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)
(Stock Code: 1157)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

FINANCIAL HIGHLIGHTS

- Turnover of the Group for 2012 was RMB48,071 million, representing an increase of RMB1,748 million or 3.77% over 2011.
- Profit attributable to equity shareholders of the Company for 2012 was RMB7,330 million, representing a decrease of RMB736 million or 9.12% over 2011.
- Earnings per share for 2012 was RMB0.95.
- The Board proposed a final dividend of RMB0.2 per share for the year of 2012.

The board of directors (the "Board") of Zoomlion Heavy Industry Science and Technology Co., Ltd.* (the "Company") hereby announces the audited results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012 together with the comparative figures for 2011:

FINANCIAL RESULTS

Financial information extracted from the audited financial statements for 2012 prepared in accordance with International Financial Reporting Standards ("IFRSs"):

Consolidated statement of comprehensive income
For the year ended 31 December 2012
(Expressed in RMB)

	Note	**2012 *RMB millions***	2011 *RMB millions*
Turnover	*2*	**48,071**	46,323
Cost of sales and services		**(32,546)**	(31,316)
Gross profit		**15,525**	15,007
Other revenues and net (loss)/income		**(101)**	14
Sales and marketing expenses		**(3,376)**	(3,160)
General and administrative expenses		**(2,368)**	(1,861)
Research and development expenses		**(584)**	(398)
Profit from operations		**9,096**	9,602
Gain on disposal of an associate		**—**	12
Net finance costs	*3(a)*	**(274)**	(36)
Share of profits less losses of associates		**36**	24
Profit before taxation	*3*	**8,858**	9,602
Income tax	*4*	**(1,329)**	(1,429)
Profit for the year		**7,529**	8,173
Other comprehensive income for the year (after tax)			
Change in fair value of available-for-sale equity securities		**—**	(1)
Exchange differences on translation of financial statements of subsidiaries outside PRC		**21**	(2)
Total other comprehensive income for the year		**21**	(3)
Total comprehensive income for the year		**7,550**	8,170

	Note	**2012**	2011
		RMB millions	*RMB millions*
Profit attributable to:			
Equity shareholders of the Company		**7,330**	8,066
Non-controlling interests		**199**	107
Profit for the year		**7,529**	8,173
Total comprehensive income attributable to:			
Equity shareholders of the Company		**7,352**	8,050
Non-controlling interests		**198**	120
Total comprehensive income for the year		**7,550**	8,170
Basic and diluted earnings per share (RMB)	*6*	**0.95**	1.05

Consolidated balance sheet
As at 31 December 2012
(Expressed in RMB)

	Note	**2012**	2011
		RMB millions	*RMB millions*
Non-current assets			
Property, plant and equipment		**6,112**	4,886
Lease prepayments		**1,443**	1,390
Intangible assets		**1,288**	1,216
Goodwill		**1,803**	1,793
Interests in associates		**188**	103
Other financial assets		**197**	43
Trade and other receivables	*8*	**2,685**	912
Receivables under finance lease	*9*	**10,458**	12,780
Pledged bank deposits		**1,061**	261
Deferred tax assets	*11(b)*	**456**	317
Total non-current assets		**25,691**	23,701
Current assets			
Inventories		**11,733**	9,656
Other current assets		**231**	—
Trade and other receivables	*8*	**19,939**	13,614
Receivables under finance lease	*9*	**9,194**	7,089
Pledged bank deposits		**2,062**	1,481
Cash and cash equivalents		**20,084**	16,002
Total current assets		**63,243**	47,842
Total assets		**88,934**	71,543
Current liabilities			
Loans and borrowings		**9,639**	6,049
Trade and other payables	*10*	**23,387**	19,314
Income tax payable	*11(a)*	**1,083**	1,289
Total current liabilities		**34,109**	26,652

	Note	2012 RMB millions	2011 RMB millions
Net current assets		**29,134**	21,190
Total assets less current liabilities		**54,825**	44,891
Non-current liabilities			
Loans and borrowings		**10,674**	7,089
Other non-current liabilities		**2,562**	1,789
Deferred tax liabilities	*11(b)*	**440**	418
Total non-current liabilities		**13,676**	9,296
NET ASSETS		**41,149**	35,595
CAPITAL AND RESERVES			
Share capital	*12*	**7,706**	7,706
Reserves		**33,056**	27,701
Total equity attributable to equity shareholders of the Company		**40,762**	35,407
Non-controlling interests		**387**	188
TOTAL EQUITY		**41,149**	35,595

Consolidated statement of changes in equity

For the year ended 31 December 2012

(Expressed in RMB)

	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 1 January 2011	5,797	15,063	1,212	(66)	(1)	5,371	27,376	59	27,435
Appropriation	—	—	751	—	—	(751)	—	—	—
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 year	—	—	—	(15)	(1)	8,066	8,050	120	8,170
Balance at 31 December 2011	7,706	14,676	1,963	(81)	(2)	11,145	35,407	188	35,595
Appropriation	—	—	650	—	—	(650)	—	—	—
Cash dividends	—	—	—	—	—	(1,927)	(1,927)	—	(1,927)
Contribution from non-controlling interests	—	(1)	—	—	—	—	(1)	49	48
Acquisition of non-controlling interests	—	(69)	—	—	—	—	(69)	(9)	(78)
Dividends paid by subsidiaries to non-controlling interests	—	—	—	—	—	—	—	(39)	(39)
Total comprehensive income for the year	—	—	—	22	—	7,330	7,352	198	7,550
Balance at 31 December 2012	**7,706**	**14,606**	**2,613**	**(59)**	**(2)**	**15,898**	**40,762**	**387**	**41,149**

Consolidated cash flow statement
For the year ended 31 December 2012
(Expressed in RMB)

