**You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in our H Shares. You should pay particular attention to the fact that we conduct most of our operations in the PRC, the legal and regulatory environment of which may differ in some respects from what prevails in other countries. Our business could be materially and adversely affected by any of these risks. The trading price of our H Shares could decline due to any of these risks, and you may lose all or part of your investment. For more information concerning the PRC legal and regulatory matters discussed below, see "Regulatory Overview" and Appendix VII — "Summary of PRC and Hong Kong Principal Legal and Regulatory Provisions" to this prospectus.**

## RISKS RELATED TO OUR COMPANY

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

Our manufacturing outputs are highly dependent upon reliable and sufficient sources of high-quality raw materials, parts and components. Although we have acquired domestic parts and components manufacturers in recent years to strengthen our supply chain for hydraulic pumps, cylinders and valves, our current in-house manufacturing capacity does not meet our production demands. We therefore have had to source from other third-party suppliers in China, even though such suppliers may not always be able to produce the components that meet our quality standards, or from overseas third party suppliers, whose products are generally more expensive. We procure our raw materials and certain types of parts and components, including hydraulic pumps, valves and cylinders and chassis, from both domestic and overseas suppliers. We do not maintain significant inventories of raw materials, parts and components in our facilities, nor do we have long-term supply agreements with most of our suppliers. In 2007 and the first half of 2008, we have experienced shortage in imported steel and hydraulic pumps, cylinders and valves, which had affected our operation. However, as a result of global financial crisis beginning in the second half of 2008 and an increase in the percentage of in-house production of certain key parts and components and the strategic cooperation framework agreements we entered into with our suppliers, we had not experienced any shortage of raw materials, parts and components that materially and adversely affected our operation since the second half of 2008. Although we generally have multiple suppliers for most of our raw materials, parts and components, certain raw materials, parts and components such as imported high-strength steel and branded chassis, can only be sourced from a limited number of suppliers. Furthermore, certain parts and components are manufactured based on each individual product's specifications and cannot be used in other products. As a result, our ability to source certain parts and components from alternative suppliers are further limited. Even if alternative supply sources can be found, their supply may not be cost-effective and of the same quality. For example, there are a relatively small number of suppliers in China who are able to provide high quality hydraulic pumps, cylinders and valves, all of which are key components for many of our products, including our concrete machinery and our crane machinery. As a result, we are subject to supply shortages for such components from time to time. A shortage in any of our key raw materials, parts and components may increase our manufacturing lead time for our products and result in significant strain on our manufacturing outputs and may result in the decrease of the product quality, which could harm our reputation, reduce our sales or gross margins, and cause us to lose market share. Any of the above could materially and adversely affect our business, financial condition and results of operations.

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

In 2007, 2008, 2009 and the six months ended June 30, 2010, turnover generated through direct sales accounted for 82.9%, 78.4%, 78.1% and 77.4% of our consolidated turnover, respectively, and sales of our products through third party dealers accounted for 17.1%, 21.6%, 21.9% and 22.6% of our consolidated turnover, respectively. Going forward, as part of our growth strategy, we will increase the use of third-party dealers in China. Many of our dealers also provide after-sales services to our customers. We typically enter into one-year agreements with our domestic dealers and one- to two-year agreements with our international dealers. As our existing agreements expire, we may be unable to renew these agreements with our dealers on favorable terms or at all. Competition for dealers is intense, as we must compete for dealers in China and internationally with other leading construction machinery manufacturers. Such competitors may benefit from higher visibility, greater brand recognition and financial resources and a broader product offering than we do, providing them with a competitive advantage in securing dealers. Our competitors may also enter into long-term and/or exclusive agreements that effectively prevent their dealers from selling our products. Consequently, engaging new dealers, maintaining relationships with existing dealers and replacing dealers can be difficult, disruptive to our operations and time-consuming. Any disruption to our distribution network, including a failure on our part to renew our existing agreements with our preferred dealers or to attract new dealers, could negatively affect our ability to effectively sell our products, provide adequate and timely after-sales services to our customers, which would materially and adversely affect our business, financial condition, results of operations and prospects.

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

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

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

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

As we have only recently commenced our financial guarantee and finance lease services in China and overseas markets, we only have limited experiences and historical data necessary in assessing and controlling the risks and uncertainties associated with engaging in such activities, particularly in overseas markets. In particular, as compared to 2009 and the six months ended June 30, 2010, sales of our products through finance lease services and the number of finance lease contracts we entered into during 2007 and 2008 were relatively small, and as our finance lease contracts typically have a term of two to four years, we could not collect sufficient historical data that could help us accurately assess our risks associated with the finance lease services. Although we have stringent credit evaluation and credit risk management policies and procedures, there is no assurance that the existing and future receivables under finance lease will be fully and timely collected and we may suffer a partial or entire loss of our receivables under finance leases.

The risks and uncertainties for various payment options, including credit sales, installment payments, financial guarantees and finance lease services could become more acute in times of an economic slowdown or recession and may result in increased delinquencies, foreclosures and losses. Litigation and servicing costs may also increase as a result. In the event of such delinquencies or foreclosures, equipment for which the customer defaults on relevant payments is typically repossessed. However, repossessed equipment may be in poor condition, with a value below that of the defaulted debts. If we are not able to manage the credit risks, market risks, liquidity risks and other risks associated with finance lease services and/or other payment options, our financial condition, results of operation and cash flow may be materially and adversely affected.

