

The information set out below is the condensed consolidated financial statements of the Group for the nine months ended September 30, 2012 and does not form part of the Accountants' Report prepared by the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong as set out in Appendix I to this prospectus, and is included herein for information purposes only.

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors of Zhengzhou Coal Mining Machinery Group Company Limited

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Zhengzhou Coal Mining Machinery Group Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages II-3 to II-24, which comprises the condensed consolidated statement of financial position as of September 30, 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the nine-month period then ended, and certain explanatory notes.

The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”). Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, 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 Standards 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 these condensed consolidated financial statements consists of making inquiries, 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 on 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu*Certified Public Accountants*

Hong Kong

November 22, 2012

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	NOTES	Nine months ended September 30,	
		2012	2011
		RMB'000 (unaudited)	RMB'000 (unaudited)
Revenue		7,306,590	5,787,725
Cost of sales		(5,348,565)	(4,307,572)
Gross profit		1,958,025	1,480,153
Other income	4	85,847	59,021
Other gains and losses	5	(32,176)	(22,372)
Selling and distribution expenses		(240,375)	(148,430)
Administrative expenses		(318,740)	(231,975)
Share of profit of associates		11,556	7,634
Share of profit of jointly controlled entities		408	467
Finance costs	6	(2,612)	(6,344)
Profit before tax		1,461,933	1,138,154
Income tax expense	7	(231,517)	(274,600)
Profit and total comprehensive income for the period	8	<u>1,230,416</u>	<u>863,554</u>
Attributable to:			
Owners of the Company		1,207,029	850,596
Non-controlling interests		23,387	12,958
		<u>1,230,416</u>	<u>863,554</u>
EARNINGS PER SHARE			
— Basic and diluted (RMB)	10	<u>0.86</u>	<u>0.61</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	At September 30,	At December 31,
		2012	2011
		RMB'000 (unaudited)	RMB'000 (audited)
Non-current Assets			
Property, plant and equipment.....	11	1,693,625	1,495,868
Prepaid lease payments	12	312,202	284,320
Investment properties		11,093	11,392
Intangible assets.....		7,914	6,896
Investments in associates	13	419,101	58,001
Investments in jointly controlled entities		7,766	7,925
Available-for-sale investments.....		8,335	8,335
Deferred tax assets.....		67,330	54,019
		<u>2,527,366</u>	<u>1,926,756</u>
Current Assets			
Prepaid lease payments	12	5,929	5,047
Inventories.....		1,913,862	1,644,019
Trade and other receivables.....	14	3,645,732	2,904,096
Financial assets designated as at fair value through profit or loss		—	110,000
Tax recoverable		754	29,046
Pledged bank deposits	15	450,426	577,594
Bank balances and cash.....	15	2,821,964	3,238,928
		<u>8,838,667</u>	<u>8,508,730</u>
Current Liabilities			
Trade and other payables	16	3,008,389	2,503,750
Advances from customers		1,077,674	1,673,937
Tax liabilities.....		9,780	10,210
Borrowings		—	15,000
		<u>4,095,843</u>	<u>4,202,897</u>
Net Current Assets		<u>4,742,824</u>	<u>4,305,833</u>
Total Assets Less Current Liabilities		<u><u>7,270,190</u></u>	<u><u>6,232,589</u></u>

	NOTE	<u>At September 30,</u> 2012	<u>At December 31,</u> 2011
		RMB'000 (unaudited)	RMB'000 (audited)
Capital and Reserves			
Share capital.....	17	1,400,000	700,000
Share premium		1,881,823	2,581,823
Reserves		<u>3,715,282</u>	<u>2,592,253</u>
Equity attributable to owners of the Company		6,997,105	5,874,076
Non-controlling interests		<u>194,857</u>	<u>274,542</u>
Total Equity		<u><u>7,191,962</u></u>	<u><u>6,148,618</u></u>
Non-current Liabilities			
Borrowings		49,500	65,000
Other non-current liabilities		<u>28,728</u>	<u>18,971</u>
		<u><u>78,228</u></u>	<u><u>83,971</u></u>