	2012	2011
	RMB millions	*RMB millions*
Operating activities		
Profit before taxation	**8,858**	9,602
Adjustments for:		
Depreciation of property, plant and equipment	**407**	369
Amortisation of lease prepayments	**27**	27
Amortisation of intangible assets	**68**	60
Share of profits less losses of associates	**(36)**	(24)
Interest income	**(349)**	(214)
Interest expense	**779**	695
Loss on disposal of property, plant and equipment, and intangible assets	**19**	6
Gain on disposal of an associate	**—**	(12)
Loss/(gain) on remeasurement of derivate financial instruments at fair value	**18**	(19)
Impairment loss of property, plant and equipment	**18**	8
Impairment loss of goodwill	**18**	—
	9,827	10,498
Increase in inventories	**(2,077)**	(965)
Increase in trade and other receivables	**(8,312)**	(5,670)
Decrease/(increase) in receivables under finance lease	**217**	(3,697)
Increase in trade and other payables	**4,613**	2,689
Cash generated from operations	**4,268**	2,855
Income tax paid	**(1,657)**	(975)
Net cash generated from operating activities	**2,611**	1,880

	2012 *RMB millions*	2011 *RMB millions*
Investing activities		
Payment for the purchase of property, plant and equipment	**(1,635)**	(1,210)
Lease prepayments	**(80)**	(260)
Payment for purchase of intangible assets	**(119)**	(112)
Dividends received from associates	**7**	—
Payment for investments in associates and equity investments	**(258)**	(7)
Proceeds from disposal of property, plant and equipment and intangible assets	**67**	37
Cash acquired in step acquisition	**—**	31
Interest received	**349**	214
(Increase)/decrease in pledged bank deposits	**(1,381)**	20
Net cash used in investing activities	**(3,050)**	(1,287)
Financing activities		
Proceeds from loans and borrowings	**16,356**	9,454
Repayments of loans and borrowings	**(15,368)**	(11,847)
Interest paid	**(717)**	(695)
Dividends paid to equity shareholders	**(1,927)**	(1,657)
Dividends paid by subsidiaries to non-controlling interests	**(19)**	(12)
Contribution from non-controlling interests	**56**	2
Prepayment for acquisition of non-controlling interests	**(50)**	(27)
Net proceeds from issuance of USD senior notes	**6,181**	—
Net proceeds from over-allotment of H Shares in Global Offering	**—**	1,507
Net cash generated from/(used in) financing activities	**4,512**	(3,275)
Net increase/(decrease) in cash and cash equivalents	**4,073**	(2,682)
Cash and cash equivalents at beginning of year	**16,002**	18,758
Effect of foreign exchange rate changes	**9**	(74)
Cash and cash equivalents at end of year	**20,084**	16,002

Notes to the financial information

Notes to the consolidated financial statements
For the year ended 31 December 2012

1. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable IFRSs as issued by the International Accounting Standards Board. IFRSs include all individual International Financial Reporting Standards, International Accounting Standards and related interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. 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.

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 recognised in turnover are as follows:

	2012 *RMB millions*	2011 *RMB millions*
Sales of:		
Concrete machinery	**23,596**	21,212
Crane machinery	**14,132**	15,618
Environmental and sanitation machinery	**3,034**	2,978
Road construction and pile foundation machinery	**1,558**	1,737
Earth working machinery	**2,269**	1,048
Material handling machinery and systems	**294**	504
Other machinery products	**1,588**	1,643
Finance income under finance lease	**1,600**	1,583
	48,071	46,323

3. PROFIT BEFORE TAXATION

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

(a) Net finance costs:

	2012 *RMB millions*	2011 *RMB millions*
Finance income:		
Interest income	**(349)**	(214)
Loss/(gain) on remeasurement of derivative financial instruments at fair value	**18**	(19)
	(331)	(233)
Finance costs:		
Interest on loans and borrowings *(Note)*	**756**	513
Net exchange gains	**(151)**	(244)
	605	269
	274	36

Note:

Interest expense on factoring the Group's receivables under finance lease with recourse amounted to RMB23 million for the year ended 31 December 2012 (2011: RMB182 million), and was included in cost of sales and services.

(b) Staff costs:

	2012 *RMB millions*	2011 *RMB millions*
Salaries, wages and other benefits	**3,074**	2,898
Contributions to retirement schemes	**276**	178
	3,350	3,076

(c) Other items:

	2012	2011
	RMB	*RMB*
	millions	*millions*
Cost of inventories sold	**32,437**	31,109
Depreciation of property, plant and equipment	**407**	369
Amortisation of lease prepayments	**27**	27
Amortisation of intangible assets	**68**	60
Operating lease charges	**207**	128
Auditors' remuneration — audit services	**13**	11
Product warranty costs	**180**	154
Impairment losses:		
— trade receivables	**346**	(3)
— receivables under finance lease	**159**	140
— inventories	**187**	81
— property, plant and equipment	**18**	8
— goodwill	**18**	—

4 INCOME TAX

Income tax in the consolidated statements of comprehensive income represents:

	2012	2011
	RMB	*RMB*
	millions	*millions*
Current tax — PRC income tax		
Provision for the year	**1,446**	1,504
Current tax — Income tax in other tax jurisdictions		
Provision for the year	**5**	2
Deferred taxation (Note 11(b))		
Origination and reversal of temporary differences	**(122)**	(77)
	1,329	1,429

Reconciliation between actual income tax expense and notional tax on profit before taxation is as follows:

	2012	2011
	RMB	*RMB*
	millions	*millions*
Profit before taxation	**8,858**	9,602
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned *(Note (a))*	**2,215**	2,401
Tax effect of non-deductible expenses	**26**	36
Tax effect of non-taxable income	**(37)**	(35)
Tax effect of tax concessions *(Note (b))*	**(730)**	(862)
Additional deduction for qualified research and development expenses *(Note (c))*	**(145)**	(111)
Actual income tax expense	**1,329**	1,429

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 are 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.

5. DIVIDENDS

(i) Dividends paid during the year

Pursuant to the shareholders' approval at the Annual General Meeting held on 29 June 2012, a final cash dividend of RMB0.25 per share based on 7,706 million ordinary shares totalling RMB1,927 million in respect of the year ended 31 December 2011 was declared, and was fully paid by the end of 2012.