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

**We recorded negative operating cash flow in 2008, 2009 and the six months ended June 30, 2010, as our sales of machinery products through finance lease services increased significantly. There can be no assurance that we will record positive operating cash flow in the future.**

We recorded negative operating cash flow of RMB1,355 million, RMB1,830 million and RMB1,548 million in 2008, 2009 and the six months ended June 30, 2010, respectively, which was primarily attributable to increases in our receivables under finance leases, which were the result of a significant increase in sales of our machinery products through finance lease services. Our finance lease contracts typically have a term of two to four years and lease payments to which we are entitled but have not yet received are accounted as receivables under finance lease. Although we aim to prudently manage the expansion of our finance lease services, and we will be gradually collecting the lease payments, there can be no assurance that we will be able to fully collect the receivables under finance leases. In addition, there can be no assurance that we will generate sufficient cash flow from our operations in the future. If we are unable to continuously finance our operations by funds generated from our operating activities or otherwise, our operations and financial positions could be materially and adversely affected. See "Financial Information—Factors Affecting our Financial Condition and our Results of Operation—Our Ability to Manage our Finance Lease Services" and "—Liquidity and Capital Resources—Operating Activities".

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

As part of our growth strategy, we plan to expand our scale of operations globally, including establishing more manufacturing facilities overseas and strengthen our distribution and service network overseas. As we continue to grow our business and expand our operations globally, we will continue to enter into or develop markets in which we have limited or no experience and in which our brands may be less recognized. The expansion exposes us to a number of risks, including:

- difficulty in managing multinational operations;

- difficulty with staffing and managing overseas operations, including managing an increasing number of employees on a global basis and complying with the various labor regulatory requirements of the different jurisdictions;

- fluctuations in currency exchange rates;
- increased costs associated with setting-up and maintaining marketing and selling efforts, establishing overseas offices providing adequate after-sales services and timely delivery of parts and components in various countries;
- difficulty in securing dealers with strong local presence;
- challenges in providing customer services and support in these markets;
- challenges in managing our sales channels and overseas distribution network effectively;
- unexpected transportation delays or interruptions or increases in international transportation costs;
- difficulties in and costs of exporting products overseas while complying with the different commercial, legal and regulatory requirements of the overseas markets in which we offer our products;
- failure to establish appropriate risk management and internal control structures tailored to overseas operations;
- difficulty in collecting receivables from international customers;
- difficulty in ensuring the compliance of our dealers and customers with the sanctions imposed by OFAC on various foreign states, organizations and individuals;
- inability to obtain, maintain or enforce intellectual property rights;
- inability to effectively enforce contractual or legal rights or intellectual property rights in certain jurisdictions under which we operate;
- changes in a specific country or region's political or economic conditions or policies;
- unanticipated changes in prevailing economic conditions and regulatory requirements; and
- governmental policies favoring domestic companies in certain foreign markets or trade barriers including export requirements, tariffs, taxes and other restrictions and charges. These government policies or trade barriers could increase the prices of our products and make us less competitive in such countries.

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

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

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

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

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

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

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

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

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

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

- diversion of management attention and other resources; and

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

Our efforts to enhance our manufacturing capabilities may not achieve the expected benefits. In February 2010, we completed a non-public offering of our A Shares. We are using part of the proceeds from this offering to further enhance our manufacturing capabilities, including improving our manufacturing capacity for key parts and components of crane machinery and excavators. We cannot assure you that the demand for our products will continue to increase, or remain at the current levels, which is affected by various factors beyond our control, including underlying economic conditions and market competitiveness. If the demand for our products is weaker than anticipated, we may experience problems associated with overcapacity and under-utilization of headcounts, which may have an adverse effect on our financial condition, results of operations and business.

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

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

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

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

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

Our commercial success depends in part on our ability to obtain and maintain trade secrets, patents and other intellectual property protection for our products, technologies, designs and know-how as well as our ability to successfully protect our intellectual properties and to defend ourselves against third-party challenges. As of October 31, 2010, we had 327 patents, 575 registered trademarks including nine registered trademarks for CIFA, and 12 copyrights for our software in China, along with six patents held by CIFA in the European Union and 148 active trademark applications overseas. As of October 31, 2010, we also had 174 pending patent applications in China and one pending patent application outside of China. We cannot assure you the measures we currently adopt to protect our patents or non-patented intellectual property rights are adequate to efficiently enforce such protection or to prevent any unauthorized use of our intellectual property by third parties. On the other hand, the existence of any particular intellectual property right may not necessarily protect us from competition, as it may be challenged, invalidated or held to be unenforceable. Competitors may successfully challenge our patents, produce similar products that do not infringe our patents or produce products in countries that do not recognize our patents. Our patent priority in the PRC, European Union or other foreign countries may be defeated by third-party patents issued on a later date but applied for earlier than ours. Additionally, the existence of a patent does not provide assurance that the manufacturing, sale or use of our products does not infringe upon others' patent rights. Third parties may also have blocking patents that might be used to prevent us from marketing our own patented products or utilizing our patented technologies or processes. As it may take years for patent applications to be approved, there may be pending applications, known or unknown to us, that may later result in issued patents upon which we may infringe on. Therefore, we may initiate lawsuits in order to defend our ownership or proprietary design of our products and trade secrets, or we may be subject to litigation brought by third parties based on claims that we have infringed upon their intellectual property rights or that we have misappropriated the trade secrets of others, either of which scenarios will be time-consuming and costly to defend. We cannot assure you that we can achieve a favorable outcome in any such litigation. If we are unable to protect our patents, trademarks and other intellectual property rights or to successfully defend ourselves from infringement claims, our reputation, financial condition and results of operations may be materially and adversely affected.