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory surplus reserve	Retained earnings	Attributable to owners of the Company	Non- controlling interests	Total
	RMB'000	RMB'000	RMB'000 (Note)	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2012 (audited)	700,000	2,581,823	277,350	2,314,903	5,874,076	274,542	6,148,618
Profit and total comprehensive income							
for the period (unaudited)	—	—	—	1,207,029	1,207,029	23,387	1,230,416
Capitalization of share premium (unaudited)	700,000	(700,000)	—	—	—	—	—
Dividends (note 9) (unaudited)	—	—	—	(84,000)	(84,000)	—	(84,000)
Deemed disposal of a subsidiary (note 18)							
(unaudited)	—	—	—	—	—	(103,072)	(103,072)
Balance at September 30, 2012 (unaudited)	<u>1,400,000</u>	<u>1,881,823</u>	<u>277,350</u>	<u>3,437,932</u>	<u>6,997,105</u>	<u>194,857</u>	<u>7,191,962</u>
Balance at January 1, 2011 (audited)	700,000	2,581,823	168,698	1,544,497	4,995,018	145,042	5,140,060
Profit and total comprehensive income							
for the period	—	—	—	850,596	850,596	12,958	863,554
Dividends (note 9)	—	—	—	(315,000)	(315,000)	—	(315,000)
Balance at September 30, 2011 (unaudited)	<u>700,000</u>	<u>2,581,823</u>	<u>168,698</u>	<u>2,080,093</u>	<u>5,530,614</u>	<u>158,000</u>	<u>5,688,614</u>

Note: In accordance with the relevant PRC laws and regulations and the Articles of Association of the relevant companies, the Company and its PRC subsidiaries are required to appropriate 10% of their profit after taxation as reported in their statutory financial statements prepared under the PRC generally accepted accounting principles to the statutory surplus reserve. The appropriation to the statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the registered capital of the relevant companies.

The statutory surplus reserve can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of a capitalization issue. However, when converting the statutory surplus reserve of the Company and its subsidiaries into capital, the remaining balance of such reserve must not be less than 25% of the registered capital of the relevant companies.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Nine months ended September 30,	
	2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
OPERATING ACTIVITIES		
Profit before tax	1,461,933	1,138,154
Adjustments for:		
Finance costs	2,612	6,344
Interest income	(71,747)	(50,011)
Share of profit of associates	(11,556)	(7,634)
Share of profit of jointly controlled entities	(408)	(467)
Depreciation of property, plant and equipment	99,043	52,931
Depreciation of investments properties	299	267
Amortization of intangible assets	1,504	745
Release of prepaid lease payments	4,623	3,686
Allowance provided for doubtful debts	53,477	25,370
Write-down of inventories	264	—
Gain on disposal of property, plant and equipment	(4,616)	(2,446)
Operating cash flows before movements in working capital	1,535,428	1,166,939
Increase in inventories	(270,107)	(190,274)
Increase in trade and other receivables	(785,153)	(445,512)
Increase in trade and other payables	438,070	468,121
Decrease in advances from customers	(596,263)	(260,924)
Cash generated from operations	321,975	738,350
Income taxes paid	(215,936)	(282,624)
NET CASH FROM OPERATING ACTIVITIES	<u>106,039</u>	<u>455,726</u>

