 70.9 |
| Road construction and pile foundation machinery | 527 | 67.0 | 765 | 61.4 | 1,072 | 170 | 61.7 | 802 | 61.5 | 629 | 100 | 57.9 |
| Earth working machinery | 373 | 83.8 | 607 | 78.6 | 834 | 133 | 79.6 | 744 | 81.6 | 1,375 | 219 | 78.7 |
| Material handling machinery and systems | 787 | 90.1 | 390 | 92.4 | 453 | 72 | 89.9 | 363 | 90.1 | 237 | 38 | 88.1 |
| Finance lease services | 165 | 41.6 | 354 | 33.9 | 207 | 33 | 13.1 | 181 | 16.2 | 34 | 5 | 2.8 |
| Total cost of sales and services of reportable segments | **14,126** | **73.6** | **20,968** | **68.7** | **29,890** | **4,756** | **66.9** | **21,471** | **67.1** | **24,541** | **3,905** | **64.8** |
| All other segments | 1,296 | 82.3 | 1,456 | 87.0 | 1,426 | 227 | 86.8 | 1,061 | 86.6 | 1,103 | 175 | 90.5 |
| Total cost of sales and services | **15,422** | **74.3** | **22,424** | **69.7** | **31,316** | **4,983** | **67.6** | **22,532** | **67.9** | **25,644** | **4,080** | **65.6** |

Our cost of sales and services as a percentage of our consolidated turnover decreased from 74.3% in 2009 to 69.7% in 2010 and further decreased to 67.6% in 2011. Our cost of sales and services as a percentage of our consolidated turnover further decreased to 65.6% for the nine months ended September 30, 2012 from 67.9% for the same period in 2011. The fluctuation of cost of sales and services as a percentage of turnover from the sales of our concrete machinery and crane machinery was primarily driven by the change of product mix and fluctuations in selling prices. For example, in 2009, sales of compact truck cranes, which have lower selling prices and lower profit margins, increased in absolute terms and as a percentage of our total sales of crane machinery, due to the global economic downturn that led to a decrease in the number of large-scale construction projects. The increase in sales volume of concrete machinery that is technologically advanced and enjoys higher profit margins led to decreases in cost of sales and services as a percentage of turnover from the sales of our concrete machinery in 2009, 2010 and 2011. In 2011, cost of sales and services as a percentage of our consolidated turnover from the sales of our concrete machinery decreased from 68.0% to 64.4%, mainly because the sales of our advanced truck-mounted concrete pumps with longer concrete placing booms which have higher profit margins, increased in absolute terms and as a percentage of our total sales of concrete machinery. In the nine months ended September 30, 2012, cost of sales and services as a percentage of our consolidated turnover from the sales of our concrete machinery further decreased to 62.9% from 64.2% for the same period in 2011, primarily due to an increase in sales of our advanced truck-mounted concrete pumps with long carbon fiber concrete placing booms that have higher profit margins and a decrease in prices of raw materials. Meanwhile the cost of sales and services as a percentage of our consolidated turnover from the sales of our crane machinery increased from 72.2% for 2010 to 74.2% for 2011, mainly because the sales of our small-capacity tower cranes, which have lower profit margin, increased in absolute terms and as a percentage of our total sales of crane machinery. In the nine months ended September 30, 2012, cost of sales and services as a percentage of our consolidated turnover from the sales of our crane machinery decreased to 72.6% from 74.5% for the same period in 2011, primarily due to an increase in sales of medium- to large-capacity tower crane as a percentage of our total sales of crane machinery and a decrease in prices of raw materials.

### *Gross Profit*

The following table sets forth the gross profit and gross margin breakdown by operating segments, for the periods indicated:

| | **Year Ended December 31,** | | | | | | | **Nine Months Ended September 30,** | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2009** | | **2010** | | **2011** | | | **2011** | | **2012** | | | |
| | **RMB** | **%** | **RMB** | **%** | **RMB** | **US$** | **%** | **RMB** | **%** | **RMB** | **US$** | **%** |
| | **(in millions, except for percentages)** | | | | | | | | | | | | |
| Concrete machinery | 2,042 | 28.5 | 4,510 | 32.0 | 7,544 | 1,200 | 35.6 | 5,371 | 35.8 | 7,869 | 1,252 | 37.1 |
| Crane machinery | 1,963 | 23.7 | 3,082 | 27.8 | 4,023 | 640 | 25.8 | 2,854 | 25.5 | 2,838 | 452 | 27.4 |
| Environmental and sanitation machinery | 406 | 33.0 | 592 | 31.6 | 917 | 146 | 30.8 | 641 | 31.5 | 593 | 94 | 29.1 |
| Road construction and pile foundation machinery | 260 | 33.0 | 481 | 38.6 | 665 | 106 | 38.3 | 502 | 38.5 | 458 | 73 | 42.1 |
| Earth working machinery | 72 | 16.2 | 165 | 21.4 | 214 | 34 | 20.4 | 168 | 18.4 | 373 | 59 | 21.3 |
| Material handling machinery and systems | 86 | 9.9 | 32 | 7.6 | 51 | 8 | 10.1 | 40 | 9.9 | 32 | 5 | 11.9 |
| Finance lease services | 232 | 58.4 | 689 | 66.1 | 1,376 | 219 | 86.9 | 935 | 83.8 | 1,185 | 189 | 97.2 |
| **Total gross profits of reportable segments** | **5,061** | **26.4** | **9,551** | **31.3** | **14,790** | **2,353** | **33.1** | **10,511** | **32.9** | **13,348** | **2,124** | **35.2** |
| Other non-reportable segments | 279 | 17.7 | 218 | 13.0 | 217 | 35 | 13.2 | 164 | 13.4 | 116 | 18 | 9.5 |
| **Total gross profits** | **5,340** | **25.7** | **9,769** | **30.3** | **15,007** | **2,388** | **32.4** | **10,675** | **32.1** | **13,464** | **2,142** | **34.4%** |

Our overall gross margin increased from 25.7% in 2009 to 30.3% in 2010 and further increased to 32.4% in 2011. In the nine months ended September 30, 2012, our overall gross margin increased to 34.4% from 32.1% for the same period in 2011. The fluctuation of gross margin for each segment is directly related to the changes in cost of sales and services as a percentage of consolidated turnover for the respective segment as discussed above.

***Other Revenues and Net Income/(Loss)***

Other revenues and net income/(loss) include government grants and other income and expenses. Government grants mainly include value-added tax refunds for enterprises located in certain locations and other grants we receive from the PRC government, which resemble government operating subsidies. In 2009, 2010, 2011 and the nine months ended September 30, 2011 and 2012, we recognized government grants in the amount of RMB74 million, RMB70 million, RMB87 million (US$14 million), RMB72 million and RMB52 million (US$8 million) respectively. This has not been and is not expected to be a steady or significant revenue source for us.

***Operating Expenses***

Our operating expenses include sales and marketing expenses, general and administrative expenses and research and development expenses.

*Sales and Marketing Expenses*

Sales and marketing expenses consist primarily of salaries and benefits for our sales and marketing personnel, commissions paid to third-party dealers, advertising expenses, sales-related travel expenses, transportation expenses and other sales and marketing expenses.

*General and Administrative Expenses*

General and administrative expenses consist primarily of salaries and benefits for our administrative, finance and human resources personnel, fees and expenses of legal, accounting and other professional services, insurance expenses, general and administrative-related travel expenses, depreciation of equipment and facilities used for administrative purposes, and other expenses associated with our administrative offices.

*Research and Development Expenses*

Research and development expenses consist of salaries and benefits for our research and development personnel, material costs consumed in our research and development activities, payments to subcontractors and travel expenses incurred relating to research and development activities.

***Net Finance Costs***

Our net finance costs represent finance income, consisting primarily of interest income on bank deposits, net of interest expenses on bank borrowings, short-term debentures and other borrowings from other financial institutions less interest expenses capitalized during construction in progress. Our net finance costs are primarily affected by the outstanding amount of borrowings and applicable interest rates. The interest expense related to factoring of receivables under finance lease is not included in net finance costs but in the costs of finance lease services because it is considered to be a direct cost of our finance lease services.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial position and results of operations are based on our consolidated financial statements prepared in accordance with IFRS. Our financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the consolidated financial statements. The estimates and assumptions are based on historical experience and on other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about matters that are not readily apparent from other sources. The estimates are reviewed on an ongoing basis. Actual results may differ from those estimates as facts, circumstances and conditions change. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our consolidated financial statements.

### *Impairment of trade receivables*

We review trade receivables that are stated at cost or amortized cost at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to our attention about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in equity instrument below its cost.

If objective evidence of impairment exists, 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 initial recognition of these assets), where the effect of discounting is material. We first assess 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. We assess future cash flows of financial assets for impairment collectively based 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 could be higher than expected and could significantly affect the results of future periods.

***Warranty provision***

We make product warranty provision based on our 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 our recent claim experience, historical warranty data and a weighing of all possible outcomes against their associated probabilities. As we are continually upgrading our product designs and launching new models, it is possible that our recent claim experience is not indicative of future claims that we will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

***Write-down of inventories***

Inventories are carried at the lower of cost and net realizable value. 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. We estimate the net realizable value of inventories by taking into account recent selling prices and forecasted market demand. Based on this review, inventories will be written-down to net realizable value when the net realizable value of inventories is lower than the cost. Future write-downs could affect our financial results in future periods. Moreover, the actual realized value of the inventories may be significantly different from the estimated amount at the balance sheet date.

***Impairment of long-lived assets***

We review internal and external sources of information 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 circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the assets may be considered "impaired." The carrying amounts of our long-lived assets (except for goodwill and trademarks with indefinite useful lives) 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 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).

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.

It is difficult to precisely estimate the selling prices of our 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. We use all readily available information in determining an amount that is a reasonable approximation of the 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 values of our assets and could result in additional impairment charges or reversals of impairment in future periods.

***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. We review 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 our 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 with finite useful lives is recognized on a straight-line basis over the respective intangible assets' estimated useful lives. We review 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 us and take into account the level of expected future competition, the risk of technological or functional obsolescence of its services, and expected changes in the regulatory and social environment. The amortization expense for future periods is adjusted if there are significant changes from previous estimates.

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.

## TAXATION

In 2009, 2010, 2011 and the nine months ended September 30, 2012, we were primarily subject to taxation in the PRC, Hong Kong and Italy.

### *Taxation in the PRC*

Under the EIT Law and its implementation rules that became effective on January 1, 2008, enterprises are typically subject to a uniform tax rate of 25%.

According to the EIT Law and its implementation rules, several of our subsidiaries qualified as high-tech enterprises under the EIT Law and its implementation rules are entitled to a preferential income tax rate of 15%. In 2011, we and certain of our subsidiaries obtained the renewal approval to be qualified as a high-tech enterprise and were consequently subject to a preferential income tax rate of 15% for 2011, 2012 and 2013. Furthermore, under the EIT Law and its implementation rules, a 50% additional tax deduction is allowed for qualified research and development expenses.

In 2009, one of our subsidiaries was recognized as a high-tech enterprise for 2009, 2010 and 2011, and its income tax rate was reduced from 25% in 2008 to 15% for 2009, 2010 and 2011 as a result. Currently, we are in the process of applying for renewal of the qualification.

### *Taxation in Hong Kong and Italy*

Our subsidiaries in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% for 2009, 2010, 2011 and the nine months ended September 30, 2012. No provision for the Hong Kong profits tax was made during 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 the periods.

Our subsidiaries in Italy, including CIFA and its respective subsidiaries, were subject to income tax at rates ranging from 27.5% to 31.4% for 2009, 2010, 2011 and the nine months ended September 30, 2012.

## RESULTS OF OPERATIONS

The following table sets forth a summary, for the periods indicated, of our consolidated results of operations. Each item has also been expressed as a percentage of our consolidated turnover. Our historical results presented below are not necessarily indicative of future results.

| | Year Ended December 31, | | | | | | | Nine Months Ended September 30, | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2010 | | 2011 | | | 2011 | | 2012 | | |
| | RMB | % | RMB | % | RMB | US$ | % | RMB | % | RMB | US$ | % |
| | (in millions, except for percentages) | | | | | | | | | | | |
| Turnover | 20,762 | 100.0 | 32,193 | 100.0 | 46,323 | 7,371 | 100.0 | 33,207 | 100.0 | 39,108 | 6,222 | 100.0 |
| Cost of sales and services | (15,422) | (74.3) | (22,424) | (69.7) | (31,316) | (4,983) | (67.6) | (22,532) | (67.9) | (25,644) | (4,080) | (65.6) |
| **Gross profit** | **5,340** | **25.7** | **9,769** | **30.3** | **15,007** | **2,388** | **32.4** | **10,675** | **32.1** | **13,464** | **2,142** | **34.4** |
| Other revenues and net income/(loss) | 105 | 0.5 | 54 | 0.2 | 14 | 2 | — | 73 | 0.2 | (122) | (19) | (0.3) |
| Sales and marketing expenses | (1,250) | (6.0) | (2,146) | (6.7) | (3,160) | (503) | (6.8) | (1,955) | (5.8) | (2,504) | (398) | (6.4) |
| General and administrative expenses | (878) | (4.2) | (1,645) | (5.1) | (1,861) | (296) | (4.0) | (1,485) | (4.5) | (1,662) | (265) | (4.3) |
| Research and development expenses | (194) | (0.9) | (265) | (0.8) | (398) | (63) | (0.9) | (241) | (0.7) | (524) | (83) | (1.3) |
| **Profit from operations** | **3,123** | **15.1** | **5,767** | **17.9** | **9,602** | **1,528** | **20.7** | **7,067** | **21.3** | **8,652** | **1,377** | **22.1** |
| (Loss)/gain on disposal of subsidiaries and associates | (6) | — | — | — | 12 | 2 | — | 12 | — | — | — | — |
| Net finance costs | (295) | (1.4) | (365) | (1.1) | (36) | (6) | — | (16) | — | (356) | (57) | (0.9) |
| Share of profits less losses of associates | 6 | — | 14 | — | 24 | 4 | — | 18 | — | 6 | 1 | — |
| **Profit before taxation** | **2,828** | **13.7** | **5,416** | **16.8** | **9,602** | **1,528** | **20.7** | **7,081** | **21.3** | **8,302** | **1,321** | **21.2** |
| Income tax expense | (409) | (2.0) | (828) | (2.6) | (1,429) | (228) | (3.1) | (1,089) | (3.3) | (1,175) | (187) | (3.0) |
| **Profit for the year/period** | **2,419** | **11.7** | **4,588** | **14.2** | **8,173** | **1,300** | **17.6** | **5,992** | **18.0** | **7,127** | **1,134** | **18.2** |

***Nine months ended September 30, 2012 compared to nine months ended September 30, 2011***

*Turnover*. Our turnover increased by 17.8% from RMB33,207 million for the nine months ended September 30, 2011 to RMB39,108 million (US$6,222 million) for the nine months ended

September 30, 2012. The increase was primarily driven by strong market demand for construction machinery and sales of our new products. In particular, turnover from sales of our concrete machinery increased by 41.1% from RMB15,009 million for the nine months ended September 30, 2011 to RMB21,185 million (US$3,371 million) for the nine months ended September 30, 2012. This was mainly due to a significant increase in the sales volume of our advanced truck-mounted concrete pumps with long carbon fiber concrete placing booms for the nine months ended September 30, 2012. Turnover from sales of our crane machinery decreased by 7.7% from RMB11,205 million for the nine months ended September 30, 2011 to RMB10,341 million (US$1,645 million) for the nine months ended September 30, 2012. The decrease was primarily attributable to weaker market demand for truck cranes, which was due to a slower economic growth in China during such period. The decrease in sales of truck cranes was partially offset by an increase in sales of tower cranes, which was primarily attributable to the increase in our penetration into additional markets, particularly the second- and third-tier cities.

*Cost of sales and services*. Our cost of sales and services increased by 13.8% from RMB22,532 million for the nine months ended September 30, 2011 to RMB25,644 million (US$4,080 million) for the nine months ended September 30, 2012 due to the increase in our sales, resulting from our continued growth and expansion.

*Gross profit*. As a result of the foregoing, our gross profit increased by 26.1% from RMB10,675 million for the nine months ended September 30, 2011 to RMB13,464 million (US$2,142 million) for the nine months ended September 30, 2012, and our gross margin increased from 32.1% for the nine months ended September 30, 2011 to 34.4% for the nine months ended September 30, 2012, as we continued to optimize our product mix. In particular, the gross margin for our concrete machinery segment, which represented 54.2% of our consolidated turnover for the nine months ended September 30, 2012, increased to 37.1% for the nine months ended September 30, 2012 from 35.8% for the same period in 2011, primarily due to the increase in sales of our truck-mounted concrete pumps with long carbon fiber concrete placing booms which carry higher selling prices and higher profit margins. Gross margin of our crane machinery segment, which represented 26.4% of our consolidated turnover for the nine months ended September 30, 2012, increased to 27.4% for the nine months ended September 30, 2012 from 25.5% for the same period in 2011, primarily due to the decrease in the prices of our raw materials.

*Other revenues and net (loss)/income*. We recorded other revenues and net loss of RMB122 million for the nine months ended September 30, 2012, while we recorded other revenues and net income of RMB73 million for the nine months ended September 30, 2011. This was primarily due to the expenses we incurred in connection with the sale of certain of our trade receivables in the nine months ended September 30, 2012.

*Sales and marketing expenses*. Our sales and marketing expenses increased by 28.1% from RMB1,955 million for the nine months ended September 30, 2011 to RMB2,504 million (US$398 million) for the nine months ended September 30, 2012. This increase was primarily due to increases in salaries and benefits to our sales and marketing personnel and expenses related to advertisement and promotion, as we strengthened our sales and marketing effort both in China and overseas. Sales and marketing expenses as a percentage of our consolidated turnover increased from 5.8% for the nine months ended September 30, 2011 to 6.4% for the nine months ended September 30, 2012.

*General and administrative expenses*. Our general and administrative expenses increased by 11.9% from RMB1,485 million for the nine months ended September 30, 2011 to RMB1,662 million (US$264 million) for the nine months ended September 30, 2012, as we continued to expand our business, which in turn resulted in increases in salaries and benefits to staff and associated office expenses. General and administrative expenses as a percentage of our consolidated turnover decreased from 4.5% for the nine months ended September 30, 2011 to 4.2% in the nine months ended September 30, 2012.

*Research and development expenses*. Our research and development expenses increased by 117.4% from RMB241 million for the nine months ended September 30, 2011 to RMB524 million (US$83 million) for the nine months ended September 30, 2012. This increase was primarily due to our continued efforts in strengthening our research and development capability, which resulted in an increase in salaries and related expenses for our research and development personnel and an increase in design and testing expenses of our products.

*Profit from operations*. As a result of the foregoing, income from operations increased by 22.4% from RMB7,067 million for the nine months ended September 30, 2011 to RMB8,652 million (US$1,377 million) for the nine months ended September 30, 2012. The operating margin increased from 21.3% for the nine months ended September 30, 2011 to 22.1% for the nine months ended September 30, 2012.

*Net finance costs*. Our net finance costs increased significantly from RMB16 million for the nine months ended September 30, 2011 to RMB356 million (US$57 million) for the nine months ended September 30, 2012, primarily due to an increase in our interests on our loans and borrowings, which was the result of an increase in our average balance of loans and borrowings in the period and a decrease in our net exchange gain.

*Income tax expenses*. Our income tax expenses increased by 7.9% from RMB1,089 million for the nine months ended September 30, 2011 to RMB1,175 million (US$187 million) for the nine months ended September 30, 2012, primarily as a result of the increase in our taxable income. Our effective income tax rate decreased from 15.4% for the nine months ended September 30, 2011 to 14.2% for the nine months ended September 30, 2012.

*Profit for the period*. As a result of the above factors, our profit for the period increased by 18.9% from RMB5,992 million for the nine months ended September 30, 2011 to RMB7,127 million (US$1,134 million) for the nine months ended September 30, 2012. Our net margin increased from 18.0% in the nine months ended September 30, 2011 to 18.2% in the nine months ended September 30, 2012.

***Year ended December 31, 2011 compared to year ended December 31, 2010***

*Turnover*. Our turnover increased by 43.9% from RMB32,193 million for the year ended December 31, 2010 to RMB46,323 million (US$7,371 million) for the year ended December 31, 2011. The increase was primarily driven by strong market demand, particularly in the second- and third-tier cities in China, for construction machinery and sales from our new products. In particular, turnover from sales of concrete machinery increased by 50.6%, from RMB14,085 million in 2010 to RMB21,212 million

(US$3,375 million) in 2011. This was mainly due to a significant increase in the sales volume of our advanced truck-mounted concrete pumps with longer concrete placing booms in 2011. Turnover from sales of crane machinery increased by 41.0% from RMB11,077 million in 2010 to RMB15,618 million (US$2,485 million) in 2011. In particular, sales of crawler cranes and small-capacity tower cranes increased significantly as the number of infrastructure projects increased.

*Cost of sales and services.* Our cost of sales and services increased by 39.7% from RMB22,424 million for the year ended December 31, 2010 to RMB31,316 million (US$4,983 million) for the year ended December 31, 2011 as a result of our continued growth and expansion, which was in line with the increase in our sales and production volume.

*Gross profit.* As a result of the foregoing, our gross profit increased by 53.6% from RMB9,769 million for the year ended December 31, 2010 to RMB15,007 million (US$2,388 million) for the year ended December 31, 2011, and our gross margin increased from 30.3% for the year ended December 31, 2010 to 32.4% for the year ended December 31, 2011 as a result of the change in our product mix and improvement in our manufacturing efficiency. In particular, the gross margin for concrete machinery, which represented 45.8% of our consolidated turnover in 2011, increased to 35.6% from 32.0% in 2010, primarily due to the sales of our advanced truck-mounted concrete pumps with longer concrete placing booms, which carry higher selling prices and higher profit margins, increased as a percentage of our total sales of concrete machinery.

*Other revenues and net income.* Our other revenues and net income decreased significantly from RMB54 million for the year ended December 31, 2010 to RMB14 million (US$2 million) for the year ended December 31, 2011.

*Sales and marketing expenses.* Our sales and marketing expenses increased by 47.3% from RMB2,146 million for the year ended December 31, 2010 to RMB3,160 million (US$503 million) for the year ended December 31, 2011. This increase was primarily due to the fact that we expanded our distribution network and strengthened our sales and marketing efforts, which resulted in increases in salaries and benefits to our sales and marketing personnel and expenses related to advertisement and promotion. Sales and marketing expenses as a percentage of our consolidated turnover increased from 6.7% for the year ended December 31, 2010 to 6.8% for the year ended December 31, 2011.

*General and administrative expenses.* Our general and administrative expenses increased by 13.1% from RMB1,645 million for the year ended December 31, 2010 to RMB1,861 million (US$296 million) for the year ended December 31, 2011, as we continued to expand our business, which in turn resulted in increases in salaries and benefits to staff and associated office expenses. General and administrative expenses as a percentage of our consolidated turnover decreased from 5.1% for the year ended December 31, 2010 to 4.0% for the year ended December 31, 2011.

*Research and development expenses.* Our research and development expenses increased by 50.2% from RMB265 million for the year ended December 31, 2010 to RMB398 million (US$63 million) for the year ended December 31, 2011. This increase was primarily due to our continued efforts in strengthening our research and development capability, which resulted in an increase in salaries and related expenses for our research and development personnel and an increase in design and testing expenses of our products.

*Profit from operations*. As a result of the foregoing, profit from operations increased by 66.5% from RMB5,767 million for the year ended December 31, 2010 to RMB9,602 million (US$1,528 million) for the year ended December 31, 2011. Our operating margin increased from 17.9% for the year ended December 31, 2010 to 20.7% for the year ended December 31, 2011.

*Net finance costs*. Net finance costs decreased significantly from RMB365 million for the year ended December 31, 2010 to RMB36 million (US$6 million) for the year ended December 31, 2011 primarily due to an increase in interest income from the unutilized portion of the proceeds from our non-public offering of A Shares and the global offering of our H Shares and exchange gains resulting from the appreciation of the Renminbi, partially offset by an increase in interests on our loans and borrowings.

*Income tax expenses*. Our income tax expenses increased by 72.6% from RMB828 million for the year ended December 31, 2010 to RMB1,429 million (US$227 million) for the year ended December 31, 2011 primarily as a result of the increase in our taxable income. Our effective income tax rate decreased from 15.3% for the year ended December 31, 2010 to 14.9% for the year ended December 31, 2011.

*Profit for the year*. As a result of the above factors, our profit for the year increased by 78.1% from RMB4,588 million for the year ended December 31, 2010 to RMB8,173 million (US$1,300 million) for the year ended December 31, 2011. Our net margin increased from 14.2% for the year ended December 31, 2010 to 17.6% for the year ended December 31, 2011.

***Year ended December 31, 2010 compared to year ended December 31, 2009***

*Turnover*. Our turnover increased by 55.1% from RMB20,762 million for the year ended December 31, 2009 to RMB32,193 million for the year ended December 31, 2010, primarily due to strong market demand for construction machinery, continuously extended marketing channels and developed new products. We derived the majority of our consolidated turnover from sales of concrete machinery and crane machinery, and the sales volume of which increased in 2010. Turnover from sales of concrete machinery increased by 96.8%, from RMB7,157 million in 2009 to RMB14,085 million in 2010, which was mainly attributed to increased sales volume of truck-mounted concrete pumps and concrete mixing plants. Turnover from sales of crane machinery increased by 33.5% from RMB8,298 million in 2009 to RMB11,077 million in 2010.