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

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

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

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

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

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

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

Typically, we sell our products with warranty terms covering a period of three to 12 months after the sale, except for normal wear and tear parts and certain parts that are subject to special warranty terms ranging from 15 days to 12 months. Our product warranty typically requires us to provide after-sales services that cover parts and labor for non-maintenance repairs, except that the repairs are caused by operator abuses or improper uses or negligence and are not attributable to normal wear and tear. Repair and replacement of certain parts and components of our products are not covered by us but are covered by the manufacturers of such parts and components, such as the branded chassis used in certain of our products. However, in the event that such third party suppliers refuse to perform their warranty obligations or to indemnify us for providing warranty services to customers to repair such parts and components, we may incur additional warranty costs or incurred costs may not be recovered. We accrue liabilities for potential warranty claims at the time of sale. Product warranty provisions in 2007, 2008, 2009 and the six months ended June 30, 2010, were RMB30 million, RMB127 million, RMB87 million and RMB93 million, respectively. If we experience an increase in warranty claims or if our repair and replacement costs associated with warranty claims increase significantly, we may incur greater warranty costs. Moreover, an increase in warranty claims could substantially increase our costs and may result in a material adverse effect on our reputation, financial condition, results of operations and prospects.

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

Our future success depends substantially on the continued services of our management team. In particular, it depends on the service of our chairman and chief executive officer Dr. Zhan Chunxin, who has over 32 years of experience in the construction machinery industry in China and has successfully led our operations and helped us achieve significant growth in the past decade. Our ability to retain and attract other skilled professionals, including the members of our research and development, manufacturing, marketing and sales and after-sales services teams is also crucial to our future success. Our domestic and international competitors, and companies in industries related to our industry, compete with us for personnel. Competition for such skilled labor is intense and may require us to offer higher compensation and other benefits in order to attract and retain them, which could materially and adversely affect our financial condition and results of operations. We may be unable to attract or retain the personnel required to achieve our business objectives and the failure to do so could severely disrupt our business and prospects. In addition, as the process of hiring and training qualified personnel is often costly in terms of time and money, if our recruitment and retention efforts are unsuccessful, qualified personnel may not be integrated into our workforce in a timely manner to meet the needs of our business.

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

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

We and certain of our subsidiaries are subject to affirmative and negative covenants contained in certain bank credit facilities, to which they are a party. Such covenants include, among others, financial covenants that require us or such subsidiaries to maintain certain financial ratios and that place limitations on various aspects of ours and such subsidiaries' businesses and operations, including capital expenditures, incurrence of additional indebtedness or liens, acquisitions or dispositions of assets and distribution of dividends. As of December 31, 2008 and 2009 and June 30, 2010, our unsecured long-term loan of RMB1,344 million, RMB1,351 million and RMB1,348 million, respectively, subject us to certain semi-annual and annual financial covenants. In particular, we are required to maintain a current ratio of no less than 1.1, a gearing ratio of no more than 1.0, and an interest coverage ratio of no less than 6.0 based on our PRC GAAP consolidated financial statements. As of June 30, 2010, which was the last examination date as provided by the agreement, we had a current ratio of 1.4, a gearing ratio of 0.6 and an interest coverage ratio of 13.1. During the Track Record Period and as of the Latest Practicable Date, our Group was in compliance with those financial covenants. However, we cannot assure you that we or any such subsidiary will not be in breach of these covenants in the future. If we or any such subsidiary breach any of these covenants and if waivers for the breached covenants cannot be obtained from the relevant financial institutions, some actions may be taken or enforced against us or such subsidiary, including, among others, the acceleration of obligations under the credit agreements and enforcement of security interests by lenders, which may, in turn, have a material and adverse effect on the overall financial condition and operations of our Group.

**Our future liquidity needs are uncertain and we may need to raise additional funds in the future, which would dilute your equity interest in our Company or increase our debt service obligations.**

As of June 30, 2010, we had RMB7,041 million in cash and cash equivalents and RMB7,938 million of net current assets. As of June 30, 2010, we had outstanding bank loans of RMB16,356 million. Based on our current operating plans, we expect our existing resources, together with the anticipated cash flow from operations and the net proceeds from this Global Offering, to be sufficient to fund our planned operations for at least the next 12 months from the date of prospectus. In the future, however, we may need to raise additional funds if our expenditures exceed our current budget. This could occur for a number of reasons, including our decision to engage in strategic acquisitions or to devote significant amount of financial resources to expand our manufacturing capacity to meet any unexpected increases in market demand. The ability of our customers to make payments for products in a timely manner and subject to the terms of their contracts with us, may also significantly impact our liquidity.

Our ability to raise additional funds in the future is subject to a variety of uncertainties, including:

- our future financial condition, results of operations and cash flows;
- general market conditions for and investor sentiment towards capital-raising activities by China-based companies and/or construction machinery and environmental and sanitation machinery companies; and
- economic, political and various other conditions in China and elsewhere.