	Nine months ended September 30,	
	2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
INVESTING ACTIVITIES		
Interest received.....	70,590	50,011
Assets-related government grants received	10,506	—
Dividends received from associates	3,364	—
Dividends received from jointly controlled entities	1,201	—
Proceeds on disposal of property, plant and equipment	6,330	3,348
Purchases of property, plant and equipment	(262,171)	(405,490)
Payments for prepaid lease payments	(33,387)	(35,388)
Purchases of other intangible assets	(2,522)	(1,460)
Purchase of financial assets designated as at fair value through profit or loss	(118,883)	—
Proceeds on disposal of financial assets designated as at fair value through profit or loss	230,040	—
Purchases of available-for-sale investments	(40,000)	—
Acquisition of investment in associates	(43,693)	(21,500)
Net cash outflow on deemed disposal of a subsidiary	(69,321)	—
Placement of bank deposits with original maturity over three months	(100,000)	—
Withdrawal of bank deposits with original maturity over three months	250,000	300,000
Payment of pledged bank deposits.	(594,283)	(821,473)
Withdrawal of pledged bank deposits	721,451	642,897
Advance to third parties for potential investments	(300,000)	—
NET CASH USED IN INVESTING ACTIVITIES	<u>(270,778)</u>	<u>(289,055)</u>
FINANCING ACTIVITIES		
Listing expenses paid	(14,594)	—
Proceeds from new borrowings raised	—	15,000
Repayment of borrowings	(30,500)	(115,000)
Interest paid	(2,612)	(6,344)
Dividends paid	(54,519)	—
NET CASH USED IN FINANCING ACTIVITIES	<u>(102,225)</u>	<u>(106,344)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(266,964)	60,327
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>1,808,928</u>	<u>1,686,274</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Represented by bank balances and cash (note 15)	<u>1,541,964</u>	<u>1,746,601</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (IAS 34) Interim Financial Reporting issued by the International Accounting Standards Board.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The accounting policies and methods of computation used in the condensed consolidated financial statements are consistent with those followed in the preparation of the financial information of the Group for each of three years ended December 31, 2011 and the six months ended June 30, 2012 (“Financial Information”) included in the accountants’ report as set out in Appendix I to this Prospectus.

3. SEGMENT INFORMATION

The Group has only one operating segment which is the manufacture of coal mining machinery and the Group’s operating results before tax are reviewed regularly by the Group’s chief operating decision maker to make decisions about resources allocation and performance assessment.

4. OTHER INCOME

	Nine months ended September 30,	
	2012	2011
	RMB’000	RMB’000
	(unaudited)	(unaudited)
Government grants (Note).....	14,100	9,010
Interest income on bank deposits	71,747	50,011
	<u>85,847</u>	<u>59,021</u>

Note: Government grants mainly represent unconditional government grants received from the local government for compensation of research and development expenses incurred.

5. OTHER GAINS AND LOSSES

	Nine months ended September 30,	
	2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
Gain on disposal of property, plant and equipment	4,616	2,446
Net foreign exchange losses	(652)	(101)
Allowance for doubtful debts	(53,477)	(25,370)
Write-down of inventories	(264)	—
Fair value gain on held for trading investment	17,320	—
Others	281	653
	<u>(32,176)</u>	<u>(22,372)</u>

6. FINANCE COSTS

	Nine months ended September 30,	
	2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
Interest on:		
Bank loans and other borrowings wholly repayable within five years	3,078	7,059
Less: Capitalization	(466)	(715)
	<u>2,612</u>	<u>6,344</u>

7. INCOME TAX EXPENSE

	Nine months ended September 30,	
	2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
Current tax:		
— PRC enterprise income tax	243,970	284,321
Under(over) provision in prior years:		
— PRC enterprise income tax	858	(10,709)
Deferred tax:		
— Current period	(13,311)	988
	<u>231,517</u>	<u>274,600</u>

The tax rates of the major group entities for the nine months ended September 30, 2012 and September 30, 2011 are as follows:

	Nine months ended September 30,	
	2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
The Company (Note 1)	15%	25%
ZMJ Comprehensive Equipment (Note 2)	15%	15%
ZMJ Hydraulic Control (Note 3).....	15%	15%
ZMJ Material Trading	25%	25%
ZMJ Longwall Machinery	25%	25%
ZMJ Lu An Xinjiang	25%	25%
ZMJ Shun Li Machinery	25%	25%
ZMJ Siberia	20%	20%
ZMJ Foundry	25%	N/A

Note 1: The Company received the High and New Technology Enterprises Certificate on October 28, 2011, which entitles to a preferential tax rate of 15% from January 1, 2011 to December 31, 2013. The standard tax rate of 25% was used for the nine months ended September 30, 2011 as the High and New Technology Enterprises Certificate was only obtained subsequent to September 30, 2011.