*Cost of sales and services*. Our cost of sales and services increased by 45.4% from RMB15,422 million for the year ended December 31, 2009 to RMB22,424 million for the year ended December 31, 2010, primarily due to an increase in the cost of raw materials. Our expenditures for raw materials, parts and components, the major components of our cost of sales and services, increased by 45.2% for the year ended December 31, 2010, as our sales and production volume continued to increase. Cost of sales and services as a percentage of our consolidated turnover decreased from 74.3% in 2009 to 69.7% in 2010. The fluctuation of such ratios for concrete machinery and crane machinery was primarily driven by changes in product mix and fluctuation in selling prices. In 2010, cost of sales and services as a percentage of turnover from sales of concrete machinery decreased from 71.5% to 68.0%, and the ratio for crane machinery decreased from 76.3% to 72.2%, which was mainly due to (i) increased sales volume of certain technologically advanced models of truck-mounted concrete pumps, and (ii) increased sales generated from high value-added products such as heavy-duty cranes, which drove the increase in the gross margin.

*Gross profit.* As a result of the foregoing, our gross profit increased by 82.9% from RMB5,340 million for the year ended December 31, 2009 to RMB9,769 million for the year ended December 31, 2010, and our gross margin increased from 25.7% for the year ended December 31, 2009 to 30.3% for the year ended December 31, 2010 primarily due to our efforts to optimize product mix and improve manufacturing efficiency. In particular, the gross margin for concrete machinery and crane machinery, which in aggregate represented 78.2% of our consolidated turnover in the year ended December 31, 2010, increased to 32.0% and 27.8%, respectively, for the year ended December 31, 2010 from 28.5% and 23.7%, respectively, for the year ended December 31, 2009.

*Other revenues and net income.* Our other revenues and net income decreased by 48.6% from RMB105 million for the year ended December 31, 2009 to RMB54 million for the year ended December 31, 2010, primarily due to a decrease in other income and an increase in loss on disposal of property, plant and equipment.

*Sales and marketing expenses.* Our sales and marketing expenses increased by 71.7% from RMB1,250 million for the year ended December 31, 2009 to RMB2,146 million for the year ended December 31, 2010. This increase was primarily due to our increased salaries and benefits paid to the sales and marketing personnel and expenses related to advertisement and promotion, attributable to our expanded distribution network and strengthened sales and marketing efforts. Sales and marketing expenses as a percentage of our consolidated turnover increased from 6.0% for the year ended December 31, 2009 to 6.7% for the year ended December 31, 2010.

*General and administrative expenses.* Our general and administrative expenses increased by 87.4% from RMB878 million for the year ended December 31, 2009 to RMB1,645 million for the year ended December 31, 2010. This increase was primarily due to the fact that we expanded the business, which resulted in increases in salaries and benefits to staff. The increase in general and administrative expenses was also attributable to an impairment loss of RMB258 million, which consisted primarily of provision for doubtful debts because of the increased trade receivable balance and certain debtors were specifically determined to be impaired during the year. General and administrative expenses as a percentage of our consolidated turnover increased from 4.2% for the year ended December 31, 2009 to 5.1% for the year ended December 31, 2010.

*Research and development expenses.* Our research and development expenses increased by 36.6% from RMB194 million for the year ended December 31, 2009 to RMB265 million for the year ended December 31, 2010, as we continued to enhance our research and development efforts. Research and development expenses remained stable as a percentage of our consolidated turnover, and accounted for 0.9% and 0.8% of our consolidated turnover for the years ended December 31, 2009 and 2010, respectively.

*Profit from operations.* As a result of the foregoing, profit from operations increased by 84.7% from RMB3,123 million for the year ended December 31, 2009 to RMB5,767 million for the year ended December 31, 2010. Our operating margin increased from 15.1% for the year ended December 31, 2009 to 17.9% for the year ended December 31, 2010.

*Net finance costs*. Net finance costs increased by 23.7% from RMB295 million for the year ended December 31, 2009 to RMB365 million for the year ended December 31, 2010, primarily due to increases in interest expenses on long-term loans and exchange losses resulting from depreciation of foreign currencies.

*Income tax expenses*. Our income tax expenses increased by 102.4% from RMB409 million for the year ended December 31, 2009 to RMB828 million for the year ended December 31, 2010, primarily as a result of an increase in our taxable income. Our effective income tax rate increased from 14.5% for the year ended December 31, 2009 to 15.3% for the year ended December 31, 2010.

*Profit for the year*. As a result of the above factors, our profit for the year increased by 89.7% from RMB2,419 million for the year ended December 31, 2009 to RMB4,588 million for the year ended December 31, 2010. Our net margin increased from 11.7% for the year ended December 31, 2009 to 14.2% for the year ended December 31, 2010.

## LIQUIDITY AND CAPITAL RESOURCES

During 2009, 2010, 2011 and the nine months ended September 30, 2012, we financed our operations primarily through cash proceeds from our operations, proceeds from loans and borrowings, including bank borrowings and factoring of our receivables, proceeds from the non-public offering of our A Shares in the PRC and the global offering of our H Shares. As of September 30, 2012, we had RMB16,594 million (US$2,640 million) in cash and cash equivalents, most of which were denominated in Renminbi. Our cash and cash equivalents primarily consist of cash and demand deposits.

The following table sets forth a summary of our consolidated cash flows for the periods indicated:

| | Year Ended December 31, | | | | Nine Months ended September 30, | | |
|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | | 2011 | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | RMB | US$ |
| | (in millions) | | | | | | |
| Net cash (used in) / generated from operating activities | (1,366) | 451 | 1,880 | 299 | 914 | (3) | — |
| Net cash used in investing activities | (1,360) | (1,833) | (1,287) | (205) | (1,752) | (1,859) | (296) |
| Net cash generated from / (used in) financing activities | 3,250 | 16,755 | (3,275) | (521) | 835 | 2,449 | 389 |
| Net increase / (decrease) in cash and cash equivalents | 524 | 15,373 | (2,682) | (427) | (3) | 587 | 93 |
| Effect of foreign exchange rate changes | 2 | (54) | (74) | (12) | (98) | 5 | 1 |
| Cash and cash equivalents at the beginning of the year/period | 2,913 | 3,439 | 18,758 | 2,985 | 18,758 | 16,002 | 2,546 |
| Cash and cash equivalents at the end of the year/ period | 3,439 | 18,758 | 16,002 | 2,546 | 18,657 | 16,594 | 2,640 |

### *Operating Activities*

Net cash used in operating activities in the nine months ended September 30, 2012 was RMB3 million (US$477 thousand), derived primarily by deducting from the profit before taxation of

RMB8,302 million (US$1,321 million), adjusted to reflect the interest expense of RMB616 million (US$98 million) and depreciation and amortization of RMB306 million (US$49 million), the following items: (i) an increase in trade and other receivables of RMB8,355 million (US$1,329 million); (ii) an increase in inventories of RMB2,431 million (US$387 million); (iii) an increase in receivables under finance lease of RMB1,922 million (US$306 million); and (iv) income tax payment of RMB1,503 million (US$239 million) and then adding back an increase in trade and other payables of RMB5,068 million (US$806 million).

Net cash generated from operating activities in 2011 was RMB1,880 million (US$299 million), derived primarily by deducting from the profit before taxation of RMB9,602 million (US$1,528 million), adjusted to reflect the interest expense of RMB695 million (US$111 million) and depreciation and amortization of RMB456 million (US$73 million), the following items: (i) an increase in trade and other receivables of RMB5,670 million (US$902 million); (ii) an increase in inventories of RMB965 million (US$154 million); (iii) an increase in receivables under finance lease of RMB3,697 million (US$588 million); and (iv) income tax payment of RMB975 million (US$155 million) and then adding back an increase in trade and other payables of RMB2,689 million (US$428 million).

Net cash generated from operating activities in 2010 was RMB451 million, derived primarily by deducting from the profit before taxation of RMB5,416 million, adjusted to reflect the interest expense of RMB740 million depreciation and amortization of RMB415 million, the following items: (i) an increase in receivables under finance lease of RMB7,829 million; (ii) an increase in trade and other receivables of RMB2,371 million; (iii) an increase in inventories of RMB2,416 million; and (iv) income tax payment of RMB519 million and then adding back an increase in trade and other payables of RMB7,083 million.

Net cash used in operating activities in 2009 was RMB1,366 million, derived primarily by deducting from profit before taxation of RMB2,828 million, adjusted to reflect the interest expense of RMB438 million noncash depreciation and amortization of RMB329 million, the following items: (i) an increase in receivables under finance lease of RMB6,096 million; (ii) an increase in trade and other receivables of RMB1,703 million; (iii) an increase in inventories of RMB1,093 million; and (iv) income tax payment of RMB256 million; and then adding back an increase in trade and other payables of RMB4,206 million.

Although our turnover and profits from operations were increasing, we recorded negative net operating cash flow in 2009 and the nine months ended September 30, 2012. This is primarily due to the increase in our product sales using the finance lease payment option in 2009 and the increase in the balance of our trade receivables in the nine months ended September 30, 2012, which was primarily attributable to an increase in sales of products with installment payment options, both in absolute terms and as a percentage of our total product sales.

A primary factor affecting our operating cash flows is the timing of customer and vendor payments in the ordinary course of business. Our trade and other receivables and inventories increased during 2009, 2010, 2011 and the nine months ended September 30, 2012 as our sales and production volumes continued to grow. While the increase in balances of trade and other receivables had a negative impact on our operating cash flow, the impact was partially compensated for by the increase in our trade and other payables as our purchase of raw materials, parts and components increased in connection with the expansion of our sales and production and we managed to obtain longer credit terms from suppliers. In 2009, 2010, 2011 and the nine months ended September 30, 2012, our product sales under finance lease arrangement were RMB7,463 million, RMB9,720 million, RMB15,586 million (US$2,480 million) and RMB11,925 million (US$1,897 million), which accounted for 36.6%, 31.2%, 34.8% and 31.5% of our total product sales in the respective periods. For sales under the finance lease arrangement, proceeds from sales of our products are collected in monthly payments over the lease terms, which generally range from two to four years. Therefore, during the above periods where our finance lease business was in a high growth stage, the balance of our receivables under finance lease increased significantly, and our operating cash flow was negatively impacted. In 2009, 2010, 2011 and the nine months ended September 30, 2012, our product sales with installment payment options were RMB2,666 million, RMB5,090 million, RMB8,839 million (US$1,406 million) and RMB10,355 million (US$1,648 million), which accounted for 13.1%, 16.3%, 19.8% and 27.3% of our total product sales in the respective period. The strong increase in sales of our products with installment payment options in the nine months ended September 30, 2012 both in absolute terms and as a percentage of our total product sales was due to the general economic condition in China. In 2012, the economic growth in China slowed down and resulted in a decrease in the purchasing power of our customers, who in turn preferred to use installment payment options instead of making full payment when purchasing products from us.

In order to obtain cash to fund our operations, we factored a portion of our receivables under finance lease to banks. The cash proceeds we obtained from banks through factoring of receivables under finance lease with recourse terms in 2008, 2009 and the first three quarters of 2010 were presented as cash flow from financing activities as the conditions for de-recognition of the financial assets were not met, because we did not transfer substantially all the risks and rewards of ownership of the receivables under finance lease that were factored to banks with recourse under the terms of the factoring agreements. In 2009 and 2010, we obtained net cash of RMB3,501 million, RMB4,377 million, respectively, through factoring of receivables under finance lease with recourse terms. We did not factor our receivables under finance lease with recourse terms in 2011. Beginning in the fourth quarter of 2010, we have increased the use of non-recourse factoring terms that meet the conditions for de-recognition of financial assets to obtain cash. As a result, the cash proceeds obtained through such non-recourse factoring terms were presented as cash flow from operating activities. In 2010, 2011 and the nine months ended September 30, 2012, we factored RMB714 million, RMB12,258 million (US$1,950 million) and RMB11,538 million (US$1,836 million) of receivables under finance lease to banks without recourse. We plan to continue to factor our receivables under finance lease to banks in the normal course of business, subject to terms offered by banks and our working capital needs. In addition, we aim to take measures to speed up collection of full payment and installment sales accounts receivable such that our operating cash flow will be further improved to fund our operations and future capital commitments. Moreover, we established a collection center at our headquarters and have implemented various measures, including incentive schemes for our personnel responsible for collecting receivables.

Going forward, we plan to prudently manage the growth of our finance lease business, which is expected to be in proportion to the growth of our underlying business. Therefore, we expect sales of our products under finance lease arrangement as a percentage of our consolidated turnover to remain stable in the future. In addition, we will carefully monitor the expansion of our finance lease services as compared to the growth of our underlying business and continue to strictly follow our risk management policy and measures in place (including pre-lease investigation, lease approval procedure, lease payment collection and management as well as repossession and subsequent sale of repossessed machinery and forfeiture of related customer deposits in case of customer default), which we will continue to update based on stringent risk management principles, performance of our underlying business, relevant laws and regulations and prevailing market conditions. For a detailed description of the regulatory regime of the financial lease industry in China, please see "Regulatory Overview — Regulations as to Finance Lease Industry."

For a discussion of the potential risks associated with our finance lease business and the various payment options we provide with our customers, see "Risk Factors — Risks Related to Our Company — We provide our customers with various payment options, including installment payment options, financial guarantees and finance lease services, which expose us to additional risks and uncertainties." and " — We recorded negative operating cash flow in 2009 and the nine months ended September 30, 2012 and there can be no assurance that we will record positive operating cash flow in the future." To manage the risks associated with our finance leases, we established a risk control committee. 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 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. Meanwhile, we expect that our customers' preference with respect to payment options will continue to be affected by the general economic condition in China. In response to the continued increase in the sales of our products with installment payment options, we have strengthened our collection efforts and tightened our credit policies. Going forward, we will continue to maintain a robust risk management system to minimize our credit risks and enhancing our liquidity.

***Investing Activities***

Net cash used in investing activities in the nine months ended September 30, 2012 was RMB1,859 million (US$296 million), consisting primarily of payments for the purchase of property, plant and equipment of RMB1,334 million (US$212 million) and an increase in pledged bank deposits of RMB455 million (US$72 million). Payments for the purchase of property, plant and equipment were related to our industrial parks and factories construction and manufacturing facility upgrades and renovation projects in 2012. The value of pledged bank deposits increased as we increased the use of bills to pay our suppliers for raw materials, parts and components and the use of financial guarantees.

Net cash used in investing activities in 2011 was RMB1,287 million (US$205 million), consisting primarily of payments for the purchase of property, plant and equipment of RMB1,210 million (US$193 million) and lease prepayments for land of RMB260 million (US$41 million), offset by interest on bank deposits of RMB214 million (US$34 million). Payments for the purchase of property, plant and equipment and lease prepayments were related to our industrial parks construction and manufacturing facility upgrades and renovation projects in 2011.

Net cash used in investing activities in 2010 was RMB1,833 million, consisting primarily of payments for the purchase of property, plant and equipment of RMB910 million, an increase in pledged bank deposits of RMB773 million, and lease prepayments of RMB236 million. Payments for the purchase of property, plant and equipment and lease prepayments were related to our industrial parks construction and manufacturing facility upgrades and renovation projects in 2010. The value of pledged bank deposits increased as we increased the use of bills to pay our suppliers for raw materials, parts and components and the use of financial guarantees.

Net cash used in investing activities in 2009 was RMB1,360 million, consisting primarily of payments for the purchase of property, plant and equipment of RMB829 million, an increase in pledged bank deposits of RMB535 million, and payments for purchase of intangible assets of RMB70 million, partially offset by proceeds from disposal of fixed and intangible assets of RMB79 million. Payments for the purchase of property, plant and equipment were related to our industrial parks construction and manufacturing facility upgrades and renovation projects in 2009. The value of pledged bank deposits increased as we increased the use of bills to pay our suppliers for raw materials, parts and components and the use of financial guarantees.

***Financing Activities***

Net cash generated from financing activities in the nine months ended September 30, 2012 was RMB2,449 million (US$390 million), consisting primarily of proceeds from loans and borrowings of RMB16,902 million (US$2,689 million), including the proceeds from the offering of the 2017 Notes, partially offset by repayments of loans and borrowings of RMB12,176 million (US$1,937 million) and dividends paid to our shareholders of RMB1,615 million (US$257 million).

Net cash used in financing activities in 2011 was RMB3,275 million (US$521 million), consisting primarily of repayments of loans and borrowings of RMB11,847 million (US$1,885 million) and dividends paid to our shareholders of RMB1,657 million (US$264 million), partially offset by proceeds from loans and borrowings of RMB9,454 million (US$1,504 million) and net proceeds from the over-allotment of our H Shares of RMB1,507 million (US$240 million).

Net cash generated from financing activities in 2010 was RMB16,755 million, consisting primarily of proceeds from loans and borrowings of RMB10,840 million, net proceeds from the non-public offering of A Shares of RMB5,479 million and net proceeds from the global offering of our H Shares of RMB10,796 million, partially offset by repayments of loans and borrowings of RMB8,906 million, interest paid of RMB743 million and dividends paid in the amount of RMB711 million. In 2010, we continued to use factoring to provide additional funding for the operations with an amount of RMB3,954 million. In addition, in June 2010, we repaid Euro-denominated bank loans of RMB2,475 million which the Company incurred in connection with the acquisition of CIFA.

Net cash generated from financing activities in 2009 was RMB3,250 million, consisting primarily of proceeds from loans and borrowings of RMB11,581 million, including the proceeds from factoring of our receivables under finance lease with recourse terms, partially offset by repayments of loans and borrowings in the aggregate amount of RMB7,712 million.

## COMMITMENTS AND CONTINGENT LIABILITIES

As of September 30, 2012, our commitments consisted of capital commitments that have been authorized and contracted for in the amount of RMB544 million (US$87 million) and capital commitments that have been authorized but not contracted for in the amount of RMB1,976 million (US$314 million), and operating lease commitments of RMB289 million (US$46 million), of which RMB96 million (US$15 million) was payable within one year.

As of September 30, 2012, we had contingent liabilities of RMB11,709 million (US$1,863 million) in connection with our financial guarantees provided for bank loans that certain of our customers used to finance their purchases of our products. Under the guarantee arrangements, the products purchased by our customers are held as collateral, and we are entitled to repossess the collateral in the event of customer default. In 2009, 2010, 2011 and the nine months ended September 30, 2012, we made payments of RMB117 million, RMB102 million, RMB190 million (US$30 million) and RMB202 million (US$32 million), respectively, to banks under the guarantee arrangements. When called upon to fulfill our guarantee obligations, we have historically been able to sell the repossessed machinery at a price not significantly different from the guarantee payments we made to the banks.

Starting from October 2010, certain of our finance lease contracts with end-user customers are jointly provided by the leasing subsidiaries and a third-party leasing company. Under the joint leasing arrangement, we provide guarantees to the third-party leasing company that in the event of customer default, we are required to make payment to the leasing company for its share of the outstanding lease payments due from the customer. As of September 30, 2012, the maximum exposure to such guarantees was RMB1,082 million (US$172 million). Up to September 30, 2012, there was no material customer default which required us to make guarantee payments to the leasing company.

Other than the commitments and contingent liabilities set forth above, we do not have any other significant contingent liabilities or commitments.

## CAPITAL EXPENDITURES

We incurred capital expenditures of RMB1,056 million, RMB1,166 million, RMB1,542 million (US$245 million) and RMB1,679 million (US$267 million) in 2009, 2010, 2011 and the nine months ended September 30, 2012, respectively, for purchase of property, plant and equipment, intangible assets and lease prepayments. We plan to fund our future capital expenditures primarily with proceeds from the non-public offering of our A Shares, proceeds from the global offering of our H Shares, proceeds from the offering of the 2017 Notes and proceeds from this offering.

## WORKING CAPITAL AND INDEBTEDNESS

The table below sets forth the details of our current assets and liabilities at the end of each reporting period:

| | As of December 31, | | | | As of September 30, | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | US$ |
| | | | (in millions) | | | |
| **Current Assets** | | | | | | |
| Inventories | 6,272 | 8,678 | 9,656 | 1,536 | 12,088 | 1,923 |
| Trade and other receivables | 6,265 | 8,260 | 13,614 | 2,166 | 19,503 | 3,103 |
| Receivables under finance lease | 3,283 | 6,397 | 7,089 | 1,128 | 7,985 | 1,271 |
| Pledged bank deposits | 755 | 1,577 | 1,481 | 236 | 1,569 | 250 |
| Cash and cash equivalents | 3,439 | 18,758 | 16,002 | 2,546 | 16,594 | 2,640 |
| **Total current assets** | **20,014** | **43,670** | **47,842** | **7,612** | **57,739** | **9,187** |
| **Current Liabilities** | | | | | | |
| Trade and other payables | 10,632 | 17,203 | 19,314 | 3,073 | 24,949 | 3,970 |
| Loans and borrowings | 8,553 | 8,107 | 6,049 | 962 | 9,263 | 1,474 |
| Income tax payable | 283 | 757 | 1,289 | 206 | 1,000 | 159 |
| **Total current liabilities** | **19,468** | **26,067** | **26,652** | **4,241** | **35,212** | **5,603** |
| **Net current assets** | **546** | **17,603** | **21,190** | **3,371** | **22,527** | **3,584** |

Our net current assets increased from RMB21,190 million (US$3,372 million) as of December 31, 2011 to RMB22,527 million (US$3,584 million) as of September 30, 2012, primarily due to an increase in our trade and other receivables, inventories and receivables under finance lease, partially offset by an increase in our trade and other payables and loans and borrowings. Our trade and other receivables, receivables under finance lease and trade and other payables continued to increase as we continued to expand our operations and our business continued to grow.

Our net current assets increased from RMB17,603 million as of December 31, 2010 to RMB21,190 million (US$3,372 million) as of December 31, 2011, primarily due to an increase in our trade and other receivables, inventories and receivables under finance lease. Our trade and other receivables, receivables under finance lease and trade and other payables continued to increase as we continued to expand our operations and our business continued to grow.

Our net current assets significantly increased from RMB546 million as of December 31, 2009 to RMB17,603 million in 2010, primarily due to an increase in cash and cash equivalents, receivables under finance lease, inventories and trade and other receivables, and a decrease in loans and borrowings as we replaced short-term Euro-denominated loans in connection with the acquisition of CIFA with three-year long term loans, partially offset by an increase in trade and other payables and income tax payable. The increase in cash and cash equivalents was due to net proceeds from the non-public offering of A Shares and the global offering of our H Shares. Trade and other receivables, receivables under finance lease, inventories and trade and other payables also increased as we continued to expand operations and our business continued to grow.

Our future cash requirements will depend on many factors, including our operating income, costs to establish additional sales and service centers, market acceptance of our products and services or other changing business conditions and future developments, including any investments or acquisitions we may decide to pursue. We may require additional cash to repay existing debt obligations or to re-finance our existing debts or due to changing business conditions or other future developments. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or borrow from lending institutions. We cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities, including convertible debt securities, would dilute our shareholders' interests in our Company. The incurrence of debt would divert cash for working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our shareholders. If we are unable to obtain additional equity or debt financing as required, our business operations and prospects may suffer.

As of September 30, 2012, our outstanding short-term loans and borrowings, including the current portion of long-term loans and borrowings, amounted to RMB9,263 million (US$1,474 million). The following table is a summary of our short-term and long-term loans and borrowings at the end of each reporting period:

| | As of December 31, | | | | As of September 30, | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | US$ |
| | | | (in millions) | | | |
| **Current** | | | | | | |
| Secured short-term bank loans | 2,530 | 23 | 309 | 49 | 32 | 5 |
| Unsecured short-term bank loans | 3,726 | 4,211 | 4,490 | 714 | 6,046 | 962 |
| Current portion of long-term bank loans | 2,297 | 3,873 | 1,250 | 199 | 3,185 | 507 |
| **Total** | **8,553** | **8,107** | **6,049** | **962** | **9,263** | **1,474** |
| **Non-current** | | | | | | |
| Secured long-term bank loans | 4,515 | 5,534 | 2,036 | 324 | 1,473 | 234 |
| Unsecured long-term bank loans | 2,313 | 4,938 | 5,210 | 829 | 6,795 | 1,081 |
| Unsecured bond | 1,090 | 1,091 | 1,093 | 174 | 1,094 | 174 |
| Guaranteed senior notes | — | — | — | — | 2,483[1] | 395 |
| Less: Current portion of long-term bank loans | (2,297) | (3,873) | (1,250) | (199) | (3,185) | (507) |
| **Total** | **5,621** | **7,690** | **7,089** | **1,128** | **8,660** | **1,378** |

(1) Representing the US$400 million of outstanding principal amount of the 2017 Notes, excluding the offering expenses and discounts related to the 2017 Notes of approximately US$8 million that will be amortized (and thereafter reflected as liabilities) over the tenor of the 2017 Notes.

As of September 30, 2012, our US dollar denominated unsecured short-term loans with an aggregate outstanding principal amount of RMB507 million (US$81 million) and our US dollar denominated unsecured long-term loans with an aggregate outstanding principal amount of RMB970 million (US$154 million), subject us to certain financial covenants. See "Description of Other Material Indebtedness." In 2009, 2010, 2011 and the nine months ended September 30, 2012 and as of the date of this offering memorandum, we were in compliance with those financial covenants. If we fail to comply with such financial covenants and do not obtain a waiver from the lending bank, we could be required to repay the bank loan immediately and our liquidity could be adversely affected.