Pursuant to the shareholders' approval at the Annual General Meeting held on 3 June 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 31 December 2010 was declared, and was fully paid by the end of 2011.

(ii) Dividends proposed after the balance sheet date

Pursuant to a resolution passed at the directors' meeting on 28 March 2013, a final dividend in respect of the year ended 31 December 2012 of RMB0.2 per share totalling RMB1,541 million was proposed for shareholders' approval at the annual general meeting. The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

6. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB7,330 million (2011: RMB8,066 million), and the weighted average number of shares of 7,706 million in issue during the year (2011: 7,700 million shares after adjusting for the stock split mentioned in the below paragraph).

For the purpose of calculating earnings per share for 2011, 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 July 2011 as if it had occurred at the beginning of the earliest period presented and such shares had been outstanding for that year.

There were no dilutive potential ordinary shares in issue as at 31 December 2012 (2011: Nil).

7. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised 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 segment: 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 specialised vehicles and vehicle axles. None of these segments met any of the quantitative thresholds for determining reportable segments for the years ended 31 December 2012 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 year ended 31 December 2012 is set out below:

	2012	2011
	RMB millions	*RMB millions*
Reportable segment revenue:		
Concrete machinery	**23,596**	21,212
Crane machinery	**14,132**	15,618
Environmental and sanitation machinery	**3,034**	2,978
Road construction and pile foundation machinery	**1,558**	1,737
Earth working machinery	**2,269**	1,048
Material handling machinery and systems	**294**	504
Finance lease services	**1,600**	1,583
Total reportable segment revenue	**46,483**	44,680
Revenue from all other segments	**1,588**	1,643
Total	**48,071**	46,323
Reportable segment profit:		
Concrete machinery	**8,007**	7,544
Crane machinery	**3,802**	4,023
Environmental and sanitation machinery	**860**	917
Road construction and pile foundation machinery	**652**	665
Earth working machinery	**503**	214
Material handling machinery and systems	**44**	51
Finance lease services	**1,491**	1,376
Total reportable segment profit	**15,359**	14,790
Profit from all other segments	**166**	217
Total	**15,525**	15,007

(b) Reconciliation of segment profit

	2012	2011
	RMB millions	*RMB millions*
Total segment profit	**15,525**	15,007
Other revenues and net (loss)/income	**(101)**	14
Sales and marketing expenses	**(3,376)**	(3,160)
General and administrative expenses	**(2,368)**	(1,861)
Research and development expenses	**(584)**	(398)
Gain on disposal of an associate	**—**	12
Net finance costs	**(274)**	(36)
Share of profits less losses of associates	**36**	24
Consolidated profit before taxation	**8,858**	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.

	2012 *RMB millions*	2011 *RMB millions*
Revenue from external customers		
— Mainland PRC	**45,300**	44,085
— Outside PRC	**2,771**	2,238
Total	**48,071**	46,323

	2012 *RMB millions*	2011 *RMB millions*
Specified non-current assets		
— Mainland PRC	**7,389**	6,088
— Outside PRC, primarily in Italy	**166**	188
Total	**7,555**	6,276

8. TRADE AND OTHER RECEIVABLES

	2012 *RMB millions*	2011 *RMB millions*
Trade receivables	**19,343**	12,096
Less: provision for impairment	**(871)**	(533)
	18,472	11,563
Less: trade receivables due after one year	**(2,685)**	(912)
	15,787	10,651
Bills receivable	**1,721**	1,138
	17,508	11,789
Amounts due from related parties	**441**	99
Prepayments for purchase of raw materials	**565**	508
Prepaid expenses	**396**	310
VAT recoverable	**284**	247
Deposits	**150**	118
Others	**595**	543
	19,939	13,614

All of the trade and other receivables (including amounts due from subsidiaries), except those described below, are expected to be recovered or recognised as expense within one year.

The Group allows certain customers with appropriate credit standing to make payments in equal monthly instalments over a maximum period of 60 months ("instalment payment method"). Instalment payments with terms more than one year are discounted at a rate which approximates the debtor's borrowing rate in transactions with an independent lender under comparable terms and conditions. For the year ended 31 December 2012, the weighted average discount rate was approximately 6.15% (2011: 6.65%) per annum. As at 31 December 2012, trade receivables due after one year of RMB2,685 million (31 December 2011: RMB912 million) were presented net of unearned interest of RMB246 million (31 December 2011: RMB80 million).

During the year ended 31 December 2012, trade receivables of RMB4,830 million (2011: RMB1,000 million) were factored to banks and other financial institutions without recourse, and were therefore derecognised.

Ageing analysis based on billing date of trade receivables (net of provision for impairment) as at the balance sheet date is as follows:

	2012 ***RMB*** ***millions***	2011 *RMB* *millions*
Within 1 month	**4,947**	4,547
Over 1 month but less than 3 months	**4,345**	2,362
Over 3 months but less than 1 year	**7,826**	3,401
Over 1 year but less than 2 years	**1,018**	932
Over 2 years but less than 3 years	**251**	249
Over 3 years but less than 5 years	**85**	72
	18,472	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 instalment payment method that has instalment payment periods generally ranging from 3 to 60 months, customers are normally required to make an upfront payment ranging from 3% to 40% of the product price.

As part of the Group's ongoing control procedures, management monitors the creditworthiness of customers to which it grants credit in the normal course of business. Credit exposure limits are established to avoid concentration risk with respect to any single customer.

9. RECEIVABLES UNDER FINANCE LEASE

	2012 ***RMB*** ***millions***	2011 *RMB* *millions*
Gross investment	**21,499**	22,135
Unearned finance income	**(1,548)**	(2,126)
	19,951	20,009
Less: provision for impairment	**(299)**	(140)
	19,652	19,869
Less: receivables under finance lease due after one year	**(10,458)**	(12,780)
Receivables under finance lease due within one year	**9,194**	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 ranging from 2 to 5 years. Customers are normally 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. 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 31 December 2012, receivables under finance lease of RMB1,064 million (31 December 2011: RMB586 million) were factored to banks with recourse.

