You should read the following discussion and analysis of our Group's financial condition and results of operations together with our consolidated financial statements as of and for each of the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 and the accompanying notes included in the accountants' report set out in Appendix I to this prospectus. Also, you should read the discussion and analysis of our Group's financial condition and results of operations as of and for the nine months ended September 30, 2010 together with our unaudited interim consolidated financial statements and accompanying notes set out in Appendix II to this prospectus. Our consolidated financial statements have been prepared in accordance with IFRS.

The consolidated income statement data and cash flow statement data for the six months ended June 30, 2009 and the nine months ended September 30, 2009 and 2010 have been derived from our unaudited interim consolidated financial statements which have been reviewed by our reporting accountants. We have prepared the unaudited interim consolidated financial statements on the same basis as our audited consolidated financial statements. The unaudited interim consolidated financial statements include all normal and recurring adjustments that we consider necessary to fairly present our financial condition and results of operations for the periods indicated.

Potential investors should read the entire accountants' report set out in Appendix I and the unaudited interim financial information set out in Appendix II to this prospectus and not rely merely on the information contained in this section. Our historical results do not necessarily indicate future results. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this prospectus.

OVERVIEW

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

We currently offer more than 640 models of machinery and equipment with 83 different product types in 13 product categories. During the Track Record Period, concrete machinery and crane machinery were our core product lines, which together represented approximately 86.0%, 80.6%, 74.5% and 80.4% of our consolidated turnover in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively. Both our Zoomlion and CIFA line of products are sold through an extensive distribution network in China which, as of September 30, 2010, consisted of 548 outlets owned and operated by us, as well as 410 outlets owned and operated by third-party dealers, 524 service centers and 309 components depots owned and operated by us and 339 service centers and 223 components depots owned and operated by third parties, which are located in more than 300 cities covering all provinces and autonomous regions in China. Our third-party dealers in China, in aggregate, operated 39, 115, 279 and 408 outlets, respectively, as of December 31, 2007, 2008 and 2009 and June 30, 2010. We currently sell our products to over 70 countries through an established distribution network which, as of September 30, 2010, consisted of 31 outlets, 14 service centers and 15 parts and components depots owned and operated by us, as well as 190 outlets, 180 service centers and 139 parts and components depots owned and operated by our 88 third-party dealers. In 2007, 2008 and 2009 and the six months ended June 30, 2010, sales to end-users in overseas markets, which include direct sales made outside of the PRC as well as sales to overseas end-users through our third-party dealers in the PRC, amounted to RMB757 million, RMB2,768 million, RMB2,615 million and RMB923 million, respectively, which accounted for 8.4%, 20.4%, 12.6% and 5.7% of our consolidated turnover for the respective periods. In the same periods, sales occurred outside the PRC amounted to nil, RMB531 million, RMB1,769 million and RMB784 million, respectively, which accounted for nil, 3.9%, 8.5% and 4.9% of our consolidated turnover for the respective periods.

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

We have experienced significant growth in our business during the Track Record Period. Our consolidated turnover increased from RMB8,973 million in 2007 to RMB20,762 million in 2009, representing a CAGR of approximately 52.1%. Our profit for the year increased from RMB1,437 million in 2007 to RMB2,419 million in 2009, representing a CAGR of approximately 29.7%. For the six months ended June 30, 2010, our consolidated turnover and profit for the period amounted to RMB16,089 million and RMB2,163 million, respectively.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

General Economic Conditions in China

We have derived the majority of our consolidated turnover from the sales of our products in China during the Track Record Period. Demand for construction machinery is affected by the general economic conditions in China. Historically, our business expansion and the growth of the construction machinery industry have been driven by the rapid economic growth in China and the associated urbanization and increase in fixed asset investments. In recent years, China has been one of the fastest growing economies in the world. Between 2001 and 2009, China's GDP has increased from approximately RMB11.0 trillion to approximately RMB33.5 trillion, representing a CAGR of 9.3%. As a result of the strong economic growth, China has experienced an ongoing urbanization and industrialization process and a significant increase in the general public's spending power. The urbanization level in China increased from 37.0% in 2001 to 46.6% in 2009. The growing trend of urbanization and the increasing spending power have led to increasing demand for infrastructure, industrial, commercial and residential developments. Fixed asset investments in China increased from approximately RMB3.7 trillion in 2001 to approximately RMB19.4 trillion in 2009, according to the National Bureau of Statistics, representing a CAGR of 26.3%. Meanwhile, our growth has benefited from China's favorable government policies toward fixed asset investments and the infrastructure sector, including favorable government infrastructure investment policies to expand, modernize and upgrade China's infrastructure system. We expect the urbanization and the increases in infrastructure and fixed assets investment in China will continue as the economy continues to grow, which in turn will drive the growth of the construction machinery industry and environmental and sanitation machinery industry. As a leading manufacturer of construction machinery and environmental and sanitation machinery in China, we believe we are well positioned to take advantage of the growth of those two industries in China. However, if China's economy slows down, the growth of those two industries may slow down as well, which may materially and adversely affect our financial condition and results of operations.

Product Mix and Our Ability to Offer New Products

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

We derived the majority of our turnover from sales of concrete machinery and crane machinery, which in aggregate accounted for approximately 80% of our consolidated turnover for each period during the Track Record Period. We expect sales of our concrete machinery and crane machinery to continue to increase in absolute terms and continue to be a major source of our turnover. However, we expect the turnover generated from the sales of concrete machinery and crane machinery to decrease as a percentage of our consolidated turnover in the future with the expansion of our other product lines. As China's urbanization continues and the population in the second- and third-tier cities grows, the general public and the central and local governments are becoming more concerned about the environmental protection and sanitation issues in the urban areas, which in turn drive the demand for environmental and sanitation machinery. Furthermore, in view of China's ongoing urbanization and significant investments in infrastructure projects, we believe there is strong growth potential in the earth working machinery market. As a result, we aim to focus on the growth of these two lines of products to capitalize on the prevailing industry trend, and we expect sales of our environmental and sanitation machinery and earth working machinery will increase in absolute terms and as a percentage of our consolidated turnover. However, the increases in market demand for environmental and sanitation machinery and earth working machinery may not meet our expectations or we may not be able to capitalize on any of such opportunities.

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

Our Ability to Manage and Expand our Scale of Operations Globally

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

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

Our Ability to Control Our Production Costs

In 2007, 2008, 2009 and the six months ended June 30, 2010, costs of raw materials, parts and components amounted to RMB5,933 million, RMB9,039 million, RMB14,281 million and RMB10,665 million, respectively, representing 66.2%, 66.7%, 68.8% and 66.3% of our consolidated turnover for the respective periods. The key raw materials, parts and components for our production include steel, branded chassis and hydraulic pumps, valves and cylinders. The production costs of our products are subject to fluctuations in the prices of steel and steel components. In recent years, market demand for steel has been strong and it may be difficult for us to find alternative suppliers for steel. Due to strong market demand, supply of certain imported parts and components, including branded chassis and hydraulic pumps, valves and cylinders, may be limited. As a result, we typically keep higher levels of inventories of certain imported parts and components for which the supply may be limited. As we expand our scale of operation and as we gain better access to foreign-based suppliers through the integration of CIFA, we are able to enter into strategic framework agreements with certain suppliers to ensure a sufficient supply of high-quality raw materials, parts and components at relatively lower prices on a sustainable basis. While we have not experienced significant increases in our cost of labor in the past, the competitive environment in which we operate and the continued economic growth in China will continue to increase demand for skilled labor, which we believe may increase our cost of labor in the future.

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

Our Ability to Effectively Manage Our Finance Lease Services

We started providing finance lease services as a payment option to our customers in 2007. The finance lease contracts are generally for two to four years. For certain products that have a longer useful life, such as tower cranes, crawler cranes and large-capacity truck cranes, we may extend the length of the lease to five years. The length of a finance lease contract is typically much shorter than the useful life of the leased equipment thereunder. Terms of the finance lease contracts are determined based on various factors, including our customer relationship and their credit quality. We believe finance lease services provide customers with an additional flexible payment option, which may help attract more customers and increase the sales of our products. Sales of our products through finance lease services increased rapidly and contributed significantly to our turnover growth during the Track Record Period. In 2007, 2008, 2009 and the six months ended June 30, 2010, sales of our products through finance lease services amounted to RMB381 million, RMB2,068 million, RMB7,463 million and RMB5,407 million, respectively.

We receive the sale proceeds generated through finance lease services in periodic installments. Although our sales of machinery products through finance lease services are recognized as turnover once we deliver the products to our customers, we would not receive the full amount of the sale proceeds in cash until the end of the finance lease contracts. The lease payments we are entitled to but have not yet received under the finance lease contracts are accounted for as receivables under finance leases. As a result, while our turnover and profits from operations continued to grow throughout the Track Record Period, we recorded negative net operating cash flow in the years ended December 31, 2008 and 2009 and the six months ended June 30, 2010. In 2007, 2008 and 2009 and the six months ended June 30, 2010, the balance of our receivables under finance leases increased by RMB381 million, RMB1,866 million, RMB6,096 million and RMB6,030 million, respectively. Starting in 2008, we factored a significant portion of our receivables under finance lease to banks to obtain cash in order to provide additional funding for our operations. As of December 31, 2007, 2008 and 2009, and June 30, 2010, the balance of the loans from factoring of receivables under finance lease amounted to RMB43 million, RMB1,014 million, RMB4,515 million and RMB7,337 million, respectively.

DESCRIPTION OF SELECTED PRINCIPLE COMPONENTS OF CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Turnover

We generate turnover primarily from the following operating segments:

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

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

	Year Ended December 31,						Six Months Ended June 30,			
	2007		2008		2009		2009		2010	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in millions, except for percentages)									
Concrete machinery	3,509	39.1	4,682	34.6	7,157	34.5	3,534	38.3	7,037	43.7
Crane machinery	4,206	46.9	6,237	46.0	8,298	40.0	3,663	39.7	5,910	36.7
Environmental and sanitation machinery	564	6.3	871	6.4	1,230	5.9	474	5.1	710	4.4
Road construction and pile foundation machinery	487	5.4	610	4.5	787	3.8	391	4.2	539	3.4
Earth working machinery	—	0.0	116	0.9	445	2.1	201	2.2	450	2.8
Material handling machinery and systems	—	0.0	261	1.9	873	4.2	163	1.8	281	1.7
Finance lease services	14	0.2	136	1.0	397	1.9	167	1.8	354	2.2
Total of reportable segments	**8,780**	**97.9**	**12,913**	**95.3**	**19,187**	**92.4**	**8,593**	**93.1**	**15,281**	**94.9**
All other segments	193	2.1	635	4.7	1,575	7.6	634	6.9	808	5.1
Total	**8,973**	**100.0**	**13,548**	**100.0**	**20,762**	**100.0**	**9,227**	**100.0**	**16,089**	**100.0**

We derived the majority of our consolidated turnover from sales of concrete machinery and crane machinery. As a result of strong market demand and the expansion of our finance lease services, sales volume of products under these two operating segments have increased throughout the Track Record Period.

Sales of our environmental and sanitation machinery and our earth working machinery have also increased significantly throughout the Track Record Period as a result of strong market demand. Such increase was also due to our strategy to devote more sales and marketing and other resources in these two segments in order to capture the growth potential.

Sales of certain of our products have been affected by seasonality. For construction machinery, as construction activities in northern China are curtailed during the winter, sales are typically weaker in the first quarter and stronger in the rest of the year. For environmental and sanitation machinery, as the major customers are local governments that tend to order machinery during the second half of a year, the sales are typically stronger in the third and fourth quarters. For the three months ended March 31, 2007, 2008 and 2009, our consolidated turnover was RMB 1,297 million, RMB 2,537 million and RMB 3,517 million, respectively, and accounted for 14.5%, 18.7% and 16.9%, respectively of the consolidated turnover for the respective years. 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 following table sets forth the sales volume of each of our product line for the periods indicated:

	Year Ended December 31,			Six Months Ended June 30,	
	2007	2008	2009	2009	2010
	units				
Concrete machinery	3,233	4,545	6,465	3,129	6,646
Crane machinery	5,118	6,827	9,893	4,181	8,046
Environmental and sanitation machinery	1,659	2,381	2,903	1,280	1,741
Road construction and pile foundation machinery	407	412	451	196	285
Earth working machinery	—	131	556	250	802

Note: The sales and production volume of material handling machinery and systems are measured by sales amount, instead of units because the size and nature of customer contracts vary from time to time and are not necessarily comparable.

The sales volume for each of our product lines has been increasing throughout the Track Record Period as the demand for our products continued to increase and our business continued to grow.

Our products are currently sold in China as well as in overseas markets. We have established an extensive distribution network in China. As of September 30, 2010, the distribution network consisted of 548 outlets owned and operated by us, as well as 410 outlets owned and operated by third-party dealers, 524 service centers and 309 components depots owned and operated by us and 339 service centers and 223 components depots owned and operated by third parties, which are located in more than 300 cities covering all provinces and autonomous regions in China. As of September 30, 2010, our overseas distribution network consisted of 31 outlets, 14 service centers and 15 parts and components depots owned and operated by us, as well as 190 outlets, 180 service centers and 139 parts and components depots owned and operated by our 88 third-party dealers.