On April 5, 2012, we issued the 2017 Notes in the principal amount of US$400 million through the Issuer. Interests on the 2017 Notes are payable semi-annually in arrears in April and October of each year. See "Description of Other Material Indebtedness — Guaranteed Senior Notes".

In 2009, 2010, 2011 and the nine months ended September 30, 2012, our credit lines from various financial institutions amounted to RMB29.3 billion, RMB65.1 billion, RMB116.1 billion (US$19 billion and RMB136.7 billion (US$22 billion), respectively. As of September 30, 2012, approximately RMB76.8 billion (US$13 billion) of our credit lines from 40 domestic and foreign financial institutions remained unused. In addition, 11 domestic financial institutions had granted us an aggregate of RMB28.1 billion (US$4 billion) of credit lines under the non-recourse factoring arrangements in the same period, of which RMB7.4 billion (US$1 billion) remained unused as of September 30, 2012.

## ANALYSIS OF SELECTED STATEMENT OF FINANCIAL POSITION ITEMS

### *Inventory Analysis*

Inventories are one of the principal components of our current assets. We typically keep higher levels of inventories of certain imported parts and components for which the supply may become limited. For finished goods, we determine the level of inventories based on our prediction of future market conditions. We believe maintaining appropriate levels of inventories for both raw materials and finished goods can help us manufacture and deliver our products without disruption to meet changes in market demand without straining our liquidity.

The following table is a summary of our balance of the carrying value of our inventories at the end of each reporting period:

| | As of December 31, | | | | As of September 30, | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | US$ |
| | | | (in millions) | | | |
| Raw materials | 3,055 | 3,706 | 4,762 | 757 | 5,570 | 886 |
| Work in progress | 1,620 | 2,122 | 1,691 | 269 | 2,259 | 359 |
| Finished goods | 1,597 | 2,850 | 3,203 | 510 | 4,259 | 678 |
| **Total** | **6,272** | **8,678** | **9,656** | **1,536** | **12,088** | **1,923** |

The carrying value of our inventories increased by 38.4% from RMB6,272 million as of December 31, 2009 to RMB8,678 million as of December 31, 2010, by 11.3% to RMB9,656 million (US$1,536 million) as of December 31, 2011 and by 25.2% to RMB12,088 million (US$1,923 million) as of September 30, 2012. The increases in carrying value of our inventories were outpaced by the increases in our turnover for 2010 and 2011 because we were able to sell more machinery products as a result of the strong market demand. As of December 31, 2009, 2010 and 2011 and September 30, 2012, our inventories accounted for approximately 31.3%, 19.9%, 20.2% and 20.9% of our total current assets, respectively.

The following table sets forth our inventory turnover days for the periods indicated:

| | Year Ended December 31, | | | Nine Months Ended September 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| Inventory turnover days[(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.*

Our inventory turnover days decreased from 135 days for the year ended December 31, 2009 to 122 days for the year ended December 31, 2010 and further decreased to 107 days for the year ended December 31, 2011, primarily due to the stronger market demand for our construction machinery products, our ability to sell more finished goods and our continued efforts to control the level of inventory by implementing an optimized production and procurement plan. For the nine months ended September 30, 2012, our inventory turnover days remained relatively stable at 116 days. We aim to continue to actively manage our inventory turnover days in the future.

Inventories are carried at the lower of cost and net realizable value. 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. We estimate the net realizable value of inventories by taking into account the prevailing selling prices and forecasted market demand. Based on this review, inventories will be written-down to net realizable value when the net realizable value of inventories is lower than the cost. However, the actual realized value of the inventories may be significantly different from the estimated amount at the balance sheet date, which would affect the profit or loss in future years.

***Trade Receivables Analysis***

The following table sets forth our trade receivables at the end of each reporting period:

| | As of December 31, | | | | As of September 30, | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | US$ |
| | | | (in millions) | | | |
| Trade receivables | 5,401 | 7,504 | 12,096 | 1,925 | 20,275 | 3,226 |
| Less: allowance for doubtful debts | (340) | (557) | (533) | (85) | (739) | (118) |
| **Total net trade receivables** | **5,061** | **6,947** | **11,563** | **1,840** | **19,536** | **3,108** |
| Amount due after one year | (229) | (585) | (912) | (145) | (3,405) | (542) |
| Amount due within one year | 4,832 | 6,362 | 10,651 | 1,695 | 16,131 | 2,566 |

Our trade receivables represent receivables from our customers generated from sales of our products with full payment and installment payment options. For the years ended December 31, 2009, 2010, 2011 and the nine months ended September 30, 2012, product sales with full payment and installment payment options collectively accounted for approximately 47.0%, 49.4%, 49.1% and 47.9% of our total product sales for the respective periods.

As part of our ongoing control procedures, we monitor the creditworthiness of customers to which we grant credit in the normal course of business. Credit terms normally range from one to three months from the date of billing, except that for certain products, customers are allowed to withhold retention money amounting to 5% to 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. We allow certain customers with appropriate credit standing to make payments in installments over a period of up to 36 months. As of December 31, 2009, 2010, 2011 and September 30, 2012, our trade receivables due after one year amounted to RMB229 million, RMB585 million, RMB912 million (US$145 million) and RMB3,405 million (US$542 million), respectively.

Our net trade receivables increased by 37.3% from RMB5,061 million as of December 31, 2009 to RMB6,947 million as of December 31, 2010, by 66.4% to RMB11,563 million (US$1,840 million) as of December 31, 2011, and further increased by 69.0% to RMB19,536 million (US$3,108 million) as of September 30, 2012 as our sales continued to increase. The significant increase in our trade receivables in the nine months ended September 30, 2012 was primarily due to an increase in our sales with installment payment options both in absolute terms and as a percentage of our consolidated turnover. Meanwhile, we typically strengthen our collection efforts during the fourth quarter of a year.

The following table sets forth the turnover days of our trade receivables for the periods indicated:

| | Year Ended December 31, | | | Nine Months Ended September 30, |
|---|---|---|---|---|
| | **2009** | **2010** | **2011** | **2012** |
| Trade receivables turnover days[(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.*

Our trade receivables turnover days decreased from 82 days for the year ended December 31, 2009 to 73 days for the year ended December 31, 2010 as a result of our enforcement of a more stringent collection policy. Our trade receivables turnover days increased to 77 days for the year ended December 31, 2011, as we extended the credit period for certain customers that have better credit rating and repayment ability. For the nine months ended September 30, 2012, our trade receivable turnover days increased to 109 days as our sales with installment payment options increased both in absolute terms and as a percentage of our consolidated turnover, which in turn resulted in the increase in our trade receivables outpacing the growth of our consolidated turnover. In addition, a portion of our trade receivables at the end of the third quarter is typically collected during the fourth quarter, as we typically strengthen our collection efforts during the fourth quarter.

The following table sets out the aging analysis of our trade receivables (net of allowance for doubtful debts) as of December 31, 2009, 2010 and 2011 and September 30, 2012:

| | As of December 31, | | | | As of September 30, | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | US$ |
| | | | (in millions) | | | |
| Within 1 month | 2,133 | 2,642 | 4,547 | 724 | 5,617 | 893 |
| Over 1 month but less than 3 months | 382 | 921 | 2,362 | 376 | 5,215 | 830 |
| Over 3 months but less than 1 year | 1,427 | 2,403 | 3,401 | 541 | 6,821 | 1,085 |
| Over 1 year but less than 2 years | 931 | 772 | 932 | 148 | 1,443 | 230 |
| Over 2 years but less than 3 years | 161 | 174 | 249 | 40 | 313 | 50 |
| Over 3 years | 27 | 35 | 72 | 11 | 127 | 20 |
| **Total** | **5,061** | **6,947** | **11,563** | **1,840** | **19,536** | **3,108** |

We review trade receivables on a quarterly basis to determine whether there is objective evidence of impairment. Impairment losses in respect of trade receivables are recorded using an allowance account, unless we conclude that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. Subsequent recoveries of amounts previously charged to the allowance account will be reversed. Changes in the allowance account are recognized in profit or loss.

In addition to the trade debtors that were individually determined to be impaired when objective evidence of impairment exists and where a corresponding specific provision was made, collective loss allowances were also made according to management's assessment at the balance sheet date based on risk characteristics of the asset group, aging profile, customer credit-worthiness and historical write-off experience for assets with credit risks similar to the collective asset group. For detailed accounting policies for the impairment loss of trade receivables, see "— Critical Accounting Policies and Estimates".

The following table sets out the movement in our allowance for doubtful debts for the periods indicated:

| | As of December 31, | | | | As of September 30, | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | US$ |
| | | | (in millions) | | | |
| Balance as of January 1 | (255) | (340) | (557) | (88) | (533) | (85) |
| Impairment losses recognized | (87) | (258) | 3 | — | (213) | (34) |
| Uncollected amounts written off | 2 | 41 | 21 | 3 | 7 | 1 |
| **Balance as of December 31/September 30** | **(340)** | **(557)** | **(533)** | **(85)** | **(739)** | **(118)** |

The increase in our allowance for doubtful debts in 2009 and 2010 was due to increases in our trade receivables during the respective years. In 2010, we made additional provision for certain debtors which were specifically determined to be impaired during the year. In 2011, our allowance for doubtful debts decreased as we updated our assessment on provisions for impairment of trade receivables based on more recent financial and operating data. In the nine months ended September 30, 2012, our allowance for doubtful debts increased as the balance of our trade receivables continued to increase.

*Receivables under Finance Lease Analysis*

The following table sets forth our receivables under finance lease at the end of each reporting period:

| | As of December 31, | | | | As of September 30, | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | US$ |
| | | | (in millions) | | | |
| Gross investment | 9,190 | 17,841 | 22,135 | 3,522 | 24,387 | 3,880 |
| Unearned finance income | (847) | (1,669) | (2,126) | (338) | (2,367) | (377) |
| | 8,343 | 16,172 | 20,009 | 3,184 | 22,020 | 3,503 |
| Less: provision for impairment | — | — | (140) | (23) | (229) | (35) |
| Less: amounts due after one year | (5,060) | (9,775) | (12,780) | (2,033) | (13,806) | (2,197) |
| Amounts due within one year | 3,283 | 6,397 | 7,089 | 1,128 | 7,985 | 1,271 |

We receive the proceeds from our sales of products under finance lease arrangement through monthly installments. The minimum lease payments to which we are entitled but have not yet received under the finance lease contracts are accounted for as receivables under finance lease. Our receivables under finance lease represent gross investment by us less unearned finance income. The finance lease contracts we enter into are typically for a term of two to four years, with an option to our customers to acquire the leased assets at a nominal price at the end of the lease term. The effective interest rate under our finance lease contracts is affected by the prevailing interest rate in China, and was approximately 8% per annum as of September 30, 2012. The following table sets forth our minimum lease payment receivables under the finance lease contracts of the end of each reporting period:

| | As of December 31, | | | | As of September 30, | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | US$ |
| | | | (in millions) | | | |
| Within 1 year | 3,761 | 7,338 | 8,163 | 1,299 | 9,323 | 1,484 |
| Over 1 year but less than 2 years | 2,917 | 6,168 | 6,971 | 1,109 | 7,130 | 1,134 |
| Over 2 years but less than 3 years | 1,961 | 3,331 | 4,496 | 715 | 4,729 | 752 |
| Over 3 years | 551 | 1,004 | 2,505 | 399 | 3,205 | 510 |
| **Total** | **9,190** | **17,841** | **22,135** | **3,522** | **24,387** | **3,880** |

The carrying value of receivables under finance lease continued to increase in 2009, 2010, 2011 and the nine months ended September 30, 2012, mainly because the sales of our products under finance lease arrangement increased in absolute amount in 2009, 2010, 2011 and the nine months ended September 30, 2012, and the outstanding payments under finance leases continued to accumulate. In addition, the carrying value of receivables under finance lease due within one year increased throughout 2009, 2010, 2011 and the nine months ended September 30, 2012 as a result of the increase in sales of machinery products sold under finance lease arrangement in the previous periods. In the nine months ended September 30, 2012, we factored RMB11,538 million (US$1,836 million) of our receivables under finance lease without recourse terms. As a result, the increase in sales under our finance lease arrangement outpaced the increase in outstanding balance of our receivables under finance lease. As we aim to increase the sales of machinery products through other payment methods, including financial guarantees, we expect the sales of our products under finance arrangement to remain relatively stable as a percentage of our total sales of products.

We monitor credit risk associated with our finance leases through various control measures. We perform individual credit evaluations with respect to each finance lease contract and our risk control committee is responsible for the establishment of credit risk management policies, supervision of the implementation of such policies and determination of the key terms of the finance lease contracts, including interest rate, lease period and percentage of deposit. In the nine months ended September 30, 2012, we made a provision for impairment of RMB229 million (US$36 million) in respect of receivables under finance lease. In 2009, 2010, 2011 and the nine months ended September 30, 2012, the amounts of overdue receivables under finance lease were RMB94 million, RMB422 million, RMB464 million (US$74 million) and RMB1,554 million (US$247 million), respectively. In the nine months ended September 30, 2012, our overdue receivables under finance lease increased significantly primarily due to the slowdown in economic growth in China, which resulted in pressure on the liquidity of our customers. In response to the increase in the overdue receivables under finance lease, we have strengthened our collection efforts. For customers with better financial condition but experienced liquidity pressure due to general economic condition, we actively negotiate repayment schedules with them to ensure full collection. Overdue receivables refer to those amounts as to which any payment or partial amount remains unpaid after the relevant payment due date. In general, if the customer payment is overdue by more than 90 days and such overdue is not timely remedied, we will repossess such customers' machinery. We dispose of or recycle such repossessed used equipment after refurbishing or remanufacturing or, in certain cases, sell such used equipment as is. We record the repossessed equipment as our inventory.

***Trade Payables Analysis***

The following table sets forth our trade payables at the end of each reporting period:

| | As of December 31, | | | | As of September 30, | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | US$ |
| | (in millions) | | | | | |
| Trade creditors | 4,369 | 6,841 | 7,136 | 1,135 | 8,421 | 1,340 |
| Bills payable | 3,843 | 5,441 | 4,967 | 790 | 6,975 | 1,110 |
| **Total trade creditors and bills payable** | **8,212** | **12,282** | **12,103** | **1,925** | **15,396** | **2,450** |

Our trade payables primarily consist of trade payables to suppliers and bills payable. In general, our suppliers granted us credit terms ranging from 30 days to 120 days during 2009, 2010, 2011 and the nine months ended September 30, 2012.

The carrying value of our trade payables increased by 56.6% from RMB4,369 million as of December 31, 2009 to RMB6,841 million as of December 31, 2010, by 4.3% to RMB7,136 million (US$1,135 million) as of December 31, 2011, and further increased by 18.0% to RMB8,421 million (US$1,340 million) as of September 30, 2012. The increase in the balance of our trade payables was primarily due to the continued expansion of our business and the increase in the sales of our products.

Our bills payable increased by 41.6% from RMB3,843 million as of December 31, 2009 to RMB5,441 million as of December 31, 2010, and decreased by 8.7% to RMB4,967 million (US$790 million) as of December 31, 2011. Our bills payable increased by 40.4% from RMB4,967 million

(US$790 million) as of December 31, 2011 to RMB6,975 million (US$1,110 million) as of September 30, 2012. The increase in our bills payable during 2009 and 2010 was the result of an increase in our use of bills as a payment method to our suppliers. Due to the low discount rates of bills and our purchasing power, our suppliers of raw materials, parts and components are willing to receive bills as a payment method and grant us a longer credit period. In 2011, as we increased our receivable collection efforts, we decreased the use of bills as a payment method, which led to a decrease in our bills payable. In the nine months ended September 30, 2012, we increased the use of bills as payment method in response to the prevailing market condition.

The following table sets forth our trade and bill payables turnover days for the periods indicated:

| | Year Ended December 31, | | | Nine Months Ended September 30, |
|---|---|---|---|---|
| | **2009** | **2010** | **2011** | **2012** |
| Trade and bills payable turnover days[(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.*

Our trade and bills payable turnover days increased from 153 days for the year ended December 31, 2009 to 167 days for the year ended December 31, 2010, as we increased the use of bills as a payment method, and were granted a longer credit period of up to nine months for the use of bills. Our trade and bills payable turnover days decreased to 142 days for the year ended December 31, 2011 as we shortened the payment periods to our suppliers in order to secure sufficient supply of parts and components. For the nine months ended September 30, 2012, our trade and bills payable turnover days remained relatively stable at 146 days.

The following table sets out the aging analysis of our trade creditors and bills payable at the end of each reporting period:

| | As of December 31, | | | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|---|
| | **2009** | **2010** | **2011** | **2011** | **2012** | |
| | **RMB** | **RMB** | **RMB** | **US$** | **RMB** | **US$** |
| | | | **(in millions)** | | | |
| Due within 1 month or on demand | 1,901 | 4,640 | 4,974 | 791 | 4,846 | 771 |
| Due after 1 month but within 3 months | 2,105 | 3,567 | 3,938 | 627 | 5,407 | 860 |
| Due after 3 months but within 6 months | 2,238 | 3,067 | 2,496 | 397 | 4,418 | 703 |
| Due more than 6 months | 1,968 | 1,008 | 695 | 110 | 725 | 116 |
| **Total** | **8,212** | **12,282** | **12,103** | **1,925** | **15,396** | **2,450** |

## OFF-BALANCE SHEET ARRANGEMENTS

Other than disclosed in this offering memorandum, we have not entered into any material off-balance sheet arrangements. In addition, we have not entered into any derivative contracts that are indexed to our equity interests and classified as owners' equity. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or research and development services with us.

## RELATED PARTY TRANSACTIONS

The table below sets forth our transactions with related parties during the periods indicated:

| | Year Ended December 31, | | | | Nine Months ended September 30, | | |
|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2011 | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | RMB | US$ |
| | | | | (in millions) | | | |
| **Transactions with associates:** | | | | | | | |
| Sales of products | (4) | (4) | (157) | (25) | 2 | 596 | 95 |
| Lease of properties and equipment | (3) | — | — | — | — | — | — |
| Purchase of raw materials and finished goods | 10 | 39 | 148 | 24 | 45 | 454 | 72 |

In 2011 and the nine months ended September 30, 2012, as part of our sales and marketing strategy, we invested in several dealers, including newly-established dealers. These dealers were accounted for as our associated companies. All our sales to such dealers were recorded as sales of products to related parties. All purchases by Beijing Zoomlion Leasing in connection with finance lease arrangement with such dealers' down-stream customers were recorded as purchases from related parties.

We 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.

The table below sets forth our balances with related parties during the periods indicated:

| | As of December 31, | | | | As of September 30, | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 | |
| | RMB | RMB | RMB | US$ | RMB | US$ |
| | | | (in millions) | | | |
| Amounts due from related parties | 29 | 27 | 99 | 16 | 173 | 28 |
| Amounts due to related parties | — | 12 | 13 | 2 | 20 | 3 |

Amounts due from/to related parties arise in our 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 periods with third-party customers/ suppliers.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### *Credit Risk*

Our credit risk is primarily attributable to bank deposits, trade and other receivables, and receivables under finance leases. The maximum exposure to credit risk is represented by the carrying amounts 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 strength, 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 full payment 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 customers. For sales under the installment payment method that has a maximum installment payment period of 36 months, customers are required to make an upfront payment ranging from 10% to 40% of the product price. Collateral such as property, machinery or third party guarantees is 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 our 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 for finance lease services was established for the establishment of credit risk management policies, supervision of the implementation of such policies and determination of the key terms of the lease contracts, including interest rate, lease period and percentage of deposit. In May 2012, in view of the general economic condition in China, we have strengthened our risk management and collection efforts. We established a risk management committee at our headquarters to replace the risk control committee for finance lease services. The newly established risk management committee is chaired by Dr. Sun Changjun, and comprised of a number of our senior management. We also appointed an internal control director to oversee and supervise our risk management practices. Our 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. Our credit risk management procedures include pre-lease investigation, lease approval, lease payment collection and management, as well as repossession and subsequent sale of machinery 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.

Bank deposits are placed with financial institutions that have high credit ratings. Given their credit ratings, we do not expect any counterparty to fail to meet its obligations.

Our exposure to credit risk is influenced mainly by the individual characteristics of each customer. The risk of the industry and country in which customers operate also influences credit risk to a lesser extent. As of December 31, 2009, 2010 and 2011 and September 30, 2012, 1.9%, 1.6%, 1.9% and nil of the total trade and bills receivables was due from our largest customer and 7.3%, 2.0%, 5.7% and 1.5% of the total trade and bills receivables was due from our five largest customers, respectively.

***Liquidity Risk***

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. Our policy is to regularly monitor our liquidity requirements and our compliance with lending covenants, to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and longer term.

The following table sets out the remaining contractual maturities as the balance sheet dates of our 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 we would be required to repay them:

| | As of 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 in 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 guarantee issued | | | | | | |
| Maximum amount guaranteed | | 3,369 | 3,369 | — | — | — |

| | As of 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 in 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 guarantee issued | | | | | | |
| Maximum amount guaranteed | | 7,284 | 7,284 | — | — | — |

| | As of 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 in 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 guarantee issued | | | | | | |
| Maximum amount guaranteed | | 10,726 | 10,726 | — | — | — |

***Interest Rate Risk***

Our exposure to interest rate risk primarily arises from bank deposits, receivables under finance lease, short-term and long-term loans and borrowings. Such financial instruments bearing interest at variable rates and at fixed rates expose our Company to cash flow interest rate risk and fair value interest rate risk, respectively. We have not used any derivative financial instruments to hedge our interest risk exposure. The following table sets out the interest rate profile of our bank deposits, receivables under finance lease and loans and borrowings at the end of each reporting period:

| | As of December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2009 | | 2010 | | 2011 | | |
| | Weighted average interest rate | Amount | Weighted average interest rate | Amount | Weighted average interest rate | Amount | |
| | % | RMB | % | RMB | % | RMB | US$ |
| | (in millions, except for percentage) | | | | | | |
| **Fixed rate financial instruments:** | | | | | | | |
| Short-term loans and borrowings | 3.8 | (4,280) | 3.3 | (1,234) | 4.8 | (1,090) | (173) |
| Long-term loans and borrowings | 5.7 | (3,320) | 6.7 | (1,091) | 6.1 | (1,314) | (209) |
| | | (7,600) | | (2,325) | | (2,404) | (382) |
| **Variable rate financial instruments:** | | | | | | | |
| Pledged bank deposits | 0.4 | 989 | 0.4 | 1,762 | 0.5 | 1,742 | 277 |
| Bank deposits | 0.4 | 3,439 | 0.3 | 18,756 | 1.0 | 16,000 | 2,546 |
| Receivable under finance lease | 8.0 | 8,343 | 7.8 | 16,172 | 8.0 | 19,869 | 3,161 |
| Short-term loans and borrowings | 3.5 | (4,273) | 3.4 | (6,873) | 4.2 | (4,959) | (789) |
| Long-term loans and borrowings | 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 |

As of December 31, 2009, 2010 and 2011, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would increase/decrease our profit after taxation for 2009 and retained earnings by approximately RMB44 million, increase/ decrease our profit after taxation for 2010 and retained earnings by approximately RMB195 million, and increase/decrease our profit after taxation for 2011 and retained earnings by approximately RMB215 million (US$34 million).

*Currency Risk*

We are 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 the US dollar, the Japanese Yen, the Euro and the Hong Kong dollar. During 2009, 2010, 2011 and the nine months ended September 30, 2012, we did not conduct material foreign exchange hedging transactions.

The following sensitivity analysis includes only outstanding foreign currency-denominated monetary items and adjusts their translation at the year end for a 5% appreciation in RMB against each of the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. A positive (negative) number below indicates an increase (decrease) in profit for the year or period where the RMB strengthens against the relevant foreign currencies. For a 5% weakening of the RMB against the relevant currencies, there would be an equal and opposite impact on the profit after tax and retained profits.

| | Year Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | % | RMB | % | RMB | US$ |
| | (in millions, except for percentages) | | | | | | |
| U.S. Dollars | 5% | (58) | 5% | (88) | 5% | (254) | (40) |
| | (5%) | 58 | (5%) | 88 | (5%) | 254 | 40 |
| Euros | 5% | (10) | 5% | (29) | 5% | (11) | (2) |
| | (5%) | 10 | (5%) | 29 | (5%) | 11 | 2 |
| Japanese Yen | 5% | (28) | 5% | (61) | 5% | (7) | (1) |
| | (5%) | 28 | (5%) | 61 | (5%) | 7 | 1 |
| HK Dollars | — | — | 5% | 225 | 5% | (1) | — |
| | — | — | (5%) | (225) | (5%) | 1 | — |

*Inflation Risk*

In 2009 and 2010, the Consumer Price Index in China decreased by 0.7% and increased by 3.3% from the previous year, while in 2011 the Consumer Price Index increased by 5.4%, according the PRC National Bureau of Statistics. We are of the view that inflation has not had a material effect on our results of operations.

*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 sources and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by us, the Sole Global Coordinator and Sole Bookrunner, our or their affiliates or advisers or any other party involved in this Offering and no representation is given as to its accuracy, completeness or fairness.*

## OVERVIEW OF GLOBAL CONSTRUCTION MACHINERY INDUSTRY

Construction machinery is widely used in the construction of urban infrastructure, transportation facilities and mining facilities, as well as in commercial and residential real estate developments. The global demand for construction machinery is generally driven by construction activities of the various regions and countries around the world.