During the year ended 31 December 2012, receivables under finance lease of RMB16,518 million (2011: RMB12,258 million) were factored to banks without recourse, and were therefore derecognised.

Under the non-recourse factoring agreements, the Group has agreed to repurchase equipment at fair market value of the equipment from banks to which the Group factored its receivables, upon repossession of the equipment under the relevant finance lease contracts by such banks.

Ageing analysis of receivables under finance lease

The minimum lease payments receivable as at the balance sheet date are as follows:

	2012	2011
	RMB millions	*RMB millions*
Present value of the minimum lease payments		
Within 1 year	**9,336**	7,139
Over 1 year but less than 2 years	**5,373**	6,300
Over 2 years but less than 3 years	**3,116**	4,178
Over 3 years	**2,126**	2,392
	19,951	20,009
Unearned finance income		
Within 1 year	**882**	1,024
Over 1 year but less than 2 years	**405**	671
Over 2 years but less than 3 years	**182**	318
Over 3 years	**79**	113
	1,548	2,126
Gross investment		
Within 1 year	**10,218**	8,163
Over 1 year but less than 2 years	**5,778**	6,971
Over 2 years but less than 3 years	**3,298**	4,496
Over 3 years	**2,205**	2,505
	21,499	22,135

Overdue analysis

Overdue analysis of receivables under finance lease as at the balance sheet date is as follows:

	2012	2011
	RMB millions	*RMB millions*
Not yet due	**19,510**	21,671
Less than 1 month past due	**309**	123
1–3 months past due	**483**	117
3–12 months past due	**1,086**	175
12–24 months past due	**101**	49
More than 24 months past due	**10**	—
Total past due	**1,989**	464
Gross investment	**21,499**	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.

The Group monitors the credit risk arising from finance lease arrangement through various control measures. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, finance income under finance lease is recognised in accordance with the accounting policies.

10. TRADE AND OTHER PAYABLES

	2012	2011
	RMB millions	*RMB millions*
Trade creditors	**7,720**	7,136
Bills payable	**5,763**	4,967
Trade creditors and bills payable	**13,483**	12,103
Amounts due to related parties	**94**	13
Receipts in advance	**1,225**	1,166
Payable for acquisition of property, plant and equipment	**608**	403
Accrued staff costs	**713**	940
VAT payable	**1,106**	1,224
Security deposits	**749**	864
Product warranty provision	**93**	131
Sundry taxes payable	**496**	546
Payables for factoring discount	**970**	687
Cash collected on behalf of banks	**2,385**	168
Others	**1,465**	1,069
	23,387	19,314

Ageing analysis of trade creditors and bills payable as at the balance sheet date is as follows:

	2012	2011
	RMB millions	*RMB millions*
Due within 1 month or on demand	**4,643**	4,974
Due after 1 month but within 3 months	**5,120**	3,938
Due after 3 months but within 6 months	**3,119**	2,496
Due after 6 months but less than 12 months	**601**	695
	13,483	12,103

11. INCOME TAX IN THE BALANCE SHEETS

(a) Income tax payable in the balance sheets represents:

	2012	2011
	RMB millions	*RMB millions*
Provision for PRC income tax	**1,078**	1,286
Provision for income tax in other tax jurisdictions	**5**	3
	1,083	1,289

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheets and the movements during the year are presented as follows:

Year ended 31 December 2012

	Balance at 1 January 2012	**Credited/ (charged) to profit or loss**	**Effect of exchange rate**	**Balance at 31 December 2012**
	RMB millions	***RMB millions***	***RMB millions***	***RMB millions***
Deferred tax assets arising from:				
Receivables	**109**	**103**	**1**	**213**
Inventories	**35**	**8**	**—**	**43**
Accrued expenses	**58**	**(5)**	**1**	**54**
Tax losses	**73**	**1**	**—**	**74**
Others	**42**	**29**	**1**	**72**
Total	**317**	**136**	**3**	**456**
Deferred tax liabilities arising from:				
Property, plant and equipment	**(9)**	**1**	**—**	**(8)**
Intangible assets	**(349)**	**16**	**(5)**	**(338)**
Lease prepayments	**(46)**	**15**	**(2)**	**(33)**
Others	**(14)**	**(46)**	**(1)**	**(61)**
Total	**(418)**	**(14)**	**(8)**	**(440)**

Year ended 31 December 2011

	Balance at 1 January 2011	Credited/ (charged) to profit or loss	Effect of exchange rate	Balance at 31 December 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)

As at 31 December 2012, RMB102 million (31 December 2011: RMB72 million) of deferred tax assets in respect of impairment losses and tax losses were not recognised by certain subsidiaries of the Company, as it is not probable that sufficient future taxable profits will be available to utilise such tax benefits.

12. CAPITAL AND RESERVES

(a) Share capital

	2012 *RMB millions*	2011 *RMB millions*
Registered capital		
6,275,925,164 A Shares of RMB1.00 each 1,430,028,886 H Shares of RMB1.00 each (2011: 6,275,925,164 A Shares of RMB1.00 each 1,430,028,886 H Shares of RMB1.00 each)	**7,706**	7,706
Ordinary shares issued and fully paid:		
At 1 January	**7,706**	5,797
Over-allotment of H Shares in Global Offering	**—**	131
Bonus shares issued	**—**	1,778
At 31 December	**7,706**	7,706

On 5 January 2011, the underwriters of the Global Offering exercised the over-allotment option in full. As a result, 130,437,400 H Shares with a par value of RMB1 per share were additionally issued by the Company 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.

13. RECONCILIATION OF FINANCIAL INFORMATION PREPARED UNDER PRC GAAP TO IFRSS

(a) Reconciliation of total equity of the Group

	2012	2011
	RMB millions	*RMB millions*
Total equity reported under PRC GAAP	**41,189**	35,635
— Acquisition-related costs incurred on prior year business combination	**(40)**	(40)
Total equity reported under IFRSs	**41,149**	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.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis is based on financial information under IFRSs.