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

	Year Ended December 31,						Six Months Ended June 30 ,			
	2007		2008		2009		2009		2010	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in millions, except for percentages)									
PRC	8,973	100.0	13,017	96.1	18,993	91.5	8,468	91.8	15,305	95.1
Outside PRC(1)	—	—	531	3.9	1,769	8.5	759	8.2	784	4.9
Total	**8,973**	**100.0**	**13,548**	**100.0**	**20,762**	**100.0**	**9,227**	**100.0**	**16,089**	**100.0**

Note:
(1) Including Italy, Germany, Japan, India, South Africa, Australia and the United States.

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

	Year Ended December 31,						Six Months Ended June 30,			
	2007		2008		2009		2009		2010	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in millions, except for percentages)									
China	8,216	91.6	10,780	79.6	18,147	87.4	8,155	88.4	15,166	94.3
Overseas(1)	757	8.4	2,768	20.4	2,615	12.6	1,072	11.6	923	5.7
Total	**8,973**	**100.0**	**13,548**	**100.0**	**20,762**	**100.0**	**9,227**	**100.0**	**16,089**	**100.0**

Notes: The presentation of geographic location above is different from the geographic analysis of sales based on sales location. Under the sales location basis, the products that are ultimately sold to end-users located in the overseas markets through our dealers located in the PRC are presented as turnover from the PRC and the amounts and the percentages of the PRC and the overseas sales are higher and lower, respectively, for the relevant periods than the amounts and percentages presented in the table above. We believe the geographic classification basis used in the above presentation provides investors with additional information about the turnover from our domestic and overseas end-users.

(1) Including Italy, Germany, Japan, India, South Africa, Australia and the United States.

From 2007 to 2008, sales of our products to overseas end-users increased by 266.0% in absolute terms and from 8.4% to 20.4% as a percentage of our consolidated turnover, primarily due to strong demand for construction machinery globally, our acquisition of CIFA, as well as our efforts to increase the overseas sales of our products, including expanding our distribution and service network overseas. In 2008, we engaged 58 additional dealers and established eight additional service centers in certain overseas countries and regions. From 2008 to 2009, sales of our products to overseas end-users decreased by 5.5% in absolute terms and from 20.4% to 12.6% as a percentage of our consolidated turnover, primarily attributable to a weaker market demand for construction machinery in the overseas market as compared to the PRC market, which was the result of the global economic downturn and a stronger economic recovery in China. Turnover from the sales of our products to overseas end-users further decreased by 13.9% for the six months ended June 30, 2010 compared to the same period in 2009, and from 11.6% to 5.7% as a percentage of our consolidated turnover. The decrease was primarily due to (i) the decrease in the purchasing power of customers the overseas markets where our performance has traditionally been strong, such as the Persian Gulf countries, Russia and India, because their own spending restraints resulted in a decrease in sales in these overseas markets, and (ii) a stronger economic recovery and corresponding stronger demand for our products in China, which led to a higher profit margin for our products, and our strategy to prioritize sales to domestic customers. Though we believe overseas sales as a percentage of our consolidated turnover will remain stable for this year, we expect overseas sales of our products to increase in both absolute terms and as a percentage of our consolidated turnover in the future, in view of the economic recovery globally and our emphasis on our global expansion strategy.

Our products have been sold to a diversified customer base and for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, we did not have a single customer, including sales to our dealers, which accounted for more than 10.0% of our consolidated turnover on an individual basis.

Cost of Sales and Services

Our cost of sales and services primarily consists of:

- raw materials, i.e., costs of raw materials, parts and components, including steel, branded chassis, hydraulic parts and components, engines, tires and electric controls, and a variety of other raw materials and fabricated or manufactured components;
- staff costs, including salaries and benefits for personnel directly involved in manufacturing activities;
- depreciation and amortization of property, plant and equipment used for manufacturing purposes;
- costs of finance lease services, including fees, other surcharges and interest related to factoring of receivables under finance lease; and
- others, including manufacturing overhead, such as maintenance of production equipment and utility costs, including electricity, steam and water and costs associated with waste treatment.

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

	Year Ended December 31,						Six Months Ended June 30,			
	2007		2008		2009		2009		2010	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in millions, except for percentages)									
Raw materials	5,933	66.2	9,039	66.7	14,281	68.8	6,406	69.4	10,665	66.3
Staff costs	261	2.9	440	3.2	533	2.6	252	2.7	407	2.5
Depreciation and amortization	57	0.6	80	0.6	150	0.7	64	0.7	115	0.7
Costs of finance lease services	2	—	9	0.1	165	0.8	23	0.3	159	1.0
Others	152	1.7	274	2.0	293	1.4	105	1.1	92	0.6
Total cost of sales and services	**6,405**	**71.4**	**9,842**	**72.6**	**15,422**	**74.3**	**6,850**	**74.2**	**11,438**	**71.1**

Costs of raw materials, parts and components have accounted for the majority of our cost of sales and services throughout the Track Record Period. As a percentage of our consolidated turnover, costs of raw materials, parts and components have been relatively stable during the Track Record Period. In 2009, however, due to the global economic downturn, the products we sold, particularly crane machinery, had lower selling prices in general. As a result, costs of raw materials, parts and components increased as a percentage of our consolidated turnover in 2009. As a percentage of our consolidated turnover, staff costs have also remained relatively stable during the Track Record Period.

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

	Year Ended December 31,						Six Months Ended June 30,			
	2007		2008		2009		2009		2010	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in millions, except for percentages)									
Concrete machinery	2,383	67.9	3,390	72.4	5,115	71.5	2,549	72.1	4,855	69.0
Crane machinery	3,090	73.5	4,599	73.7	6,335	76.3	2,787	76.1	4,276	72.4
Environmental and sanitation machinery	381	67.6	600	68.9	824	67.0	335	70.7	476	67.0
Road construction and pile foundation machinery	404	83.0	375	61.5	527	67.0	256	65.5	346	64.2
Earth working machinery	—	—	111	95.7	373	83.8	176	87.6	369	82.0
Material handling machinery and systems	—	—	197	75.5	787	90.1	132	81.0	264	94.0
Finance lease services	2	14.3	9	6.6	165	41.6	23	13.8	159	44.9
Total cost of sales and services of reportable segments	**6,260**	**71.3**	**9,281**	**71.9**	**14,126**	**73.6**	**6,258**	**72.8**	**10,745**	**70.3**
All other segments	145	75.1	561	88.3	1,296	82.3	592	93.4	693	85.8
Total cost of sales and services	**6,405**	**71.4**	**9,842**	**72.6**	**15,422**	**74.3**	**6,850**	**74.2**	**11,438**	**71.1**

Our cost of sales and services as a percentage of our consolidated turnover increased from 71.4% in 2007 to 72.6% in 2008 and to 74.3% in 2009. In the six months ended June 30, 2010, such percentage decreased to 71.1%. The fluctuation of cost of sales and services as a percentage of turnover from the sales of our concrete machinery and crane machinery was primarily driven by the change of product mix and the fluctuations in selling prices. For example, in 2008, we increased the sales and production volume of concrete mixing plants and truck-mounted concrete mixers in response to the prevailing market demand. Since these products have lower profit margins, cost of sales and services as a percentage of our consolidated turnover from the sales of our concrete machinery increased from 67.9% in 2007 to 72.4% in 2008. In 2009, the sales of compact truck cranes, which have a lower selling price and lower profit margin, increased in absolute terms and as a percentage of our total sales of crane machinery, due to the global economic downturn that led to a decrease in the number of large-scale construction projects. In the six months ended June 30, 2010, cost of sales and services as a percentage of our consolidated turnover from the sales of our concrete machinery decreased from 72.1% to 69.0%, and cost of sales and services as a percentage of our consolidated turnover from the sales of our crane machinery decreased from 76.1% to 72.4%, mainly because (i) we increased the sales and production volume of certain models of our truck-mounted concrete pumps, which are technologically advanced and have higher profit margins; and (ii) the recovery of China's economy and the stronger customer purchasing power boosted sales of products with higher selling prices, including truck-cranes with larger lifting capacity.

Our cost of sales and services for finance lease services continued to increase in absolute terms since 2008, primarily due to the increased use of factoring to supplement the funding for our operations.

Gross Profit

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

	Year Ended December 31,						Six Months Ended June 30,			
	2007		2008		2009		2009		2010	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in millions, except for percentages)									
Concrete machinery	1,126	32.1	1,292	27.6	2,042	28.5	985	27.9	2,182	31.0
Crane machinery	1,116	26.5	1,638	26.3	1,963	23.7	876	23.9	1,634	27.6
Environmental and sanitation machinery	183	32.4	271	31.1	406	33.0	139	29.3	234	33.0
Road construction and pile foundation machinery	83	17.0	235	38.5	260	33.0	135	34.5	193	35.8
Earth working machinery	—	—	5	4.3	72	16.2	25	12.4	81	18.0
Material handling machinery and systems	—	—	64	24.5	86	9.9	31	19.0	17	6.0
Finance lease services	12	85.7	127	93.4	232	58.4	144	86.2	195	55.1
Total gross profits of reportable segments	**2,520**	**28.7**	**3,632**	**28.1**	**5,061**	**26.4**	**2,335**	**27.2**	**4,536**	**29.7**
Other non-reportable segments	48	24.9	74	11.7	279	17.7	42	6.6	115	14.2
Total gross profits	**2,568**	**28.6**	**3,706**	**27.4**	**5,340**	**25.7**	**2,377**	**25.8**	**4,651**	**28.9**

Our gross margin decreased from 28.6% in 2007 to 27.4% in 2008 and further decreased to 25.7% in 2009. In the six months ended June 30, 2010, our gross margin increased to 28.9%. The fluctuation of gross margin for each segment is directly related to the changes in cost of sales and services as a percentage of consolidated turnover for the respective segment as discussed above.

Other Revenues and Net Income

Other revenues includes government grants and other income. Government grants mainly include value-added tax refunds for enterprises located in certain locations and other grants we receive from the PRC government, which resemble government operating subsidies. In 2007, 2008, 2009 and the first six months of 2010, we recognized government grants in the amount of nil, RMB138 million, RMB74 million and RMB20 million, respectively. This has not been and is not expected to be a steady or significant revenue source for us.

Operating Expenses

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

Sales and Marketing Expenses

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

General and Administrative Expenses

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

Research and Development Expenses

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

Net Finance Costs

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Impairment of trade receivables

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

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

If any such objective evidence of impairment exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. We first assesses whether objective evidence of impairment exists for financial assets that are individually significant. The assessment is then made collectively for financial assets carried at amortized cost which are not individually significant but share similar credit risk characteristics, and have not been individually assessed as impaired. We assess future cash flows of financial assets for impairment collectively based on the ageing of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs may be higher than expected and could significantly affect the results of future periods.

Warranty provision

We make product warranty provision based on our best estimate of the expected settlement under the sales agreements in respect of products sold which are still within the warranty period. The amount of provision takes into account our recent claim experience, historical warranty data and a weighing of all possible outcomes against their associated probabilities. As we are continually upgrading our product designs and launching new models, it is possible that our recent claim experience is not indicative of future claims that we will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

Write-down of inventories

Inventories are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. We estimate the net realizable value of inventories by taking into account the recent selling prices and forecasted market demand. Based on this review, inventories will be written-down to net realizable value when the net realizable value of inventories is lower than the cost. However, the actual realized value of the inventories may be significantly different from the estimated amount at the balance sheet date.

Impairment of long-lived assets

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

- investments in subsidiaries;
- property, plant and equipment;
- lease prepayments;
- intangible assets; and
- goodwill.

If any circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the assets may be considered "impaired." The carrying amounts of our long-lived assets (except for goodwill and trademarks with indefinite useful lives) are reviewed periodically to determine whether there is any indication of impairment. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. For goodwill and trademarks with indefinite useful lives, the impairment testing is performed at least annually at the end of each year.

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

It is difficult to precisely estimate selling prices of our long-lived assets because quoted market prices for such assets may not be readily available. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to level of revenue, amount of operating costs and applicable discount rate. We use all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

Depreciation and amortization

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual value, if any. We review the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are based on our historical experience with similar assets and take into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Amortization of intangible assets with finite useful lives is recognized on a straight-line basis over the respective intangible assets' estimated useful lives. We review the estimated useful lives annually in order to estimate the amount of amortization expense to be recorded during any reporting period. The estimated useful lives are based on the estimated periods over which future economic benefits will be received by us and take into account the level of future competition, the risk of technological or functional obsolescence of its services, and the expected changes in the regulatory and social environment. The amortization expense for future periods is adjusted if there are significant changes from previous estimates.

Intangible assets are not amortized while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite lives as set out above.

TAXATION

During the Track Record period, we were primarily subject to taxation in the PRC, Hong Kong and Italy.

Taxation in the PRC

The PRC statutory income tax rate prior to January 1, 2008 was 33%. Under the EIT Law and its implementation rules that became effective on January 1, 2008, enterprises are typically subject to a uniform tax rate of 25%.

As a designated enterprise converted from research institutions, we were granted an exemption from income tax for the period from October 1, 2000 to September 30, 2007. In addition, as a high-technology enterprise recognized by the PRC government, we were entitled to a preferential income tax rate of 15% for the period from October 1, 2007 to December 31, 2007.