Although we have historically been able to obtain financing on commercially acceptable terms and in a timely manner, we cannot assure you that such financing will always be available in amounts or on terms acceptable to us, if at all, when we need to obtain external financing in the future. Without sufficient liquidity, we may be forced to curtail or delay our operational plans. Our future liquidity needs or other business requirements could necessitate the offering of additional equity or debt securities or to obtain bank loans. The sale of additional equity or equity-linked securities could result in additional dilution to our shareholders. The incurrence of additional debt would result in increased debt service obligations and could result in stricter or additional operating and financing covenants that would restrict our operations, financial flexibility, or our ability to distribute dividends.

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

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

**A subsidiary of ours in Italy has a pending dispute with the tax authorities in Italy regarding certain tax issues and our results of operations may be adversely affected if it loses the dispute and if we are not indemnified by the previous shareholders of the subsidiary.**

The local tax authorities in Italy have challenged the deductibility of certain costs incurred by CIFA Mixer S.r.l., one of our subsidiaries in Italy, for income tax and value added tax purposes for tax years of 2003 through 2007, in connection with which formal tax inspection assessment reports were issued for the subsidiary in March 2010. As of the Latest Practicable Date, this tax case is pending for court hearing. We have sought legal advice to defend the subsidiary's tax position. Based on our tax consultant's advice, we consider that it is more likely than not that the subsidiary's tax position can be substantiated. The amount of additional taxes charged by the tax authorities in relation to those tax deductions is approximately EUR10.7 million, before interest and penalties, if any. Such potential tax payments, interest and penalties are expected to be covered by indemnities provided by relevant selling shareholders as set forth in the relevant transactions documents in connection with our acquisition of CIFA in 2008, and the acquisition of CIFA Mixer S.r.l. by CIFA in 2006. However, there is no assurance that the indemnities provided by such selling shareholders can be enforced by us, nor can we ascertain that the indemnities can sufficiently cover the claim. Our results of operations may be adversely affected if the final verdict finds the subsidiary liable for the additional taxes, interest and penalties, and our losses thereunder cannot be duly covered by the indemnities.

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

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

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

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

The U.S. government has enacted laws and regulations, including laws and regulations administered by the OFAC (the **"U.S. Economic Sanctions Laws"**) that impose restrictions upon US persons with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of U.S. Economic Sanctions Laws (the **"Sanctions Targets"**). U.S. persons are also prohibited from facilitating such activities or transactions. We will not use any net proceeds from this Global Offering to fund any activities or business with any Sanctions Targets or activities or transactions prohibited by U.S. Economic Sanctions Laws. In the Track Record Period, we sold a limited number of our products to dealers which we understand sold such products to Sanctions Targets. To the best knowledge of our Company, in 2007, 2008, 2009 and the six months ended June 30, 2010, we sold, directly or indirectly, tower cranes, truck-mounted concrete pumps, truck-mounted concrete mixers, concrete mixing plants, concrete placing booms, motor graders, road rollers, road sweepers and truck cranes, to Sanctions Targets, including Sudan, Iran, Syria, Burma, Congo and Belarus. As advised by our U.S. legal advisor, the U.S. Economic Sanctions Laws under their current terms are not applicable to our activities. We cannot assure you that we will not make any direct or indirect sales of our products to Sanctions Targets in the future. If such transactions occur, our reputation could be adversely affected, some of our investors in the United States may be required to sell their interests in our Company under the laws of certain U.S. states or under internal investment policies or may decide for reputational reasons to sell such interests, and some investors in the United States may forgo the purchase of our Shares, all of which could have a material and adverse effect on the price of our H Shares and the value of your investment in us.

**Our largest shareholder has substantial influence over our Company and its interests may not be aligned with the interests of our other shareholders.**

Hunan SASAC, currently owns approximately 21.4% of our outstanding Shares and upon the completion of this Global Offering, will beneficially own approximately 16.8% of our outstanding share capital, assuming no exercise of Over-allotment Option. As such, Hunan SASAC has substantial influence over our business, including decisions regarding investments, mergers, dividend plans, future issuance of securities, consolidations and the sale or partial sale of all or substantially all of our assets, election of directors and other significant corporate actions. The interests of Hunan SASAC may not always coincide with the best interests of our other shareholders or our Company. This concentration of ownership may discourage, delay or prevent any change in control of our Company, which could deprive our Shareholders of an opportunity to receive a premium for their shares as part of a sale of our Company and might negatively impact the price of our H Shares.

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

We and several of our subsidiaries have enjoyed preferential tax treatments and/or received government grants relating to the development of construction machinery, such as refund of value-added tax and subsidy for technological improvement, research and development projects. From January 2007 to September 2007, we were exempted from the enterprise income tax. We and our subsidiaries, Hunan Teli, Zoomlion Special Vehicle, Zoomlion Hardware, Changde Hydraulic are qualified as "high-tech enterprises" which are entitled to a preferential income tax rate of 15% for three years starting from 2008, and Zoomlion Material Handling is entitled to the same preferential tax rate of 15% for three years starting from 2009. Such qualification is subject to periodic review, and if we and such subsidiaries fail to qualify as "high-tech enterprises", we and such subsidiaries may not be able to continue enjoying the preferential tax rate. If there are any changes in the preferential tax treatment that we currently enjoy and in the incentives that we currently receive, our financial condition and results of operations may be materially and adversely affected.