Results of operations

Turnover

Our turnover increased by 3.77% from RMB46,323 million for the year ended 31 December 2011 to RMB48,071 million for the year ended 31 December 2012. In 2012, the economic growth in the PRC remained slackened with low investment in infrastructure. The construction machinery industry was also under severe challenges brought by the sluggish growth of production and sales and the increase in credit risks. Faced with the uncertainties in the economic development in the PRC, the Company focused on enhancing the quality of growth by strengthening the control of the sales volumes. In particular, turnover from sales of concrete machinery increased by 11.24%, from RMB21,212 million in 2011 to RMB23,596 million in 2012. This was mainly due to our obvious advantages in truck-mounted pumps with long arms and high-end mixing plants and mixers resulting in a significant increase of our market share. Turnover from sales of earth working machinery increased by 116.51% from RMB1,048 million in 2011 to RMB2,269 million in 2012, which was mainly due to the continuous increase in the market share of our excavators and bulldozers. Turnover from sales of crane machinery decreased by 9.51% from RMB15,618 million in 2011 to RMB14,132 million in 2012, which was mainly due to the fact that the demand of the crane market declined to the lowest level of the past decade.

Cost of sales and services

Our cost of sales and services increased by 3.93% from RMB31,316 million for the year ended 31 December 2011 to RMB32,546 million for the year ended 31 December 2012 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 3.45% from RMB15,007 million for the year ended 31 December 2011 to RMB15,525 million for the year ended 31 December 2012, and our gross margin decreased from 32.40% for the year ended 31 December 2011 to 32.30% for the year ended 31 December 2012.

Other revenues and net income

Our other revenues and net income decreased significantly from RMB14 million for the year ended 31 December 2011 to net losses of RMB101 million for the year ended 31 December 2012. The decrease was mainly attributable to the significant increase in the cost of assets transfer.

Sales and marketing expenses

Our sales and marketing expenses increased by 6.84% from RMB3,160 million for the year ended 31 December 2011 to RMB3,376 million for the year ended 31 December 2012. This increase was primarily due to the fact that we expanded our distribution network and strengthened our sales and marketing efforts, which resulted in an increase in the relevant expenses. Sales and marketing expenses as a percentage of our consolidated turnover increased from 6.82% for the year ended 31 December 2011 to 7.02% for the year ended 31 December 2012.

General and administrative expenses

Our general and administrative expenses increased by 27.24% from RMB1,861 million for the year ended 31 December 2011 to RMB2,368 million for the year ended 31 December 2012 due to the significant increase in our provisions for bad debts and impairment of inventories for the period. General and administrative expenses as a percentage of our consolidated turnover increased from 4.02% for the year ended 31 December 2011 to 4.93% for the year ended 31 December 2012.

Research and development expenses

Our research and development expenses increased by 46.73% from RMB398 million for the year ended 31 December 2011 to RMB584 million for the year ended 31 December 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, profit from operations decreased by 5.27% from RMB9,602 million for the year ended 31 December 2011 to RMB9,096 million for the year ended 31 December 2012. Our operating margin decreased from 20.73% for the year ended 31 December 2011 to 18.92% for the year ended 31 December 2012.

Net finance costs

Net finance costs increased significantly from RMB36 million for the year ended 31 December 2011 to RMB274 million for the year ended 31 December 2012 primarily due to an increase in interest expenses of debts during the period.

Income tax expenses

Our income tax expenses decreased by 7.00% from RMB1,429 million for the year ended 31 December 2011 to RMB1,329 million for the year ended 31 December 2012 primarily due to the decrease in our taxable income. Our effective income tax rate increased from 14.88% for the year ended 31 December 2011 to 15.00% for the year ended 31 December 2012.

Profit for the year

As a result of the above factors, our profit for the year decreased by 7.88% from RMB8,173 million for the year ended 31 December 2011 to RMB7,529 million for the year ended 31 December 2012. Our net margin decreased from 17.64% for the year ended 31 December 2011 to 15.66% for the year ended 31 December 2012.

Profit attributable to equity shareholders of the Company

As a result of the above factors, profit attributable to equity shareholders of the Company decreased by 9.12% from RMB8,066 million in 2011 to RMB7,330 million in 2012.

Cash flow

Operating activities

Net cash generated from operating activities in 2012 was RMB2,611 million, primarily derived from the profit before taxation of RMB8,858 million, adjusted to reflect the interest expenses of RMB779 million and depreciation and amortization of RMB502 million, after deducting the following items: (i) an increase in trade and other receivables of RMB8,312 million; (ii) an increase in inventories of RMB2,077 million; and (iii) income tax payment of RMB1,657 million and then adding back of a decrease in receivables under finance lease of RMB217 million and an increase in trade and other payables of RMB4,613 million.

Investing activities

Net cash used in investing activities in 2012 was RMB3,050 million, consisting primarily of (i) payments for the purchase of property, plant and equipment of RMB1,635 million; and (ii) the increase in pledged bank deposits of RMB1,381 million. Payments for the purchase of property, plant and equipment were related to the projects for construction of our industrial parks and the upgrade and renovation of manufacturing facilities in 2012. The amount of pledged bank deposits increased due to an increase in various deposits of the Company.

Financing activities

Net cash generated from financing activities in 2012 was RMB4,512 million, consisting primarily of net proceeds from issuance of USD senior notes of RMB6,181 million and proceeds from loans and borrowings of RMB16,356 million, partially offset by repayments of loans and borrowings of RMB15,368 million, dividends paid to our shareholders of RMB1,927 million and interests paid of RMB717 million.

Capital Expenditures

In the year ended 31 December 2012, we incurred capital expenditures of RMB1,742 million from purchase of property, plant and equipment, intangible assets and lease prepayments.