According to the EIT Law and its implementation rules, several entities in our Group qualified as high-technology enterprises under the EIT Law and its implementation rules are entitled to a preferential income tax rate of 15%. In 2008, we and certain of our subsidiaries were recognized as high-technology enterprises from 2008 to 2010 and are consequently subject to a preferential income tax rate of 15% for 2008, 2009 and 2010. Furthermore, under the EIT Law and its implementation rules, a 50% additional tax deduction is allowed for qualified research and development expenses.

In 2009, one of our subsidiaries was recognized as a high-technology enterprise for 2009, 2010 and 2011, and its income tax rate was reduced from 25% in 2008 to 15% for 2009, 2010 and 2011 as a result.

Taxation in Hong Kong and Italy

Our subsidiaries in Hong Kong, which were incorporated in 2008, are subject to Hong Kong profits tax at a rate of 16.5% for 2008, 2009 and 2010. No provision for the Hong Kong profits tax was made during the Track Record Period, as these subsidiaries either derived no income subject to Hong Kong profits tax or sustained tax losses for Hong Kong profits tax purposes during the periods.

Our subsidiaries in Italy, including CIFA and its respective subsidiaries, were subject to income tax at rates ranging from 27.5% to 31.4% for 2008, 2009 and 2010.

RESULTS OF OPERATIONS

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

	Year Ended December 31,						Six Months Ended June 30,			
	2007		2008		2009		2009		2010	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
							(unaudited)			
	(in millions, except for percentages)									
Turnover	**8,973**	**100.0**	**13,548**	**100.0**	**20,762**	**100.0**	**9,227**	**100.0**	**16,089**	**100.0**
Cost of sales and services	(6,405)	(71.4)	(9,842)	(72.6)	(15,422)	(74.3)	(6,850)	(74.2)	(11,438)	(71.1)
Gross profit	**2,568**	**28.6**	**3,706**	**27.4**	**5,340**	**25.7**	**2,377**	**25.8**	**4,651**	**28.9**
Other revenues and net income	19	0.2	142	1.0	105	0.5	28	0.3	6	—
Sales and marketing expenses	(691)	(7.7)	(959)	(7.1)	(1,250)	(6.0)	(439)	(4.8)	(986)	(6.1)
General and administrative expenses	(400)	(4.5)	(734)	(5.4)	(878)	(4.2)	(420)	(4.6)	(852)	(5.3)
Research and development expenses	(83)	(0.9)	(120)	(0.9)	(194)	(0.9)	(82)	(0.9)	(116)	(0.7)
Profit from operations	**1,413**	**15.7**	**2,035**	**15.0**	**3,123**	**15.0**	**1,464**	**15.9**	**2,703**	**16.8**
Gain on disposal of lease prepayments	106	1.2	—	—	—	—	—	—	—	—
Gain/(loss) on disposal of subsidiaries and associates	12	0.1	3	—	(6)	—	—	—	—	—
Net finance costs	(60)	(0.7)	(301)	(2.2)	(295)	(1.4)	(174)	(1.9)	(150)	(0.9)
Share of profits less losses of associates	—	—	7	—	6	—	—	—	5	—
Profit before taxation	**1,471**	**16.4**	**1,744**	**12.9**	**2,828**	**13.6**	**1,290**	**14.0**	**2,558**	**15.9**
Income tax expense	(34)	(0.4)	(191)	(1.4)	(409)	(2.0)	(189)	(2.1)	(395)	(2.5)
Profit for the year/period	**1,437**	**16.0**	**1,553**	**11.5**	**2,419**	**11.7**	**1,101**	**11.9**	**2,163**	**13.4**

Six months ended June 30, 2010 compared to six months ended June 30, 2009

Turnover. Our turnover increased by 74.4% from RMB9,227 million for the six months ended June 30, 2009 to RMB16,089 million for the six months ended June 30, 2010. The increase was primarily driven by strong market demand, particularly in the second- and third-tier cities in China, for construction machinery, sales from our new products and the continued expansion of our finance lease services. In particular, turnover from sales of our concrete machinery increased by 99.1% from RMB3,534 million for the six months ended June 30, 2009 to RMB7,037 million for the six months ended June 30, 2010. This was mainly due to the fact that there was a significant increase in the sales volume of our concrete mixing plants and truck-mounted concrete mixers for the six months ended June 30, 2010. Sales volume of certain models of our technologically advanced truck-mounted concrete pumps with higher profit margins also increased. Turnover from sales of our crane machinery increased by 61.3% from RMB3,663 million for the six months ended June 30, 2009 to RMB5,910 million for the six months ended June 30, 2010. In particular, sales of truck cranes increased significantly as the number of infrastructure projects increased.

Cost of sales and services. Our cost of sales and services increased by 67.0% from RMB6,850 million for the six months ended June 30, 2009 to RMB11,438 million for the six months ended June 30, 2010 as a result of our continued growth and expansion, which was in line with the increase in our sales and production volume.

Gross profit. As a result of the foregoing, our gross profit increased by 95.7% from RMB2,377 million for the six months ended June 30, 2009 to RMB4,651 million for the six months ended June 30, 2010, and our gross margin increased from 25.8% for the six months ended June 30, 2009 to 28.9% for the six months ended June 30, 2010, as we continued to optimize our product mix and improve our manufacturing efficiency. In particular, the gross margin for the concrete machinery segment and crane machinery segment, which in aggregate represented 80.4% of our consolidated turnover for the six months ended June 30, 2010, increased to 31.0% and 27.6%, respectively, for the six months ended June 30, 2010 from 27.9% and 23.9%, respectively, for the six months ended June 30, 2009.

Other revenues and net income. Our other revenues and net income decreased by 78.6% from RMB28 million for the six months ended June 30, 2009 to RMB6 million for the six months ended June 30, 2010, primarily due to a decrease in other income and an increase in our loss in disposal of fixed assets.

Sales and marketing expenses. Our sales and marketing expenses increased by 124.6% from RMB439 million for the six months ended June 30, 2009 to RMB986 million for the six months ended June 30, 2010. This increase was primarily due to the fact that we expanded our distribution network and strengthened our sales and marketing efforts, which resulted in increases in salaries and benefits to our sales and marketing personnel and expenses related to advertisement and promotion. The increase in our sales and marketing expenses were also attributable to an increase in payments to third-party dealers as we increased the use of third-party dealers for the six months ended June 30, 2010. In the six months ended June 30, 2010, we had six additional third-party dealers in the PRC. Sales and marketing expenses as a percentage of our consolidated turnover increased from 4.8% for the six months ended June 30, 2009 to 6.1% for the six months ended June 30, 2010.

General and administrative expenses. Our general and administrative expenses increased by 102.9% from RMB420 million for the six months ended June 30, 2009 to RMB852 million for the six months ended June 30, 2010. This increase was due to an impairment loss recognized in the amount of RMB247 million, which consisted primarily of the provision for doubtful debts we made for our increased trade receivables and certain debtors that were individually determined to be impaired during such period. General and administrative expenses as a percentage of our consolidated turnover increased from 4.6% for the six months ended June 30, 2009 to 5.3% in the six months ended June 30, 2010.

Research and development expenses. Our research and development expenses increased by 41.5% from RMB82 million for the six months ended June 30, 2009 to RMB116 million for the six months ended June 30, 2010. This increase was primarily due to our continued efforts in strengthening our research and development capability, which resulted in an increase in salaries and related expenses for our research and development personnel and an increase in design and testing expenses of our products.

Profit from operations. As a result of the foregoing, income from operations increased by 84.6% from RMB1,464 million for the six months ended June 30, 2009 to RMB2,703 million for the six months ended June 30, 2010. The operating margin increased from 15.9% for the six months ended June 30, 2009 to 16.8% for the six months ended June 30, 2010.

Net finance costs. Our net finance costs decreased by 13.8% from RMB174 million for the six months ended June 30, 2009 to RMB150 million for the six months ended June 30, 2010 primarily due to a decrease in interest expenses on bank loans, which resulted from a higher proportion of our loans being foreign currency-denominated loans with lower interest rates. In addition, there were increases in interest income from the unutilized portion of the proceeds from our non-public offering of A Shares and the exchange gains resulting from the appreciation of the Renminbi.

Income tax expenses. Our income tax expenses increased by 109.0% from RMB189 million for the six months ended June 30, 2009 to RMB395 million for the six months ended June 30, 2010, primarily as a result of the increase in our taxable income. Our effective income tax rate increased from 14.7% for the six months ended June 30, 2009 to 15.4% for the six months ended June 30, 2010.

Profit for the year. As a result of the above factors, our profit for the year increased by 96.5% from RMB1,101 million for the six months ended June 30, 2009 to RMB2,163 million for the six months ended June 30, 2010. Our net margin increased from 11.9% in the six months ended June 30, 2009 to 13.4% in the six months ended June 30, 2010.

Year ended December 31, 2009 compared to year ended December 31, 2008

Turnover. Our turnover increased by 53.2% from RMB13,548 million for the year ended December 31, 2008 to RMB20,762 million for the year ended December 31, 2009, primarily due to the continued increase in market demand, partially driven by the PRC government's RMB4 trillion economic stimulus package, and the continued expansion of our finance leases services. Despite the global economic downturn beginning in 2008, our turnover continued to grow rapidly from 2008 to 2009 as we strengthened our sales and marketing efforts for our concrete machinery and crane machinery. As our finance lease services continued to develop and the global economy began to recover, our sales of machinery products through finance leases increased significantly in the second half of 2009. In addition, we consolidated in 2009 the full year results of operations of CIFA, Zoomlion Earth Working, Zoomlion Material Handling and Zoomlion Axle, while their results of operations for the year ended December 31, 2008 were not consolidated in our results of operations until those entities were acquired in the middle of the year. Turnover from sales of our concrete machinery increased by 52.9% from RMB4,682 million for the year ended December 31, 2008 to RMB7,157 million for the year ended December 31, 2009 as a result of the strong market demand. Turnover from sales of our crane machinery increased by 33.0% from RMB6,237 million for the year ended December 31, 2008 to RMB8,298 million for the year ended December 31, 2009, which was primarily driven by an increase in our sales of compact truck cranes.

Cost of sales and services. Our cost of sales and services increased by 56.7% from RMB9,842 million for the year ended December 31, 2008 to RMB15,422 million for the year ended December 31, 2009, primarily due to an increase in the cost of raw materials. The increase in our cost of sales and services was also in line with the increase in turnover because of the consolidation of the acquired companies' results of operations. Our expenditures for raw materials, parts and components, the major component of our cost of sales and services, increased by 58.0% for the year ended December 31, 2009, as our sales and production volume continued to increase.

Gross profit. As a result of the foregoing, our gross profit increased by 44.1% from RMB3,706 million for the year ended December 31, 2008 to RMB5,340 million for the year ended December 31, 2009, and our gross margin decreased from 27.4% for the year ended December 31, 2008 to 25.7% for the year ended December 31, 2009 primarily due to a decrease in gross margin for the crane machinery segment. In 2009, the sales volume of compact truck cranes, which have a lower selling price and profit margin, increased in both absolute terms and as a percentage of our total crane machinery sales. In 2009, the gross margin for crane machinery segment, which represented 40.0% of our consolidated turnover, decreased from 26.3% to 23.7%.

Other revenues and net income. Our other revenues and net income decreased by 26.1% from RMB142 million for the year ended December 31, 2008 to RMB105 million for the year ended December 31, 2009, primarily because a one-time value-added tax refund in 2008 did not recur in 2009.

Sales and marketing expenses. Our sales and marketing expenses increased by 30.3% from RMB959 million for the year ended December 31, 2008 to RMB1,250 million for the year ended December 31, 2009. This increase was primarily due to increases in staff costs, payments to third party dealers, and expenses related to advertisements and promotions, which was in line with our continued growth and expansion. Sales and marketing expenses as a percentage of our consolidated turnover decreased from 7.1% for the year ended December 31, 2008 to 6.0% for the year ended December 31, 2009.

General and administrative expenses. Our general and administrative expenses increased by 19.6% from RMB734 million for the year ended December 31, 2008 to RMB878 million for the year ended December 31, 2009. This increase was primarily due to increases in government levies and other taxes, staff costs and costs for office supplies and consumables, which was in line with our continued growth and expansion. General and administrative expenses as a percentage of our consolidated turnover decreased from 5.4% for the year ended December 31, 2008 to 4.2% for the year ended December 31, 2009.

Research and development expenses. Our research and development expenses increased by 61.7% from RMB120 million for the year ended December 31, 2008 to RMB194 million for the year ended December 31, 2009. This increase was primarily due to increases in staff costs and expenses related to design and testing of our products, as we enhanced our research and development efforts. Research and development expenses remained stable as a percentage of our consolidated turnover, and accounted for 0.9% of our consolidated turnover for the years ended December 31, 2008 and 2009.

Profit from operations. As a result of the foregoing, profit from operations increased by 53.5% from RMB2,035 million in 2008 to RMB3,123 million in 2009. Our operating margin remained stable at 15.0% in 2008 and 2009.

Net finance costs. Despite increases of our bank loans and borrowings and the use of bills as a payment method, our net finance costs decreased by 2.0% from RMB301 million for the year ended December 31, 2008 to RMB295 million for the year ended December 31, 2009. It was mainly due to a significant decrease in interest rates in 2009.