China and the other developing countries represent the fastest growing market for construction machinery and are expected to be key drivers of the global construction machinery market. Sales volume of construction machinery in the emerging markets has rapidly increased in recent years. In 2010, sales volume of construction machinery in China accounted for approximately 50% of the global sales of construction machinery and became the largest market for construction machinery, followed by North America and Europe, according to Off Highway Research Limited. The following table sets forth the sales volume of construction machinery in 2002 and 2010, expressed as a percentage of global sales volume, in China, North America, Europe, Japan and the rest of the world:

| Location | 2002 | 2010 |
|---|---|---|
| China | 18.0% | 50.0% |
| North America | 28.0% | 11.1% |
| Europe | 28.0% | 12.4% |
| Japan | 10.0% | 4.6% |
| India | 0% | 5.3% |
| Others | 16.0% | 16.6% |
| **Total** | **100.0%** | **100.0%** |

*Source: Off Highway Research Limited*

The major global construction machinery manufacturers are concentrated in certain geographic regions. According to International Construction, the majority of large-scale construction machinery manufacturers are headquartered in the United States, Japan, Europe and China. The table below sets forth the top ten construction machinery manufacturers in the world as measured by revenues in 2011 and where they are headquartered:

| World Rank | Company Name | Country(1) | Revenues (US$ in millions) |
|---|---|---|---|
| 1 | Caterpillar Inc. | United States | 35,296 |
| 2 | Komatsu Ltd. | Japan | 21,750 |
| 3 | VOLVO CE | Sweden | 10,013 |
| 4 | Hitachi Construction Machinery Co., Ltd. | Japan | 9,997 |
| 5 | Liebherr Group | Germany | 7,930 |
| 6 | SANY Group | China | 7,861 |
| 7 | Zoomlion | China | 7,171 |
| 8 | TEREX Corporation | United States | 6,505 |
| 9 | Doosan Infracore | South Korea | 5,830 |
| 10 | John Deere | United States | 5,372 |

*Source: International Construction*

(1) As determined by the location of the company's headquarters.

We expect the global construction machinery industry to experience further consolidation. Furthermore, we expect the emerging markets, including China and other developing countries, to continue to play a crucial role in driving demand for construction machinery around the globe, as we believe the rapid economic growth and urbanization in China and other developing countries will continue.

## OVERVIEW OF CHINA'S CONSTRUCTION MACHINERY INDUSTRY

### *Overview of China's Economy*

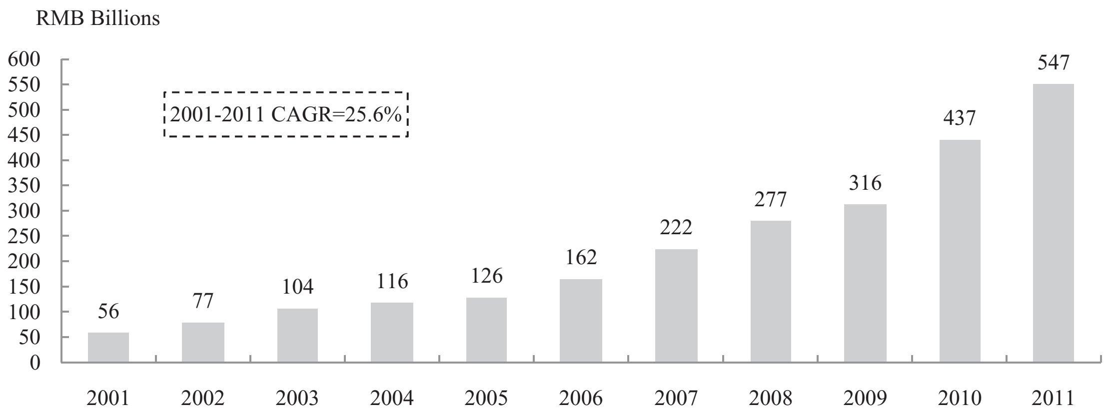
China is one of the fastest growing economies in the world. According to the International Monetary Fund, or IMF, China's real GDP grew at a CAGR of 10.6% from 2001 to 2011. During this period of time, China has the highest GDP growth rate among Brazil, Russia, India and China, or "the BRICs", as well as the five largest economies. The following table sets forth the real GDP growth rate of the BRICs, the five largest economies and the world average for the respective years:

| Location | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2001-2011 CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| China | 8.3% | 9.1% | 10.0% | 10.1% | 11.3% | 12.7% | 14.2% | 9.6% | 9.2% | 10.3% | 9.2% | 10.6% |
| India | 3.9% | 4.6% | 6.9% | 7.6% | 9.0% | 9.5% | 10.0% | 6.2% | 6.8% | 10.1% | 6.8% | 7.7% |
| Russia | 5.1% | 4.7% | 7.3% | 7.2% | 6.4% | 8.2% | 8.5% | 5.2% | (7.8)% | 4.0% | 4.3% | 4.7% |
| Brazil | 1.3% | 2.7% | 1.1% | 5.7% | 3.2% | 4.0% | 6.1% | 5.2% | (0.6)% | 7.5% | 2.7% | 3.7% |
| United States | 1.1% | 1.8% | 2.5% | 3.5% | 3.1% | 2.7% | 1.9% | (0.3)% | (3.5)% | 3.0% | 1.8% | 1.6% |
| France | 1.8% | 0.9% | 0.9% | 2.3% | 1.9% | 2.7% | 2.2% | (0.2)% | (2.6)% | 1.4% | 1.7% | 1.1% |
| Japan | 0.2% | 0.3% | 1.4% | 2.7% | 1.9% | 2.0% | 2.4% | (1.2)% | (6.3)% | 4.0% | (0.8)% | 0.6% |
| Germany | 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*

The size of the Chinese economy has been increasing at a fast pace as its GDP grew substantially over the past decade. In terms of the absolute amount of GDP, China was the second largest economy in the world in 2010. In 2010, China's GDP of US$5,878.3 billion surpassed Japan's GDP of US$5,458.9 billion. According to a report from the IMF, China will overtake the United States as the world's largest economy by 2016.

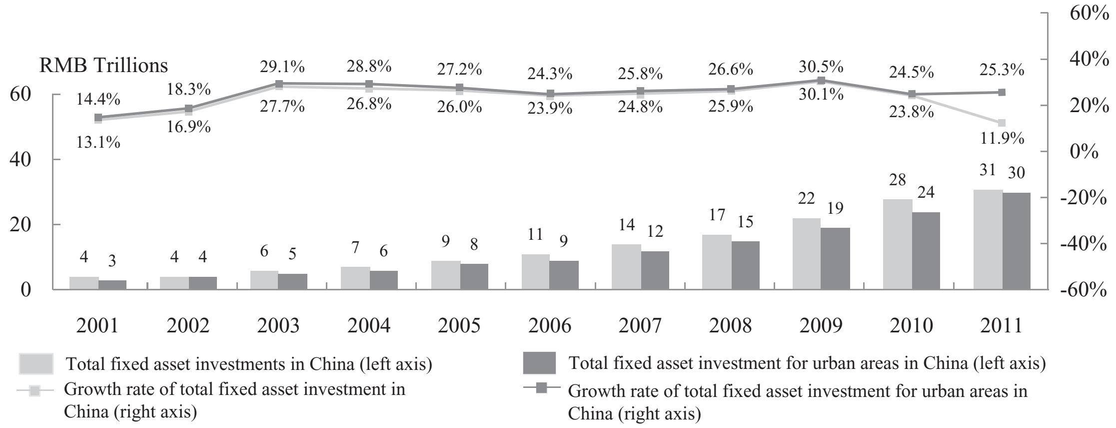
Due to the growth of investments in infrastructure, China's construction machinery industry has experienced rapid growth in the past decade, and currently China is the largest market for construction machinery in the world. According to CCMA, the total sales revenue of construction machinery for China-based manufacturers increased from approximately RMB56 billion in 2001 to approximately RMB547 billion in 2011, representing a CAGR of 25.6%. The following chart shows the growth of total sales of construction machinery for manufacturers in China for the periods indicated:




*Source: CCMA*

*Fixed Asset Investments and Urbanization Contribute to the Growth of the Construction Machinery Industry in China*

Fixed asset investments have been an important driver of China's rapid economic growth. According to the National Bureau of Statistics of China, the total fixed asset investments in China increased from RMB3.7 trillion in 2001 to RMB31.1 trillion in 2011, representing a CAGR of 23.7%, while the total fixed asset investments for urban areas in China increased from approximately RMB3.0 trillion in 2001 to approximately RMB30.2 trillion in 2011, representing a CAGR of 26.0%. We expect that China will maintain its high rate of economic growth, and increasing fixed asset investments from both public and private sectors will continue to create demand for construction machinery in China. The following chart sets forth the growth of total fixed assets investments and fixed asset investments to urban areas in China for the periods indicated:




*Source: National Bureau of Statistics of China*

Meanwhile, in recent years China has experienced ongoing urbanization, which is another important driver of the growth of construction machinery industry in China. According to studies by the United Nations, the urbanization level in China increased from 35.8% in 2000 to 50.6% in 2011. However, given China's low level of urbanization compared to developed countries, we believe that there will be further urbanization in China, and the urbanization will continue to drive demand for construction machinery in China.

*Increasing Demand for Export of Construction Machinery Made in China*

Export of construction machinery from China has increased rapidly in the past decade. According to the CCMA, exports of construction machinery from China increased from US$0.7 billion in 2001 to approximately US$15.9 billion in 2011, representing a CAGR of 36.7%. On the other hand, although the importation of construction machinery into China has been increasing from 2001 to 2011 at a CAGR of 19.3% according to the CCMA, such growth has slowed in recent years and imports represent a smaller percentage of overall construction machinery spending in China. As a result of the global economic downturn, exports of construction machinery from China experienced a decrease in 2009. However, as the global economy recovers, exports of construction machinery from China were more than two folded from 2009 to 2011.

We believe that the increase in exports of and demand for construction machinery from China-based manufacturers is primarily due to a combination of improvements in technological capabilities, product quality and reliability, increased brand recognition for construction machinery produced by China-based manufacturers and their competitive prices as compared to similar products offered by international manufacturers based in other countries. Construction machinery from China-based manufacturers has become an attractive option in the global market, especially in developing countries and regions such as Eastern Europe, Russia, Latin America, Africa, India, the Middle East and Southeast Asia. Meanwhile, as sales of construction machinery to developing countries, including India, the Middle East and Southeast Asia, have historically accounted for a large percentage of China's exports of construction machinery, the rapid economic growth in these areas has also driven the increase in exports of construction machinery from China.

***Favorable Government Policies***

While the growth of construction machinery industry depends to a large extent on general economic growth, it is more sensitive to government monetary and fiscal policies that affect fixed asset investments compared to other industries. Starting in 2006, in order to meet the significant demand for more advanced infrastructure systems driven by China's economic growth, the PRC government has announced efforts to expand, modernize and upgrade China's infrastructure system. Such efforts have increased, and are expected to continue to increase, demand for construction machinery. Large-scale investments for the construction projects relating to the 2008 Olympics in Beijing, the 2010 Shanghai World Expo, and the 2010 Asian Games in Guangzhou, Guangdong Province, have also stimulated the growth in the construction machinery industry in China.

The PRC government has also committed to the implementation of various emission reduction measures, including renovation projects for steel plants, power plants, concrete plants and large-scale nuclear power plant projects. We believe these projects will significantly contribute to the growth of the construction machinery industry. Furthermore, urbanization and the associated infrastructure construction including construction of railroad, highway and sewage systems will also increase the demand for construction machinery.

In addition to the policies related to fixed asset investments and infrastructure, the PRC government has announced and implemented several policies, including the Plan for Adjusting and Promoting the Equipment Manufacturing Industry in 2009. The Plan includes encouraging policies for merger and acquisition of enterprises and export of equipments. The Plan also encourages the use equipments made domestically as well as the use of the overseas resources and markets. We believe local governmental authorities will issue further detailed policies to implement the Plan which will result in additional benefits to us. The PRC government has also announced policies on restricting the activities of construction contractors, which have resulted in increased demand for construction machinery. For example, in 2004, the PRC government prohibited concrete mixing on urban construction sites in 124 cities. Currently, over 300 cities have adopted and implemented this restriction. We believe this restriction has increased the demand and sales of concrete machinery. The prohibition increased the sales of our concrete machinery such as truck-mounted concrete mixers used to deliver concrete.

### The Barriers to Entering China's Market

China's construction machinery industry is capital intensive as reflected in the capital requirement of its technology, production permits, supply chain and human resources. In respect of technology, products with higher technological capabilities are needed to expand market share, and more investment is needed for research and development of new products in order to consolidate market position. In respect of production permits, the production of cranes requires the relevant governmental approvals. As for supply chain, a new player of the market will typically need much more expenses in order to compete with the current players as certain key components have to be purchased from upstream factories with limited production capacity, and some components such as chassis require longer manufacturing time than other components. In respect of human resources, a large number of technicians with special expertise are generally required for the production of construction machinery, including the production of technologically-advanced equipment such as digital control equipment which require special expertise to operate. Therefore, the Company has to engage sufficient skilled laborers to meet the production demand.

## MAJOR MARKETS AND COMPETITION OF ZOOMLION

### *Concrete Machinery Sector*

Concrete machinery is used for the production, transportation and laying of concrete in various commercial and residential construction sites and infrastructure projects.

The global concrete machinery markets are mainly divided into mature markets, emerging markets and primary markets. Markets in Europe, North American and Australia will remain stable and the consumption of commercial concrete products will be high. On the other hand, the emerging markets, including the BRICs, will continue to grow and the consumption of commercial concrete products will increase rapidly. As the purchasing powers of these markets grow, users will require products of high performance-price ratio. The primary markets, including countries in Africa, will also continue to grow rapidly and their users are very sensitive to the price of products.

Concrete machinery mainly includes truck-mounted concrete pumps, trailer-mounted concrete pumps, truck-mounted concrete mixers and concrete mixing plants. According to Liaoning Yitong Machinery and Automobile Information Co., Ltd., or Liaoning Yitong, currently, over 90% of truck-mounted concrete pumps, concrete pumps and, truck-mounted concrete mixers sold in China were made by China-based manufacturers.

Truck-mounted concrete pumps are one of the major products in, and an important indicator of, the concrete machinery sector. The truck-mounted concrete pump market in China is highly concentrated, with Zoomlion and Sany Group being the primary players. According to Liaoning Yitong, Zoomlion's market share of truck-mounted concrete pumps was 33.6%, 36.9% and 37.1% for 2009, 2010 and 2011, respectively. Zoomlion's market share further increased to 44.0% for the nine months ended September 30, 2012.

Other major products in the concrete machinery sector include trailer mounted concrete pumps, truck-mounted concrete mixers, truck-mounted line concrete pumps and concrete mixing plants. Zoomlion has established strong presence in all these markets. In particular, Zoomlion's market share of truck-mounted line concrete pumps was 35.0%, 36.3% and 36.9% for 2009, 2010 and 2011, respectively, according to Liaoning Yitong. Zoomlion's market share further increased to 42.5% for the nine months ended September 30, 2012.

We believe there is a significant growth potential in China's concrete machinery sector. Various construction projects in the second- and third-tier cities create significant demand for concrete machinery. Compared to the major cities and the coastal regions, demand for concrete machinery increased rapidly in the relatively under-developed regions in China. For example, sales of concrete machinery in Inner Mongolia and Hainan Province increased rapidly in recent years. Furthermore, ready-mix concrete is still not widely used throughout China, and many cities, including second- and third-tier cities, have implemented restrictions against on-site concrete mixing, which increases the demand for concrete mixing plants.

**China's Crane Machinery Sector**

Crane machinery is widely used in various types of construction, repair and maintenance of infrastructure, buildings and manufacturing facilities to lift and transport equipment and materials.

Crane machinery mainly includes truck cranes, crawler cranes and tower cranes. In China, according to CCMA, sales revenue of truck cranes accounted for 51.4% of the sales revenues in the crane machinery sector in 2010, representing the largest contributor in that sector. In the crane machinery sector, according to CCMA, XCMG, Zoomlion, Sany Group and Fuwa Heavy Industry Co., Ltd. are the four primary manufacturers. XCMG and Zoomlion account for the majority of the truck cranes market share. Zoomlion is China's largest tower crane manufacturer (including medium- to large-capacity tower cranes) while other manufacturers of tower cranes are of much smaller sizes. In addition, the four primary competitors account for approximately 90% of the crawler crane market share. The following table sets forth the major crane machinery manufacturers in China and their respective market share in 2011 as measured by total sales volume or sales revenue:

| | Truck Crane | Crawler Crane | Tower Crane |
|---|---|---|---|
| **XCMG** | 49.1% | 21.8% | — |
| **Zoomlion** | 26.5% | 26.6% | 22.4% |
| **Sany Group** | 11.1% | 17.7% | — |
| **Fuwa Heavy Industry Co., Ltd.** | 1.5% | 22.4% | — |
| **Total Sales Volume in China (units)** | 35,457 | 2,028 | 54,248 |

*Source: CCMA*

According to CCMA, from 2009 to 2011 Zoomlion's market shares of all the major products in the crane machinery sector have been increasing. In 2009, 2010 and 2011, Zoomlion's market share of truck cranes was 23.1%, 25.1% and 26.5%, respectively, its market share of crawler cranes was 16.3%, 14.7% and 26.6%, respectively, and its market share of tower cranes was 5.7%, 11.9% and 22.4%, respectively.

We believe the potential growth of the crane machinery market will be driven by various large-scale construction projects, including urban renovation projects, wind farm projects, nuclear power plant projects and other energy-saving and emission reduction projects, including the renovation of steel plants, power plants and concrete plants, which both the public and private sectors in China have undertaken to implement.

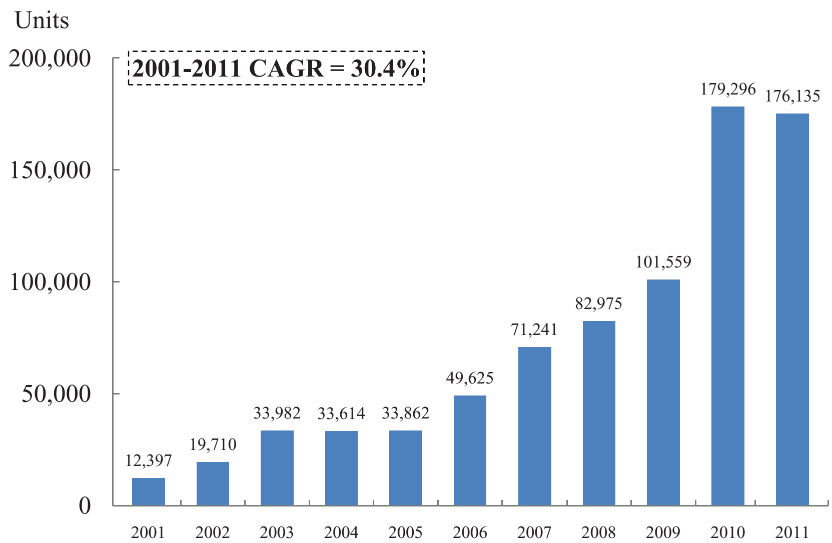
**China's Earth Working Machinery Sector**

Earth working machinery is widely used in road construction, mining and other types of construction activities. Earth working machinery mainly includes loaders, bulldozers and excavators. The following table sets forth the sales volume of the major earth working machinery products that we also produced in China in 2011:

| | Excavator | Bulldozer | Loader |
|---|---|---|---|
| **Sales volume in 2011 (units)** | 176,135 | 13,094 | 246,981 |

*Source: CCMA*

Our major product in the earth working machinery sector is excavators. According to CCMA, from 2001 to 2011, sales volume of excavators in China increased by a CAGR of 30.4%. The following chart sets forth the sales volume of excavators in China for the periods indicated:



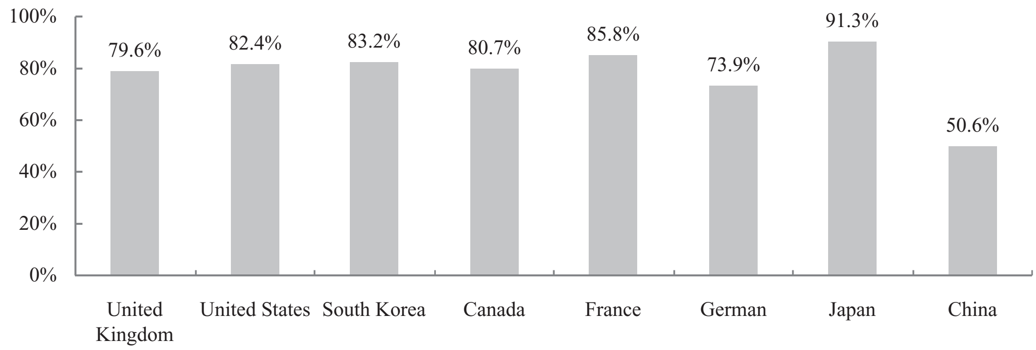

*Source: CCMA*

We believe the market for excavators presents a strong potential for growth in the long term. Currently, a significant portion of the excavators used in China are imported, which is primarily due to the higher technological requirements for excavators, as compared with other construction machinery, and the lack of pricing advantage of China-based manufacturers as a result of the abundant supply of imported pre-owned machinery from Japan and Korea in China. However, as China-based excavator manufacturers enhance their technologies, increase capital expenditures and improve the quality human resources, we believe the market share for excavators made by China-based manufacturers will continue to increase. In particular, Zoomlion increased its market share from 0.4% in 2009 to 1.1% in 2011, according to CCMA. Zoomlion's market share further increased to 2.5% for the nine months ended September 30, 2012. Meanwhile, excavators are widely used in developed countries, and have even replaced the use of loaders. We expect excavators to gradually replace loaders in China as the construction machinery industry becomes more technologically advanced.

## OUTLOOK FOR CHINA'S CONSTRUCTION MACHINERY INDUSTRY

We believe the construction machinery industry in China will continue to grow steadily due to various reasons, including China's on-going urbanization driven by economic growth, expected future investments in the infrastructure sector and real estate development and the continued growth in demand for construction machinery exports. Based on CCMA's forecast, total sales revenue of construction machinery industry in China is expected to reach RMB900 billion in 2015 in terms of revenues.

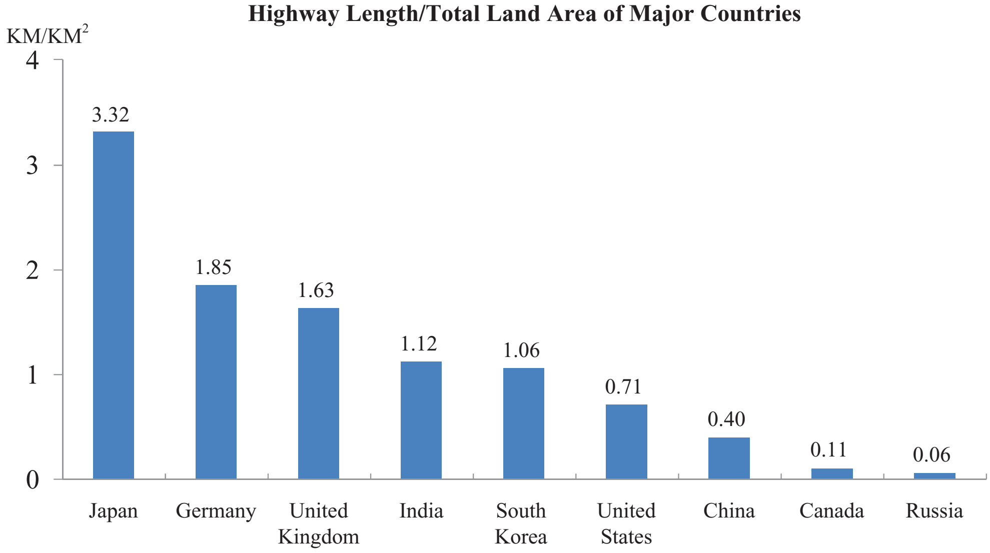
We expect the economic growth in China will remain at a steady and relatively high rate, which in turn drives China's continued urbanization. According to statistics published by the United Nations, the urbanization level in China was 50.6% in 2011, whereas the world's average was 52.1%. In the same year, the urbanization level of developed countries was 77.7% on average. As the urbanization level in China is relatively low, we believe there is significant growth potential for construction machinery industry in China as the urbanization level continues to increase. For example, the real estate market in China will keep growing in the long run due to on-going urbanization. The chart below sets forth the urbanization level in China in 2011 as compared to certain developed countries:




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

We expect that the PRC government will continue to increase its expenditure in the infrastructure sector. For example, as part of the emission reduction scheme, the PRC government is planning on renovation of urban sewage systems and steel plants and the construction of nuclear power plants, which are expected to drive the demand for construction machinery in China. Meanwhile, we also expect the PRC government to continue to expand the coverage of highway and railroad networks in China. Compared to certain other developed and developing countries, the coverage of highway and railroad networks in China is relatively low and has large growth potential. We believe that all such construction projects will significantly contribute to the continued growth of China's construction machinery industry. The following charts set forth the highway and railroad coverage in China as compared to certain other developed and developing countries:

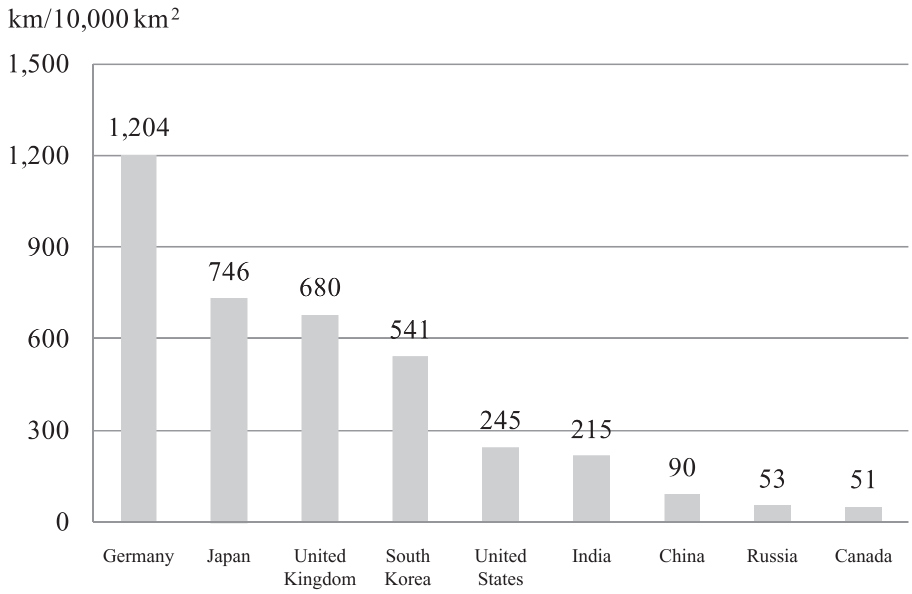
**Highway Length/Total Land Area of Major Countries**




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

*Note: The statistics for Japan is for the year 2011. The statistics for Germany is for the year 2010. The statistics for United Kingdom, China, India, Canada and Russia are for the year 2009. The statistics for South Korea and U.S. are for the year 2008.*

**Railway Length/Total Land Area of Major Countries**




*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.*

The PRC government also plans to establish or implement 20 economic zones or regional development plans. We expect these plans will involve extensive construction work related to highway, railroad, hydroelectricity projects and ports, which will in turn drive the growth of the construction machinery industry in China.