Commitments and Contingent Liabilities

As of 31 December 2012, our commitments consisted of capital commitments that have been authorized and contracted for in the amount of RMB576 million and capital commitments that have been authorized but not contracted for in the amount of RMB563 million, and operating lease commitments of RMB285 million, of which RMB92 million was payable within one year.

As of 31 December 2012, we had contingent liabilities of RMB12,385 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 collaterals, and we are entitled to repossess the collaterals in the event of customer default. In the years ended 31 December 2011 and 2012, we made payments of RMB190 million and RMB287 million, respectively, to banks under the guarantee arrangements due to customer default.

The finance lease services under certain finance lease contracts entered into between the Company and the end users were jointly provided by the leasing subsidiaries of the Company and a third-party leasing company. Pursuant to the joint leasing arrangement, the Company provided guarantees in favour of the third-party leasing company and would be required to indemnify the leasing company the outstanding lease payments payable to the leasing company in case of default by customers. In addition, the Company may forfeit and dispose of the leased machinery equipment and retain the disposal income after deducting the guaranteed payments to the leasing company. The maximum exposure of the Company to such guarantee payments as at 31 December 2012 was RMB892 million (31 December 2011: RMB1,634 million). The guarantees and the leasing contracts had the same terms of maturity, generally two to five years. For the years ended 31 December 2011 and 2012, there was no material default by end users that may cause the Company to perform the guarantee obligations in favour of the third-party leasing company.

Working capital and indebtedness

Our net current assets increased significantly from RMB21,190 million as of 31 December 2011 to RMB29,134 million as of 31 December 2012, primarily due to an increase in our cash and cash equivalents, trade and other receivables and inventories. Our trade and other receivables and receivables under finance lease continued to increase as we continued to expand our operations and our business continued to grow.

The outstanding short-term loans and other borrowings, including long-term loans and other borrowings due within one year, amounted to RMB9,639 million as at 31 December 2012, representing an increase of 59.34% from RMB6,049 million in 31 December 2011. The increase was mainly attributable to the increase in the proportion of long-term loans due within one year.

As of 31 December 2012, our US dollar denominated unsecured short-term loans and long-term loans have an aggregate outstanding principal amount of RMB503 million and RMB962 million, respectively, subject us to certain financial covenants. As of 31 December 2012, we were in compliance with those financial covenants. If the Company is unable to comply with the relevant financial covenants without obtaining any exemption from the lending banks, the Company will be ordered to repay such bank loans immediately and its working capital will be adversely affected accordingly.

As of 31 December 2012, approximately RMB67,556 million of our credit lines from 30 domestic and foreign financial institutions remained unused. In addition, ten domestic financial institutions have granted us an aggregate of RMB30,200 million of credit lines under the non-recourse factoring arrangements.

BUSINESS REVIEW AND OUTLOOK

Review of 2012

1. *Steady growth in turnover and further improvement of competitive edge*

   During the reporting period, the Company recorded a turnover of approximately RMB48,071 million, representing a year-on-year growth of 3.77%. Net profit attributable to equity holders of the parent company was approximately RMB7,330 million, representing a year-on-year decrease of 9.12%. Net cash generated from operating activities was RMB2,611 million, representing a year-on-year growth of 38.88%.

   In 2012, the market share of the major products of the Company continued to increase. As for concrete machinery, the market share of truck-mounted pumps of the Company increased significantly over 2011, currently securing a leading position in the market. The market share of its three major products, namely mixing trucks, truck-mounted line pumps and mixing plants, ranked top in the PRC. As for the crane machinery, the market share of its tower cranes continued to rank top in the industry and the sales of its crawler cranes and tyre cranes ranked top in the domestic market. As for the earth working machinery, its bulldozers ranked second in the industry in terms of its market share.

2. *Leading technology R&D in the industry with outstanding innovation results*

   (1) The Company launched a series of world-class products with the most advanced technology:

   - On 28 September 2012, the Company launched the truck-mounted pumps with 101.18-meter arms (the longest in the world) and D1250-80, a tower crane with the largest available working range in the world, both of which were entered into the Guinness World Records;

   - The Company successfully developed world-class products, such as ZACB01, a wheeled crane with the highest lifting power in the world, and LTU165, a paver with the largest paving range;

- The Company independently developed ZLJ5163TCXJE4, the first domestic manufactured high-pressure cold-blast snow removal truck with international advanced technologies, and launched ZE3000ELS, a super hydraulic-pressure excavator with the largest tonnage among domestic manufactured excavators, thereby breaking the technical monopoly of international companies and filling the gap in the industry;

(2) As the first secretariat of the International Organization for Standardization/Technical Committee on Cranes (ISO/TC96) in construction machinery industry of the PRC, the Company is independently responsible for the secretariat work of the ISO, reflecting its leading position in the global crane industry;

(3) The Company has exclusively undertaken two projects under 973 Program and one project under natural science foundation program with an aim to promote the steady development of technology. In particular, the "Research on the Key Technology of Electromagnetic Compatibility in Engineering Mechanical and Electrical System" under 973 Program has formed the first national standards of electromagnetic compatibility in the industry. The "Research on Numerical Modelling and Application of the Folding Process of Super-Strength Steel Arms" has achieved a breakthrough in the high-precision numerical modelling of the folding process of super-strength steel arms of cranes, reaching an international advanced standard.

(4) In June 2012, according to the State Intellectual Property Office, the Company was ranked 5th in the PRC in terms of the number of patent applications made in 2011. In 2012, the Company applied for 1,738 patents, maintaining a leading position in the industry in terms of number of applications. The invention of "Power Unit and Its Control Method" was awarded the Best Invention in the PRC, and the design patent of crane was awarded the Golden Prize for Appearance Design in the PRC. It was the first time for a company in the industry to receive two golden prizes for patents within a year.