Income tax expenses. Our income tax expenses increased by 114.1% from RMB191 million for the year ended December 31, 2008 to RMB409 million for the year ended December 31, 2009 primarily as a result of an increase in our taxable income. Our effective income tax rate increased from 11.0% in 2008 to 14.5% for the year ended December 31, 2009, primarily due to an income tax deduction for the purchase of domestically manufactured equipment for the year ended December 31, 2008.

Profit for the year. As a result of the above factors, our profit for the year increased by 55.8% from RMB1,553 million for the year ended December 31, 2008 to RMB2,419 million for the year ended December 31, 2009. Our net margin increased from 11.5% for the year ended December 31, 2008 to 11.7% for the year ended December 31, 2009.

Year ended December 31, 2008 compared to year ended December 31, 2007

Turnover. Our turnover increased by 51.0% from RMB8,973 million for the year ended December 31, 2007 to RMB13,548 million for the year ended December 31, 2008. The increase was driven by a strong market demand for construction machinery and our finance lease services, and was also attributable to the consolidation of the results of operations of CIFA, Zoomlion Earth Working, Zoomlion Material Handling and Zoomlion Axle, companies we acquired in the second half of 2008 and the consolidation of the full year results of operations of certain subsidiaries we acquired in 2007. In particular, turnover from sales of our concrete machinery increased by 33.4% from RMB3,509 million for the year ended December 31, 2007 to RMB4,682 million for the year ended December 31, 2008 as a result of the increase in sales generated through our finance lease services. Turnover from sales of our crane machinery increased by 48.3% from RMB4,206 million for the year ended December 31, 2007 to RMB6,237 million for the year ended December 31, 2008, which is primarily driven by the commencement of various large-scale infrastructure projects in China.

Cost of sales and services. Our cost of sales and services increased by 53.7% from RMB6,405 million for the year ended December 31, 2007 to RMB9,842 million for the year ended December 31, 2008, primarily due to a 52.4% increase in the expenditures on raw materials, parts and components. The increase in the expenditures on raw materials, parts and components were in line with the increase in our sales and production volume.

Gross profit. As a result of the foregoing, our gross profit increased by 44.3% from RMB2,568 million for the year ended December 31, 2007 to RMB3,706 million for the year ended December 31, 2008, and our gross margin decreased from 28.6% for the year ended

December 31, 2007 to 27.4% for the year ended December 31, 2008, primarily due to a decrease in gross margin for the concrete machinery segment. In 2008, the gross margin for the concrete machinery segment, which represented 34.6% of our consolidated turnover, decreased from 32.1% to 27.6%.

Other revenues and net income. Our other revenues and net income increased from RMB19 million for the year ended December 31, 2007 to RMB142 million for the year ended December 31, 2008, which was primarily due to the value-added tax refund for certain of our subsidiaries.

Sales and marketing expenses. Our sales and marketing expenses increased by 38.8% from RMB691 million for the year ended December 31, 2007 to RMB959 million for the year ended December 31, 2008. The increase was primarily the result of increases in staff costs, transportation expenses and expenses related to product warranties. Sales and marketing expenses as a percentage of our consolidated turnover decreased from 7.7% for the year ended December 31, 2007 to 7.1% for the year ended December 31, 2008.

General and administrative expenses. Our general and administrative expenses increased by 83.5% from RMB400 million for the year ended December 31, 2007 to RMB734 million for the year ended December 31, 2008, primarily due to an increase in staff costs, the legal and other consulting expenses incurred in connection with our acquisitions in 2008 and our donation for Sichuan earthquake disaster relief in the amount of RMB31 million. General and administrative expenses as a percentage of our consolidated turnover increased from 4.5% for the year ended December 31, 2007 to 5.4% for the year ended December 31, 2008.

Research and development expenses. Our research and development expenses increased from RMB83 million for the year ended December 31, 2007 to RMB120 million for the year ended December 31, 2008. The percentage increase from 2007 to 2008 was due to an increase in the number of our research and development personnel, which in turn led to an increase in salaries and benefits for our research and development personnel. Research and development expenses remained stable as a percentage of our consolidated turnover, at 0.9% for both 2007 and 2008.

Profit from operations. As a result of the foregoing, profit from operations increased by 44.0% from RMB1,413 million for the year ended December 31, 2007 to RMB2,035 million for the year ended December 31, 2008. Our operating margin decreased from 15.7% for the year ended December 31, 2007 to 15.0% for the year ended December 31, 2008.

Net finance costs. Our net finance costs increased significantly from RMB60 million for the year ended December 31, 2007 to RMB301 million for the year ended December 31, 2008 primarily due to the interest costs on loans we incurred in connection with our acquisition of certain subsidiaries and an increase in interest rates for bank loans.

Income tax expenses. Our income tax expenses increased significantly by 461.8% from RMB34 million for the year ended December 31, 2007 to RMB191 million for the year ended December 31, 2008 primarily as a result of the significant increase in our effective applicable tax rate and an increase in our taxable income. Our effective income tax rate increased from 2.3% for the year ended December 31, 2007 to 11.0% for the year ended

December 31, 2008, primarily due to the expiry of the income tax exemption enjoyed by our Company from January 1, 2007 to September 30, 2007.

Profit for the year. As a result of the above factors, our profit for the year increased by 8.1% from RMB1,437 million for the year ended December 31, 2007 to RMB1,553 million for the year ended December 31, 2008. Our net margin decreased from 16.0% for the year ended December 31, 2007 to 11.5% for the year ended December 31, 2008.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we have financed our operations primarily through cash proceeds from our operations, proceeds from loans and borrowings, including bank borrowings and factoring of our receivables under finance lease and proceeds from the non-public offering of our A Shares in the PRC. As of June 30, 2010, we had RMB7,041 million in cash and cash equivalents, most of which were denominated in Renminbi. Our cash and cash equivalents primarily consist of cash and demand deposits.

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

	Year Ended December 31,			Six Months Ended June 30,	
	2007	2008	2009	2009	2010
	RMB (in millions)				
Net cash generated from/(used in) operating activities	273	(1,355)	(1,830)	355	(1,548)
Net cash generated from/(used in) investing activities	(542)	(2,898)	(1,394)	(513)	(2,035)
Net cash generated from financing activities	193	6,463	3,748	528	7,227
Net (decrease)/ increase in cash and cash equivalents	(76)	2,210	524	370	3,644
Effect of foreign exchange rate changes	—	(26)	2	—	(42)
Cash and cash equivalents at the beginning of the period	805	729	2,913	2,913	3,439
Cash and cash equivalents at the end of the period	**729**	**2,913**	**3,439**	**3,283**	**7,041**

Operating Activities

Net cash used in operating activities in the six months ended June 30, 2010 was RMB1,548 million, derived primarily by deducting from the profit before taxation of RMB2,558 million the following items: (i) an increase in receivables under finance lease of RMB6,030 million; (ii) an increase in trade and other receivables of RMB3,227 million; (iii) an increase in inventories of RMB902 million; and (iv) net interest and tax payment of RMB368 million and then adding back (v) depreciation and amortization of RMB215 million; and (vi) an increase in trade and other payables of RMB6,211 million.

Net cash used in operating activities in 2009 was RMB1,830 million, derived primarily by deducting from profit before taxation of RMB2,828 million the following items: (i) an increase in receivables under finance lease of RMB6,096 million; (ii) an increase in trade and other receivables of RMB1,703 million; (iii) an increase in inventories of RMB1,093 million; and (iv) net interest and tax payment of RMB323 million; and then adding back (v) depreciation and amortization of RMB329 million; and (vi) an increase in trade and other payables of RMB4,206 million.

Net cash used in operating activities in 2008 was RMB1,355 million, derived primarily by deducting from profits before taxation of RMB1,744 million the following items: (i) an increase in receivables under finance lease of RMB1,866 million; (ii) an increase in inventories of RMB1,182 million; (iii) an increase in trade and other receivables of RMB576 million; and then adding back; and (iv) net interest and tax payment of RMB340 million; and then adding back (v) depreciation and amortization of RMB216 million; and (vi) an increase in trade and other payables of RMB 448 million.

Net cash generated from operating activities in 2007 was RMB273 million, derived primarily by deducting from profit before taxation of RMB1,471 million the following items: (i) an increase in inventories of RMB979 million; (ii) an increase in trade and other receivables of RMB857 million; (iii) an increase in receivables under finance lease of RMB381 million; and then adding back (iv) an increase in trade and other payables of RMB1,042 million.

Although our turnover and profits from operations were increasing during the Track Record Period, we recorded negative net operating cash flow in 2008, 2009 and the six months ended June 30, 2010. This is primarily because since 2008, the proportion of our product sales using the finance lease payment option has been increasing as a result of our strategy of expanding our finance lease services as a payment option to capture additional market share. For the years ended December 31, 2007, 2008, 2009 and the six months ended June 30, 2010, our product sales through finance lease services were RMB381 million, RMB2,068 million, RMB7,463 million and RMB5,407 million, which amounted for 4.3%, 15.4%, 36.6% and 34.4% of our total product sales in the respective periods. Under the finance lease arrangements, proceeds from sales of our products are collected in monthly payments over the lease terms, which generally range from two to four years. Therefore during the above periods where our finance lease business was in a high growth stage, the balance of our receivables under finance lease was increasing significantly, and our operating cash flow was negatively impacted.

In order to obtain cash to fund our operations, we factored a portion of our receivables under finance leases to banks. The cash we obtained from banks through factoring of receivables under finance lease during the Track Record Period was presented as cash flow from financing activities as the conditions for de-recognition of the financial assets were not met, because we did not transfer substantially all the risks and rewards of ownership of the receivables under finance lease that were factored to banks with recourse under the factoring contract terms. During 2008, 2009 and the six months ended June 30, 2010, we obtained net cash of RMB971 million, RMB3,501 million and RMB2,822 million, respectively, through factoring of receivables under finance lease.

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

The negative operating cash flow we recorded in 2008, 2009 and the six months ended June 30, 2010, primarily as a result of our finance lease services, may expose us to additional risks and uncertainties. For a detailed discussion about the potential risks associated with finance lease business, please see "Risk Factors — Risks Related to Our Company — 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." and "— 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." However, we believe that our stringent risk management system for finance lease services and our ability to factor our receivables under finance leases will help to reduce our exposure to such risks and uncertainties. Our risk control committee is responsible for the risk management for finance leases, is chaired by Mr. Wan Jun, the general manager of Zoomlion Finance Leasing (China) and currently consists of 15 members. We plan to continue to factor our receivables under finance lease to banks in the normal course of business, subject to terms offered by banks and our working capital needs. If we are able to negotiate with banks for factoring terms that meet the conditions for de-recognition of financial assets, the cash proceeds will be presented as cash flow from operating activities, and our operating cash flow will be positively impacted. In addition, we aim to take measures to speed up collection of credit sales and installment sales accounts receivable such that our operating cash flow will be further improved to fund our operations and future capital commitments. We plan to increase the proportion of upfront payments in future sales contracts, arrange for designated staff members in the Company's legal department to monitor and collect payments overdue by more than 90 days (including initiating necessary legal proceedings to collect such overdue debts) and strengthen year-end collection efforts.

A primary factor affecting our operating cash flows is the timing of customer and vendor payments in the ordinary course of business. Our trade and other receivables and inventories increased in the Track Record Period as our sales and production volumes continued to grow. While the increase in balances of trade and other receivables had a negative impact on our operating cash flow, the impact was more than compensated for by the increase in our trade and other payables as our purchase of raw materials, parts and components increased in connection with the expansion of our sales and production and we managed to obtain longer credit terms from suppliers.

Investing Activities

Net cash used in investing activities in the six months ended June 30, 2010 was RMB2,035 million, consisting primarily of an increase in pledged bank deposits of RMB1,433 million, payments for the purchase of property, plant and equipment of RMB417 million and lease prepayments of RMB195 million. The pledged bank deposits represent cash maintained at banks as collateral for our issuance of bills as a payment method as well as collateral for financial guarantees and factoring of receivables under finance lease. The value of pledged bank deposits increased as we increased the use of bills to pay our suppliers for raw materials, parts and components and the use of financial guarantees.

Net cash used in investing activities in 2009 was RMB1,394 million, consisting primarily of payments for the purchase of property, plant and equipment of RMB829 million, an increase in pledged bank deposits of RMB535 million, and payments for purchase of intangible assets of RMB70 million, partially offset by proceeds from disposal of fixed and intangible assets of RMB79 million. Payments for the purchase of property, plant and equipment were related to our industrial parks construction and manufacturing facility upgrades and renovation projects in 2009. The value of pledged bank deposits increased as we increased the use of bills to pay our suppliers for raw materials, parts and components and the use of financial guarantees.

Net cash used in investing activities in 2008 was RMB2,898 million, consisting primarily of net payments for acquisition of subsidiaries of RMB1,938 million, payments for the purchase of property, plant and equipment of RMB720 million, and lease prepayments of RMB173 million. In 2008, we completed the acquisitions of CIFA, Zoomlion Earth Working, Zoomlion Material Handling and Zoomlion Axle.

Net cash used in investing activities in 2007 was RMB542 million, consisting primarily of payments for the purchase of property, plant and equipment of RMB386 million, net payments for acquisition of subsidiaries of RMB165 million, an increase in pledged bank deposits of RMB137 million, and lease prepayments of RMB111 million, partially offset by proceeds from disposal of land use right of RMB192 million and proceeds from disposal of fixed and intangible assets of RMB100 million.