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

Properties owned or leased by our Group primarily comprise of manufacturing facilities, offices and ancillary buildings. See the section entitled "Our Business—Properties". In particular, we have not obtained the land use right certificate for one parcel of land and building ownership certificates for 66 buildings. We may not obtain such land use right certificate and building ownership certificates and the timing for obtaining such certificates is beyond our control. Before we get the land use right certificate of such land and the building ownership certificates of such buildings, our right on such properties might not be entirely protected. Any dispute or claim related to the title of the properties owned or leased by us may result in us relocating our manufacturing facilities or offices. There is no assurance that we would be able to find alternative properties for our business on favorable terms or at all. Further, unplanned relocation may cause us to incur additional relocation costs and interrupt our production schedule. As a result, we may be unable to meet the output requirements under our sales contracts or otherwise meet out sales targets. All such consequences could have a material adverse effect on our business, financial condition, results of operations and prospects.

## RISKS RELATED TO OUR INDUSTRY

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

A significant portion of our consolidated turnover is derived from the sales of our concrete machinery and cranes machinery. In 2007, 2008, 2009 and the six months ended June 30, 2010, the sales of our concrete machinery accounted for approximately 39.1%, 34.6%, 34.5% and 43.7% of our consolidated turnover, while the sales of our cranes machinery accounted for approximately 46.9%, 46.0%, 40.0% and 36.7% of our consolidated turnover. Our business operations in those two sectors are directly tied to the prevailing levels of construction activities from industrial production, infrastructures projects and real estate investments, all of which are sensitive to government monetary and fiscal policies. Many of our customers depend substantially on government funding for infrastructure projects or municipal works, and any decrease or delay in such government funding or a decrease in overall government spending could have an adverse effect on our customers, which in turn may have a material and adverse effect on our business and results of operations. For example, our consolidated turnover had significantly increased in the first half of 2010 as compared to the first half of 2009, which we believe was in part driven by the RMB4 trillion economic stimulus package and other extensive monetary policies announced by the PRC government in response to the global financial crisis and worsening economic environment starting from 2008. A substantial portion of the stimulus package was targeted spending on public infrastructure projects and affordable housing real estate projects. We cannot assure you that the level of such support from the central government will continue or will not decrease. Similarly, increases in interest rates affect overall economic growth, the demand for residential and nonresidential real estate developments, fixed asset investment decisions by our customers and the availability of financing and leasing options to our customers, which may also have a material and adverse effect on our business and results of operations. We cannot assure you that the interest rate will not increase in the future. A downturn in demand will result in excess inventories, un-utilized manufacturing capacity and reduced prices for new and used equipment. Such downturn may be prolonged and may result in significant losses to us during affected periods. If any adverse change occurs, construction activities may be significantly affected, which may decrease the demand for our products and adversely affect our results of operations.

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

Increases in the prices of the raw materials, parts, and components for our products may materially and adversely affect our results of operations. At certain price levels of raw materials, parts and components, the continued production of certain products may become unprofitable. The significance and relative impact of factors affecting the prices of raw materials, parts and components are difficult to predict or quantify. Prior to 2008, we experienced increases in the prices of certain type of the key raw materials, parts, and components for certain of our products, such as steel, due to the growth of China's economy and the increase in the demand for steel. As a result, our production costs increased during that period. In 2008, due to changes in the global economic environment and the ongoing adverse effects of the credit crisis that originated in the United States, construction machinery spending and manufacturing activities slowed down both in China and globally. As a result, the prices of our raw materials, parts and components have since decreased. However, we cannot assure you that the price of such raw materials, parts and components will not increase significantly again in the future, particularly as the global economy begins to recover.

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

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

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

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

Our business is subject to seasonal variations in demand. Our sales have been, and are expected to continue to be, affected by the seasonality as construction activities in northern China are curtailed during the winter, which would lead to a decrease in demand for our major products and in turn, an adverse effect on our business, financial condition and results of operations. In particular, sales of our construction machinery are typically weaker in the first quarter and stronger in the rest of the year. For the three months ended March 31, 2007, 2008 and 2009, our consolidated turnover was RMB1,297 million, RMB2,537 million and RMB3,517 million, respectively, and accounted for 14.5%, 18.7% and 16.9%, respectively of the consolidated turnover for the respective year. For the three months ended March 31, 2010, our consolidated turnover was RMB5,899 million and accounted for 36.7% of our consolidated turnover for the six months ended June 30, 2010. The fluctuation of our quarterly results could cause the trading price of our Shares to decline below investor expectations. You should not rely on our operating results for prior periods as an indication of our future results.

## RISKS RELATED TO DOING BUSINESS IN CHINA

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

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

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

Further, the PRC Company Law is different in certain important respects from company laws in common law countries or territories such as Hong Kong and the United States, particularly with regard to investor protection, including areas such as derivative actions by shareholders and other measures protecting minority shareholders, restrictions on directors, disclosure obligations, variations of class rights, procedures at general meetings and payments of dividends. Protection for investors under the PRC Company Law is increased, to a certain extent, by the introduction of the Mandatory Provisions and certain additional requirements that are imposed by the Listing Rules with a view to reducing the scope of differences between the company laws of Hong Kong and the PRC. The Mandatory Provisions and those additional requirements must be included in the articles of association of all PRC companies applying to be listed in Hong Kong. The Articles of Association have incorporated the provisions in the Mandatory Provisions and the Listing Rules. Despite the incorporation of those provisions, there is no assurance that you will enjoy an equal level of protection that you may be entitled to when investing in companies incorporated in common-law jurisdictions.