Note 2: ZMJ Comprehensive Equipment received the High and New Technology Enterprises Certificate on November 8, 2010 and is entitled to a preferential tax rate of 15% from January 1, 2010 to December 31, 2012.

Note 3: ZMJ Hydraulic Control received the High and New Technology Enterprises Certificate on August 8, 2010 and is entitled to a preferential tax rate of 15% from January 1, 2010 to December 31, 2012.

8. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting):

	Nine months ended September 30,	
	2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
Depreciation for property, plant and equipment	99,043	52,931
Depreciation for investment properties	299	267
Amortization of intangible assets	1,504	745
Release of prepaid lease payments	4,623	3,686
	<u>105,469</u>	<u>57,629</u>
Employee benefits expenses (including directors):		
— Salaries and other benefits	289,510	269,682
— Retirement benefit scheme contributions	44,906	40,599
	<u>334,416</u>	<u>310,281</u>
Impairment loss on trade and other receivables	53,477	25,370
Cost of inventories recognized as an expense	5,348,565	4,307,572
Research and development expenses	92,324	60,131

9. DIVIDENDS

	Nine months ended September 30,	
	2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
Dividends recognized as distribution during the period:		
— 2011 Interim (RMB0.45 per share)	—	315,000
— 2011 Final (RMB0.12 per share)	84,000	—
	<u>84,000</u>	<u>315,000</u>

10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for each of the nine months ended September 30, 2012 and September 30, 2011 is based on the following data:

	<u>Nine months ended September 30,</u>	
	<u>2012</u>	<u>2011</u>
	RMB'000 (unaudited)	RMB'000 (unaudited)
Earning for the purpose of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	<u>1,207,029</u>	<u>850,596</u>
Number of ordinary shares for the purpose of basic earnings per share	<u>1,400,000,000</u>	<u>1,400,000,000</u>

The number of ordinary shares for the purpose of basic earnings per share has been retrospectively adjusted for the capitalization of share premium on March 12, 2012. Please refer to note 17 for details.

The Company did not have any dilutive potential ordinary shares in issue during each of the nine months ended September 30, 2012 and September 30, 2011.

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Other equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At January 1, 2011 (audited) ..	195,782	350,873	35,009	17,719	603,329	1,202,712
Additions	1,753	33,426	14,536	865	475,254	525,834
Transfer	549,040	414,754	—	40,240	(1,004,034)	—
Disposals	—	(546)	(3,981)	(279)	—	(4,806)
At December 31, 2011						
(audited)	746,575	798,507	45,564	58,545	74,549	1,723,740
Additions (unaudited)	606	10,906	5,252	3,602	278,148	298,514
Transfer (unaudited)	115,934	75,414	—	22,532	(213,880)	—
Disposals (unaudited)	—	(7,114)	(4,557)	(3)	—	(11,674)
At September 30, 2012						
(unaudited)	863,115	877,713	46,259	84,676	138,817	2,010,580
DEPRECIATION						
At January 1, 2011 (audited) ..	17,879	103,661	16,713	5,652	—	143,905
Provided for the year	16,565	52,395	6,165	11,741	—	86,866
Eliminated on disposals	—	(151)	(2,616)	(132)	—	(2,899)
At December 31, 2011						
(audited)	34,444	155,905	20,262	17,261	—	227,872
Provided for the period						
(unaudited)	16,404	66,511	5,260	10,868	—	99,043
Eliminated on disposals						
(unaudited)	—	(6,358)	(3,599)	(3)	—	(9,960)
At September 30, 2012						
(unaudited)	50,848	216,058	21,923	28,126	—	316,955
CARRYING VALUES						
At December 31, 2011						
(audited)	<u>712,131</u>	<u>642,602</u>	<u>25,302</u>	<u>41,284</u>	<u>74,549</u>	<u>1,495,868</u>
At September 30, 2012						
(unaudited)	<u>812,267</u>	<u>661,655</u>	<u>24,336</u>	<u>56,550</u>	<u>138,817</u>	<u>1,693,625</u>

All the buildings are located in the PRC. The Group was in process of obtaining the relevant property ownership certificates for buildings with a net book value of RMB582,671,000 and RMB73,377,000 as at December 31, 2011 and September 30, 2012, respectively. In the opinion of the directors of the Company, the relevant property ownership certificates can be obtained in due time without incurring significant costs.