With the recovery of global economy and the rapid economic growth in emerging markets, we believe the market and demand for construction machinery will continue to increase, which in turn will drive the growth of China's construction machinery industry and the related construction machinery export industry.

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

### International Construction

International construction is a magazine published by KHL Group, which is one of the largest providers of international construction information in the world. We understand relevant information contained in the International Construction was collected from the operation of a wide range of enterprises and the ranking information in the global construction machinery industry was provided based on the sales data of relevant enterprises in particular periods.

### China Construction Machinery Industry Year Book

China Construction Machinery Industry Year Book is organized by China Machinery Industry Federation and published by China Machinery Industry Press. Information contained in the year book is based on data as of December 2010.

### Off Highway Research Limited

Off-Highway Research Limited is one of the largest management consultancy specialized in research and analysis of international construction and agricultural equipment markets. Off-Highway Research Limited maintains a proprietary database on information obtained from the relevant enterprises in the industry and independent market research and analysis. Information we refer to in this offering memorandum is based on data as of December 2010.

### CCMA

CCMA is a registered national construction machinery industry organization officially approved by the Ministry of Civil Affairs of the People's Republic of China. As a member of CCMA, we obtained information shared between members of CCMA. CCMA maintains its database on the information obtained from its members. We quoted the information from CCMA which we relied on for the market trends and industry trends analysis, and such information is based on data in particular periods.

### Liaoning Yitong

Liaoning Yitong is an information development and research institute specialized in the collection and analysis of automobile related information. Liaoning Yitong maintains a database on the statistics of the required registration of automobiles and vehicles under relevant PRC laws and regulations. The information we quoted in the offering memorandum is based on the data in particular periods.

The information provided in this section is derived from various private and/or public publications. Such information has not been commissioned by, or independently verified by, us, the Sole Global Coordinator and Sole Bookrunner, any other party involved in this offering, or any of their respective affiliates or advisers, and no representation is given as to its accuracy.

## OVERVIEW

We are a leading China-based construction machinery manufacturer providing diversified products, including concrete machinery, crane machinery and environmental and sanitation machinery, with a presence in Asia, Europe and other regions. We have one of the most diversified and comprehensive product offerings in China's construction machinery industry. We currently offer more than 900 models of machinery and equipment covering 98 different product types across 13 product lines. Our diversified and comprehensive product offerings position us well to take advantage of the future development of the domestic and overseas construction machinery markets. Moreover, we enjoy a leading market position across all of our core product lines in China, including concrete machinery and crane machinery, as well as our environmental and sanitation machinery lines. Our acquisition of CIFA in 2008 also helped to position us to become a global leading concrete machinery manufacturer by strategically combining our leading market position in the large and fast-growing construction machinery market in China with CIFA's overseas operational and technological capabilities and extensive distribution and service network in Europe.

We currently own and operate a total of 13 specialized industrial parks, of which 12 are located in Hunan Province, Shaanxi Province and Shanghai Municipality, China and one located in Senago, Italy, specializing in the manufacture and assembly of different types of construction machinery. We also operate three specialized factories located in Liaoning Province, Sichuan Province and Guangdong Province, China. Furthermore, we plan to establish another specialized industrial park at Jiangyin, Jiangsu Province and a specialized factory in India through a joint venture with ElectroMech, a leading crane machinery manufacturer in India. These specialized industrial parks and factories allow us to manufacture and assemble different products in order to increase efficiency and enhance product quality. In addition, our large-scale operations enable us to achieve cost-effective manufacturing and maintain a reliable and high-quality supply chain. Our stringent quality control system ensures the high quality of our products, which is evidenced by various domestic and international certifications for our product quality, including the China Compulsory Certifications for product quality and safety from the China Quality Certification Center and the CE Certification for product quality from TüV Rheinland and TüV SüD, independent certification institutions based in Germany.

We market our products globally under our "Zoomlion" and "CIFA" brand names, each of which has strong customer recognition and loyalty because of the track-record of high quality and performance of the products sold under those two brands. Two of our trademarks were recognized as "Well-Known Trademarks" nationwide. Similarly, our "CIFA" brand has enjoyed strong brand recognition in Europe and globally through over 80 years of operational history and is associated with the introduction of the first truck-mounted concrete mixer pumps in the world. Both our Zoomlion line and CIFA line of products are sold through an extensive distribution network in China, covering more than 300 cities and all provinces and autonomous regions in China. We also sell our products to over 120 different countries through an established and extensive overseas distribution and service network. Our strong and established overseas distribution and service network also evidences our established presence in the overseas markets.

We have established a global research and development platform with facilities in China and Italy. We are a leading participant in the establishment of national and industry standards for construction machinery in China. We have contributed to the establishment of over 170 national and industry standards that are currently in effect, including the first industry standard for truck-mounted concrete pumps in China and the industry standard for chassis specially designed for truck cranes. In addition, our technology center has been jointly accredited as a national technology enterprise center by the NDRC, the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation since 2005. We also own and operate the National Key Laboratory on Key Technologies for Construction Machinery, the only national key laboratory in China's construction machinery industry, as well as the National Engineering Technology Research and Development Center for Concrete Machinery, the only national concrete machinery engineering technology research and development center in the construction machinery industry.

We have experienced significant growth benefiting from China's ongoing urbanization. Our consolidated turnover increased from RMB20,762 million in 2009 to RMB46,323 million (US$7,371 million) in 2011, and our profit for the year increased from RMB2,419 million in 2009 to RMB8,173 million (US$1,300 million) in 2011. In the nine months ended September 30, 2012, our consolidated turnover amounted to RMB39,108 million (US$6,222 million) and our profit for the period amounted to RMB7,127 million (US$1,134 million). Our A Shares have been listed on the Shenzhen Stock Exchange since October 12, 2000 and our H Shares have been listed on the Hong Kong Stock Exchange since December 23, 2010, respectively. On December 13, 2012, our market capitalization was approximately US$10.6 billion.

## OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our success and will continue to enable us to capitalize on future growth opportunities in the global construction machinery industry.

### *Leading China-based Construction Machinery Manufacturer with an Established Global Presence and Strong Brand Recognition*

We are a leading China-based construction machinery manufacturer that has grown rapidly by capitalizing on China's ongoing urbanization and significant growth in the infrastructure sector. We enjoy a leading market position across substantially all of our core product lines in China, including concrete machinery and crane machinery. According to CCMA, we were the second-largest construction machinery manufacturer in China and the eighth largest construction machinery manufacturer in the world in terms of turnover in 2010. According to China Construction Machinery Magazine, we ranked fifth globally as a manufacturer of mobile cranes, including truck cranes, tyre cranes and crawler cranes, in terms of turnover in 2010. Furthermore, according to CCMA, we ranked first as a manufacturer of medium- to large-capacity tower cranes in terms of turnover in 2010, and second as a manufacturer of truck-mounted and trailer-mounted concrete pumps and truck cranes and fourth in crawler cranes in terms of sales volume in 2009, among all China-based construction machinery manufacturers. We believe our leading position will enable us to continue to capitalize on the rapid economic growth in China in the future.

We believe we are among the first China-based construction machinery manufacturers to have established a global operational and research platform and sales and distribution network. Our products are currently sold to over 120 different countries through our strong overseas distribution and service 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. We have also established research and development facilities in China and Italy, which grant us access to advanced technologies and a large pool of highly skilled engineering and technical personnel. CIFA, one of our subsidiaries, is a major global concrete machinery manufacturer based in Italy, as evidenced by its 80 years of history, advanced proprietary technology, including its carbon fiber boom technology, and strong research and development capabilities in the concrete machinery sector. The acquisition of CIFA has enabled us to integrate CIFA's extensive distribution and service network in Europe, its strong research and development capabilities and its proprietary technologies, and helped us become a leading concrete machinery manufacturer in the world. In August 2012, we entered into a framework agreement with ElectroMech, a leading crane machinery manufacturer in India, to establish a subsidiary to manufacture tower cranes, in which we own a 70% interest. We believe that the cooperation with ElectroMech and the establishment of the tower crane factory will enable us to combine the strong local presence of ElectroMech and our expertise in crane machinery to capture the expected growth in demand for crane machinery in India.

We have two widely recognized brands, Zoomlion and CIFA. Our leading market position in the construction machinery industry in China, together with the high quality of our products and advanced technology features have rewarded us with strong recognition of our Zoomlion brand in China. We believe our Zoomlion brand is widely regarded by our Chinese customers as representing innovation, reliability and integrity. Two of our trademarks were recognized as "Well-Known Trademarks" in China. Our Zoomlion brand has also received international recognition as evidenced by the sales and export of our products in certain overseas countries and regions and we believe we are among the first few China-based construction machinery manufacturers to have gained such international recognition. As of September 30, 2012, we maintained 407 trademark registrations of our Zoomlion brand overseas. In addition, our CIFA brand has been a well-recognized brand in the global concrete machinery industry, representing advanced design and technology and our CIFA-branded products have enjoyed a leading global market position. This differentiation in perception enables us to employ a dual-branding strategy, with our Zoomlion-branded products targeting the mid-end and mass markets and our CIFA-branded products targeting the high-end market.

We believe our leading market position in China, our established presence in Asia, Europe and other regions and our strong brand recognition in China and overseas provide us with a solid foundation to establish and strengthen our leading market position in the global construction machinery industry.

***Comprehensive Product and Service Offerings and Systematic Solutions***

We have one of the most diversified and comprehensive product offerings in China. We currently offer more than 900 models of machinery and equipment covering 98 different product types across 13 product lines, which include concrete machinery, crane machinery, environmental and sanitation machinery, road construction and pile foundation machinery, earth working machinery, material handling machinery and systems and other machinery products, including special vehicles and vehicle axles. Our products are widely utilized in various aspects of infrastructure construction activities in

China. In response to the changing market demand and customer needs, we are also committed to designing and producing new and innovative products. Our broad range of product offerings in and across product lines can satisfy various needs of our customers and are complementary to each other in certain cases, which help us to provide complete and systematic solutions for our customers. For example, in our concrete machinery product line, we offer concrete mixing plants, truck-mounted concrete mixers, concrete pumps and concrete placing booms, thereby satisfying our customers' needs that may arise throughout the full concrete production process, including mixing, transportation, pumping and placing. We believe our diversified and comprehensive product offerings position us well to take advantage of the future development of the domestic and overseas construction machinery markets.

Leveraging our broad range of products offerings, we are able to provide our customers with systematic solutions that can satisfy their specific needs, which have helped and will continue to help establish and maintain strong long-term relationships with such customers, thereby increasing the sales of our products to them. In our concrete machinery product line, we offer concrete mixing plants, truck-mounted concrete pumps, trailer-mounted concrete pumps, truck-mounted concrete mixers and concrete placing booms, which help us provide our clients with systematic solutions catering to their specific needs in construction activities. For example, we were engaged by Changsha Haizhong Concrete Co., Ltd., to provide systematic solutions specifically tailored to its needs and became their major supplier. We believe that our ability to provide systematic solutions tailored to our customers' various needs, combined with our diversified and comprehensive product offerings, allows us to generate more recurring revenues.

In addition, we provide our customers with finance lease services as part of our value-added solutions. Based on an official approval issued by the Ministry of Commerce, or MOFCOM, and the State Administration of Taxation on April 21, 2006, we believe we are among the second group of enterprises, but one of the first group of construction machinery manufacturers, in China that have received licenses to provide finance lease services in the equipment leasing market in China. In addition, we have started extending finance lease services to overseas markets. Our finance lease services provide our customers with more flexible payment options and have helped generate strong customer recognition and loyalty for our products and boost our overall product sales. We believe that we will enjoy a competitive advantage as an early market mover in this field to capture future growth in the promising equipment leasing market in China.

***Leading Developer and Setter of Industry Standards in China with Innovation Capabilities***

We are the leading institution in developing and setting national and industry standards for construction machinery in China. We have participated in and contributed to the setting of over 170 national and industry standards that are currently in effect, including the first industry standard for truck-mounted concrete pumps in China and the industry standard for chassis specially designed for mobile cranes. Our technology center has been accredited as a national technology enterprise center. We own the National Key Laboratory on Key Technologies for Construction Machinery, the only national key laboratory in the field of construction machinery; and the National Engineering Technology Research and Development Center for Concrete Machinery, the only national concrete machinery engineering technology research and development center in the construction machinery industry. We believe our active participation in setting industry standards and our nationally accredited research and development laboratories allow us to be an industry leader in addressing prevailing market trends and developing products with industry-leading technologies.

We have strong research and development and innovation capabilities stemming from our historical roots with the Research Institute, a leading state-owned research and development institution for construction machinery in China for over 50 years. In 2009, 2010, 2011 and the nine months ended September 30, 2012, we obtained 71, 152, 231 and 933 patents, respectively. As of September 30, 2012, we held 1,530 effective patents in China. Since we commenced operations, we have brought 78 new types of machinery to the market. In 2009, 2010, 2011 and the nine months ended September 30, 2012, we offered 238, 224, 257 and 161 new models of machinery, respectively. We currently hold numerous world-class core technologies in the construction machinery industry, including our advanced high-pressure concrete pumping technology and our placing boom design, which significantly increase the maximum height our concrete pumps can reach, and our proprietary single-cylinder multi-level telescopic boom design and control technologies, which reduce the weight and increase the reliability and accuracy of the boom for our crane machinery. In addition to the product-specific efforts, we are also committed to the research and development of technologies with general applications across different product lines, such as those relating to welding of high-strength steel, metal structural strength and fatigue resistance, hydraulics and transmission and intelligent control. We are able to leverage the results achieved in such research endeavors to upgrade and enhance the overall performance of our products. In addition, CIFA has leading research and development capabilities in Europe with over 80 years of experience in concrete machinery. We have been selectively applying CIFA's proprietary technologies to our Zoomlion line of concrete machinery. For example, we have introduced the carbon fiber concrete placing boom technology to our truck-mounted concrete pumps, which significantly reduces the weight of the boom and consequently improves its fuel efficiency levels. Our truck-mounted concrete pumps with long carbon fiber concrete placing booms have gained wide market acceptance and have driven the increase in the profitability of our concrete machinery. We have also introduced the K-Tronic electrical control systems, which is capable of coordinating the concrete placing boom and the stabilizer in our concrete machinery products.

We currently employ over 4,200 engineering and technical personnel. We believe our corporate culture of strong commitment to research and development has created a strong degree of employee loyalty from our research and development team. Our core research and development team has 28 chief research personnel who have spent an average of more than ten years with us. We believe our dedicated and stable research and development team and prevailing corporate culture, which fosters an environment of innovation and excellence, will serve as key elements driving our long-term growth.

### *Highly Competitive Cost Structure and Product Quality Control System*

Our large-scale operations enable us to enjoy economies of scale and maintain a reliable, cost-effective manufacturing line and high-quality supply chain. Leveraging our purchasing power, we are able to enter into strategic cooperation framework agreements with certain suppliers of key raw materials, parts and components that are important to our manufacturing process. Such agreements allow us to procure quality raw materials, parts and components at relatively competitive prices on a sustainable basis. In addition, we are able to attract certain suppliers to establish their manufacturing facilities in proximity to our assembly facilities so that we can closely monitor the quality of the parts and components and minimize the transportation and inventory and storage costs. Through the acquisition of key parts and components manufacturers, we are also able to further secure a stable supply of high quality parts and components.

With a focus on resource integration, our advanced management system helps us achieve optimal resource allocation and highly effective cost control. We have established specialized industrial parks and factories to manufacture and assemble various products to increase efficiency and enhance product quality. 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 to the specialized industrial park for assembly. In addition, we put together our production and procurement plans in accordance with our master production schedule, which allows us to optimize our utilization rates and inventory levels. We have also introduced zero-error management system to reduce inventory level while increasing production efficiency and minimizing losses resulting from product defects.

Through our stringent quality control system, we are able to assure high product quality. We employ standardized work processes and comprehensive quality control systems throughout our supply chain and manufacturing process. This allows us to quickly detect any quality issues, and thereby minimize any associated costs. Our stringent quality control practices are also evidenced by the fact that our products have received various domestic and international certifications from the relevant PRC government agencies and independent international certification authorities, including but not limited to the China Compulsory Certification for product quality and safety from the China Quality Certification Center and the CE certification for product quality from TüV Rheinland and TüV SüD, independent certification institutions based in Germany.

***Extensive and Effective Distribution and Service Network Providing Value-added Services***

We have established an extensive distribution network in China and an overseas distribution network with wide coverage across the globe. As of September 30, 2012, our distribution and service network in China 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. Meanwhile, we currently sell our products to over 120 different countries through 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.

We utilize different combinations of direct sales outlets and dealers for different types of products and geographic areas to meet local customers' demands and 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 across our total product portfolio and to cross-sell our products.

We provide comprehensive after-sales services through our outlets and dealers in our distribution network, including various value-added services aimed at lowering costs for our customers and increasing their productivity and operating efficiency. Our value-added services include the provision of on-site technical and product training sessions for the use and maintenance of our products, preventive maintenance and diagnostics, the procuring of product insurance and other necessary certifications, and the remanufacturing of existing products upon a customer's request. We implement a "24 Hours On-call" policy that aims to respond to customers within 24 hours. We also provide on-site consultation support to our customers within two hours for urban areas covered by our service centers.

***Proven Ability to Acquire and Integrate Strategic Targets to Augment Our Growth***

We have supplemented the organic growth of our business with domestic and overseas strategic acquisitions during the last several years. In order to broaden our product offerings, we have made several acquisitions in China, and we have successfully integrated those businesses into our existing operations and effectively increased their sales and profitability. For example, in 2003, we acquired Hunan Puyuan Construction Machinery Co., Ltd. with its truck crane business. Leveraging our large-scale operations, cost-effective manufacturing facilities and strong research and development capabilities, as evidenced by our active involvement in research projects and national government research and development initiatives since 1999, we were able to strengthen the market positions of those products. Currently, these acquired businesses have become integral parts of our core business and we have achieved a leading market position for those acquired product lines in China. In order to strengthen our global operations and increase our market share in the global concrete machinery market, we acquired CIFA in 2008 and have integrated its businesses into our existing operations. For example, CIFA's research and development capabilities have been integrated into our concrete machinery research and development platform, and certain manufacturing facilities in Changsha, Hunan Province have been used to produce certain components for our CIFA products. In addition, we currently sell our CIFA line of products in China through our extensive distribution network. The CIFA acquisition is the largest outbound acquisition by a Chinese construction machinery manufacturer so far. The integration of CIFA into our business has enabled us to strategically combine CIFA's well recognized brand, global sales and distribution network, innovative technology and experienced management team with our leading market position and our manufacturing expertise in China, thereby strengthening our leading market position in concrete machinery and better positioning us to capture the growth opportunities globally.

With our extensive experience in strategic acquisitions and integration of acquired businesses in China and overseas markets, we have established sound approaches and principles with respect to strategic acquisitions. We focus on domestic targets that can broaden our existing range of products and help us achieve a leading market share for such products, and focus on overseas targets that can further strengthen our existing product offerings and global footprint. Furthermore, we believe that the strong recognition of our Zoomlion and CIFA brands in the overseas markets will give us a competitive edge over other potential bidders and/or buyers for future acquisitions and alliances. We believe that the global construction machinery industry will continue to experience consolidation and, as such, our acquisition principles together with our hands-on experience and proven execution capability will enable us to capitalize on this trend.

### *Experienced Management Team with Proven Track Record and Strong Corporate Governance*

Our management team has in-depth industry knowledge and sector expertise, with an average of approximately 20 years of experience in the construction machinery industry, and has successfully led our operations. Dr. Zhan Chunxin, chairman of our Board of Directors and our chief executive officer, has over 32 years of experience in the construction machinery industry. Dr. Zhan was recognized as a CCTV Economic Figure of 2011. Dr. Zhan was also awarded the 2010 International Leonardo Award, which commends those persons who have made contributions to Italy's economy, culture and technology, in recognition of Zoomlion's acquisition of CIFA. In 2010, Dr. Zhan received the Yuan Baohua Gold Award, the most distinguished award for corporate executives in China from the China Business Administration Science Foundation, a foundation focused on improving business administration and management and corporate governance of Chinese enterprises. In 2005, 2006 and 2009, our Board of Directors received the Golden Roundtable Award, an award for outstanding boards of directors from Directors and Boards, a Chinese magazine focusing on board practices and corporate governance. We believe the industry knowledge, operating experience and technological know-how of our Directors and senior executives provide the strong leadership necessary to sustain our future growth.

We have established a strong corporate culture focused on fostering collaboration, innovation, integrity, transparency, professionalism, excellence, accountability and maintaining strong, long-term customer relationships. We believe that our corporate governance standards and culture will continue to serve as the key elements for the future development of our Company.

## OUR BUSINESS STRATEGIES

We aim to become the largest Chinese construction machinery manufacturer, and one of the top five global construction machinery manufacturers offering comprehensive and diversified products and systematic solutions in different sectors, including construction machinery and various other machinery industries to capitalize on China's increasing trends of urbanization and industrialization, as well as growth opportunities around the world. We intend to achieve this objective by pursuing the following strategies:

### *Solidify and Strengthen Our Leading Market Position in China*

We will continue to solidify and strengthen our leading market position in China's construction machinery industry and capitalize on the expected continued strong economic growth and ongoing urbanization in China. In particular, to further improve our core competence and optimize resource allocation, we will optimize our product focus by further strengthening our core product lines, namely the concrete machinery and crane machinery product lines. We aim to become the largest Chinese construction machinery manufacturer.

We plan to further expand our distribution network in China, particularly in second- and third-tier cities and in the central and western regions, where we believe there will be stronger demand for our products due to the faster rate of urbanization, stronger economic growth and higher expected level of construction activity in the near to medium term. In particular, we aim to focus our sales and marketing efforts in these markets on concrete machinery and crane machinery. In addition, we plan to form strategic alliances with certain major customers, third-party dealers and finance lease services providers to increase our market share. For example, we will continue to strengthen our relationships with existing third-party dealers and help them to strengthen their after-sale services and quality control capabilities so as to better serve and support our customer base.

Furthermore, we plan to continue to supplement the organic growth of our business in China with selective strategic acquisitions. We plan to focus on targets that (i) can significantly strengthen one or more of our existing product lines, (ii) manufacture products that we believe have substantial commercial potential but we do not currently offer, (iii) possess advanced technologies that can be used for our existing product lines, or (iv) manufacture parts and components that are important to our manufacturing process. We will also actively search for underperforming and undervalued players in the construction machinery industry. We believe that with our proven integration capability coupled with our strong track record in domestic strategic acquisitions, we can successfully revitalize acquired underperforming companies and rapidly assimilate their operations. By leveraging our strong brand recognition and sales channels, we can also effectively improve the market position of our acquired product lines.

***Strategically Expand Our Global Presence in Diverse Overseas Markets***

We will leverage our current global business platform and accelerate the strategic expansion of our overseas presence in order to enhance our brand recognition, increase our turnover and maximize the synergies from our global operations.

We plan to expand our overseas operations with different strategies tailored to different overseas markets, including Asia, North America, the Middle East, South America and Africa. In particular, we plan to expand our operations in Singapore, India, Australia, the United Arab Emirates, South Africa, Italy, Russia, Brazil and the United States. In the emerging markets, we aim to increase our market share to quickly capitalize on the rapid growth opportunities leveraging our technologically advanced and high-quality products, outstanding cost control capabilities and successful client experiences in the fast-growing PRC market. We plan to acquire or establish manufacturing facilities and further expand our distribution network in these markets. In developed countries, we aim to leverage our CIFA platform to further develop and optimize our supply chain and distribution and service network. We plan to focus our sales efforts on certain markets through offering our existing leading line of products, including concrete machinery and crane machinery, thereby enhancing the brand recognition of Zoomlion and CIFA in these markets. Meanwhile, we intend to selectively pursue acquisitions and/or strategic alliances to further strengthen our product offerings in developed countries. We also aim to improve our management systems and research and development capabilities through our expanded operations achieved in developed countries. In August 2012, we entered into a joint venture agreement with ElectroMech, a leading crane machinery manufacturer in India, to combine the strong local presence of ElectroMech and our expertise in crane machinery to capture the expected growth in demand for crane machinery in India. We also plan to establish additional manufacturing facilities in Brazil and Russia.