3. *Accelerated expansion to international markets for further improvement of overseas strategic landscape*

During the reporting period, by fully utilizing the international capital platform, the Company was the first to successfully issue bonds of US$1 billion in two batches in 2012 after taking the lead in the listing of A shares and H shares in 2010, thereby further expanding its financing channels and optimizing the debt structure to provide sufficient capital for the rapid expansion into the international markets. The Company increased overseas investments through strategic cooperation and joint ventures, and made a great progress in two overseas production bases in India and Brazil. At the end of 2012, the Board of the Company approved the acquisition of the equity interests in CIFA from other shareholders, which will further enhance the results of CIFA acquisition and improve the integrated operation efficiency, management and control.

During the reporting period, the overseas sales of the Company increased rapidly by 23.89% over the corresponding period last year.

- For its concrete machinery, the Company's truck-mounted concrete pumps entered the German market successfully. It is the first brand of self-owned truck-mounted concrete pumps in the PRC that has penetrated the German market. The Company obtained the biggest single overseas order of mixer from Thailand, and sold products to countries such as Columbia, Sri Lanka, Iraq and Algeria for the first time.

- For its crane machinery, the export of the Company's 800-ton crawler cranes to Iran set the record of the largest tonnage crawler crane exported from the PRC. Since its advanced technological cooperation with JOST of Germany in 2011, the Company's major technical performance indicators of its tower cranes have satisfied the Standards of the European Federation of Materials Handling ("FEM") and reached international advanced levels. The Company's tower cranes continued to rank top among all tower crane products of the same model in the world in terms of overall performance. The newly-developed flat top tower crane, T320-16, was permitted to enter into Singaporean market.

- For its earth working machinery, the Company exported over 400 units of excavators with a total value of RMB300 million to Middle East, representing a record high of sales volume in a single transaction in the region.

4. *Implementation of management reform and further streamlining of business processes*

During the reporting period, with a focus on markets and customers, the Company adopted the "three-dimensional matrix management" model to establish a market-oriented corporate structure, streamline the business processes and improve the efficiency of decision enforcement. The Company reformed its management by carrying out project-based management and accelerated the reform of IPD R&D to improve the adaptability to changes of the market and develop technologies according to market demands. The value-creating segments of design, manufacturing and marketing were integrated and the R&D quality and application of science and technological achievements were improved. The Company also reformed its marketing by establishing a large marketing system, promoting the establishment of the national marketing platform and the planning of 7S stores. Based on such platform and a mixed coordination strategy, the Company strengthened the expansion of specific markets for various products and improved the coordination of services. Backed by the information system, the Company improved its management through applying ERP, PLM (production lifecycle management) and three-dimensional technologies in the core business division.

5. *Consolidation of comprehensive risk management system with strict control of operational risks*

(1) The Company further consolidated the comprehensive risk management system by implementing the three-level risk control measures covering "all staff, procedures and business flows" and improving the risk alert system for the purpose of quantitative management of risk control.

(2) The Company strengthened the management of receivables and established the collection mechanism with "centralized management by the headquarters and reinforced cooperation between the headquarters and divisions to bring their respective advantages of supervision and administration into full play".

(3) The Company enhanced the risk management in three respects, namely risk prevention, control and post-improvement. The credit review of customers with credit sales was tightened so as to improve the quality of customers. Staff responsible for collection of receivables and overdue payments and legal officers were appointed to major sales regions. The quality of debt management and lawsuit management of the Company were enhanced.

The implementation of these initiatives had facilitated the risk control of the Company. The Company was granted "Golden Shield Award for the Best Legal Risk Management of 2012", being the only company specializing in construction machinery manufacturing in the PRC to win the award for three consecutive years.

6. *Further enhancement of brand image*

With the success of the acquisition and consolidation of CIFA, the Company has developed the five basic principles of international merger and acquisitions, namely "leniency, sharing, responsibility, regulation and synergy". These innovative principles have gain wide recognition in the community, especially among business enterprises and academies, significantly enhancing the brand image and overall strengths of the Company.

The major achievements of the Company in 2012:

- The Company ranked 776th on the Forbes Global 2000 list, an advancement of 676 places from the previous year. It also ranked sixth among the global construction machinery enterprises and ranked first among the construction machinery enterprises in the PRC on the list;

- The brand value of the Company was RMB17,258 million, ranking 74th among "500 Most Valuable Brands in the PRC in 2012" released by World Brand Lab. The brand value of the Company grew nearly 40% over that of last year and its ranking rose by five places;

- The Company was ranked 108th of the Fortune China 500 in 2012, and 39th in terms of profitability;

- The Company was ranked 86th among the Most Innovative Enterprises in the World by the Forbes;

- The Company received the Five Star certification by the National Evaluation System for After-sales Service of Commodities (商品售後服務評價體系) for the third time, and was the only enterprise in the industry with after sales services achieving five-star standard;

- The Company received the Most Outstanding Board of Directors Award during the Golden Roundtable Award campaign for the fifth consecutive time;

- The Company was awarded the National Outstanding Unit by the Central Commission for Guiding Cultural and Ethical Progress;

- The Company was honoured as the National Advanced Enterprise on Employment (全國就業先進企業) by the State Council;

- Dr. Zhan Chunxin, the chairman of the Company, received the Most Outstanding Person Award in 2012, being the first entrepreneur in the construction machinery industry to receive this award.

7. *Breakthrough in market value*

   In 2012, the Company further improved the market value management system and strengthened the comprehensive capacity of investor relationship management team. The Company improved the regulation and transparency of its operation and enhanced investors' understanding of and confidence in the Company through market value management. As at 31 December 2012, the prices of A shares and H shares of the Company recorded an increase of 23.79% and 41.86% respectively as compared with the previous year, exceeding that of the indices of the respective places of listing and the listed companies in the industry. The market value management of the Company was also recognized by the market. The Company was listed as the "Listed Company with the Best Investor Relations" in the China Finance and Economics Ranking of the Listed Companies. The Company was also honored as the "Best Listed Company with Highest Overseas Influence" by the Golden Bauhinia award of Takung Pao of Hong Kong.