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

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

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

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

**Holders of H Shares may be subject to taxation in China.**

Under current PRC tax laws, regulations and rulings, dividends paid by a PRC company to individual holders of H Shares who are not PRC residents are temporarily exempted from PRC income tax. Also, gains on the sale or other disposal of H Shares by such individuals are temporarily exempted from the PRC individual income tax. To date, the relevant tax authorities have not collected withholding tax from dividend payments or gains realized on the sale or other disposal of H shares. In the event this temporary exemption is withdrawn or ceases to be effective, individual holders of H Shares may be subject to withholding income tax at the rate of 20% unless such tax is reduced or eliminated by an applicable double taxation treaty.

According to the EIT Law and its implementation regulations, which became effective on January 1, 2008, non-PRC resident enterprises shall be subject to 10% enterprise tax for the income originated from the PRC provided that the non-resident enterprises do not establish offices or premises in the PRC, or where there are offices and premises established, there is no connection between the dividends and bonuses or gains received and the offices or premises established by the non-resident enterprises. Such withholding tax may be reduced pursuant to an applicable double taxation treaty. Further, pursuant to the *Notice of the State Administration of Taxation on the Issues concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H-share Holders Which Are Overseas Non-resident Enterprises (Guoshuihan [2008] NO. 897)* (《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》, 國稅函[2008]897號), from 2008 onwards, PRC enterprises should withhold enterprise income tax at a rate of 10% when they distribute dividends to non-resident enterprise shareholders of

H shares. If a non-resident enterprise shareholder is eligible for a reduced rate pursuant to an applicable double taxation treaty, it may apply for refund on the overpaid withholding income tax subject to approval by in-charge tax authorities.

As the EIT Law and its implementation regulations were newly enacted, there remains significant uncertainty as to their interpretation and application by the PRC tax authorities. The implementation of enterprise income tax on capital gain remains uncertain. If the tax rates stipulated in the EIT Law and its implementation regulations change, the value of your investment in our H Shares may be materially affected. Please see Appendix VI—"Taxation and Foreign Exchange" to this prospectus for additional information.

**Payment of dividends is subject to restrictions under PRC laws.**

Our payment of dividends is subject to regulatory restrictions. Regulations in China currently permit the payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations. Under the PRC laws and the Articles of Association, distributable profits are equal to our after-tax profits as determined under PRC GAAP or IFRS, whichever is lower, less any replenishment of accumulated losses and allocations to statutory surplus reserve and discretionary surplus reserve, if approved by the Shareholders in the Shareholders' general meeting. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. Based on the PRC GAAP, each year, we and each of our PRC subsidiaries are required to set aside at least 10% of our respective after-tax profits to the statutory surplus reserve until the accumulative amount of such reserves reaches 50% of our respective registered capital. As of June 30, 2010, our statutory reserves amounted to RMB984 million, and our retained profits that were unrestricted and available for distribution amounted to RMB6,427 million. As approved by our Shareholders in July 2010, we transferred RMB2,957 million from retained profits to share capital through issuance of bonus shares and paid cash dividend of RMB335 million in August 2010, thus reducing our retained profits by RMB3,292 million. Our statutory reserves are not distributable as cash dividends. In addition, if we incur debt in the future, the instruments or agreements governing the debt may restrict our ability to pay dividends.

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

Most of our cash generated from sales of products and provision of services are denominated in Renminbi, which is also our reporting currency, but not a freely convertible currency. A portion of our cash may be required to be converted into other currencies in order to meet our foreign currency needs, including cash payments on declared dividends, if any, on our H Shares. Under China's existing foreign exchange regulations, following the completion of this Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with various procedural requirements. However, the PRC government may restrict future access to foreign currencies for current account transactions at its discretion. If this were to occur, we might not be able to pay dividends to the holders of our H Shares in foreign currencies. Foreign exchange transactions under our capital account, on the other hand, continue to be subject to significant foreign exchange controls and require the approval of the SAFE. These limitations could affect our ability to obtain foreign exchange through equity financing, or to obtain foreign exchange for capital expenditures.

Among other things, the change in value of the Renminbi against U.S. dollars and other currencies is affected by changes in domestic and international political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to U.S. dollars. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed range in relation to a basket of specified foreign currencies. Since then, the PRC government has made, and may in the future make, further adjustments to the exchange rate system. On June 19, 2010, the PRC government announced its intention to further relax its currency policy, and the Renminbi slightly appreciated against U.S. dollars. We cannot assure you that the Renminbi will not experience significant appreciation against U.S. dollars again. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against U.S. dollars. Fluctuations of the Renminbi could adversely affect the value of our foreign currency-denominated transactions along with the value of cash flow generated from our operations or any dividends payable on our H Shares in foreign currency terms. In 2007, our net foreign currency exchange loss was RMB6 million, while in 2008, 2009 and the six months ended June 30, 2010, our net foreign currency exchange gains were approximately RMB4 million, RMB8 million and RMB35 million, respectively. Following the Global Offering, our exposure to risks associated with foreign currency fluctuations may further increase as the net proceeds from the Global Offering are expected to be deposited in currencies other than Renminbi until we obtain necessary approvals from relevant PRC regulatory authorities to convert the same into Renminbi. On the other hand, as we expect to expand our international markets, future Renminbi devaluations could increase our costs and expenses or lead to fluctuations in the exposure of our foreign currency-denominated liabilities, thereby adversely affecting our profitability.