We plan to expand our operations internationally through strengthening our overseas distribution and service network and selective strategic acquisitions and alliances with certain overseas targets that (i) can increase the sales of our existing product lines overseas, (ii) can significantly increase the geographic coverage of our distribution and service networks, (iii) have advanced technologies, or (iv) offer products with strong market potential. We believe such strategic acquisition focus will enable us to achieve greater operational synergies.

***Enhance Our Global Research and Development Platform and Efforts***

We aim to expand our global research and development platform to strengthen our innovation capabilities and integrate our research and development resources across the globe. We aim to focus on establishing additional research facilities in the United States and Europe in the next three to five years, which we believe will provide us with a better understanding of local market demands, better access to advanced technologies and facilities as well as world-class talent. Furthermore, we plan to use CIFA's research center and personnel as a base for growing our research and development capabilities in Europe. The research facility in the United States will focus on concrete machinery and crane machinery, and the one in Europe will focus on crawler cranes, all-terrain truck cranes, truck cranes, derrick cargo trucks and aerial working platforms. We will also consider opportunities to cooperate with certain overseas companies, top universities or independent research facilities. We will introduce those advanced technologies developed by our overseas research facilities into our manufacturing bases in China, enabling us to provide such innovations to our domestic and overseas customers at a more affordable price. For example, we have introduced concrete pumps with carbon fiber booms developed at CIFA's research center to the PRC market.

We will continue to develop new products and additional features in response to changes in customer needs, industry trends and business conditions. We will focus on developing products with better safety and reliability, higher fuel efficiency and larger capacity. In addition, we plan to strengthen our research and development efforts for our key parts and components, including initiatives to improve the quality and standardization levels of the key parts and components used across our product lines, including hydraulic cylinders, hydraulic valves, chassis for concrete pumps and truck-mounted concrete mixers. Furthermore, we will strengthen our research and development initiatives aimed at streamlining our manufacturing and assembly processes.

***Continue to Broaden Our Product Offerings and Strengthen Our Manufacturing Capabilities***

We are committed to expanding our product offerings in each product line and broadening our coverage in various industries. Below are some examples of the endeavors we plan to undertake:

- In the concrete machinery product line, we will continue to introduce concrete machinery products to satisfy the various needs of customers across the globe by integrating our Zoomlion line of products and our CIFA line of products and leveraging our advanced technology and strong manufacturing capabilities. We will increase our manufacturing capacity for truck-mounted concrete pumps, trailer-mounted concrete pumps, truck-mounted line concrete pumps, truck-mounted concrete mixers and concrete mixing plants.

- In the crane machinery product line, we will continue to optimize our product mix and develop products with higher maximum lifting capacity, and further strengthen our manufacturing capabilities. We are currently upgrading the manufacturing technology and optimizing the manufacturing process of large-capacity crane machinery, including large-capacity truck cranes, crawler cranes and tower cranes. We also plan to develop products suitable for welfare housing.

- In the earth moving machinery product line, we plan to increase our manufacturing capacity in medium- and large-capacity excavators in order to gain a significant market share in China.

- We aim to further expand our product offerings, based on the prevailing industry trends and our strategic targets, into more industries, such as compact multi-functional construction machinery and emergency rescue machinery. We are currently constructing a manufacturing line for emergency rescue machinery, including aerial emergency rescue machinery, road emergency rescue machinery and underground emergency rescue machinery.

We aim to further strengthen our manufacturing capabilities through various optimization measures in order to offer technologically advanced products at a reasonable cost. For example, we are in the process of implementing lean, flexible and zero-defect manufacturing measures so that we can optimize the utilization rates of our production lines and our inventory levels while improving our product quality. We plan to optimize our supply chain management by increasing the in-house manufacturing capability of key parts and components, such as hydraulic pumps, valves and cylinders and chassis by acquiring manufacturers of such key parts and components.

***Prudently Manage the Expansion of Our Finance Lease Services***

We will continue to prudently manage the expansion of our finance lease services as an alternative payment option. For products that have typically been subject to finance lease services in China, such as concrete machinery and crane machinery, we expect our finance lease services will increase in proportion to the growth of our business. For other products, we intend to begin offering finance lease services as a payment option for our customers. We have obtained the relevant licenses and/or permits to provide finance lease services in the PRC, Hong Kong, Australia, Italy, Russia, United States and South Africa, and we expect to obtain such licenses and/or permits in certain new markets such as Brazil. We believe that the provision of finance lease services will attract potential overseas customers and make our products more competitive in the overseas market.

In view of the potential credit and liquidity risks related to finance lease services, we will carefully monitor the expansion of our finance lease services with the growth of our underlying business, and continue to strictly follow our risk management policy while constantly updating our risk management system and controls, based on stringent risk management principles, performance of our underlying business, relevant laws and regulations, and prevailing market conditions.

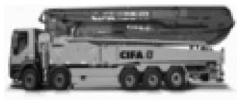
## OUR PRODUCTS

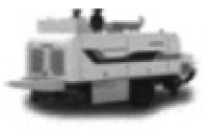
We are engaged in the design, research and development, manufacturing and sale of concrete machinery, crane machinery, environmental and sanitation machinery, road construction and pile foundation machinery, earth working machinery, material handling machinery and systems and other types of machinery products. Since we commenced operations, we have brought 78 new types of machinery to the market. In 2009, 2010, 2011 and the nine months ended September 30, 2012, we offered 238, 224, 257 and 161 new models of machinery, respectively. We currently offer more than 900 models of machinery and equipment covering 98 different product types in 13 product lines which includes more than 200 different concrete and crane machinery products. We will focus on concrete and crane machinery products upon completion of the Disposal. Concrete machinery and crane machinery are our current core product lines, together representing 74.5%, 78.2%, 79.5%, 79.0% and 80.6% of our consolidated turnover in 2009, 2010, 2011 and the nine months ended September 30, 2011 and 2012, respectively. The table below sets forth the breakdown of our consolidated turnover by our major product lines, and each expressed as a percentage of our consolidated turnover, for the periods indicated:

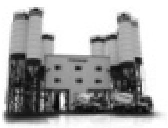
| | Year Ended December 31, | | | | | | | Nine Months ended September 30, | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2010 | | 2011 | | | 2011 | | 2012 | | |
| | RMB | % | RMB | % | RMB | US$ | % | RMB | % | RMB | US$ | % |
| | (in millions, except for percentages) | | | | | | | | | | | |
| Concrete machinery . . . | 7,157 | 34.5 | 14,085 | 43.8 | 21,212 | 3,375 | 45.8 | 15,009 | 45.2 | 21,185 | 3,371 | 54.2 |
| Crane machinery . . . | 8,298 | 40.0 | 11,077 | 34.4 | 15,618 | 2,485 | 33.7 | 11,205 | 33.8 | 10,341 | 1,645 | 26.4 |
| Environmental and sanitation machinery . . . | 1,230 | 5.9 | 1,874 | 5.8 | 2,978 | 474 | 6.4 | 2,033 | 6.1 | 2,040 | 324 | 5.2 |
| Road construction and pile foundation machinery . . . | 787 | 3.8 | 1,246 | 3.9 | 1,737 | 276 | 3.7 | 1,304 | 3.9 | 1,087 | 173 | 2.8 |
| Earth working machinery . . . | 445 | 2.1 | 772 | 2.4 | 1,048 | 167 | 2.3 | 912 | 2.7 | 1,748 | 278 | 4.5 |
| Material handling machinery and systems . . . . . | 873 | 4.2 | 422 | 1.3 | 504 | 80 | 1.1 | 403 | 1.2 | 269 | 43 | 0.7 |
| Other machinery products . . . . | 1,575 | 7.6 | 1,674 | 5.2 | 1,643 | 262 | 3.5 | 1,225 | 3.7 | 1,219 | 194 | 3.1 |
| **Total Product Sales . . . . . . .** | **20,365** | **98.1** | **31,150** | **96.8** | **44,740** | **7,119** | **96.5** | **32,091** | **96.6** | **37,889** | **6,028** | **96.9** |

*Concrete Machinery*

We offer a wide range of concrete machinery used for the production, transportation and laying of concrete in various commercial and residential construction sites and infrastructure projects, primarily including truck-mounted concrete pumps, truck-mounted line concrete pumps, truck-mounted concrete mixers, trailer-mounted concrete pumps, concrete placing booms and concrete mixing plants. Our concrete machinery is comprised of two product lines: Zoomlion and CIFA, the latter of which we acquired in September 2008. Set forth below are pictures and key features of our major concrete machinery products:

| Product | Key Features |
|---|---|
| **Truck-mounted Concrete Pump**<br>Zoomlion  CIFA  | • Transport and deliver concrete through a hose attached along a folding boom with a jib that can be rotated in various angles and directions.<br>• 39 models under the Zoomlion brand and 17 models under the CIFA brand with different folding boom lengths, concrete pumping heights and concrete output capacities.<br>• Enhanced strength and reliability of the folding boom through the use of selected materials combined with our proprietary technology.<br>• Industry-leading maximum concrete pumping capacity.<br>• Folding boom length ranging from 22 to 101 meters.<br>• Industry-leading nominal output capacity ranges from 60 to 200 cubic meters per hour as a result of our proprietary pumping technology.<br>• Maximum concrete output pressure ranges from 7 to 12 MPa. |

| Product | Key Features |
|---|---|
| **Trailer-mounted Concrete Pump**<br><br>Zoomlion  CIFA  | ● Deliver and pump concrete.<br><br>● Higher maximum concrete delivery height compared with our truck-mounted concrete pumps.<br><br>● 19 models under the Zoomlion brand and nine model under the CIFA brand with different concrete output capacity, maximum pressure on concrete and type of driving power.<br><br>● Maximum nominal concrete output capacity ranging from 26 to 136 cubic meters per hour.<br><br>● Maximum pressure on concrete ranging from 7 to 48 MPa. |
| **Concrete Placing Boom**<br><br>Zoomlion  | ● Used in conjunction with various types of concrete pumps for the delivery and pouring of concrete.<br><br>● 10 models under the Zoomlion brand with different mounting structures, folding boom lengths and heights of the placing boom.<br><br>● Our line of products includes independent, self-climbing, ship-mounted, tower and special types of concrete placing boom.<br><br>● Maximum placing boom length ranging from 16 to 45 meters.<br><br>● Maximum height up to 200 meters. |

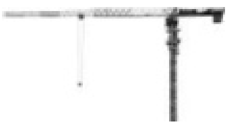
| Product | | Key Features |
|---|---|---|
| **Concrete Mixing Plant**<br><br>Zoomlion<br><br> | | • We provide the full set of equipment and machinery for concrete mixing plants. We also design the plants and install and commission the equipment, and we are responsible for the actual construction of concrete mixing plants.<br><br>• Capable of mixing hard concrete, semi-hard concrete, plastic concrete and other kinds of concrete in different ratios.<br><br>• 52 models under the Zoomlion brand.<br><br>• Maximum nominal concrete production capacity that ranges from 45 to 300 cubic meters per hour. |
| **Truck-mounted Concrete Mixer**<br><br>Zoomlion<br><br> | CIFA<br><br> | • Transport concrete from the concrete mixing plant to the construction site while continuously mixing the concrete during transport.<br><br>• 41 models under the Zoomlion brand with different mixer drum capacity.<br><br>• Capacity of mixer drum ranging from 6 to 15 cubic meters. |

| Product | Key Features |
|---|---|
| **Truck-mounted Line Concrete Pump**<br> | ● Our truck-mounted line concrete pumps combine the mobility of our truck-mounted concrete pumps with the broader delivery range of our concrete pumps.<br>● Four models under the Zoomlion brand.<br>● Concrete output capacity ranging from 40 to 100 cubic meters per hour.<br>● Maximum output pressure for concrete that ranges from 10 to 22 MPa. |
| **Self-propelled Boom Concrete Pump**<br> | ● Designed for the construction of rail systems with ballast-less tracks and can move easily on railways to transport and deliver concrete.<br>● Special chassis design facilitating wheel switching.<br>● Maximum concrete output capacity ranges from 40 to 80 cubic meters per hour.<br>● Maximum concrete output pressure ranging from 6 to 12.5 MPa. |

*Crane Machinery*

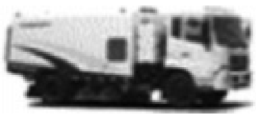
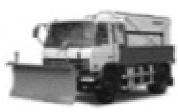
We offer truck cranes, crawler cranes and tower cranes. Our truck cranes and crawler cranes are primarily used in the construction, repair and maintenance of infrastructure, buildings and manufacturing facilities to lift and transport equipment and materials. Our tower cranes are stationary and assembled on the construction or work site and are able to carry greater loads and reach greater heights due to increased stability. Set forth below are pictures and key features of our major crane machinery products:

| Product | Key Features |
|---|---|
| **Truck Crane (including all-terrain truck crane)**<br> | • Lift through a telescopic boom with an attached scalable jib that can reach varying maximum heights.<br>• 67 models with different maximum lifting capacities, maximum lifting heights and the maximum load of the boom to meet various construction needs.<br>• Maximum lifting capacity ranging from 12 to 220 tons.<br>• Maximum lifting height ranging from 35.8 to 95.8 meters.<br>• Maximum load ranging from 465.5 to 7,350 KN-m.<br>Key features of our all-terrain truck cranes:<br>• Capable of traveling across rough terrains as well as on roadways as compared with our truck cranes.<br>• Six models with different lifting capacities, lifting heights and loads.<br>• Maximum lifting capacity of telescopic boom ranging from 180 to 500 tons.<br>• Maximum lifting height ranging from 88.5 to 150 meters.<br>• Maximum load ranging from 6,480 to 17,000 KN-m. |

| Product | Key Features |
|---|---|
| **Crawler Crane**<br> | • Capable of moving materials and equipment on rough or uneven terrain, and are often located for long periods of time on a single construction or work site such as a building site, highway or utility project.<br>• 18 models with a maximum lifting capacity that ranges from 50 to 3,200 tons. |
| **Tower Crane**<br> | • A type of construction machinery used on the long-term construction sites of high-rise buildings, water conservancy projects, railways, nuclear power plants, thermal power plants, hydropower stations and other industries.<br>• Includes a vertical tower with a horizontal jib with a counterweight at the top. On the jib is a trolley which runs a load carrying cable that moves the load along the jib length.<br>• 41 models.<br>• Maximum working radius ranging from 50 to 80 meters.<br>• Maximum load ranging from 804 to 5,316 KN-m. |
| **Construction Lift**<br> | • A type of construction machinery using cages to transport labor and objects up and down along the rails, widely used in construction and building industries.<br>• Total of two major series including SC series of ordinary construction lifts, and SC series of frequency conversion construction lifts.<br>• Rated load ranging from 1000 to 2000 kilograms.<br>• Rated lifting speed ranging from 36 to 100 meters per minute. |

*Environmental and Sanitation Machinery*

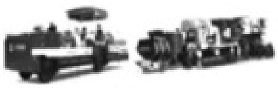
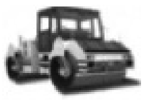
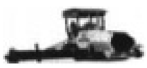
Environmental and sanitation machinery is used for the cleaning and maintenance of urban areas as well as processing domestic solid waste. We offer a wide range of environmental and sanitation machinery, including road sweepers, washing vehicles, waste treatment equipment, including garbage compactors and transporting stations, refuse compression and transfer vehicles, sewer dredging maintenance vehicles and snow removal vehicles. Set forth below are pictures and key features of our major environmental and sanitation machinery products:

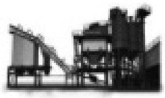
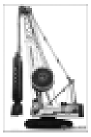
| Product | Key Features |
|---|---|
| **Road Sweeper**<br> | • 38 models with various maximum sweeping widths, hopper capacities and sweeping and dust-removal methods employed.<br>• Sweeping width ranging from 1.2 to 3.6 meters.<br>• Hopper capacity ranging from 0.7 to 9.5 cubic meters. |
| **Washing Vehicle**<br> | • 23 models with various working width, spraying width and water pressure system used.<br>• Working width ranging from 2.5 to 3.5 meters.<br>• Spraying width ranging from 14 to 24 meters. |
| **Waste Treatment Equipment**<br>Complete Equipment for Garbage Compacting and Transporting Station<br><br>Snow Removal Vehicle<br> | • Comprehensive range of waste treatment equipment to provide complete waste treatment systems for our customers.<br>• Customized design. |

| Product | Key Features |
|---|---|
| Refuse Compression and Transfer Vehicle<br><br>Sewer Dredging Maintenance Vehicle<br><br>Kitchen Waste Disposal System<br> | • Vertical and horizontal refuse compression collecting and transfer complete equipment for waste treatment stations, with daily processing capacity ranges from 60 to 250 tons per day.<br>• 69 models of refuse compression and transfer vehicle.<br>• Nine models of kitchen waste disposal system with different processing capacity.<br>• Eight models of snow removal vehicle.<br>• 14 models of sewer dredging maintenance vehicle. |

*__Road Construction and Pile Foundation Machinery__*

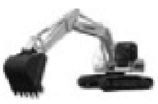
We offer a wide range of road construction machinery, including road surface heaters, graders, road rollers, pavers, road surface cold planers and asphalt mixing equipment, used for the construction and maintenance of roads and highways. We also offer pile foundation machinery, which is currently primarily comprised of rotary drilling rigs. Set forth below are pictures and key features of our major road construction and pile foundation machinery products:

| Product | Key Features |
|---|---|
| **Road Surface Heater**<br> | ● Used to heat asphalt to a high temperature in order for the asphalt to bind with the other materials used in road pavement.<br>● Heating width ranges from 2.8 to 4.5 meters. |
| **Motor Grader**<br> | ● Used to create a flat surface during road construction.<br>● Three models with maximum torque ranging from 701.5 to 946 N-m. |
| **Road Roller**<br> | ● Four models of double-drum road roller, 17 models of single-drum road roller and three models of tire road roller with different drum width, vibrating power and operation weight. |
| **Paver**<br> | ● 24 models with various paving width. |
| **Road Surface Cold Planer**<br> | ● Used to remove worn or deteriorated pavement to a specified grade and slope that can be opened immediately to traffic or overlay with new asphalt.<br>● Six different models with various maximum milling width and maximum delivery capacity. |

| Product | Key Features |
|---|---|
| **Asphalt Mixing Equipment**<br> | • Six different models with various production capacity and mixing capacity. |
| **Rotary Drilling Rig**<br> | • 18 models with various maximum drilling depth and maximum drilling diameter.<br>• Maximum drilling diameter up to 2.8 meters, and maximum drilling depth up to 98 meters.<br>• Widely used in the ground treatment using pile technique in the foundation construction projects. |
| **Underground Continuous Wall Hydraulic Crab Bucket**<br> | • Widely used in the constructions of railway transpirations, transpiration hubs, civil foundation pit protections, water conservancy projects and other infrastructures.<br>• Five models with different trough diameters and trough depths.<br>• Maximum trough depth up to 80 meters. |

***Earth Working Machinery***

Earth working machinery is widely used in road construction, mining and other types of construction. Our earth working machinery includes 10 models of medium-to-large-excavators and three models of mini-excavators, two models of loaders with various loading capacity and power, and five models of bulldozers with various maximum net flywheel power, blade lengths and loading capacities. Set forth below are pictures of our major earth working machinery products:

| Product | Key Features |
|---|---|
| **Excavator**<br> | • Used to dig trenches, holes or foundations, handle bulky materials, demolish buildings as well as load and unload mining materials.<br>• 11 models with output power ranging from 71.4 to 3,448 N-m. |

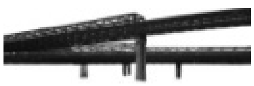
| Product | Key Features |
|---|---|
| | • Six models of mini-excavator meeting the Euro II Emission Standard.<br>• Easy to adjust the power output in accordance with different working loads and reduce fuel consumption of the engine. |
| **Bulldozer**<br> | • 23 models with different maximum net flywheel power, blade length and loading capacity. |
| **Loader**<br> | • Used to shovel, load and deliver bulky materials.<br>• Two models with maximum loading capacity of 3.2 cubic meters and maximum designed loading power of 6.5 tons. |

***Material Handling Machinery and Systems***

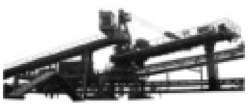
We are dedicated to the research and development, designing, manufacturing, installation and general contracting of bulk material handling equipment, port automation equipment, lifting equipment and bulk material handling systems. Our primary stand-alone products include: stacker and reclaimers, pipe conveyors, port loading/unloading equipment and portal cranes. Set forth below are pictures of our major material handling machinery products:

**Stacker and Reclaimer**

**Pipe Conveyor**



**Port Loading/Unloading Equipment**



**Portal Crane**

*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**

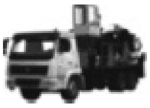
**Tyre Crane**

**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 "Our History and Corporate Structure — Proposed Disposal of Our Subsidiary". 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, | | | | | | | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | 2010 | | | 2011 | | | 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.

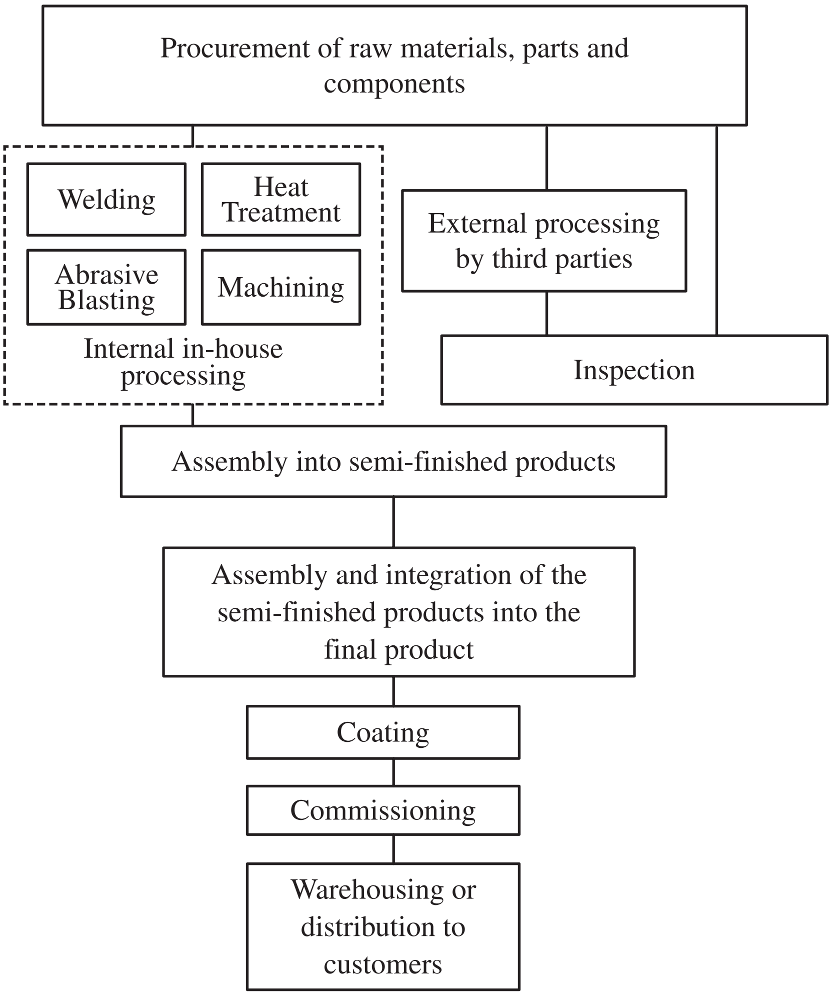
(2) For certain products, the actual production volume was larger than our production capacity, which is primarily due to the fact that the actual working hours exceeded the working hours being used as a presumption to calculate the production capacity, which is 16 hours per day, five days a week for processing of raw materials, parts and components and assembly into semi-finished products, eight hours per day, five days a week for assembly into finished products and eight hours for commission.

(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 "Our History and Corporate Structure — Proposed Disposal of Our Subsidiary".

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."

- *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 Control" 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 manufacturing processes, such as the processing of machinery, changing of manufacturing tools along the manufacturing line, automatic movement of parts along the manufacturing line, parameters for welding and drilling, and the assembly of parts, can all be programmed and automated. Such parameters can then be repeated precisely for each subsequent manufacturing cycle. We believe by automating our manufacturing processes, we are able to effectively control our manufacturing parameters, increase the quality of our products and shorten the manufacturing time for our products. In addition, this also allows for greater manufacturing flexibility as the parameters may be changed easily according to any changes in product specifications, thereby allowing us to quickly shift and adjust our manufacturing capacity between different products to take into account any changes in demand.

## QUALITY CONTROL

We have implemented stringent quality control measures to identify and solve potential quality issues. Our senior management is actively involved in setting internal quality control policies and has established a dedicated quality control department at our headquarters that sets forth general quality control guidelines, manages our quality control practices and oversees the performance of the dedicated quality control departments of each of our business divisions. During 2009, 2010 and 2011 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. The lead time for our individual purchases ranges from one day to 30 days.