Financing Activities

Net cash generated from financing activities in the six months ended June 30, 2010 was RMB7,227 million, consisting primarily of proceeds from loans and borrowings of RMB7,959 million and net proceeds from the non-public offering of our A Shares of RMB5,479 million, partially offset by repayments of loans and borrowings of RMB5,783 million and dividends paid in the amount of RMB428 million. Proceeds from loans and borrowings consisted primarily of proceeds from factoring of our receivables under finance lease. In the six months ended June 30, 2010, we continued to increase the use of factoring to provide additional funding for our operations. In addition, in June 2010, we repaid a Euro-denominated bank loan we incurred in connection with the acquisition of CIFA.

Net cash generated from financing activities in 2009 was RMB3,748 million, consisting primarily of proceeds from loans and borrowings of RMB11,581 million, including the proceeds from factoring of our receivables under finance lease, partially offset by repayments of loans and borrowings in the aggregate amount of RMB7,712 million.

Net cash generated from financing activities in 2008 was RMB6,463 million, consisting primarily of proceeds from loans and borrowings of RMB7,363 million, including a Euro-denominated bank loan and a US dollar-denominated bank loan in connection with the acquisition of CIFA, and proceeds of RMB1,089 million from the issuance of RMB-denominated bonds, partially offset by repayments of loans and borrowings of RMB824 million.

Net cash generated from financing activities in 2007 was RMB193 million, consisting primarily of proceeds from loans and borrowings of RMB1,279 million, partially offset by repayments of loans and borrowings of RMB1,066 million.

COMMITMENTS AND CONTINGENT LIABILITIES

As of June 30, 2010, our commitments consisted of capital commitments of RMB251 million and operating lease commitments of RMB169 million, of which RMB63 million was payable within one year.

As of June 30, 2010, we had contingent liabilities of RMB3,802 million in connection with our financial guarantees provided for bank loans that certain of our customers used to finance their purchases of our products. Under the guarantee arrangements, the products purchased by our customers are held as collateral, and we are entitled to repossess the collateral in the event of customer default. In the years ended December 31, 2007, 2008, 2009 and the six months ended June 30, 2010, we made payments of RMB39 million, RMB101 million, RMB117 million and RMB61 million, respectively, to banks under the guarantee arrangements as a result of customer defaults. When called upon to fulfill our guarantee obligations, we have historically been able to sell the repossessed machinery at a price not significantly different from the guarantee payments we made to the banks.

In March 2010, Italian tax authorities issued formal tax inspection assessment reports to Cifa Mixers S.r.l., our 59.32%-owned subsidiary. The tax authorities have challenged the deductibility of certain costs incurred by this entity for income tax and value added tax purposes for tax years 2003 to 2007. The amount of additional taxes sought by the tax authorities in relation to these tax deductions is approximately EUR10.7 million before interest and penalties, if any. As of the Latest Practicable Date, this tax case is pending a 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 our tax position can be substantiated. In addition, it is expected that any potential tax payments, interest and penalties, if any, will be sufficiently covered by indemnities and warranties that were provided by the former shareholders of Cifa Mixers S.r.l. and CIFA. Accordingly, no provision has been made for the contingency as of June 30, 2010.

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

CAPITAL EXPENDITURES

We incurred capital expenditures of RMB467 million, RMB1,135 million, RMB1,056 million and RMB557 million in the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively, for purchase of property, plant and equipment, intangible assets and lease prepayments. A number of our industrial parks construction and manufacturing facility upgrades and renovation projects were completed in 2009. We estimate that our capital expenditures in the year ending December 31, 2010 will be approximately RMB1.2 billion, which will be used primarily for expenditures on construction of manufacturing plants and purchases of equipment. We plan to fund our capital expenditures primarily with proceeds from the non-public offering of our A Shares and proceeds from this Global Offering.

WORKING CAPITAL AND INDEBTEDNESS

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

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB (in millions)			
Current Assets				
Inventories	2,632	5,171	6,272	7,174
Trade and other receivables	2,437	4,782	6,265	9,415
Receivables under finance lease	126	815	3,283	5,607
Pledged bank deposits	248	356	755	2,141
Cash and cash equivalents	729	2,913	3,439	7,041
Total current assets	**6,172**	**14,037**	**20,014**	**31,378**
Current Liabilities				
Trade and other payables	3,518	6,920	10,632	16,128
Loans and borrowings	847	6,234	8,553	6,868
Income tax payable	80	70	283	444
Total current liabilities	**4,445**	**13,224**	**19,468**	**23,440**
Net current assets	**1,727**	**813**	**546**	**7,938**

Our net current assets significantly increased from RMB546 million as of December 31, 2009 to RMB7,938 million as of June 30, 2010, primarily due an increase in our cash and cash equivalents, trade and other receivables and receivables under finance lease, and a decrease in our loans and borrowings as we replaced a short-term Euro-denominated loan in connection with our acquisition of CIFA with a three-year long-term loan, partially offset by an increase in trade and other payables. Our trade and other receivables, receivables under finance lease and trade and other payables continued to increase as we continued to expand our operations and our business continued to grow.

Our net current assets decreased from RMB813 million as of December 31, 2008 to RMB546 million as of December 31, 2009, primarily due to an increase in our current liabilities, including trade and other payables and loans and borrowings. The increase in our current liabilities was partially offset by an increase in cash and cash equivalents, trade and other receivables and receivables under finance lease. The increase in our trade and other payables in the amount of RMB3,712 million was primarily due to an increase in the amount we owed to our trade creditors and bills payables as we increased our purchases of raw materials, parts and components.

Our net current assets decreased from RMB1,727 million as of December 31, 2007 to RMB813 million as of December 31, 2008, primarily due to an increase in bank loans in connection with our acquisition of certain companies and an increase in our trade and other payables, partially offset by an increase in our inventories, trade and other receivables and cash and cash equivalents.

Our directors confirmed that our current cash and cash equivalents, anticipated cash flow from operations, undrawn committed credit facilities and proceeds from this Global Offering will be sufficient to meet our anticipated cash needs, including our working capital and capital expenditure requirements for at least the next 12 months following the completion of this Global Offering. Our future cash requirements will depend on many factors, including our operating income, costs to establish additional sales and service centers, market acceptance of our products and services or other changing business conditions and future developments, including any investments or acquisitions we may decide to pursue. We may require additional cash to repay existing debt obligations or to re-finance our existing debts or due to changing business conditions or other future developments. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or borrow from lending institutions. We cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities, including convertible debt securities, would dilute our shareholders' interests in our Company. The incurrence of debt would divert cash for working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our shareholders. If we are unable to obtain additional equity or debt financing as required, our business operations and prospects may suffer.

As of June 30, 2010, our outstanding short-term loans and borrowings, including the current portion of long-term loans and borrowings, amounted to RMB6,868 million. The following table is a summary of our short-term and long-term loans and borrowings at the end of each reporting period:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB (in millions)			
Current				
Secured short-term bank loans	28	2,468	2,530	65
Unsecured short-term bank loans	800	2,150	3,726	2,981
Unsecured commercial paper	—	900	—	—
Current portion of long-term bank loans	19	716	2,297	3,822
Total	**847**	**6,234**	**8,553**	**6,868**
Non-current				
Secured long-term bank loans	43	1,014	4,515	8,823
Unsecured long-term bank loans	300	2,767	2,313	3,396
Unsecured bond	—	1,089	1,090	1,091
Less: Current portion of long-term bank loans	(19)	(716)	(2,297)	(3,822)
Total	**324**	**4,154**	**5,621**	**9,488**

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, was subject to fulfillment of certain semi-annual and annual financial covenants of the Group. 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. If we fail to comply with such financial covenants and do not obtain a waiver from the lending bank, we could be required to repay the bank loan immediately and our liquidity could be adversely affected.

ANALYSIS OF SELECTED STATEMENT OF FINANCIAL POSITION ITEMS

Inventory Analysis

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

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

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB (in millions)			
Raw materials	939	2,398	3,055	3,068
Work in progress	770	1,017	1,620	1,676
Finished goods	923	1,756	1,597	2,430
Total	**2,632**	**5,171**	**6,272**	**7,174**

The carrying value of our inventories increased 96.5% from RMB2,632 million as of December 31, 2007 to RMB5,171 million as of December 31, 2008. The increase in our inventory outpaced the increase in our turnover from 2007 to 2008 as a result of the RMB1,352 million of inventory carried by the companies we acquired in 2008. The carrying value of our inventories further increased by 21.3% to RMB6,272 million as of December 31, 2009 and by 14.4% to RMB7,174 million as of June 30, 2010. The increases in carrying value of our inventories were outpaced by the increases in our turnover for the respective periods because we were able to sell more machinery products as a result of the strong market demand. In particular, the carrying value of our finished goods decreased by 9% from RMB1,756 million as of December 31, 2008 to RMB1,597 million as of December 31, 2009 as a result of the strong market demand for, and increase in sales volume of, our products. The carrying value of our raw materials and work in progress remained relatively stable as of June 30, 2010, as compared to December 31, 2009. As of December 31, 2007, 2008, and 2009 and June 30, 2010, our inventories accounted for approximately 42.6%, 36.8%, 31.3% and 22.9% of our total current assets, respectively. Furthermore, the carrying value of our inventories as a percentage of our current assets continued to decrease throughout the Track Record Period as the increases of our trade receivables and receivables under finance lease outpaced the increase in inventory in absolute terms. Up to October 31, 2010, RMB7,097 million of our inventories as of June 30, 2010 had been utilized.

The following table sets forth our inventory turnover days for the Track Record Period:

	Year Ended December 31,			Six Months Ended June 30,
	2007	2008	2009	2010
Inventory turnover days (Note)	118	145	135	108

Note: Inventory turnover days equal the average inventory balance divided by cost of sales and services and multiplied by 365 days, or 183 days for the six months ended June 30, 2010. Average inventory balance is calculated as the simple average of the opening and closing inventory balances as of each reported balance sheet date during the Track Record Period.

Our inventory turnover days increased from 118 days for the year ended December 31, 2007 to 145 days for the year ended December 31, 2008 primarily because an increase in inventory balance attributable to the inventory carried by the companies we acquired in 2008 was not matched with full year cost of sales amounts with respect to these acquired companies in the turnover day calculation. Our inventory turnover days decreased to 135 days for the year ended December 31, 2009 and further to 108 days for the six months ended June 30, 2010, primarily due to the stronger market demand for our construction machinery products because of the favorable government policies toward fixed asset investments, our ability to sell more finished goods and our continued efforts to control the level of inventory by implementing an optimized production and procurement plan. We aim to continue to actively manage our inventory turnover days in the future.

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

Trade Receivables Analysis

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

	As of December 31,			As of June 30,
	2007	2008	2009	2010
		RMB (in millions)		
Trade receivables	1,822	3,936	5,401	8,175
Less: allowance for doubtful debts	(153)	(255)	(340)	(572)
Total net trade receivables	**1,669**	**3,681**	**5,061**	**7,603**
Amount due after one year	(86)	(106)	(229)	(479)
Amount due within one year	1,583	3,575	4,832	7,124

Our trade receivables represent receivables from our customers generated from sales of our products through credit sales and installment payment options. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, product sales through credit sales and installment payment options collectively accounted for approximately 69.1%, 64.2%, 47.0% and 49.1% of our total product sales for the respective periods.

As part of our ongoing control procedures, we monitor the creditworthiness of customers to which we grant credit in the normal course of business. Credit terms normally range from one to three months from the date of billing, except that for certain products, customers are allowed to withhold retention money amounting to 5% to 10% of the invoice amount until the product's warranty period expires. Credit exposure limits are established to avoid concentration risk with respect to any single customer. We allow certain customers with appropriate credit standing to make payments in installments over a period of up to 24 months. As of December 31, 2007, 2008, and 2009 and June 30, 2010, our trade receivables due after one year amounted to RMB86 million, RMB106 million, RMB229 million and RMB479 million, respectively.

Our net trade receivables increased 120.6% from RMB1,669 million as of December 31, 2007 to RMB3,681 million as of December 31, 2008, primarily due to trade receivables in the amount of RMB1,238 million carried by the companies we acquired in 2008, which accounted for 33.6% of the total net trade receivables as of December 31, 2008, and an increase in our sales. Our net trade receivables further increased 37.5% to RMB5,061 million as of December 31, 2009 and 50.2% to RMB7,603 million as of June 30, 2010, as our sales continued to increase. Up to October 31, 2010, RMB5,416 million of our trade receivables and RMB303 million of our bills receivable as of June 30, 2010 had been settled.

The following table sets forth the turnover days of our trade receivables for the Track Record Period:

	Year Ended December 31,			Six Months Ended June 30,
	2007	2008	2009	2010
Trade receivables turnover days (Note)	84	122	178	161

Note: Trade receivables turnover days equal the average balance of trade receivables divided by product sales through credit sales and installment sales and multiplied by 365 days, or 183 days for the six months ended June 30, 2010. Average balance of trade receivables is calculated as the simple average of the opening and closing trade receivable balances as of each reported balance sheet date during the Track Record Period.