12. PREPAID LEASE PAYMENTS

	<u>At September 30,</u>	<u>At December 31,</u>
	<u>2012</u>	<u>2011</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
Analysed for reporting purpose as:		
Current asset	5,929	5,047
Non-current asset	<u>312,202</u>	<u>284,320</u>
	<u><u>318,131</u></u>	<u><u>289,367</u></u>

The prepaid lease payments are all in respect of land use rights located in the PRC held under a medium-term lease of 50 years.

The Group was in the process of obtaining the relevant land use right certificates for the leasehold land with a net book value of RMB55,547,000 and RMB67,680,000 as at December 31, 2011 and September 30, 2012, respectively. In the opinion of the directors of the Company, the relevant land use right certificates can be obtained in due time without significant costs.

The Group pledged leasehold land with a net book value of RMB19,695,000 as at December 31, 2011 to secure banking facilities granted to the Group and the pledge has been released as at 30 September 2012.

13. INVESTMENTS IN ASSOCIATES

	<u>At September 30,</u>	<u>At December 31,</u>
	<u>2012</u>	<u>2011</u>
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Cost of investments in unlisted associates (Note).....	390,392	37,484
Share of post-acquisition profits and other comprehensive income, net of dividends received.....	<u>28,709</u>	<u>20,517</u>
	<u><u>419,101</u></u>	<u><u>58,001</u></u>

Note: Details of major associates as at September 30, 2012 are as follows:

The amount of RMB38,000,000 represents the Group's investment to 黑龍江鄭龍煤礦機械有限公司 (Heilongjiang Zhenglong Coal Mining Machinery Co., Ltd.), in which the Group holds 47.5% equity interest;

The amount of RMB309,215,000 represents the investment retained in the former subsidiary 華軒(上海)股權投資基金有限公司 Hua Xuan (Shanghai) Equity Investment Fund Co., Ltd. ("Huaxuan Investment") at its fair value at the date when control is lost. Please refer to note 18 for details.

14. TRADE AND OTHER RECEIVABLES

	<u>At September 30,</u>	<u>At December 31,</u>
	<u>2012</u>	<u>2011</u>
	<u>RMB'000</u>	<u>RMB'000</u>
	<u>(unaudited)</u>	<u>(audited)</u>
Bills receivable	590,654	622,673
Trade receivables		
— due from third parties	2,911,709	1,867,701
— due from related parties	56,073	41,265
Less: allowance for doubtful debts	<u>(248,583)</u>	<u>(193,988)</u>
	<u>3,309,853</u>	<u>2,337,651</u>
Prepayments to suppliers.....	241,608	435,230
Other taxes recoverable	35,241	85,933
Deposits.....	36,360	27,004
Staff advances	8,989	4,561
Other receivables	18,803	17,506
Dividends receivable from a jointly controlled entity	—	634
Less: allowance for doubtful debts	<u>(5,122)</u>	<u>(4,423)</u>
	<u>335,879</u>	<u>566,445</u>
Total trade and other receivables	<u><u>3,645,732</u></u>	<u><u>2,904,096</u></u>

The following is an aged analysis of bills receivables and trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of each reporting period:

	<u>At September 30,</u>	<u>At December 31,</u>
	<u>2012</u>	<u>2011</u>
	<u>RMB'000</u>	<u>RMB'000</u>
	<u>(unaudited)</u>	<u>(audited)</u>
Within 90 days.....	1,847,937	667,665
Over 90 days but within 1 year	1,239,140	1,389,537
Over 1 year but within 2 years	179,541	256,485
Over 2 years within 3 years	<u>43,235</u>	<u>23,964</u>
	<u><u>3,309,853</u></u>	<u><u>2,337,651</u></u>

15. BANK BALANCES AND CASH / PLEDGED BANK DEPOSITS

Bank balances and cash of the Group comprise cash and short-term bank deposits. The bank balances carry interest at market rates which range from 0.50% to 3.50% and 0.35% to 3.25% per annum (unaudited) as at December 31, 2011 and September 30, 2012 respectively.