For parts and components that we subcontract to external third parties, we typically enter into two types of subcontracting arrangements. Both types of arrangements typically provide for subcontracting volumes and pricing terms within a fixed period of time. Under the first type, we provide the designs of the parts and components we require, along with the raw materials required for the manufacturing of such parts and components, and the subcontractors are only required to manufacture the products in accordance with our specifications. Under the second type, the subcontractors procure the specified raw materials and manufacture the parts and components in accordance with our required standards and suitable for our specifications.

In addition, after our acquisition of CIFA, we have established a global supply sourcing platform, which we believe will allow us to increase and strengthen our purchasing power on a global scale and increase our raw materials, parts and components supply channels.

In 2009, 2010, 2011 and the nine months ended September 30, 2012, our single largest supplier accounted for approximately 3.1%, 5.0%, 6.3% and 6.8%, respectively, of our total purchases, and our five largest suppliers together accounted for approximately 10.4%, 16.5%, 17.9% and 14.6%, respectively, of our total purchases.

The operation department at our headquarters is responsible for the procurement of standardized raw materials, parts and components that can be used by several of our business divisions. Each of our business divisions in turn is responsible for the procurement of the specialized raw materials, parts and components that are only needed to manufacture their respective products. We constantly monitor and evaluate current and potential suppliers on their ability to meet our requirements and standards. Our headquarters' supply procurement department constantly evaluates our suppliers based on their size, production capabilities, quality control capabilities, financial stability and ability to timely deliver raw materials and components. Each of our business divisions also actively monitors and evaluates its supply sources for raw materials, parts and components as well as provides feedback to our headquarters as to the quality and suitability of the commonly purchased raw materials, parts and components. We enjoy stable relationships with our suppliers, generally averaging five years of business relationships with our key suppliers.

***Inventory Management***

We undertake inventory control in order to reduce the risks of under- and over-stocking. Our advanced manufacturing system is based on the MPS, which is adjusted by the actual purchase orders we receive.

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 international dealers are also required to construct a parts and components depot in their designated territories under the agreement and we can terminate the exclusive distribution agreement with our international dealers if they fail to achieve certain sales targets.

We actively manage our distribution network and regularly review the performance of each of our own distribution outlets and our dealers as well as monitor customer satisfaction with the performance of our services. We divide the sales and support of our products into our respective business divisions, which we believe allows us to better formulate and implement our sales strategy to target our customers and provide the necessary after-sales services. In 2009, 2010, 2011 and the nine months ended September 30, 2012, all of our third-party dealers were in compliance with the distribution agreements in all material aspects. In addition, we believe that the increase in our consolidated turnover in 2009, 2010, 2011 and the nine months ended September 30, 2012 was not caused by accumulation of inventory at the dealers' level, as we did not experience any product returns from our third-party dealers in this period.

***Customer Services***

We typically sell our products with warranty terms covering three to 12 months after the sale, except for parts that are subject to special warranty terms that range from 15 days to 12 months. For example, 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-call" 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 expenses etc., should the customers default on payments to the bank and if the sales proceeds of repossessed machinery are insufficient to cover the guarantee payments made by us to the banks. In the event of customer default, we are entitled to repossess the machinery collateralizing the bank loans, sell the machinery and retain any net proceeds in excess of the guarantee payments made to the banks.

- Under the finance lease arrangement, we implement stringent review procedures to ensure the credit rating of the applicant for finance lease services is satisfactory. In evaluating whether to provide finance lease services to an applicant, individual credit evaluations are performed similar to those of credit and installment sales. Our risk control committee is responsible for the establishment of credit risk management policies, supervision of the implementation of such relevant policies and determination of the key terms of lease contracts. We enjoy a stronger protection against customer credit risk as compared to other payment options as we continue to hold titles to our products until final payments are made. Furthermore, we actively negotiate with customers who show signs of financial difficulties to ensure timely collection of the lease payments. In addition, we install global positioning tracking devices on our products so that we will be able to track down and repossess such equipment in the event of customer default. As of December 31, 2009, 2010, 2011 and September 30, 2012, the amounts of overdue receivables under finance lease were RMB94 million, RMB422 million, RMB464 million (US$74 million) and RMB1,554 million (US$247 million), respectively. Overdue receivables refer to those amounts as to which any payment or part thereof remains unpaid after the relevant payment due date, including those receivables that are overdue for only one day. For overdue receivables under finance lease that were not timely remedied, some finance lease customers converted their payment method to installment payment by complying with all the relevant requirements for installment payments after negotiating with the Company. Generally, if the customer payment is overdue by more than 90 days and such overdue is not timely remedied, we will repossess such customers' machinery. Under our non-recourse factoring agreements, we have agreed to repurchase equipment at fair market value from banks to which we factored our 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.

## RESEARCH AND DEVELOPMENT

### *Research and Development Platform*

We place significant emphasis on the research and development of new products, technology and designs. In 2009, 2010, 2011 and the nine months ended September 30, 2012, we incurred research and development expenses of RMB194 million, RMB265 million, RMB398 million (US$63 million) and RMB524 million (US$83 million), respectively. Our global research and development platform currently has over 4,200 engineering and technical personnel, including 18 "Leading Experts Stipended by the State Council." Our global research and development efforts are led by a team of senior scientists located in our research and development facilities in China and Italy. These scientists have extensive relevant experience, and many of them have received recognition in their respective fields. Our core research and development team has 28 chief research personnel that have spent an average of more than ten years with us. As a result of our global research and development platform, we have access to advanced technologies and a large pool of highly skilled international engineering and technical personnel. Our research and development facilities in China focus on research and development projects across all of our product segments, and our facilities in Italy focus on research and development projects relating to concrete machinery.

### *Technology and Industry Standards Development*

We deploy a customer-oriented approach to research and development. Since 1999, we have completed 78 major research projects, including over 24 PRC national government research and development initiatives. We focus our technology research and development efforts on continuing to upgrade the technology of our products, increase the technology and performance of parts and components used in our products, increase the standardization of key components across our product lines, reduce product complexity and facilitate more efficient product manufacturing and assembly processes. We will also focus on developing new product lines that we believe are commercially feasible and profitable, as well as continue to engage in important government-sponsored research and development initiatives. The primary focuses of our current major technology research and development projects include welding techniques for high-strength steel, structural stability and rigidity of steel, and performance and functionality of hydraulic parts and components.

As recognition of our research and development capabilities, we have been awarded a number of national awards in China, such as the National Scientific and Technological Progress Award in 1998, from the national reward office for Science and Technology Awards, eight Construction Machinery Industry Science and Technology Awards in 2009, 2010 and 2011, from the CCMA, and four Huaxia Construction Science and Technology Prizes in 2009, 2010 and 2011, from the Ministry of Housing and Urban-Rural Development of the PRC.

Furthermore, we have been accredited as a national research and development enterprise center in 2005, and we own the National Key Laboratory on Key Technologies for Construction Machinery, the only national key laboratory in the field of construction machinery; and the National Engineering Technology Research and Development Center for Concrete Machinery, the only national concrete machinery engineering technology research and development center in the field of construction machinery industry. We established a post-doctoral station in China to foster and attract top academic talent to join our Company to engage in advanced research and development projects.

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 Trademarks” nationwide. Our trademark, the Chinese characters for Zoomlion and our trademark “Zoomlion”, were recognized as “Well-Known Trademarks” 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 Overview" 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 Catalog"), 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 following business activities that we engage in or are associated with are classified as "encouraged" projects:

- the manufacture of mobile cranes and crawler cranes with lifting capacity of at least 400 tons (in the form of equity or cooperative joint venture only);

- the design and manufacture of hydrostatic drive systems;

- the manufacture of high-caliber rotary drilling rigs with capacity to drill at least two meters wide and at least 30 meters deep;

- the manufacture of diaphragm wall grabs;

- the maintenance of public roads and bridges;

- the manufacture of automotive detection equipment;

- the manufacture of integrated hydraulic multi-path valves of pressure of at least 25 MPa and electro-hydraulic proportional servo components;

- the remanufacturing of construction machinery and automobile components;

- 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 "encouraged" projects.

The following business activities that we engage in or are associated with are classified as "restricted" 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 "permitted" 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 equipment" 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 "GAQS"). 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 "MIIT") and Ministry of Public Security (the "MPS") 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 "MEP") 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 Laws"). 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. These operations must adopt effective measures to prevent and control pollution levels and harm caused to the environment in the form of waste gas, liquid and solid waste, dust, malodorous gas, radioactive substances, noise, vibration, and electromagnetic radiation generated in the course of production, construction, and other activities.

Under the Environmental Laws, we are also required to carry out an environmental impact assessment before commencing construction of production facilities and install pollution treatment facilities that meet the relevant environmental standards for treatment of pollutants before discharge.

## REGULATIONS AS TO LABOR AND SAFETY

The PRC has many labor and safety laws, including the PRC Labor Law, the PRC Labor Contract Law, the Regulation of Insurance for Work-Related Injury, the Unemployment Insurance Law, the Provisional Measures on Insurance for Maternity of Employees, the Interim Provisions on Registration 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 Law"), 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, the non-financial institution shall make registration of the security with the competent foreign exchange administrative authority.

On July 30, 2010, the SAFE issued the SAFE Foreign Security Notice. According to this notice, if an enterprise plans to provide security to foreign companies, the proportion of its net assets to its total assets shall be no less than 15% in principle, and the balance quota verified by the foreign exchange administrative authority for this enterprise or the balance of foreign security of this enterprise verified item-by-item by the foreign exchange administrative authority shall not exceed 50% of its net assets. It also provides that, under the foreign security provided by a PRC enterprise, the secured party shall satisfy the following conditions: (1) the secured party must be established or held (directly or indirectly) by the enterprise in or outside China; the amount of net assets of the secured party is a positive value; (2) the secured party has made profit in at least one of the last three years; if the secured party engages in a long-term project such as resources development, it shall have made profit in at least one of the last five years; if the secured party has been established for less than three years (an ordinary enterprise) or five years (resources development enterprise), there shall be no compulsory requirement on profit making. It is further required under this notice that the funds under a financing foreign security shall not be repatriated for domestic use directly or indirectly by means of loans, equity investment, securities investment, etc. The PRC parent company of the PRC guarantor or overseas investment enterprise shall supervise the use of the funds obtained by the secured party for its production and operation activities overseas.

On July 27, 2011, SAFE issued the SAFE Circular 30, which further provides that, where a domestic bank, financial institution or domestic enterprise plans to provide security or guarantee to an offshore entity for its bond issuance outside the PRC, the guarantor shall obtain the prior approval from SAFE on the foreign guarantee on an item-by-item basis. When SAFE reviews the application for the approval of a foreign guarantee for the offshore financing purpose, SAFE would closely examine the use of proceeds from such financing activities in details by requiring the relevant parties to submit the supporting documents.

## 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 Rules"), 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 Management" with "Outstanding Contribution to the Ministry of Construction" 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 Directors”.

**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 the Star Entrepreneur of the China Machinery Industry awarded in 2007. Mr. Yin obtained a bachelor's degree in Business Administration from the College of Management (secondary bachelor's degree class) of the China University of Geosciences in Wuhan City, the PRC in 2004.

**Mr. He Jianming** is a senior president of our Company. He holds senior management positions in various subsidiaries and affiliates of ours. Since Mr. He joined us in April 2001, he has been our chief financial officer from April 2001 to August 2004 and from August 2006 to July 2007 respectively. Mr. He has served various other roles, including the vice chairman of Listed Company Chapter of Chief Accountants Association of Hunan Province since September 2009. Mr. He obtained a master's degree in Business Administration for Senior Management Staff from Wuhan University in Wuhan City, the PRC in 2007.

**Ms. Du Youqi** is a senior president of our Company. She has been a senior engineer as recognized by the Ministry of Construction since 1996. Ms. Du has served in various positions in our Company since 1999, including the head of our Department for On-Going Improvement from March 2006 to October 2007. Ms. Du was appointed as assistant to our chairman in September 2006 and has become a senior president of our Company since November 2007. Ms. Du obtained a bachelor's degree in Hydraulic Machinery from Huazhong Institute of Technology (currently known as Huazhong University of Science and Technology) in Wuhan City, the PRC in 1982.

**Mr. Fang Minghua** is a senior president of our Company. Mr. Fang holds senior management positions in various subsidiaries and affiliates of ours. Mr. Fang joined us in 2000, was appointed as a vice president of our Company in August 2006 and became a senior president of our Company in September 2008. Mr. Fang has received various titles and awards including the 3rd Grand Prize of the Hunan Young Entrepreneur awarded in October 2006 and the Advanced Worker for the Top Ten Landmark Project Construction in Hunan Province in 2007. Mr. Fang completed a bachelor's program in Business Administration from Jiangnan University in Wuxi City, the PRC through internet education in 2004.

**Mr. Wang Chunyang** is a senior president of our Company. Mr. Wang holds senior management positions in various subsidiaries and affiliates of ours. Mr. Wang was a member of our board of directors from September 2004 to July 2006 and our chief engineer from August 2006 to August 2008. Mr. Wang has received various titles and awards, including the Award of National Outstanding Worker in the Use and Industrialization of Patents in 2007. Mr. Wang obtained a bachelor's degree in Mechanical Engineering from Hunan University in Changsha City, the PRC in 1981.

**Mr. Xu Wuquan** is a senior president of our Company. Mr. Xu was previously a vice president of our Company from December 2004 to July 2006, an assistant to our president from August 2006 to August 2008 and our chief engineer and head of our research institute from September 2008 to July 2010. Mr. Xu obtained a bachelor's degree in Construction Machinery from Chongqing Architecture

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 Plan" 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."

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 employee of our Company.

# 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 Notes" and "Enforceability of Foreign Judgments and Civil Liabilities". 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, failure to make payments on principal or interests, significant events that would have a material impact on the borrower's ability to repay the loan, borrower's dissolution or insolvency, major violation of laws, exposure to major liabilities in lawsuits, misleading statement or material omission and cessation of all or a material part of the borrower's business. The banks are entitled to terminate their respective 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 equity and shareholder equity. In addition to the financial covenants, we have agreed to certain customary default or trigger events relating to, among other things, significant events that would have a material impact on the borrower's ability to repay the loan, major violation of laws, exposure to major liabilities in lawsuits. The banks are entitled to terminate their respective 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, RMB1,205 million (US$192 million) of our US dollar denominated unsecured long-term bank loans bore interest at LIBOR plus 2.6% to 3.6% per annum and had maturities ranging from 14 months to 32 months from September 30, 2012. RMB2,327 million (US$370 million) of our US dollar denominated unsecured long-term bank loans bore interest at LIBOR plus 1.8% to 4.0% per annum and had maturities ranging from 2 months to 32 months from September 30, 2012. The remaining US dollar denominated unsecured long-term bank loans of RMB371 million (US$59 million) and bore interest at 3.5% to 4.2% per annum and had maturities ranging from 8 to 23 months from September 30, 2012.

### Unsecured Bonds

In April 2008, we issued bonds with principal amount of RMB1,100 million (US$175 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.

### Guaranteed Senior Notes

On April 5, 2012, the Issuer issued unsecured U.S. dollar denominated of 2017 Notes which are due 2017 in the aggregate principal amount of US$400 million. The 2017 Notes are fully and unconditionally guaranteed by us. Interest on the 2017 Notes is payable semi-annually in arrears in April and October of each year. The 2017 Notes Indenture contains limitations on the Issuer's and our ability to create certain liens and to consolidate, merge or transfer all or substantially all of the Issuer's and our assets and the assets of the Issuer's and our subsidiaries on a consolidated basis. In addition, the 2017 Notes Indenture restricts the Issuer from incurring any additional indebtedness other than any additional 2017 Notes. The Issuer is currently conducting the Consent Solicitation to amend the 2017 Notes Indenture to allow it to incur indebtedness in addition to the existing 2017 Notes, whether through bank loans or the issuance of notes of one or more series. The consummation of this offering is conditioned upon the execution and delivery of the Supplemental Indenture and the Proposed Amendment becoming operative in accordance with the terms of the Supplemental Indenture. See "Summary — Recent Developments — Solicitation of Consents to Amend an Existing Indenture".

# DESCRIPTION OF THE NOTES

The Notes are to be issued under an indenture (the "Indenture") to be executed among Zoomlion H.K. SPV Co., Limited (the "Issuer"), Zoomlion Heavy Industry Science and Technology Co., Ltd. (the "Guarantor") and The Bank of New York Mellon, as trustee (the "Trustee"). 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 Day" 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 Agent") and its transfer agent (the "Transfer Agent") and The Bank of New York Mellon, Hong Kong Branch to act as its registrar (the "Registrar"). The Paying Agent, Transfer Agent and Registrar are each referred to as an "Agent." 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 ("DTC") 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 "Guarantee") 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 "— Taxation") 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 Notes"). 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 "Custodian"), 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." 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 Notes" 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," and in the case of any resale other than a "Safe Harbor Resale" as defined under "Transfer Restrictions," 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 "Participants") will be effected in the ordinary way in accordance with DTC rules. Transfers between participants in Clearstream and Euroclear ("Clearstream Participants" and "Euroclear Participants," 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."

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 corporation" within the meaning of the Uniform Commercial Code and a "Clearing Agency" 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 Participants").

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 Form" above. Upon the transfer, exchange or replacement of individual Notes in certificated form not bearing the legend referred to under "Transfer Restrictions," 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 "— Taxation")), 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 "— Taxation"), 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 Assets"), 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 "Redemption" 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 Offer").

Within 30 days following any Change of Control, unless previously redeemed under "Redemption" 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 such notice is given (the "Change of Control Purchase Date").

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if a third party makes such an offer substantially in the manner, at the times and in compliance with the 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 Jurisdiction"), 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 Amounts") 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 ("Lien"), 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 Entity") 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;" any Issuer Successor Entity or Guarantor Successor Entity is referred to as a "Successor Entity") 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," 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 substantially all" of the property or assets of a Person.

***Issuer***

The Guarantor shall ensure that the Issuer (or any Successor Entity) shall at all times remain a wholly-owned subsidiary, directly or indirectly, of the Guarantor. The Issuer shall not carry on any business activities other than the offering, sale or issuance of indebtedness and the advance of the proceeds thereof to the Guarantor, any of the Guarantor's Subsidiaries or a company otherwise controlled by the Guarantor and any other activities in connection therewith.

***Reports***

So long as any of the Notes remain outstanding, the Guarantor will file with the Trustee:

(i) as soon as they are available, but in any event within 120 calendar days after the end of the fiscal year of the Guarantor, copies of the financial statements (on a consolidated basis and in the English language) of the Guarantor in respect of such financial year (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and audited by a member firm of an internationally recognized firm of independent accountants;

(ii) as soon as they are available, but in any event within 90 calendar days after the end of the second financial quarter of the Guarantor, copies of the financial statements (on a consolidated basis and in the English language) of the Guarantor in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and reviewed by a member firm of an internationally recognized firm of independent accountants; and

(iii) as soon as possible and in any event within 10 days after the Guarantor becomes aware of the occurrence thereof, written notice of the occurrence of any event or condition which constitutes, or which, after notice or lapse of time or both, would become, an Event of Default and an officer's certificate of the Guarantor setting forth the details thereof and the action the Guarantor is taking or proposes to take with respect thereto;

*provided* that if at any time the Capital Stock of the Guarantor is listed for trading on a recognized stock exchange, the Guarantor will file with the Trustee, as soon as they are available but in any event not more than 10 calendar days after any financial or other reports of the Guarantor are filed with any recognized exchange on which the Guarantor's Capital Stock is at any time listed for trading, true and correct copies of any financial or other report filed with such exchange in lieu of the financial statements identified in clauses (i) and (ii) above.

Further, the Issuer and the Guarantor will agree that, during any period in which the Issuer and the Guarantor is neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting 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 Default"):

(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," "— Certain Covenants — Consolidation, Merger and Sale of Assets;"

(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 provision");

(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 provision");

(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 continuing, the Trustee by notice to the Issuer, or the Holders of at least 25% in principal amount of the outstanding Notes by notice to the Issuer and the Trustee, may, and the Trustee at the written request of Holders of at least 25% in principal amount of the outstanding Notes shall, declare the principal of, premium, if any, and accrued and unpaid interest, if any, on all the Notes to be due and payable. Upon such a declaration, such principal, premium and accrued and unpaid interest will be due and payable immediately. In the event of a declaration of acceleration of the Notes because an Event of Default described in clause (5) under "Events of Default" has occurred and is continuing, the declaration of acceleration of the Notes shall be automatically annulled if the default triggering such Event of Default pursuant to clause (5) shall be remedied or cured by the Issuer, the Guarantor or any of the Guarantor's Significant Subsidiaries or waived by the appropriate portion of holders of the relevant Indebtedness within 30 days after the declaration of acceleration with respect thereto and if (1) the annulment of the acceleration of the Notes would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all existing Events of Default, except nonpayment of principal, premium, if any, or interest on the Notes that became due solely because of the acceleration of the Notes, have been cured or waived. In the event of any such automatic annulment, the Issuer shall provide written notice thereof to the Trustee with an officer's certificate certifying the matters addressed in (1) and (2) of the preceding sentence. The Trustee is entitled to conclusively rely upon any such notice and officer's certificate and may assume, in the absence of any such notice and officer's certificate, that such automatic annulment has not taken place. If an Event of Default described in clause (7) above occurs and is continuing, the principal of, premium, if any, and accrued and unpaid interest, if any, on all the Notes will become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holders.

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 "— Redemption" or "— Repurchase Upon a Change of Control," 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 Notes" 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;"

(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 "— Taxation") 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 Covenants" and the following provisions described under "— Events of Default" 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 Currency") other than U.S. Dollars (the "Obligation Currency"), 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.

**Waiver of Immunity**

To the extent that the Issuer or the Guarantor have or hereafter may acquire any immunity (sovereign or otherwise) from any legal action, suit or proceeding, from jurisdiction of any court or from set-off or any legal process (including any immunity from non-exclusive jurisdiction or from service of process or, except as provided below, from any execution to satisfy a final judgment or from attachment or in aid of such execution or otherwise) with respect to itself or any of its property, each of the Issuer and the Guarantor irrevocably waives, to the fullest extent permitted under applicable law, any such right of immunity or claim thereto which may now or hereafter exist, and agrees not to assert any such right or claim in any action or proceeding against it arising out of or based on the Notes, the Guarantee or the Indenture.

**Notices**

Notices to Holders will be mailed to them at their respective addresses in the register of Notes. Any such notice will be deemed to have been sufficiently given if so mailed within the time prescribed under the Indenture. Any written notice or communication that is delivered in person, sent electronically or mailed by first-class mail to the designated address will be deemed duly given, regardless of whether the addressee received such notice. So long as and to the extent that the Notes are represented by Global Notes and such Global Notes are held by DTC, notices to owners of beneficial interests in the Global Notes may be given by delivery of the relevant notice to DTC for communication by it to entitled accountholders.

**Certain Definitions**

"Applicable Premium" means, with respect to a Note at any redemption date, the greater of (1) 1.0% of the principal amount of such Note and (2) the excess, if any, of (A) the present value at such redemption date of 100% of the principal amount of such Note, plus all required remaining scheduled interest payments due on such Note through December 20, 2022 (but excluding accrued and unpaid interest to such redemption date), computed using a discount rate equal to the Treasury Rate plus 30 basis points, over (B) the principal amount of such Note on such redemption date.

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

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

"Capital Stock" 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 Control" 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 "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (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 Issue" 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 Price" 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;" 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 Act" means the United States Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

"GAAP" means International Financial Reporting Standards as in effect from time to time. "Holder" means a Person in whose name a Note is registered on the Registrar's books.

"Indebtedness" 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 Date" means the date on which the Notes are originally issued under the Indenture.

"Permitted Holders" means the State-owned Assets Supervision and Administration Commission of Hunan Provincial People's Government.

"Person" 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.

"PRC" means the People's Republic of China, excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan.

"Receiver" means any receiver, trustee, assignee, liquidator, custodian or similar official under any Bankruptcy Law.

"Reference Treasury Dealer" 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 Quotations" 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 Indebtedness" 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.

"SEC" means the United States Securities and Exchange Commission.

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

“Significant Subsidiary” 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 subsidiary” 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 percent” is used, the term “5 percent” shall be substituted therefor.

“Subsidiary” 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 Rate” 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 Stock” 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.

# TRANSFER RESTRICTIONS

The Notes are subject to restrictions on transfer as summarized below. By purchasing Notes, you will be deemed to have made the following acknowledgments, representations to and agreements with us and the Initial Purchaser:

You acknowledge that:

- the Notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and

- unless so registered, the Notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth below.

You acknowledge that this offering memorandum relates to an offering that is exempt from registration under the Securities Act and may not comply in important respects with SEC rules that would apply to an offering document relating to a public offering of securities.

You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of us, that you are not acting on our behalf and that either:

- you are a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and are purchasing the Notes for your own account or for the account of another qualified institutional buyer, and you are aware that the initial purchaser is selling the Notes to you in reliance on Rule 144A; or

- you are not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing the Notes in an offshore transaction in accordance with Regulation S.

You acknowledge that neither we nor the Initial Purchaser nor any person representing us or the Initial Purchaser has made any representation to you with respect to us or the offering of the Notes, other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the Notes. You agree that you have had access to such financial and other information concerning us and the Notes as you have deemed necessary in connection with your decision to purchase Notes, including an opportunity to ask questions of and request information from us.