Our trade receivables turnover days increased from 84 days for the year ended December 31, 2007 to 122 days for the year ended December 31, 2008, primarily due to the significant amount of trade receivables carried by the companies we acquired in 2008. Our trade receivables turnover days further increased to 178 days for the year ended December 31, 2009, which was primarily due to an increase in the balance of longer term trade receivables, as a result of an increase in our installment sales by RMB451 million and the effect of trade receivables from installment sales carried forward from the previous year. Our trade receivables turnover days remained relatively stable at 161 days for the six months ended June 30, 2010 as a result of our enforcement of a more stringent collection policy.

The following table sets out the aging analysis of our trade receivables (net of allowance for doubtful debts) as of December 31, 2007, 2008 and 2009 and June 30, 2010:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB (in millions)			
Within 1 month	608	1,579	2,133	2,848
Over 1 month but less than 3 months	163	532	382	944
Over 3 months but less than 1 year	594	1,109	1,427	2,630
Over 1 year but less than 2 years	207	392	931	913
Over 2 years but less than 3 years	53	32	161	222
Over 3 years	44	37	27	46
Total	**1,669**	**3,681**	**5,061**	**7,603**

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

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

The Directors are of the view that the allowance for doubtful debts under trade receivables as of June 30, 2010 are adequate and that the accounting policies on provisions for impairment of trade receivables are appropriate. The following table sets out the movement in our allowance for doubtful debts for the Track Record Period:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB (in millions)			
Balance as of January 1	(90)	(153)	(255)	(340)
Impairment losses recognized	(65)	(104)	(87)	(247)
Uncollected amounts written off	2	2	2	15
Balance as of December 31/June 30	**(153)**	**(255)**	**(340)**	**(572)**

The increase in our allowance for doubtful debt was due to the increases in our trade receivables during the Track Record Period. The impairment loss recognized in the amount of RMB247 million for the six months ended June 30, 2010 was also due to provision for certain debtors that were individually determined to be impaired.

Receivables under Finance Lease Analysis

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

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB (in millions)			
Gross investment	429	2,456	9,190	15,929
Unearned finance income	(48)	(209)	(847)	(1,556)
	381	**2,247**	**8,343**	**14,373**
Less: amounts due after one year	(255)	(1,432)	(5,060)	(8,766)
Amounts due within one year	**126**	**815**	**3,283**	**5,607**

We receive the proceeds from our sales of products through finance lease services through monthly installments. The minimum lease payments to which we are entitled but have not yet received under the finance lease contracts are accounted for as receivables under finance lease. Our receivables under finance lease represent gross investment by us less unearned finance income. The finance lease contracts we enter into are typically for a term of two to four years, with an option to our customers to acquire the leased assets at a nominal price at the end of the lease term. As of June 30, 2010, the effective interest rate under our finance lease contracts was 7.8%. The following table sets forth our minimum lease payment receivables under the finance lease contracts of the end of each reporting period:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB (in millions)			
Within 1 year	152	930	3,761	6,489
Over 1 year but less than 2 years	150	861	2,917	5,110
Over 2 years but less than 3 years	111	531	1,961	3,312
Over 3 years	16	134	551	1,018
Total	**429**	**2,456**	**9,190**	**15,929**

Up to October 31, 2010, RMB1,873 million of our receivables under finance lease as of June 30, 2010 have been subsequently settled.

The value of receivables under finance lease increased significantly throughout the Track Record Period as the sales of our products through finance lease continued to increase both in absolute amount and as a percentage of our total sales. In addition, the value of receivables under finance lease due within one year increased throughout the Track Record Period as a result of the increase in the sales of machinery products sold through finance lease services in the previous periods. As we aim to increase the sales of machinery products through other payment methods, including financial guarantees, we expect the sales of our products through finance lease to remain relatively stable as a percentage of our total sales of products.

We monitor the credit risk through various control measures. We perform individual credit evaluations with respect to each finance lease contract and our risk control committee is responsible for the establishment of credit risk management policies, supervision of the implementation of such policies and determination of the key terms of the lease contracts, including interest rate, lease period and percentage of deposit. We have not experienced any significant bad debts arising from finance lease services during the Track Record Period. Based on the historical results and our stringent credit review, credit risk management policies and procedures, we have not made any impairment provision for receivables under finance lease.

Trade Payables Analysis

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

	As of December 31,			As of June 30,
	2007	2008	2009	2010
		RMB (in millions)		
Trade creditors	1,519	3,150	4,369	6,662
Bills payable	614	1,539	3,843	5,482
Total trade creditors and bills payable	**2,133**	**4,689**	**8,212**	**12,144**

Our trade payables primarily consist of trade payables to suppliers and bills payable. In general, our suppliers granted us credit terms ranging from 30 days to 120 days during the Track Record Period.

The value of our trade payables increased by 107.4% from RMB1,519 million as of December 31, 2007 to RMB3,150 million as of December 31, 2008, and further increased by 38.7% to RMB4,369 million as of December 31, 2009 and 52.5% to RMB6,662 million as of June 30, 2010. The increase in the balance of our trade payables throughout the Track Record Period was primarily due to the continued expansion of our business and the increase in the sales of our products.

Our bills payable increased by 150.7% from RMB614 million as of December 31, 2007 to RMB1,539 million as of December 31, 2008, and further increased by 149.7% to RMB3,843 million as of December 31, 2009 and 42.6% to RMB5,482 million as of June 30, 2010. The significant increase in our bills payable throughout the Track Record Period was the result of a significant increase in our use of bills as a payment method to our suppliers. Due to the low discount rates of bills and our purchasing power, our suppliers of raw materials, parts and components are willing to receive bills as a payment method and grant us a longer credit period.

Up to October 31, 2010, RMB8,491 million of our trade and bills payable and RMB678 million of our receipts in advance as of June 30, 2010 had been settled.

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

	As of December 31,			As of June 30,
	2007	2008	2009	2010
Trade and bills payable turnover days (Note)	101	127	153	163

Note: *Trade and bills payables turnover days equal the average balance of trade and bill payables divided by cost of sales and services and multiplied by 365 days, or 183 days for the amount for the six months ended June 30, 2010. Average balance of trade and bill payables is calculated as the simple average of the opening and closing trade and bill payable balances as of each reported balance sheet date during the Track Record Period.*

Our trade and bills payable turnover days increased from 101 days for the year ended December 31, 2007 to 127 days for the year ended December 31, 2008 as we increased the use of bills as a payment method, and were granted a longer credit period of up to six months for the use of bills. Our trade and bills payable turnover days increased to 153 days for the year ended December 31, 2009 and 163 days for the six months ended June 30, 2010 as we continued to increase the use of bills as a payment method.

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

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB (in millions)			
Due within 1 month or on demand	1,441	2,458	1,901	4,668
Due after 1 month but within 3 months	393	1,043	2,105	2,759
Due after 3 months but within 6 months	241	788	2,238	3,081
Due more than 6 months	58	400	1,968	1,636
Total	**2,133**	**4,689**	**8,212**	**12,144**

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

The table below sets forth our transactions with related parties during the Track Record Period:

	Year Ended December 31,			Six Months Ended June 30,
	2007	2008	2009	2010
	RMB (in millions)			
Transactions with Research Institute and its affiliated companies:				
Sales of products	(23)	—	—	—
Purchase of raw materials and components	941	—	—	—
Provision of construction, community and ancillary services	8	7	—	—
Lease of properties and equipment	8	—	—	—
Purchase of subsidiaries	270	—	—	—
Purchase of equity investments	25	—	—	—
Purchase of land use rights	—	125	—	—
Transactions with associates:				
Sales of products	—	(4)	(4)	(5)
Lease of properties and equipment	—	—	(3)	—
Purchase of raw materials	—	1	10	11

Our Directors are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and in accordance with the agreements governing such transactions which are comparable to normal commercial terms. The sales and purchase transactions with associates are expected to continue after the Listing Date.

The table below sets forth our balances with related parties during the Track Record Period:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB (in millions)			
Amounts due from related parties	138	23	29	58
Amounts due to related parties	157	1	—	—

Amounts due from/to related parties arise in our normal course of business and are included in the account captions of trade and other receivables and trade and other payables, respectively. These balances bear no interest, are unsecured and are repayable in accordance with the agreements governing such transactions which are comparable to credit periods with third-party customers/suppliers. Our Directors confirm that based on the terms of agreement entered into with the counter-parties, the outstanding balances as of June 30, 2010, all of which are of trade nature, are expected to be fully settled before the end of 2010.

SELECTED UNAUDITED FINANCIAL INFORMATION FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

Under the rules of the SZSE on which our A Shares are listed, we are required to publish, on a quarterly basis, reports containing unaudited interim financial statements. Since we published unaudited interim financial statements for the three months and the nine months ended September 30, 2010 in the PRC prior to the date of this prospectus, we have included our unaudited interim consolidated financial statements as of and for the three months and the nine months ended September 30, 2010 in this prospectus. The unaudited interim consolidated financial statements, comprising the unaudited consolidated statements of comprehensive income for the three months and the nine months ended September 30, 2010 and 2009, the unaudited consolidated statements of changes in equity and unaudited consolidated cash flow statements for the nine months ended September 30, 2010 and 2009 and the unaudited consolidated balance sheet as of September 30, 2010, together with selected explanatory notes, have been prepared in accordance with IFRS and are included in Appendix II to this prospectus.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

	Nine Months Ended September 30,			
	2009		2010	
	RMB	%	RMB	%
	(unaudited)		(unaudited)	
	(in millions, except for percentage)			
Turnover	14,806	100.0	23,901	100.0
Cost of sales and services	(10,970)	(74.1)	(17,082)	(71.5)
Gross profit	3,836	25.9	6,819	28.5
Other revenues and net income	44	0.3	2	—
Sales and marketing expenses	(781)	(5.3)	(1,567)	(6.6)
General and administrative expenses	(701)	(4.7)	(1,224)	(5.0)
Research and development expenses	(96)	(0.6)	(166)	(0.7)
Profit from operations	2,302	15.6	3,864	16.2
Net finance costs	(258)	(1.7)	(232)	(1.0)
Share of profits less losses of associates	2	—	4	—
Profit before taxation	2,046	13.9	3,636	15.2
Income tax expense	(315)	(2.2)	(572)	(2.4)
Profit for the period	**1,731**	**11.7**	**3,064**	**12.8**

Nine months ended September 30, 2010 compared to nine months ended September 30, 2009

Turnover. Our turnover increased by 61.4% from RMB14,806 million for the nine months ended September 30, 2009 to RMB23,901 million for the nine months ended September 30, 2010. The increase was primarily driven by strong market demand, particularly in the second- and third-tier cities in China, for construction machinery, sales from our new products and the continued expansion of our finance lease services. In particular, turnover from sales of our concrete machinery increased by 86.5% from RMB5,760 million in the nine months ended September 30, 2009 to RMB10,744 million for the nine months ended September 30, 2010. Turnover from sales of our crane machinery increased by 45.0% from RMB5,659 million for the nine months ended September 30, 2009 to RMB8,203 million for the nine months ended September 30, 2010.

Cost of sales and services. Our cost of sales and services increased by 55.7% from RMB10,970 million for the nine months ended September 30, 2009 to RMB17,082 million for the nine months ended September 30, 2010 as a result of our continued growth and expansion, which was in line with the increase in our sales and production volume. In particular, our costs for raw materials, parts and components increased by 54.4% from RMB10,272 million for the nine months ended September 30, 2009 to RMB15,858 million for the nine months ended September 30, 2010.

Gross profit. As a result of the foregoing, our gross profit increased by 77.8% from RMB3,836 million for the nine months ended September 30, 2009 to RMB6,819 million for the nine months ended September 30, 2010, and our gross margin increased from 25.9% in the nine months ended September 30, 2009 to 28.5% for the nine months ended September 30, 2010, as we continued to optimize our product mix and improve our manufacturing efficiency. In particular, the gross margin for the concrete machinery segment increased from 28.5% for the nine months ended September 30, 2009 to 29.8% for the nine months ended September 30, 2010, and the gross margin for our crane machinery segment increased from 23.6% for the nine months ended September 30, 2009 to 26.9% for the nine months ended September 30, 2010.

Other revenues and net income. Our other revenues and net income decreased from RMB44 million for the nine months ended September 30, 2009 to RMB2 million for the nine months ended September 30, 2010, primarily due to a decrease in other income and an increase in our loss on disposal of fixed assets.

Sales and marketing expenses. Our sales and marketing expenses increased by 100.6% from RMB781 million for the nine months ended September 30, 2009 to RMB1,567 million for the nine months ended September 30, 2010. This increase was primarily due to the fact that we expanded our distribution network and strengthened our sales and marketing efforts, which resulted in increases in salaries and benefits to our sales and marketing personnel and expenses related to advertisement and promotion. The increase was also due to expenses related to establishing and operating our sales and service centers.

General and administrative expenses. Our general and administrative expenses increased by 74.6% from RMB701 million for the nine months ended September 30, 2009 to RMB1,224 million for the nine months ended September 30, 2010. This increase was due to the continued growth of our business, as well as an impairment loss recognized in the amount of RMB279 million, which consisted primarily of the provision for doubtful debts we made for our increased trade receivables and certain debtors that were individually determined to be impaired during such period.

Research and development expenses. Our research and development expenses increased by 72.9% from RMB96 million for the nine months ended September 30, 2009 to RMB166 million for the nine months ended September 30, 2010. This increase was primarily due to our continued efforts to strengthen our research and development capabilities. The increase was in line with the growth of our business.