**You may experience difficulties in effecting service of legal process and enforcing judgments against us, our Directors, Supervisors or senior management and to take action on the basis of violations of the Listing Rules.**

We are a company incorporated under the laws of the PRC and most of our assets and subsidiaries are located in China. Except our independent director Mr. Qian Shizheng, our Directors, Supervisors and senior management reside within the PRC. The assets of these Directors, Supervisors and senior management also may be located within the PRC. As a result, it may not be possible to effect service of process upon most of our Directors, Supervisors and senior management outside the PRC. Moreover, the PRC does not have treaties providing for reciprocal recognition and enforcement of court judgments in the United States, the United Kingdom, Japan or most other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, in the PRC or Hong Kong, recognition and enforcement of court judgments from the jurisdictions mentioned above may be difficult or impossible in relation to any matter that is not subject to a binding arbitration provision. From July 14, 2006, reciprocal recognition and enforcement of the decisions of civil and commercial cases rendered by the courts of PRC and of HK may be realized under the arrangement between the PRC and Hong Kong if the decisions are made with proper written agreement on applicable jurisdiction and require a provision of payment which is binding and enforceable. However, the rights under the arrangement are limited and the interpretation of and cases decided under the arrangement have not been fully developed. Therefore the outcome and effectiveness of any action brought under the arrangement are unclear.

The Articles of Association and the Listing Rules provide that any disputes or claims arising out of the rights and obligations specified in the Articles of Association, the PRC Company Law and other related laws and regulations with respect to the affairs of our Company between the holders of H Shares and our Company, holders of H Shares and our Directors, Supervisors, senior management, holders of H Shares and holders of A Shares, shall be resolved through arbitration in Hong Kong or the PRC, rather than by a court of law, except for disputes associated with the definition of shareholders or register of shareholders. Under the current arrangements for reciprocal enforcement of arbitral awards between the PRC and Hong Kong, awards made by PRC arbitral authorities, which are recognized under the Arbitration Ordinance of Hong Kong, can be enforced in Hong Kong. Hong Kong arbitration awards are also enforceable in the PRC.

In addition, although we will be subject to the Listing Rules and the Takeovers Code upon the listing of our H Shares on the Hong Kong Stock Exchange, the holders of H Shares will not be able to take action on the basis of violations of the Listing Rules; they must rely on the Hong Kong Stock Exchange to enforce its rules. Furthermore, the Listing Rules and the Takeovers Code do not have the force of law, providing only standards of commercial conduct considered acceptable for share repurchases along with takeover and merger transactions in Hong Kong.

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

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

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

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

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

## RISKS RELATED TO THE GLOBAL OFFERING

**Our A Shares were listed in China in 2000, and the characteristics of the A share and H share markets may differ.**

We conducted an offering of our A Shares in the PRC, and we have listed such shares on the SZSE on October 12, 2000. Following the Global Offering, our A Shares will continue to be traded on the SZSE and our H Shares will be traded on the Hong Kong Stock Exchange. Under current PRC laws and regulations, without approval from the relevant regulatory authorities, our H Shares and A Shares are neither interchangeable nor fungible, and there is no trading or settlement between the H share and A share markets. With different trading characteristics, the H share and A share markets have divergent trading volumes, liquidities, and investor bases as well as different levels of retail and institutional participation. As a result, the trading performance of our H Shares and A Shares may not be comparable. Furthermore, fluctuations in the price of our A Shares may adversely affect the price of our H Shares, and vice versa. Due to the different characteristics of the A share and H share markets, the historical prices of our A Shares may not be indicative of the performance of our

H Shares. You should therefore not place undue reliance on the prior trading history of our A Shares when evaluating an investment in our H Shares.

**There has been no public market for our H Shares prior to this Global Offering and an active trading market for our H Shares may not necessarily develop or be sustained following the Global Offering.**

Prior to the Global Offering, there has been no public market for our H Shares. Upon completion of the Global Offering, the Hong Kong Stock Exchange will be the only market in which the H Shares are publicly traded. We cannot assure you that an active and liquid trading market for our H Shares will be developed or sustained following the Global Offering. In addition, we cannot be certain that our H Shares will trade at or above the offer price in the public market subsequent to the Global Offering. We expect the Offer Price for the H Shares to be determined by the agreements and negotiations among us and the Joint Global Coordinators on behalf of the Hong Kong Underwriters and the International Underwriters. The Offer Price may not be indicative of the market price of the H Shares following the completion of the Global Offering. If an active and liquid trading market for our H Shares does not develop or is not sustained after the Global Offering, the market price and liquidity of our H Shares could be materially and adversely affected.

**The trading price for our H Shares may be volatile and the liquidity may be low, which could result in substantial losses.**

Following the Global Offering, the trading price for our H Shares is likely to be highly volatile and subject to wide fluctuations in response to various factors, including, but not limited to, the following:

- regulatory developments in the jurisdictions affecting us, our suppliers, our customers or our competitors;
- changes in the economic performance or market valuations of similar companies in the sector in which we operate;
- actual or expected fluctuations in our interim or annual operating results;
- changes in financial estimates and valuations by securities research analysts;
- inability to retain our executive officers and key research personnel;
- the release or expiry of lock-up or other transfer restrictions on our outstanding A Shares and H Shares;
- supply and demand differences and fluctuations with respect to our H Shares;
- the liquidity in the market for our H Shares; and
- investor perceptions of our Company and the general domestic and overseas investment environment and the prevailing general market sentiment, particularly in Hong Kong and the PRC.