	<u>At September 30,</u>	<u>At December 31,</u>
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(audited)
Cash	231	127
Bank deposits with original maturity within three months or less	<u>1,541,733</u>	<u>1,808,801</u>
Cash and cash equivalents	1,541,964	1,808,928
Bank deposits with original maturity over three months	<u>1,280,000</u>	<u>1,430,000</u>
Bank balances and cash	<u><u>2,821,964</u></u>	<u><u>3,238,928</u></u>

Pledged bank deposits represent deposits pledged to banks to secure bank acceptance bills and letters of guarantee and are therefore classified as current assets. The pledged bank deposits carry interest at market rates which range from 0.50% to 3.50% and 0.35% to 3.25% per annum (unaudited) as at December 31, 2011 and September 30, 2012 respectively.

16. TRADE AND OTHER PAYABLES

	<u>At September 30,</u>	<u>At December 31,</u>
	<u>2012</u>	<u>2011</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
Bills payable (Note i)	789,981	966,703
Trade payables (Note i)		
— due to third parties.....	1,603,947	1,005,013
— due to related parties	5,203	—
	<u>2,399,131</u>	<u>1,971,716</u>
Dividends payable	197,061	164,468
Dividends payable to a non-controlling shareholder of a subsidiary	—	3,112
Salary and bonus payables	178,008	181,013
Amount due to a non-controlling shareholder of a subsidiary (Note ii)	105,542	59,287
Deposits (Note iii).....	17,887	10,412
Deferred income to be recognized within one year (Note iv).....	9,561	8,282
Other taxes payable	8,225	15,715
Accruals and other payables (Note v)	68,364	54,852
Housing funds held on behalf of staff (Note vi).....	24,610	34,893
	<u><u>3,008,389</u></u>	<u><u>2,503,750</u></u>

- (i) The following is an aged analysis of bills payables and trade payables presented based on invoice date at the end of each reporting period:

	<u>At September 30,</u>	<u>At December 31,</u>
	<u>2012</u>	<u>2011</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
Within 90 days	1,563,031	1,645,921
Over 90 days but within 1 year.....	754,967	233,354
Over 1 year.....	81,133	92,441
	<u><u>2,399,131</u></u>	<u><u>1,971,716</u></u>

- (ii) The balance represents the amount due to a non-controlling shareholder of ZMJ Shun Li Machinery. The amount was unsecured, interest-free and repayable on demand.

- (iii) Deposits represent the deposits received from suppliers for purchasing equipment, construction and other services.
- (iv) Deferred income to be recognized within one year represents the government subsidies received by the Group towards certain research projects. The amount has been treated as deferred income and will be transferred to income for the relevant projects.
- (v) Accruals and other payables mainly consist of payables for the acquisition of property, plant and equipment, rental payables and payables for other services.
- (vi) The balance represents the funds received from staff and held by the Company on their behalf for disbursement of the development costs of staff quarters.

17. SHARE CAPITAL

Details of issued and fully paid share capital of the Company are as follows:

	Nine months ended September 30,	Year ended December 31,
	2012	2011
	RMB'000 (unaudited)	RMB'000 (audited)
A shares of RMB1.00 each		
At beginning of period/year.....	700,000	700,000
Capitalization of the share premium (Note i)	700,000	—
At end of period/year (Note ii)	<u>1,400,000</u>	<u>700,000</u>

Note i: Pursuant to the shareholders' resolutions passed at the 2011 General Meeting of the Company held on February 28, 2012, the Company declared a final cash dividend of RMB0.12 per share in respect of the year ended December 31, 2011 and by way of capitalization of share premium, issued 700,000,000 new A Shares (on the basis of the Company's total issued share capital comprising 700,000,000 A Shares as of December 31, 2011) to all holders of A Shares whose names appeared on the Company's register of members as at the closing of trading on the Shanghai Stock Exchange on March 12, 2012, on the basis of 10 new A Shares for every 10 then issued A Shares.