Profit from operations. As a result of the foregoing, income from operations increased by 67.9% from RMB2,302 million for the nine months ended September 30, 2009 to RMB3,864 million for the nine months ended September 30, 2010. Our operating margin increased from 15.6% for the nine months ended September 30, 2009 to 16.2% for the nine months ended September 30, 2010.

Net finance costs. Our net finance costs decreased by 10.1% from RMB258 million for the nine months ended September 30, 2009 to RMB232 million for the nine months ended September 30, 2010 primarily due to a decrease in interest expenses on bank loans, as a large proportion of our loans were foreign currency-denominated loans with lower interest rates. In addition, there were increases in interest income from the unutilized portion of the proceeds from the non-public offering of our A Shares and the exchange gains resulting from the appreciation of the Renminbi.

Income tax expenses. Our income tax expenses increased by 81.6% from RMB315 million for the nine months ended September 30, 2009 to RMB572 million for the nine months ended September 30, 2010, primarily as a result of the increase in our taxable income. Our effective income tax rate increased from 15.4% for the nine months ended September 30, 2009 to 15.7% for the nine months ended September 30, 2010.

Profit for the period. As a result of the above factors, our profit for the period increased by 77.0% from RMB1,731 million in the nine months ended September 30, 2009 to RMB3,064 million for the nine months ended September 30, 2010. Our net margin increased from 11.7% for the nine months ended September 30, 2009 to 12.8% in the nine months ended September 30, 2010.

LIQUIDITY AND CAPITAL RESOURCES AS OF SEPTEMBER 30, 2010

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

	Nine Months Ended September 30,	
	2009	2010
	RMB (in millions)	
Net cash used in operating activities	(468)	(3,089)
Net cash used in investing activities	(1,786)	(1,820)
Net cash generated from financing activities	1,150	6,994
Net (decrease)/ increase in cash and cash equivalents	(1,104)	2,085
Effect of foreign exchange rate changes	—	(17)
Cash and cash equivalents at the end of the period	**1,809**	**5,507**

Operating Activities

Net cash used in operating activities in the nine months ended September 30, 2010 was RMB3,089 million, derived primarily by deducting from profit before taxation of RMB3,636 million the following items: (i) an increase in receivables under finance lease of RMB8,057 million, (ii) an increase in trade and other receivables of RMB3,956 million and (iii) an increase in inventories of RMB870 million, and then adding back (iv) an increase in trade and other payables of RMB6,272 million.

Investing Activities

Net cash used in investing activities in the nine months ended September 30, 2010 was RMB1,820 million, consisting primarily of an increase in pledged bank deposits of RMB984 million, payments for the purchase of property, plant and equipment of RMB639 million and lease prepayments of RMB236 million.

Financing Activities

Net cash generated from financing activities in the nine months ended September 30, 2010 was RMB6,994 million, consisting primarily of proceeds from loans and borrowings of RMB9,590 million and net proceeds from the non-public offering of our A Shares of RMB5,479 million, partially offset by repayments of loans and borrowings of RMB7,368 million and dividends paid in the amount of RMB707 million.

WORKING CAPITAL AND INDEBTEDNESS AS OF SEPTEMBER 30, 2010

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

	As of December 31, 2009	As of September 30, 2010
	RMB (in millions)	
Current Assets		
Inventories	6,272	7,142
Trade and other receivables	6,265	10,058
Receivables under finance lease	3,283	6,196
Pledged bank deposits	755	1,697
Cash and cash equivalents	3,439	5,507
Total current assets	**20,014**	**30,600**
Current Liabilities		
Trade and other payables	10,632	16,047
Loans and borrowings	8,553	8,072
Income tax payable	283	589
Total current liabilities	**19,468**	**24,708**
Net Current Assets	**546**	**5,892**

Our net current assets increased from RMB546 million as of December 31, 2009 to RMB5,892 million as of September 30, 2010.

As of September 30, 2010, our outstanding short-term loans and borrowings, including the current portion of long-term loans and borrowings, amounted to RMB8,072 million. As of September 30, 2010, we had aggregate undrawn committed banking facilities of approximately RMB31,229 million. The following table is a summary of our short-term and long-term loans and borrowings at the end of each reporting period:

	As of December 31, 2009	As of September 30, 2010
	RMB (in millions)	
Current		
Secured short-term bank loans	2,530	40
Unsecured short-term bank loans short	3,726	3,539
Current portion of long-term bank loans	2,297	4,493
Total	**8,553**	**8,072**
Non-current		
Secured long-term bank loans	4,515	7,431
Unsecured long-term bank loans	2,313	4,317
Unsecured bond	1,090	1,091
Less: Current portion of long-term bank loans	(2,297)	(4,493)
Total	**5,621**	**8,346**

ANALYSIS OF SELECTED STATEMENT OF FINANCIAL POSITION ITEMS AS OF SEPTEMBER 30, 2010

Inventory Analysis

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

	As of December 31, 2009	As of September 30, 2010
	RMB (in millions)	
Raw materials	3,055	3,316
Work in progress	1,620	1,726
Finished goods	1,597	2,100
Total	**6,272**	**7,142**

The carrying value of our inventories increased by 13.9% from RMB6,272 million as of December 31, 2009 to RMB7,142 million as of September 30, 2010. The increases in carrying value of our inventories were outpaced by the increases in our turnover for the respective periods because we were able to sell more machinery products as a result of the strong market demand. Our inventory as a percentage of our total current assets decreased from 31.3% as of December 31, 2009 to 23.3% as of September 30, 2010 as the increases of our trade receivables and receivables under finance lease outpaced the increase in inventory in absolute terms. Our inventory turnover days decreased from 135 days for the year ended December 31, 2009 to 107 days for the nine months ended September 30, 2010 primarily due to the stronger market demand for our construction machinery products, our ability to sell more finished goods and our continued efforts to control the level of inventory by implementing an optimized production and procurement plan. Inventory turnover days equal the average inventory balance divided by cost of sales and services and multiplied by 365 days, or 273 days for the nine months ended September 30, 2010. Average inventory balance is calculated based on the opening and closing inventory balance for each reported balance sheet for the year ended December 31, 2009 and for the nine months ended September 30, 2010.

Trade Receivables Analysis

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

	As of December 31, 2009	As of September 30, 2010
	RMB (in millions)	
Trade receivables	5,401	8,985
Less: allowance for doubtful debts	(340)	(603)
Total net trade receivables	**5,061**	**8,382**
Amount due after one year	229	503
Amount due within one year	4,832	7,879

Our net trade receivables increased by 65.6% from RMB5,061 million as of December 31, 2009 to RMB8,382 million as of September 30, 2010 as our sales continued to increase. Our trade receivables turnover days was 177 days for the nine months ended

September 30, 2010, which remained stable as compared to 178 days for the year ended December 31, 2009. Trade receivables turnover days equal the average balance of trade receivables divided by product sales through credit sales and installment sales and multiplied by 365 days, or 273 days for the nine months ended September 30, 2010. Average balance of trade receivables is calculated based on the opening and closing trade receivables balance for each reported balance sheet for the year ended December 31, 2009 and for the nine months ended September 30, 2010.

The following table sets out the aging analysis of our net trade receivables as of December 31, 2009 and September 30, 2010:

	As of December 31, 2009	As of September 30, 2010
	RMB (in millions)	
Within 1 month	2,133	2,932
Over 1 month but less than 3 months	382	1,056
Over 3 months but less than 1 year	1,427	3,101
Over 1 year but less than 2 years	931	1,041
Over 2 years but less than 3 years	161	202
Over 3 years but less than 5 years	27	50
Total	**5,061**	**8,382**

Receivables under Finance Lease Analysis

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

	As of December 31, 2009	As of September 30, 2010
	RMB (in millions)	
Gross investment	9,190	18,079
Unearned finance income	(847)	(1,679)
	8,343	**16,400**
Less: amounts due after one year	(5,060)	(10,204)
Amounts due within one year	**3,283**	**6,196**

The following table sets forth our minimum lease payment receivables under the finance lease contracts as of December 31, 2009 and September 30, 2010:

	As of December 31, 2009	As of September 30, 2010
	RMB (in millions)	
Within 1 year	3,283	6,196
Over 1 year but less than 2 years	2,665	5,646
Over 2 years but less than 3 years	1,865	3,485
Over 3 years but less than 5 years	530	1,073
Total	**8,343**	**16,400**

Our receivables under finance lease increased from RMB8,343 million as of December 31, 2009 to RMB16,400 million as of September 30, 2010 as the sales of our products through finance lease continued to increase both in absolute terms and as a percentage of our total sales.

Trade and Other Payables Analysis

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

	As of December 31, 2009	As of September 30, 2010
	RMB (in millions)	
Trade creditors	4,369	6,452
Bills payable	3,843	5,698
Total trade creditors and bills payable	**8,212**	**12,150**

The value of our trade payables increased by 47.7% from RMB4,369 million as of December 31, 2009 to RM6,452 million as of September 30, 2010 as our business continued to grow. Our bills payable increased by 48.3% from RMB3,843 million as of December 31, 2009 to RMB5,698 million as of September 30, 2010 as we continued to increase the use of bills as a payment method. Our trade and bills payable turnover days increased from 153 days for the year ended December 31, 2009 to 163 days for the nine months ended September 30, 2010 as we continued to increase the use of bills as a payment method. Trade and bills payables turnover days equal the average balance of trade and bills payables divided by cost of sales and services and multiplied by 365 days, or 273 days for the nine months ended September 30, 2010. Average balance of trade and bills payables is calculated based on the opening and closing trade and bills payables balance for each reported balance sheet for the year ended December 31, 2009 and for the nine months ended September 30, 2010.

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

	As of December 31, 2009	As of September 30, 2010
	RMB (in millions)	
Due within 1 month or on demand	1,901	5,508
Due after 1 month but within 3 months	2,105	2,372
Due after 3 months but within 6 months	2,238	3,013
Due after 6 months but within 12 months	1,968	1,257
Total	**8,212**	**12,150**

INDEBTEDNESS AS OF OCTOBER 31, 2010

As of October 31, 2010, the latest practicable date for the purpose of indebtedness statement, our total outstanding loans and borrowings amounted to RMB16,729 million, our capital commitments amounted to RMB630 million, our operating lease commitments amounted to RMB177 million, and our contingent liabilities in respect of financial guarantees issued amounted to RMB4,394 million. As of October 31, 2010, we had aggregate undrawn committed banking facilities of approximately RMB31,411 million. Our Directors confirmed that, since October 31, 2010, there has been no material change in our indebtedness or contingent liabilities.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Credit Risk

Our credit risk is primarily attributable to bank deposits, trade and other receivables, and receivables under finance lease. The maximum exposure to credit risk is represented by the carrying amount of these financial assets.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's background and financial strength, past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as the economic environment in which the customer operates. Trade receivables under credit sales arrangement are normally due within 1 to 3 months from the date of billing. For sales under the installment payment method that has a maximum installment payment period of 24 months, customers are required to make an upfront payment ranging from 30% to 60% of the product price. Collateral such as property, machinery or third party guarantees are generally required for customers with lower credit ratings. In addition, credit insurance coverage is required for overseas sales. Certain customers are required to pay by letters of credit or bills guaranteed by banks. Debtors overdue by 3 months or more are handled by our risk management department, which is responsible for recovering debts through legal and other actions.

In respect of receivables under finance lease, individual credit evaluations are performed which are similar to those of credit and installment sales. A risk control committee is responsible for the establishment of credit risk management policies, supervision of the implementation of such policies and determination of the key terms of the lease contracts, including interest rate, lease period and percentage of deposit. The risk control committee members are also responsible for approval of each leasing transaction within their respective authority. Our credit review department, legal department, finance department and information technology department are collectively responsible for credit risk management and monitoring of settlement of receivables under finance lease. Our credit risk management procedures include pre-lease investigation, lease approval, lease payment collection and management, as well as repossession and subsequent sale of machinery in case of customer default.

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

Our exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also influences credit risk to a lesser extent. As of December 31, 2007, 2008 and 2009 and June 30, 2010, 2.1%, 3.1%, 1.9% and 0.7% of the total trade and bills receivables was due from our largest customer and 6.4%, 9.7% 7.3% and 4.7% of the total trade and bills receivables was due from our five largest customers, respectively.