You represent that you are purchasing Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer 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 Notes"), 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 Legend"):

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 ACT"), 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 Legend"):

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 ACT"), 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." 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 |
|---|---|---|---|---|
| | (RMB per US$1.00) | | | |
| 2005 | 8.0702 | 8.1826 | 8.0702 | 8.2765 |
| 2006 | 7.8041 | 7.9579 | 7.8041 | 8.0702 |
| 2007 | 7.2946 | 7.5806 | 7.2946 | 7.8127 |
| 2008 | 6.8225 | 6.9193 | 6.7800 | 7.2946 |
| 2009 | 6.8259 | 6.8295 | 6.8176 | 6.8470 |
| 2010 | 6.6000 | 6.7603 | 6.6000 | 6.8330 |
| 2011 | 6.2939 | 6.4475 | 6.2939 | 6.6364 |
| 2012 | | | | |
| June | 6.3530 | 6.3633 | 6.3530 | 6.3703 |
| July | 6.3610 | 6.3717 | 6.3487 | 6.3879 |
| August | 6.3484 | 6.3593 | 6.3484 | 6.3738 |
| September | 6.2848 | 6.3200 | 6.2848 | 6.3489 |
| October | 6.2372 | 6.2627 | 6.2372 | 6.2877 |
| November | 6.2265 | 6.2338 | 6.2221 | 6.2454 |
| December (through December 7) | 6.2299 | 6.2273 | 6.2251 | 6.2299 |

(1) Annual averages are calculated by averaging the rates on the last business day of each month during the relevant year. Monthly averages are calculated by averaging the daily rates during the relevant monthly period.

# 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 bodies" 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 body" 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 enterprises" so long as such "non-resident enterprise" 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 enterprises" so long as any such "non-resident enterprise" 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 Ordinance") as it is currently applied by the Inland Revenue Department, interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(a) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(b) interest on the Notes is derived from Hong Kong and is received by or accrues to a company (other than a financial institution) carrying on a trade, profession or business in Hong Kong; or

(c) interest on the Notes is derived from Hong Kong and is received by or accrues to a person (other than a company) carrying on a trade, profession or business in Hong Kong and is in respect of the funds of the trade, profession or business.

Sums derived from the sale, disposal or redemption of the Notes may be subject to Hong Kong profits tax where received by or accrued to a person who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of the Notes may be subject to profits tax.

***Stamp duty***

No Hong Kong stamp duty is payable on the issue of the Notes. Hong Kong stamp duty will not be payable on any transfer of the Notes provided that either:

(i) the Notes are denominated in a currency other than the currency of Hong Kong and are not redeemable in any circumstances in the currency of Hong Kong; or

(ii) the Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong).

The Notes are denominated and repayable in U.S. dollars.

If Hong Kong stamp duty is payable in respect of the transfer of the Notes it will be payable at the rate of 0.2% (of which 0.1% is payable by the seller and 0.1% is payable by the purchaser) normally by reference to the value of the consideration. If, in the case of either the sale or purchase of such Notes where stamp duty is payable and stamp duty is not paid, both the seller and the purchaser may be liable 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 price" (the first price at which a substantial amount of the Notes is sold to the public).

A "U.S. holder" 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 "Code"), 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 currency" 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

Under the terms and subject to the conditions contained in a purchase agreement dated December 13, 2012 (the "Purchase Agreement") between the Issuer, the Guarantor and the initial purchaser named below (the "Initial Purchaser"), the Initial Purchaser has agreed to purchase from us, and we have agreed to sell to the Initial Purchaser, US$600,000,000 aggregate principal amount of the Notes set forth opposite its name below:

| Initial Purchaser | Principal Amount of Notes |
|---|---|
| Goldman Sachs (Asia) L.L.C. | US$600,000,000 |
| Total | US$600,000,000 |

The Purchase Agreement provides that the obligation of the Initial Purchaser to take and pay for the Notes is subject to certain conditions contained in the Purchase Agreement including, among other things, the receipt by the Initial Purchaser of documentation related to the issuance and sale of the Notes, officers' certificates, legal opinions, the execution and delivery of the Supplemental Indenture and the Proposed Amendment becoming operative in accordance with the terms of the Supplemental Indenture. The Purchase Agreement may be terminated by the Initial Purchaser in certain circumstances prior to payment.

We have agreed to indemnify the Initial Purchaser against certain liabilities, including liabilities under the Securities Act, and to contribute to payments which the Initial Purchaser may be required to make in respect thereof.

The Notes are a new issue of securities with no established trading market. Approval in-principle has been received for the listing of and quotation of the Notes on the SGX-ST. We have been advised that the Initial Purchaser presently intends to make a market in the Notes, as permitted by applicable laws and regulations. The Initial Purchaser is not obligated, however, to make a market in the Notes, and any such market making may be discontinued at any time without prior notice at the sole discretion of the Initial Purchaser. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the Notes. We have been advised by the Initial Purchaser that, in connection with the offering of the Notes, the Initial Purchaser may engage in transactions that stabilize, maintain or otherwise affect the price of the Notes. Specifically, the Initial Purchaser may overallot the offering, creating a syndicate short position. In addition, the Initial Purchaser may bid for, and purchase, the Notes in the open market to cover syndicate shorts or to stabilize the price of the Notes. Any of these activities may stabilize or maintain the market price of the Notes above independent market levels. The Initial Purchaser is not required to engage in these activities, and may end any of these activities at any time. No assurance can be given as to the liquidity of, or the trading market for, the Notes.

The Initial Purchaser and certain of its affiliates have in the past and may in the future have performed certain investment banking and advisory services for the Company and/or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Company and/or its affiliates in the ordinary course of their business. We may enter into hedging or other derivative transactions as part of our risk 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 "FSMA") 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 "SFA"). 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 investors" 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 "prospectus" 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 investors" 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," 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 public" 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+" by Standard and Poor's Ratings Services, and "BBB-" 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."

## 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.

## Index to financial statements

KPMG

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

*(Incorporated in The People's Republic of China 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.") (the "Company") and its subsidiaries (together the "Group") 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 | 2010 | 2011 |
|---|---|---|---|---|
| | | RMB | RMB | RMB |
| | | millions | millions | 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.") (the "Company") and its subsidiaries (collectively, referred to as the "Group") 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 ("PRC"), 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 Institute"), a state-owned entity, held 74.7% equity interest in the Company and the other five founding shareholders held 25.3% equity interest in the Company in aggregate. These founding shareholders are hereinafter referred to as the non-public shareholders.

On 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 ("SZSE"). Upon the initial public offering, the public shareholders owned 33.3% of the equity interest in the Company. The equity interest of Research Institute and the other five non-public shareholders in the Company was then reduced to 49.8% and 16.9%, respectively.

During the years from 2001 to 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 SASAC"), 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 ("SEHK"). In this connection, Hunan SASAC and Hunan Development Group, the Company's state-owned shareholders, transferred a total of 86,958,280 A Shares to the National Council for Social Security Fund of the PRC ("NSSF"), which were converted into H Shares on a one-for-one basis. Upon the completion of the Global Offering, the share capital of the Company was increased to approximately RMB5,797 million, comprising 4,840,678,482 A Shares and 956,541,080 H Shares. After the Global Offering, Hunan SASAC held 16.77% equity interest in the Company.

On 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 ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). IFRSs include all individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related interpretations. 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 disclosures"
- Improvements to IFRSs (2010)
- IFRIC 19, "Extinguishing financial liabilities with equity instruments"

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.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and the major sources of estimation uncertainty are disclosed in Note 29.

## 2 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the entities in the Group.

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

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

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control 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)) or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (Note 2(c)).

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

The details of the Group's principal subsidiaries are set out in Note 30.

***(c) Associates***

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (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*

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in profit or loss over the period of borrowings, together with any interest and fees payable, using the effective interest method.

*Trade and other payables*

Trade and other payables are initially recognized at fair value and thereafter stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

*(ii) Derivative financial instruments*

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognized immediately in profit and loss.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the combined instrument is not measured at fair value through profit or loss.

***(i) Impairment of assets***

(i) Impairment of investments in equity securities, trade and other receivables and receivables under finance lease

Investments in equity securities and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

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

If any such evidence exists, any impairment loss is determined and 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 the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

***(m) Financial guarantees issued, provisions and contingent liabilities***

*(i) Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognized as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognized in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognized in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognized as deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognized in accordance with Note 2(m)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognized, less accumulated amortization.

*(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 ("RMB"). The functional currency of the Company and its subsidiaries in the mainland PRC is RMB and the functional currency of the Company's subsidiaries in Europe is Euro ("EUR"). The functional currency of the Company's subsidiaries in the Hong Kong Special Administrative Region ("HKSAR") is United States Dollars ("USD") as the major operating and financing activities of these entities are transacted in USD.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the 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 | 1,279 | 2,127 | 2,898 |
| Contributions to retirement schemes (Note 21) | 104 | 122 | 178 |
| | 1,383 | 2,249 | 3,076 |

*(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 |
| Total reportable segment revenue | 19,187 | 30,519 | 44,680 |
| Revenue from all other segments | 1,575 | 1,674 | 1,643 |
| Total | 20,762 | 32,193 | 46,323 |
| Reportable segment profit: | | | |
| Concrete machinery | 2,042 | 4,510 | 7,544 |
| Crane machinery | 1,963 | 3,082 | 4,023 |
| Environmental and sanitation machinery | 406 | 592 | 917 |
| Road construction and pile foundation machinery | 260 | 481 | 665 |
| Earth working machinery | 72 | 165 | 214 |
| Material handling machinery and systems | 86 | 32 | 51 |
| Finance lease services | 232 | 689 | 1,376 |
| Total reportable segment profit | 5,061 | 9,551 | 14,790 |
| Profit from all other segments | 279 | 218 | 217 |
| Total | 5,340 | 9,769 | 15,007 |

***(b) Reconciliation of segment profit***

| | 2009 | 2010 | 2011 |
|---|---|---|---|
| | RMB millions | RMB millions | RMB millions |
| Total segment profit | 5,340 | 9,769 | 15,007 |
| Other revenues and net income | 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) |
| (Loss)/gain on disposal of subsidiaries and associates | (6) | — | 12 |
| Net finance costs | (295) | (365) | (36) |
| Share of profits less losses of associates | 6 | 14 | 24 |
| Consolidated profit before taxation | 2,828 | 5,416 | 9,602 |

*(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 assets"). The geographical location of revenue is based on the selling location. The geographical location of specified non-current assets is based on the physical location of the asset. No geographic information is presented for trademarks, technical know-how and goodwill as these assets are commonly used by the Group both in and outside PRC. All other non-current assets are physically located in the PRC, except for customer relationships acquired through business combination of CIFA, 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) |
| Balance at December 31 | 2,082 | 1,907 | 1,793 |

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 ("CIFA") | September 2008 | 1,868 | 1,693 | 1,579 |
| Shaanxi Zoomlion Earth Working Machinery Co., Ltd (formerly "Shaanxi Xinhuanggong Machinery Co., Ltd.") | 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.") | 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 Control") 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.

The following table summarises the purchase price allocation of the fair value of the identifiable assets acquired and liabilities assumed in respect of the above acquisition at the acquisition date. No goodwill was resulted from this step acquisition.

| | RMB millions |
|---|---|
| Property, plant and equipment | 6 |
| Lease prepayments | 38 |
| Inventories | 50 |
| Trade and other receivables | 72 |
| Cash and cash equivalents | 31 |
| **Total assets acquired** | **197** |
| Loans and borrowings | (40) |
| Trade and other payables | (62) |
| Income tax payable | (1) |
| **Total liabilities assumed** | **(103)** |
| Non-controlling interests | (34) |
| **Net identifiable assets acquired** | **60** |
| Cash consideration (paid in the year 2010) | (37) |
| Fair value of previously-held equity interest | (23) |
| **Total cost of acquisition** | **(60)** |
| Cash acquired | 31 |
| **Net cash outflow** | **(6)** |

***(c) Goodwill impairment test***

In accordance with the Group's accounting policies, management has assessed the recoverable amount of goodwill as at each reporting date and determined that the goodwill had not been impaired. The recoverable amount of the respective cash-generating units has been determined by a value-in-use calculation, which used cash flow projections based on financial budgets approved by management. The cash flow projections covered a period of five years and adopted pre-tax discount rates ranging from approximately 13.0% to 20.9%. The discount rates were determined based on the applicable weighted average cost of capital of the acquirees, which reflects the time value of money and the specific risks relating to the respective acquirees' businesses. The cash flow projections have taken into account the historical financial performance, expected sales growth rates and profit margins of the respective acquirees, market conditions and other available information. The assumptions used are based on management's past experience of the specific market, having made reference to external sources of information. Cash flows beyond the five-year period are extrapolated using estimated growth rate of 3%, which does not exceed the long-term average growth rate for the business in which the respective cash-generating units operate.

## 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 method"). 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 | | |
|---|---|---|---|
| | 2009 | 2010 | 2011 |
| | RMB millions | RMB millions | RMB millions |
| Balance at January 1 | — | — | — |
| Impairment losses recognized | — | — | 140 |
| Balance at December 31 | — | — | 140 |

**(d)** The Group monitors the credit risk arising from finance lease arrangement through various control measures as set out in Note 25(a). Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, finance income under finance lease is recognized in accordance with the accounting policies as set out in Note 2(n)(ii).

## 16 Pledged bank deposits

The pledged bank deposits primarily represent cash maintained at banks as security for guarantees of payment relating to the issuance of bills payable to certain vendors of the Group, for guarantees given by the Group to banks in respect of loans provided by such banks to certain customers for purchase of the Group's products (Note 27(a)) and for finance lease receivables that have been factored to banks with recourse. Upon maturity of the bills payable, which generally range from 3 to 6 months, or upon full repayment of the customers' loans or finance lease receivables, the restriction on the bank deposits is released.

## 17 Cash and cash equivalents

| | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2009 | 2010 | 2011 |
| | RMB millions | RMB millions | RMB millions | RMB millions | RMB millions | RMB millions |
| Cash at bank and on hand | | | | | | |
| — RMB denominated | 2,965 | 12,601 | 15,351 | 2,270 | 11,114 | 7,995 |
| — HKD denominated | — | 5,362 | 29 | — | 5,352 | — |
| — USD denominated | 344 | 511 | 345 | 7 | 135 | 80 |
| — EUR denominated | 112 | 237 | 202 | 1 | 10 | 6 |
| — Other currencies | 18 | 47 | 75 | 14 | 27 | 14 |
| | 3,439 | 18,758 | 16,002 | 2,292 | 16,638 | 8,095 |

## 18 Loans and borrowings

### *(a) Short-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 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 covenants of the Group. As at December 31, 2009, 2010 and 2011, the Group was in compliance with these financial covenants.

As at December 31, 2009, 2010 and 2011, the USD denominated unsecured long-term bank loans of RMB464 million, RMB1,887 million and RMB2,746 million bore interest at LIBOR plus 1.2% to 5% per annum and had maturities ranging from 2 months to 35 months from the balance sheet date.

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 | 1,968 | 1,008 | 695 | 90 | 488 | 510 |
| | 8,212 | 12,282 | 12,103 | 5,607 | 11,296 | 11,200 |

**(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 liabilities".

## 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 are classified as non-current liabilities, and the amounts expected to be refunded within one year are classified as current liabilities under the caption "Trade and other payables".

## 23 Capital and reserves

### *(a) Share capital*

| | The Group and The Company | | |
|---|---|---|---|
| | 2009 | 2010 | 2011 |
| | RMB millions | RMB millions | RMB millions |
| **Registered capital** | | | |
| 2011: 6,275,925,164 A Shares of RMB1.00 each; 1,430,028,886 H Shares of RMB1.00 each (2009: 1,673,100,000 A Shares of RMB1.00 each; 2010: 4,840,678,482 A Shares of RMB1.00 each 956,541,080 H Shares of RMB1.00 each) | 1,673 | 5,797 | 7,706 |
| **Ordinary shares issued and fully paid:** | | | |
| At January 1 | 1,521 | 1,673 | 5,797 |
| Over-allotment of H Shares in Global Offering | — | — | 131 |
| Issuance of A Shares in Non-public Offering | — | 298 | — |
| Bonus shares issued (Note 23(c)(ii)) | 152 | 2,957 | 1,778 |
| Issuance of H Shares in Global Offering | — | 869 | — |
| At December 31 | 1,673 | 5,797 | 7,706 |

On February 5, 2010, the Company completed a Non-public Offering of 297,954,705 A Shares to nine institutional investors at RMB18.70 per share, which raised gross proceeds of approximately RMB5,572 million. Direct transaction costs of RMB93 million have been offset against the gross proceeds, giving rise to net proceeds of RMB5,479 million. The amount of net proceeds in excess of the par value of the new shares issued was RMB5,181 million and recorded in the capital reserve.

On December 23, 2010, the Company completed a Global Offering of 869,582,800 H Shares with a par value of RMB1 per share to institutional and public investors at a price of HKD14.98 per share, which raised gross proceeds of approximately HKD13,026 million (RMB equivalent 11,131 million). Direct transaction costs of RMB413 million have been offset against the gross proceeds, giving rise to net proceeds of RMB10,718 million. The amount of net proceeds in excess of the par value of the new shares issued was RMB9,849 million and recorded in the capital reserve.

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 costs" as disclosed in Note 5(b).

*(d) Contributions to retirement plans*

The details of the Group's employee benefit plans are disclosed in Note 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, historical warranty data and a weighing of all possible outcomes against their associated probabilities. As the Group is continually upgrading its product designs and launching new models, it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

***(c) Write-down of inventories***

As described in Note 2(j), the Group writes down the cost of inventories to net realizable value when the net realizable value of inventories is lower than the cost. The Group estimates the net realizable value of inventories by taking into account the recent selling prices and forecasted market demand. However, the actual realized value of the inventories may be significantly different from the estimated amount at the balance sheet date.

*(d) Impairment of long-lived assets*

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss would be 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 | Group's effective interest | held by the Company | held by subsidiary | Principal activities |
| | (millions) | | | | |
| 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 adopters" | July 1, 2011 |
| Amendments to IFRS 7, "Financial instruments: Disclosures — Transfers of financial assets" | July 1, 2011 |
| Amendments to IAS 12, "Income taxes — Deferred tax: Recovery of underlying assets" | January 1, 2012 |
| Amendments to IAS 1, "Presentation of financial statements -Presentation of items of other comprehensive income" | July 1, 2012 |
| IFRS 10, "Consolidated financial statements" | January 1, 2013 |
| IFRS 11, "Joint arrangements" | January 1, 2013 |
| IFRS 12, "Disclosure of interests in other entities" | January 1, 2013 |
| IFRS 13, "Fair value measurement" | January 1, 2013 |
| IAS 27, "Separate financial statements (2011)" | January 1, 2013 |
| IAS 28, "Investments in associates and joint ventures (2011)" | January 1, 2013 |
| Revised IAS 19, "Employee benefits" | January 1, 2013 |
| Amendments to IFRS 7 "Financial instruments: Disclosures — Offsetting financial assets and financial liabilities" | January 1, 2013 |
| Amendments to IAS 32 "Financial instruments: Presentation — Offsetting financial assets and financial liabilities" | January 1, 2014 |
| IFRS 9, "Financial instruments" | January 1, 2015 |
| Amendments to IFRS 9, "Financial instruments" and IFRS 7, "Financial instruments: Disclosures — Mandatory effective date and transition disclosures" | 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 Company") 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.

KPMG

# 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 "Company") and its subsidiaries (the "Group") 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 Reporting".

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 Entity" ,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 Reporting".

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 |
| **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) |
| **Profit from operations** | | 1,758 | 1,540 | 8,652 | 7,067 |
| Gain on disposal of an associate | | — | — | — | 12 |
| Net finance costs | 4(a) | (153) | 92 | (356) | (16) |
| Share of profits less losses of associates | | (2) | 5 | 6 | 18 |
| **Profit before taxation** | 4 | 1,603 | 1,637 | 8,302 | 7,081 |
| Income tax | 5 | (225) | (296) | (1,175) | (1,089) |
| **Profit for the period** | | 1,378 | 1,341 | 7,127 | 5,992 |
| **Other comprehensive income for the period (after tax)** | | | | | |
| Change in fair value of available-for-sale equity securities | | — | (1) | — | (1) |
| Exchange differences on translation of financial statements of subsidiaries outside PRC | | 38 | (28) | 21 | 64 |
| **Total other comprehensive income for the period** | | 38 | (29) | 21 | 63 |
| **Total comprehensive income for the period** | | 1416 | 1,312 | 7,148 | 6,055 |
| **Profit attributable to:** | | | | | |
| Equity shareholders of the Company | | 1,338 | 1,333 | 6,960 | 5,961 |
| Non-controlling interests | | 40 | 8 | 167 | 31 |
| **Profit for the period** | | 1,378 | 1,341 | 7,127 | 5,992 |
| **Total comprehensive income attributable to:** | | | | | |
| Equity shareholders of the Company | | 1,376 | 1,299 | 6,982 | 6,012 |
| Non-controlling interests | | 40 | 13 | 166 | 43 |
| **Total comprehensive income for the period** | | 1,416 | 1,312 | 7,148 | 6,055 |
| **Basic and diluted earnings per share (RMB)** | 6 | 0.17 | 0.17 | 0.90 | 0.77 |

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

*(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 "Company") and its subsidiaries (collectively, referred to as the "Group") 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 ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB").

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 ("IFRSs").

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 Entity", 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 | 593 | 641 |
| Road construction and pile foundation machinery | 132 | 119 | 458 | 502 |
| Earth working machinery | 38 | 43 | 373 | 168 |
| Material handling machinery and systems | 12 | 6 | 32 | 40 |
| Finance lease services | 426 | 338 | 1,185 | 935 |
| Total reportable segment profit | 3,525 | 2,765 | 13,348 | 10,511 |
| Profit from all other segments | 27 | 53 | 116 | 164 |
| Total | 3,552 | 2,818 | 13,464 | 10,675 |

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, | As at December 31, |
|---|---|---|
| | 2012 | 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, | As at December 31, |
|---|---|---|
| | 2012 | 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.

### *(c) Impairment of receivables under finance lease*

The movement in the provision for impairment during the period, is as follows:

| | 2012 | 2011 |
|---|---|---|
| | RMB millions | RMB millions |
| Balance at January 1 | 140 | — |
| Impairment losses recognized | 89 | 140 |
| Balance at September 30/December 31 | 229 | 140 |

## 11 Cash and cash equivalents

| | As at September 30, 2012 | As at December 31, 2011 |
|---|---|---|
| | RMB millions | RMB millions |
| Cash at bank and on hand | | |
| — RMB denominated | 15,633 | 15,351 |
| — USD denominated | 477 | 345 |
| — EUR denominated | 357 | 202 |
| — HKD denominated | 12 | 29 |
| — Other currencies | 115 | 75 |
| | 16,594 | 16,002 |

## 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 sheet date.

(v) 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.

(vi) In April 2012, Zoomlion H.K. SPV Co., Limited, a wholly-owned subsidiary of the Company, issued 5-year senior notes with principal amount of USD400 million (RMB equivalent 2,521 million). The senior notes are guaranteed by the Company, bear interest at a fixed rate of 6.875% per annum and will mature in April 2017. Interest on the notes will be payable semi-annually in arrears in April and October of each year.

(c) Except as disclosed in Notes 12(a)(ii) and 12(b)(iv) above, none of the Group's loans and borrowings contains any financial covenants.

## 13 Trade and other payables

| | As at September 30, 2012 | As at December 31, 2011 |
|---|---|---|
| | RMB millions | RMB millions |
| Trade creditors | 8,421 | 7,136 |
| Bills payable | 6,975 | 4,967 |
| Trade creditors and bills payable (Note) | 15,396 | 12,103 |
| Amounts due to related parties (Note 17(b)) | 20 | 13 |
| Receipts in advance from customers | 1,580 | 1,166 |
| Payable for acquisition of property, plant and equipment | 856 | 403 |
| Accrued staff costs | 590 | 940 |
| VAT payable | 658 | 1,224 |
| Security deposits | 1,209 | 864 |
| Product warranty provision | 128 | 131 |
| Sundry taxes payable | 402 | 546 |
| Payables for factoring discount | 965 | 687 |
| Dividend payable (Note 14) | 332 | — |
| Cash collected on behalf of banks | 1,681 | 168 |
| Others | 1,132 | 1,069 |
| | 24,949 | 19,314 |

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 contain escalation provisions that may require higher future rental payments.

As at September 30, 2012, the future minimum lease payments under operating lease was as follows:

| | As at September 30, 2012 | As at December 31, 2011 |
|---|---|---|
| | RMB millions | RMB millions |
| Within 1 year | 96 | 95 |
| After 1 but within 2 years | 58 | 43 |
| After 2 but within 3 years | 47 | 27 |
| After 3 but within 4 years | 40 | 15 |
| After 4 but within 5 years | 22 | 5 |
| Thereafter | 26 | 4 |
| | 289 | 189 |

## 16 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 September 30, 2012, the Group's maximum exposure to such guarantees was RMB11,709 million (December 31, 2011: 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 nine-month period ended September 30, 2012, the Group made payments of RMB202 million (nine-month period ended September 30, 2011: RMB88 million) to the banks under the guarantee arrangement as a result of customer default.

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 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 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*

| | As at September 30, 2012 | As at December 31, 2011 |
|---|---|---|
| | RMB millions | RMB millions |
| Total equity reported under PRC GAAP | 40,766 | 35,635 |
| — Acquisition-related costs incurred on prior year business combination | (40) | (40) |
| Total equity reported under IFRSs | 40,726 | 35,595 |

(b) Other than the differences in the presentations and classifications of certain financial statements captions, there is no material difference between total comprehensive income and consolidated cash flow of the Group reported under PRC GAAP and IFRSs.

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