Outlook for 2013

1. *International Market*

   In 2013, the global economy is expected to maintain steady growth despite various challenges. According to the International Monetary Fund, it is estimated that the global economic growth rate will be 3.5% in 2013, representing a slight increase as compared with 3.2% in 2012. As the market demand for construction machinery will continue to increase, construction machinery companies in the PRC will have more opportunities to expand into the global market. However, the comparative advantages of the PRC construction machinery industry in the global market are partially eliminated due to the increasing costs of labour, financing and raw materials. In face of the increasingly competitive international market, the enterprises with outstanding competitive strength will obtain more market shares.

2. *Domestic Market*

   In 2013, the domestic economy will continue to recover moderately. Driven by the urbanization progress, infrastructure and real estate investments will pick up its momentum and investment loans will maintain steady growth. The government's policies are expected to be favourable to the development of the construction machinery industry in general. However, the growth of the construction machinery industry was only moderate due to the impacts of the macro-economic environment and excessive production capacity. As market shares are concentrated in the hands of leading companies, companies with rational product structure, strong technology innovation and efficient resource integration will excel over the stiff competition.

Major business objectives and action initiatives in 2013

Targeting at the market and capitalizing on its talents and technologies, the Company will push forward its reform and further expand into overseas markets by establishing a comprehensive international business division with three-dimensional matrix management. The Company will strictly comply with its principles of operating with integrity as well as innovation so as to achieve steady and effective growth.

1. *Comprehensively implement reform of management*

   The Company will reform its incentive mechanism and the management and supervision of its business divisions to further improve the operation efficiency. Corporate structure and functions will be adjusted and optimized by moving forward its management functions. The Company will also establish platforms for products of similar nature, continue to promote the reform of IPD R&D and improve the R&D processes of new products to improve the quality and efficiency of its research and development. Sales management reform will be first implemented in key areas for prompt response to market changes. The strategic management and control will also be strengthened in order to enhance its management capability.

2. *Improve strategic and operational management*

   Strategic planning capacity of departments, guidance to business divisions and strategic management and control will be strengthened so as to enhance the implementation of strategies. By utilizing its corporate resources, the Company will formulate competitive strategies tailored to each of the business divisions according to their needs and requirements. It will also continue to improve its risk management by further developing the internal control system to identify major risks in operations. With its effective production management and technology, the productivity of the Company will increase significantly. Moreover, the Company will strengthen the collection and management of trade receivables, strategic planning of brand building and responsiveness to the market trend.

3. *Speed up global expansion*

   Operation and management of its overseas subsidiaries will be enhanced by establishing and improving a matrix management system in overseas business. The establishment of overseas information system will also be expedited. The Company will optimize overseas distribution channels through accelerating the set-up of overseas bases and expanding its bases in India and Brazil. Emphasis will be placed on major markets and districts. The management of overseas spare part depots will be enhanced. The distribution channels of all product lines will also be expanded.

FINAL DIVIDEND AND ANNUAL GENERAL MEETING

Pursuant to a resolution passed at the directors' meeting on 28 March 2013, a final dividend in respect of the year ended 31 December 2012 of RMB0.2 per share totaling RMB1,541 million was proposed. Such proposal is subject to shareholders' approval at the forthcoming annual general meeting of the Company. Information regarding the record date and book close date for the entitlement to the final dividend and attendance of the annual general meeting will be announced in due course.

COMPLIANCE WITH THE CODE PROVISIONS IN THE CODE ON CORPORATE GOVERNANCE PRACTICES AND THE CORPORATE GOVERNANCE CODE AS SET OUT IN APPENDIX 14 OF THE LISTING RULES

The Board has adopted all code provisions in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the code of the Company. During the year ended 31 December 2012, the Company has complied with all the applicable code provisions set out in the Code, save and except the only deviation from code provision A.2.1 of the Code, namely, the roles of the chairman and chief executive officer have not been separated. Dr. Zhan Chunxin is currently the chairman of the Board and chief executive officer of the Company. The Board is of the view that vesting of these two roles in Dr. Zhan Chunxin can facilitate efficient formulation and implementation of business strategies of the Company, and that through the supervision of the Board and its independent non-executive directors as well as the internal check-and-balance system, the balance of power and authority between the Board and management of the Company will not be affected. The Board believes that this arrangement is in the interests of the Company and its business.

COMPLIANCE OF THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the rules governing the securities transactions by directors set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry to all its directors and supervisors, and all its directors and supervisors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2012. The Company has not identified any non-compliance with the Model Code by any of its directors or supervisors.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee of the Company is primarily responsible for making recommendation to the Board on the appointment and removal of the external auditors and their remuneration and terms of engagement; monitoring internal control system of the Company and its implementation; reviewing financial information of the Company and its disclosure, including monitoring the integrity and accuracy of financial statements, annual report and accounts, half-year report and quarterly reports, and review significant financial reporting judgments contained therein; reviewing the financial controls, internal control and risk management systems of the Company; and reviewing material connected transactions of the Company.

The Audit Committee comprises three members, including two independent non-executive directors and one non-executive director. It is currently chaired by Dr. Qian Shizheng with Mr. Liu Changkun and Mr. Qiu Zhongwei as members. The Audit Committee satisfies the requirements under Rule 3.21 of the Listing Rules.

The Audit Committee held four meetings during the year considering the annual results of the Company for the year 2011 and its interim results for the year 2012. The Audit Committee has reviewed the audited annual financial statements of the Company for the year ended 31 December 2012 and the accounting principles and practices adopted by the Company and discussed matters relating to internal control and financial reporting.

By Order of the Board of
Zoomlion Heavy Industry Science and Technology Co., Ltd.*
Zhan Chunxin
Chairman

Changsha, the PRC, 28 March 2013

As at the date of this announcement, the executive directors of the Company are Dr. Zhan Chunxin and Mr. Liu Quan; the non-executive director is Mr. Qiu Zhongwei; and the independent non-executive directors are Mr. Liu Changkun, Dr. Qian Shizheng, Mr. Wang Zhile and Mr. Lian Weizeng.

* *For identification purpose only*