Liquidity Risk

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

The following table sets out the remaining contractual maturities at the balance sheet dates of our financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current prevailing rates at the respective balance sheet dates) and the earliest date we would be required to repay them:

	As of December 31, 2007					
	Carrying Amount	Total Contractual Undiscounted Cash Flow	Within 1 Year or on Demand	More Than 1 Year but Less Than 2 Years	More Than 2 Years but Less Than 5 Years	More Than 5 Years
	RMB (in millions)					
Loans and borrowings	1,171	1,232	893	223	116	—
Trade and other payables	3,518	3,518	3,518	—	—	—
	4,689	**4,750**	**4,411**	**223**	**116**	**—**
Financial guarantee issued Maximum amount guaranteed	—	1,946	1,946	—	—	—

	As of December 31, 2008					
	Carrying Amount	Total Contractual Undiscounted Cash Flow	Within 1 Year or on Demand	More Than 1 Year but Less Than 2 Years	More Than 2 Years but Less Than 5 Years	More Than 5 Years
	RMB (in millions)					
Loans and borrowings	10,388	11,984	7,159	960	2,599	1,266
Trade and other payables	6,920	6,920	6,920	—	—	—
Other non-current liabilities	61	61	—	10	51	—
	17,369	**18,965**	**14,079**	**970**	**2,650**	**1,266**
Financial guarantee issued Maximum amount guarantee	—	2,696	2,696	—	—	—

	As of December 31, 2009					
	Carrying Amount	Total Contractual Undiscounted Cash Flow	Within 1 Year or on Demand	More Than 1 Year but Less Than 2 Years	More Than 2 Years but Less Than 5 Years	More Than 5 Years
	RMB (in millions)					
Loans and borrowings	14,174	15,158	9,015	3,458	1,491	1,194
Trade and other payables	10,632	10,632	10,632	—	—	—
Other non-current liabilities	684	684	—	159	525	—
	25,490	**26,474**	**19,647**	**3,617**	**2,016**	**1,194**
Financial guarantee issued Maximum amount guarantee	—	3,369	3,369	—	—	—

	As of June 30, 2010					
	Carrying Amount	Total Contractual Undiscounted Cash Flow	Within 1 Year or on Demand	More Than 1 Year but Less Than 2 Years	More Than 2 Years but Less Than 5 Years	More Than 5 Years
	RMB (in millions)					
Loans and borrowings	16,356	17,568	7,373	4,873	4,165	1,158
Trade and other payables	16,128	16,128	16,128	—	—	—
Other non-current liabilities	1,205	1,205	—	263	942	—
	34,689	**34,902**	**23,501**	**5,136**	**5,107**	**1,158**
Financial guarantee issued						
Maximum amount guarantee	—	3,802	3,802	—	—	—

Interest Rate Risk

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

	As of December 31,						As of June 30, 2010	
	2007		2008		2009			
	Weighted average interest rate	Amount	Weighted average interest rate	Amount	Weighted average interest rate	Amount	Weighted average interest rate	Amount
	%	RMB	%	RMB	%	RMB	%	RMB
	(in millions, except for percentage)							
Fixed rate financial instruments:								
Short-term loans and borrowings	7.2	(39)	5.4	(2,712)	3.8	(4,280)	4.6	(5,035)
Long-term loans and borrowings	5.3	(224)	6.4	(1,586)	5.7	(3,320)	5.7	(4,991)
		(263)		(4,298)		(7,600)		(10,026)
Variable rate financial instruments:								
Pledged bank deposits	0.7	322	0.4	454	0.4	989	0.4	2,422
Bank deposits	0.7	729	0.4	2,913	0.4	3,439	0.4	7,041
Receivable under finance lease	7.8	381	7.7	2,247	8.0	8,343	7.8	14,373
Short-term loans and borrowings	6.4	(808)	5.4	(3,522)	3.5	(4,273)	2.8	(1,833)
Long-term loans and borrowings	6.8	(100)	4.3	(2,568)	4.8	(2,301)	2.9	(4,497)
		524		(476)		6,197		17,506
Net		**261**		**(4,774)**		**(1,403)**		**7,480**

As of December 31, 2007, 2008 and 2009 and June 30, 2010, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would increase/decrease our profit after taxation for 2007 and retained earnings by approximately RMB5 million, decrease/increase our profit after taxation for 2008 and retained earnings by approximately RMB4 million, and increase/decrease our profit after taxation for 2009 and retained earnings by approximately RMB44 million, and increase/decrease our profit after taxation for the six months ended June 30, 2010 and retained earnings by approximately RMB27 million.

Currency Risk

We are exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, loans and borrowings and cash balances that are denominated in a foreign currency, that is, a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily the US dollar, the Japanese Yen and the Euro. During the Track Record Period, we did not conduct any material foreign exchange hedging transactions.

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

	Year Ended December 31,						Six Months Ended June 30,	
	2007		2008		2009		2010	
	Increase /decrease in foreign exchange rates	Effect on profit after taxation and retained profits	Increase/ decrease in foreign exchange rates	Effect on profit after taxation and retained profits	Increase/ decrease in foreign exchange rates	Effect on profit after taxation and retained profits	Increase/ decrease in foreign exchange rates	Effect on profit after taxation and retained profits
	%	RMB	%	RMB	%	RMB	%	RMB
	(in millions, except for percentages)							
U.S. Dollars	5%	(3)	5%	6	5%	(58)	5%	(48)
	(5%)	3	(5%)	(6)	(5%)	58	(5%)	48
Euros	5%	(2)	5%	(7)	5%	(10)	5%	(24)
	(5%)	2	(5%)	7	(5%)	10	(5%)	24
Japanese Yen	5%	(1)	5%	(3)	5%	(28)	5%	(26)
	(5%)	1	(5%)	3	(5%)	28	(5%)	26

Inflation Risk

In 2007 and 2008, the Consumer Price Index in China increased by 4.8%, and 5.9% from the previous year, while in 2009 the Consumer Price Index decreased by 0.7% from 2008, according the PRC National Bureau of Statistics. We are of the view that inflation has not had a material effect on our results of operations.

PROFIT FORECAST FOR 2010

The Directors believe that, in the absence of unforeseen circumstances and on the bases and assumptions as set out in Appendix IV—"Profit Forecast" to this prospectus, our Group's profit after taxation but before extraordinary items for the year 2010 is unlikely to be less than RMB4,300 million. Except for risks disclosed in the prospectus, the Directors are currently not aware of any extraordinary items which have arisen or are likely to arise in 2010 that would affect the prospective financial information presented. On the basis of the prospective financial information and the weighted average number of Shares issued and outstanding during the current financial year of 4,877,651,032 Shares (assuming the Joint Global Coordinators do not exercise the Over-allotment Option), the forecast earnings per Share on a weighted average basis for the year 2010 is unlikely to be less than RMB0.88.

On a pro forma basis and on the assumption that the Global Offering had been completed on January 1, 2010 and a weighted average of 5,725,792,065 Shares assumed to be issued and outstanding during the entire year (not taking into account any Shares which may be issued upon exercise of the Over-allotment Option), the forecast earnings per Share for the year 2010 is unlikely to be less than RMB0.75.

DIVIDEND POLICY

Our Board of Directors will declare dividends, if any, in Renminbi with respect to A Shares and H Shares on a per share basis and will pay such dividends in Renminbi; however, we will pay the dividends in cash to the holders of H Shares in Hong Kong dollars. Any final dividends distribution shall be subject to the Shareholders' approval. The declaration of dividends is subject to the discretion of our Board of Directors. Our Board of Directors will take into account factors including the following:

- general business conditions;
- our financial condition and results of operations;
- capital requirements;
- future prospects;
- statutory and regulatory restrictions;
- contractual obligations and availability of cash resources;
- our Shareholders' interests; and
- other factors our Board of Directors may deem relevant.

We may only distribute dividends out of our after-tax profit, as determined under PRC GAAP or IFRS, whichever is lower, only after we have made allowance for the following:

- recovery of accumulated losses, if any;

- allocations to the statutory surplus reserve equivalent to 10% of our after-tax profit, until the accumulative amount of such reserve reaches 50% of our registered capital; and
- allocations, if any, to a discretionary surplus reserve that are approved by the Shareholders in a Shareholders' meeting.

Any distributable after-tax profits that are not distributed as dividend in a given year are retained and available for distribution in subsequent years. However, ordinarily we will not pay any dividends in a year in which we do not have any distributable after-tax profit. Our Shareholders approved at the extraordinary general meeting on July 22, 2010 a stock split in the form of bonus shares on the basis of 1.5 ordinary shares for every outstanding ordinary share. The total number of ordinary shares issued was 2,956,582,057. The par value of new ordinary shares issued of RMB2,957 million was charged against retained earnings. In addition, a cash dividend of RMB0.17 per ordinary share based on 1,971 million outstanding ordinary shares totalling RMB335 million was also approved at the extraordinary general meeting. Our A Share Shareholders of record as of August 26, 2010 were entitled to such bonus shares and cash dividend, which were distributed to such Shareholders on August 27, 2010.

Under current PRC tax laws and regulations, dividends paid by our Company to a non-PRC resident enterprise shareholder are subject to a 10% withholding tax while the dividends paid to an individual holder of H Shares outside the PRC are currently exempted from PRC income tax. Details of the tax implications are set forth in Appendix VI—"Taxation and Foreign Exchange" to this prospectus.

DISTRIBUTABLE RESERVES

As of June 30, 2010, our retained earnings, which are available for distribution to our Shareholders amounted to approximately 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 dividends of RMB335 million in August 2010, thus reducing our retained profits by RMB3,292 million.

PROPERTY INTERESTS AND PROPERTY VALUATION

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued our property interests as of September 30, 2010 and is of the opinion that the value of our property interests is an aggregate amount of RMB3,796 million. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix V — "Property Valuation Report" to this prospectus.

Disclosure of the reconciliation of the aggregate amount of net book value of our Group's property interests and the valuation of such property interests as required under Rule 5.07 of the Listing Rules is set out below:

	RMB (in millions)
Net book value of property interests as of June 30, 2010[1]	3,097
Add: Net additions for the three months ended September 30, 2010	88
Less: Depreciation and amortization for the three months ended September 30, 2010	(26)
Net book value of property interests as of September 30, 2010	3,159
Add: Valuation surplus	637
Valuation as of September 30, 2010 as per Appendix V to this prospectus[2]	3,796

Notes:

(1) Our property interests as of June 30, 2010 included buildings, land use rights and buildings under construction with net book value of RMB1,895 million, RMB1,090 million and RMB112 million, respectively, with or without title certificates.

(2) As of the date of valuation, the Group has not obtained proper title certificates for some of the properties and land. Therefore, Jones Lang LaSalle Sallmanns Limited has attributed no commercial value to these properties. However, for reference purpose, Jones Lang LaSalle Sallmanns Limited is of the opinion that the capital value of these properties, except for the land use rights allocated to the Group, as of the date of valuation would have been RMB361 million assuming all relevant title certificates had been obtained and they could be freely transferred. We have taken into account this valuation of RMB361 million for this reconciliation purpose.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted consolidated net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only and is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets attributable to the Shareholders of our Company as of June 30, 2010 as if the Global Offering had taken place on that date.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as of June 30, 2010 or at any future date.

	Consolidated Net Tangible Assets of Our Group as of June 30, 2010[1]	Estimated Net Proceeds From The Global Offering[2]	Unaudited Pro Forma Adjusted Net Tangible Assets	Unaudited Pro Forma Adjusted Net Tangible Assets Per Share[3]	Unaudited Pro Forma Adjusted Net Tangible Assets Per Share[4][5]
	RMB (in millions)	*RMB (in millions)*	*RMB (in millions)*	*RMB*	*HK$*
Based on Offer Price of HK$13.98 per Share	11,524	9,915	21,439	3.70	4.32
Based on Offer Price of HK$18.98 per Share	11,524	13,509	25,033	4.32	5.04

Notes:

(1) The consolidated net tangible assets attributable to the Shareholders of our Company as of June 30, 2010 is derived from the consolidated net assets attributable to the Shareholders of our Company as of June 30, 2010 of RMB14,411 million as reported in the Accountants' Report set out in Appendix I to this Prospectus, after deducting intangible assets of RMB1,202 million and goodwill of RMB1,812 million, and adding the share of these intangible assets attributable to non-controlling interests of RMB462 million, and deducting the cash dividend of RMB335 million declared by the Company in July 2010.

(2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$13.98 and HK$18.98 per Share, after deducting underwriting fees and other costs directly related to the Global Offering. No account has been taken of the Shares which may be allotted and issued upon the exercise of the Over-allotment Option. The estimated net proceeds are converted into RMB amounts at the rate of RMB1.00 to HK$1.1673.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustment for the estimated net proceeds from the Global Offering as described in Note (2) and on the basis of 5,797,219,562 Shares expected to be in issue immediately after the Global Offering. No account has been taken of the Shares which may be allotted and issued upon the exercise of the Over-allotment Option.

(4) The unaudited pro forma adjusted net tangible assets per Share are converted into HK$ amounts at the rate of RMB1.00 to HK$1.1673.

(5) The Group's property interests as at September 30, 2010 have been valued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, and the relevant property valuation report is set out in "Appendix V—Property Valuation". The above unaudited pro forma adjusted consolidated net tangible assets do not take into account the valuation surplus attributable to the Group of approximately RMB637 million. The revaluation surplus will not be recorded in the Group's financial statements for the year ending December 31, 2010. If the valuation surplus were to be recorded in the Group's financial statements, additional depreciation and amortization of approximately RMB21 million would be charged against the profit for the year ending December 31, 2010.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

The Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO SIGNIFICANT INTERRUPTIONS

Our Directors have confirmed that there had been no material adverse change on our financial position and results of operations since June 30, 2010.

DISCLOSURE OF FINANCIAL INFORMATION RELEASED IN THE PRC

In compliance with Rule 13.09(2) of the Listing Rules, we will publish our annual, semi-annual and quarterly results and other information simultaneously in Hong Kong (in both English and Chinese) when they are released in the SZSE after the Listing. After the Listing, we intend to prepare our annual and semi-annual reports based on both PRC GAAP and IFRS, and prepare our quarterly reports based on PRC GAAP only. We will prepare a reconciliation of our annual, semi-annual and quarterly results under PRC GAAP to IFRS to the extent that there is a material difference between the results under PRC GAAP and IFRS.