Note ii: 285,600,000 and 571,200,000 A Shares were subject to a lock-up periods of 19 months and 10 months as at December 31, 2011 and September 30, 2012 respectively.

18. DEEMED DISPOSAL OF A SUBSIDIARY

Pursuant to a shareholders' resolution of Huaxuan Investment, then a subsidiary of the Company, which was passed at the shareholders' meeting of Huaxuan Investment held on July 27, 2012, the registered capital of Huaxuan Investment will increase from RMB500,000,000 to RMB650,000,000. Upon the completion of the capital increase, the previous non-controlling shareholder, Jin Ling Hua Xin Venture Capital Company Limited 金陵華新創業投資有限公司 ("Huaxin Investment") will own 53.85% of the equity interest of Huaxuan Investment. Also, pursuant to such resolution, effective from July 27, 2012, Huaxin Investment is entitled to exercise 53.85% voting power at shareholders' meetings and has the power to appoint the majority of the members of the board of directors of Huaxuan Investment.

In the opinion of the directors of the Company, the Company has ceased to control, but has significant influence over, Huaxuan Investment since July 27, 2012. Therefore, as at July 27, 2012, Huaxuan Investment was deemed to be disposed and ceased to be a subsidiary and became an associate of the Company. The net assets of Huaxuan Investment at the date of disposal were as follows:

	RMB' 000
Analysis of assets and liabilities over which control was lost:	
Trade and other receivables	4,000
Bank balances and cash	69,321
Available-for-sale investments	40,000
Advance to third parties for potential investment	300,000
Trade and other payables	(4)
Tax liabilities	<u>(1,030)</u>
Net assets disposed of	<u>412,287</u>
Gain on disposal of a subsidiary:	
Investment retained in the former subsidiary	309,215
Net assets disposed of	(412,287)
Non-controlling interests	<u>103,072</u>
Gain/(loss) on deemed disposal	<u>—</u>
Net cash outflow arising on deemed disposal:	
Cash consideration	—
Less: bank balances and cash disposed of	<u>69,321</u>
	<u>(69,321)</u>

19. CAPITAL COMMITMENTS

	<u>At September 30,</u>	<u>At December 31,</u>
	<u>2012</u>	<u>2011</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided for	117,726	124,833
Capital expenditure in respect of the acquisition of land use right authorized but not contracted for	<u>25,911</u>	<u>56,591</u>
	<u><u>143,637</u></u>	<u><u>181,424</u></u>

20. RELATED PARTY TRANSACTIONS

In the opinion of the directors of the Company, the parent of the Company is Henan SASAC of the PRC government and that the Group is subject to the control of the PRC government. In accordance with IAS 24, entities that are controlled, jointly controlled or significantly influenced by the PRC government (“PRC government related entities”) are regarded as related parties of the Group. Due to the complex ownership structure, the PRC government may hold indirect interests in many companies. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests which may not be known to the Group. Nevertheless, the Group represented that the following captures the material related parties taking into account the exemption under IAS 24.

(1) The Group and Henan SASAC

The Group has transactions with entities controlled, jointly controlled or significantly influenced by Henan SASAC (“Henan SASAC related entities”) and the transactions details are as follow:

	<u>Nine months ended September 30,</u>	
	<u>2012</u>	<u>2011</u>
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Sales of finished goods.....	<u>124,438</u>	<u>344,705</u>
Purchase of raw materials	<u>528,359</u>	<u>442,291</u>

For the nine months ended September 30, 2012 and September 30, 2011, revenue from Henan SASAC related entities accounted for 1.7% and 5.7%, respectively, of total revenue. Purchases from Henan SASAC related entities for the same periods accounted for 9.3% and 9.6% respectively, of total cost of sales.

The directors are of the opinion that the above transactions with Henan SASAC related entities were conducted in the ordinary course of business.