Moreover, the securities market has from time to time experienced significant price and volume fluctuations that were unrelated or not fully correspondent with the operating performance of the underlying companies. These broad market and industry fluctuations may have a material and adverse effect on the market price and trading behavior of our H Shares.

**You should not rely on any information contained in press articles or other media regarding the Group and the Global Offering.**

Prior to the publication of this prospectus, there has been press and media coverage regarding the Group and the Global Offering, including those in the Hong Kong Economics Times and the Ming Pao Daily News dated November 30, 2010, which included certain information about the Group that does not appear in this prospectus. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any information appearing in any publication is inconsistent or conflicts with the information in this prospectus, we disclaim it. Prospective investors should not rely on any such information and should only rely on information included in this prospectus in making any decision as to whether to purchase the Shares.

**Future sales or perceived sales of substantial amounts of our H Shares in the public market or the conversion of our A Shares to H Shares could have a material adverse effect on the prevailing market price of our H Shares and our ability to raise additional capital in the future.**

The market price of our H Shares could decline as a result of substantial future sales of our H Shares or other securities relating to our Shares in the public market. Such a decline could also occur with the issuance of our new Shares or other securities relating to our Shares, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our Shares could materially and adversely affect the prevailing market price of our H Shares and our ability to raise future capital at a favorable time and price. Our shareholders would experience a dilution in their holdings upon issuance or sale of additional securities for any purpose.

Additionally, according to stipulations made by the CSRC, our A Shares may be transferred to overseas investors, and such transferred shares may be listed or traded on an overseas stock exchange, provided certain conditions are fulfilled and specific procedures are carried out. See "Share Capital—Transfer of Our Company's A Shares for Listing and Trading on the Hong Kong Stock Exchange as H Shares." Conversion of a substantial number of our A Shares to H Shares, or the perception that such conversion may occur, could materially and adversely affect the price of our H Shares. In addition, assuming the Over-allotment Option is not exercised, 86,958,280 A Shares will be converted into H Shares and transferred to the NSSF in connection with the Global Offering. The NSSF has not entered into any lock-up agreement with us or the Underwriters and would be free to sell the H Shares any time after the Global Offering. This may also materially and adversely affect the prevailing market price of the H Shares and our ability to raise capital in the future at a time and at a price favorable to us.

**Due to a time lag of several days between the pricing and actual trading of our H Shares, investors in our H Shares are subject to the risk that the price could decline during this period before the trading of H Shares commences.**

The Offer Price of our H Shares is expected to be determined on the Price Determination Date. However, our H Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be five Hong Kong business days in Hong Kong after the Price Determination Date. As a result, investors may not be able to sell or otherwise transact in our H Shares during that period. Accordingly, holders of our H Shares are subject to the risk that the price of our H Shares could decline before actual trading begins as a result of adverse market conditions or developments, such as a decline in our A Share price.

**As the Offer Price of our H Shares is higher than our net tangible book value per share, purchasers of our H Shares in the Global Offering may experience immediate dilution upon such purchases.**

The Offer Price of our H Shares is higher than our net tangible book value per share as of June 30, 2010 of the outstanding shares issued to our existing shareholders. Therefore, purchasers of our H Shares in the Global Offering will experience immediate dilution in our net tangible asset value of approximately HK$9.66 or HK$13.94 per Share, representing the differences between our unaudited pro forma adjusted net tangible asset value per Share as at June 30, 2010 after giving effect to this Global Offering (net of underwriting commissions and other expenses) and an assumed Offer Price of HK$13.98 or HK$18.98, respectively which is the lower and higher end of the indicative Offer Price range, respectively, and assuming the Over-allotment Option is not exercised. Our existing shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per share of their shares. In addition, holders of our H Shares may experience further dilution of their interest if the Underwriters exercise the Over-allotment Option or if we obtain additional capital in the future through follow-on equity offerings.

**Dividends declared in the past may not be indicative of our dividend policy in the future.**

We declared cash dividends and stock dividends in each of the three years ended December 31, 2007, 2008 and 2009, which were subsequently distributed to our shareholders. In July 2010, a special dividend was approved by the Shareholders' general meeting. The declaration of dividends is proposed by our Board, and the amount of any such dividends will depend on various factors, including but not limited to our financial condition, results of operations, future prospects and other factors our Board deems important. See "Financial Information—Dividend Policy". As an A-share listing company in the PRC, we are governed by the CSRC regulations on dividend distribution. However, dividends paid in the past may not be indicative of future dividend payments. In addition, our distributable earnings will be equal to our net profit determined in accordance with PRC GAAP or IFRS, whichever is lower, less statutory reserves required by relevant laws and regulations and discretionary reserves, if any. As a result, we may not have sufficient profit to enable us to make future dividend distributions to our shareholders, even if one of our financial statements prepared in accordance with PRC GAAP or IFRS indicates that our operations have been profitable.

**The industry and statistical information in this prospectus may not be accurate.**

Statistics, industry data and other information relating to the economy and the industry contained in this prospectus have been derived from various publications from official government, industry association or independent research institute with information provided by Chinese and other government agencies, industry associations or independent research institutes. We cannot assure you nor make any representation as to the accuracy or completeness of such information. Neither we nor any of our respective affiliates or advisors, nor the Joint Bookrunners or any of their affiliates or advisors, have prepared or independently verified the accuracy or completeness of such information directly or indirectly derived from official government sources, or from industry association or independent research institute. In all cases, you should give careful consideration as to how much weight or importance you should attach or place on such statistics, projected industry data and other information relating to the economy and the industry.