The details of outstanding balances with Henan SASAC and Henan SASAC related entities are set as follow:

	<u>At September 30,</u>	<u>At December 31,</u>
	<u>2012</u>	<u>2011</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
Amount due from Henan SASAC related entities	<u>82,524</u>	<u>147,892</u>
Amount due to Henan SASAC	<u>3,050</u>	<u>3,050</u>

Except for the amount due to Henan SASAC which is unsecured, interest-free and repayable on demand, all the amounts due from Henan SASAC related entities are from trade sales or purchases.

(2) The Group and other PRC government related entities

Apart from the significant transactions with Henan SASAC related entities set out above, during the nine months ended September 30, 2012 and September 30, 2011, the Group's transactions with other PRC government related entities are collectively significant as a large portion of its sales of goods, purchases of materials, most of bank deposits, borrowings, other general banking facilities and the relevant interest income earned and expenses incurred during the nine months ended September 30, 2012 and September 30, 2011 are transacted with banks owned/controlled by the PRC government.

In the opinion of the directors of the Company, the transactions with PRC government related entities are activities in the ordinary course of the Group's business and entered into under normal commercial terms and conditions, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established its approval process for sales of goods and purchases of materials and its financing policy for borrowings, such approval process and financing policy do not depend on whether the counterparties are government related entities or not.

(3) The Group and its associates and jointly controlled entities

The Group had the following significant transactions with its associates and jointly controlled entities during the nine months ended September 30, 2012 and September 30, 2011:

	Nine months ended September 30,	
	2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
Trade sales		
Associates.....	81,849	32,822
Jointly controlled entities	<u>7,649</u>	<u>8,434</u>
	<u>89,498</u>	<u>41,256</u>
Trade purchases		
An associate	1,735	1,598
Jointly controlled entities	<u>8,174</u>	<u>7,281</u>
	<u>9,909</u>	<u>8,879</u>

The Group had the following outstanding balances with its associates and jointly controlled entities at the end of each reporting period:

	At September 30,	At December 31,
	2012	2011
	RMB'000 (unaudited)	RMB'000 (audited)
Amounts due from other related parties		
Associates.....	54,056	38,841
Jointly controlled entities	<u>2,017</u>	<u>2,424</u>
	<u>56,073</u>	<u>41,265</u>
Amounts due to other related parties		
Associates.....	<u>5,203</u>	—
	<u>5,203</u>	<u>—</u>

Except dividends receivable from a jointly controlled entity of RMB634,000 as at December 31, 2011, all the other amounts due from or to other related parties are from trade sales or purchases.

(4) Remuneration of key management personnel

The remuneration of directors and other members of key management during the nine months ended September 30, 2012 and September 30, 2011 were as follows:

	Nine months ended September 30,	
	2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
Short-term benefits	3,644	2,242
Post-employment benefits	<u>510</u>	<u>570</u>
	<u>4,154</u>	<u>2,812</u>

Key management represents the directors and other senior management personnel disclosed in the Prospectus. The remuneration of key management personnel is determined with reference of the performance to individuals and market trends.

21. CONTINGENT LIABILITIES

As at December 31, 2011 and September 30, 2012, the Group issued financial guarantees of RMB22,000,000 and RMB22,000,000 (unaudited), respectively, to banks in respect of banking facilities granted to an associate, of which RMB5,246,000 and RMB11,015,000 (unaudited) have been utilized by the associate as at December 31, 2011 and September 30, 2012, respectively. In the opinion of the directors of the Company, the fair value of the financial guarantee provided by the Group is not significant.

During the nine months ended September 30, 2012, the Group has endorsed and derecognized certain bills receivable for the settlement of trade and other payables. In the opinion of the directors of the Company, the risk of the default in payment of the endorsed bills receivable is low because all endorsed bills receivable are issued and guaranteed by the reputable PRC banks. The maximum exposure to the Group that may result from the default of these endorsed bills receivable at the end of each reporting period is as follows:

	At September 30,	At December 31,
	2012	2011
	RMB'000 (unaudited)	RMB'000 (audited)
Outstanding endorsed bills receivable with recourse	<u>1,867,973</u>	<u>1,427,498</u>