The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

December 13, 2010

The Board of Directors
Changsha Zoomlion Heavy Industry Science and Technology Development Co., Ltd.

China International Capital Corporation Hong Kong Securities Limited
Goldman Sachs (Asia) L.L.C.

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information of Changsha Zoomlion Heavy Industry Science and Technology Development Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), consisting of the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group for each of the years ended December 31, 2007, 2008 and 2009, and the six months ended June 30, 2010 (the "Relevant Period"), and the consolidated balance sheets of the Group and the balance sheets of the Company as at December 31, 2007, 2008 and 2009 and June 30, 2010, together with the notes thereto (the "Financial Information"), for inclusion in the prospectus of the Company dated December 13, 2010 (the "Prospectus").

The Company was incorporated in the People's Republic of China (the "PRC") on August 31, 1999 by Construction Machinery Research Institute of Changsha and other five founding shareholders as a joint stock limited liability company. Upon the approval of the China Securities Regulatory Commission (the "CSRC"), the Company's A shares were listed on the Shenzhen Stock Exchange on October 12, 2000.

Details of the Company's principal subsidiaries, as at June 30, 2010, including the names of the respective entities' statutory auditors, are set out in Note 34 of Section B. All companies comprising the Group have adopted December 31, as their financial year end date. The statutory financial statements of the Company were prepared in accordance with the relevant accounting rules and regulations applicable to PRC enterprises ("PRC GAAP Financial Statements"). The PRC GAAP Financial Statements of the Company for the years ended December 31, 2007, 2008 and 2009 were audited by Beijing Zhongxi Certified Public

Accountants Co., Ltd. and the PRC GAAP Financial Statements of the Company for the six months ended June 30, 2010 were audited by Vocational International Certified Public Accountants Co., Ltd., respectively, both of which are registered in the PRC.

The directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Period in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") (the "Underlying Financial Statements"). The Underlying Financial Statements for the Relevant Period were audited by KPMG in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments made thereon, and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with IFRSs issued by the IASB, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate audit procedures as we considered necessary in respect of the Underlying Financial Statements in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to June 30, 2010.

OPINION

In our opinion, for the purpose of this report, the Financial Information, on the basis of preparation set out in Note 1(c) of Section B below and in accordance with the accounting policies set out in Note 2 of Section B below, gives a true and fair view of the Group's consolidated results and cash flows for the Relevant Period, and the state of affairs of the Group and the Company as at December 31, 2007, 2008 and 2009 and June 30, 2010.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months ended June 30, 2009, together with the notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted as for the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted as for the Financial Information.

A FINANCIAL INFORMATION

1 Consolidated statements of comprehensive income

	Section B Note	For the years ended December 31, 2007 RMB millions	2008 RMB millions	2009 RMB millions	Six months ended June 30, 2009 RMB millions (unaudited)	2010 RMB millions
Turnover	3	8,973	13,548	20,762	9,227	16,089
Cost of sales and services		(6,405)	(9,842)	(15,422)	(6,850)	(11,438)
Gross profit		2,568	3,706	5,340	2,377	4,651
Other revenues and net income	4	19	142	105	28	6
Sales and marketing expenses		(691)	(959)	(1,250)	(439)	(986)
General and administrative expenses		(400)	(734)	(878)	(420)	(852)
Research and development expenses		(83)	(120)	(194)	(82)	(116)
Profit from operations		1,413	2,035	3,123	1,464	2,703
Gain on disposal of lease prepayments		106	—	—	—	—
Gain/(loss) on disposal of subsidiaries and associates		12	3	(6)	—	—
Net finance costs	5(a)	(60)	(301)	(295)	(174)	(150)
Share of profits less losses of associates		—	7	6	—	5
Profit before taxation	5	1,471	1,744	2,828	1,290	2,558
Income tax	6	(34)	(191)	(409)	(189)	(395)
Profit for the year/period		1,437	1,553	2,419	1,101	2,163
Other comprehensive income for the year/period (after tax)						
Change in fair value of available-for-sale equity securities		4	(6)	3	3	(2)
Others		—	—	—	—	10
Exchange differences on translation of financial statements of subsidiaries outside PRC		—	(34)	44	6	(183)
Total other comprehensive income for the year/period		4	(40)	47	9	(175)
Total comprehensive income for the year/period		1,441	1,513	2,466	1,110	1,988
Profit attributable to:						
Equity shareholders of the Company		1,439	1,544	2,447	1,136	2,202
Non-controlling interests		(2)	9	(28)	(35)	(39)
Profit for the year/period		1,437	1,553	2,419	1,101	2,163
Total comprehensive income attributable to:						
Equity shareholders of the Company		1,443	1,518	2,497	1,148	1,996
Non-controlling interests		(2)	(5)	(31)	(38)	(8)
Total comprehensive income for the year/period		1,441	1,513	2,466	1,110	1,988
Basic and diluted earnings per share (RMB)	10	0.34	0.37	0.59	0.27	0.46

2 Consolidated balance sheets

	Section B Note	As at January 1, 2007 RMB millions	As at December 31, 2007 RMB millions	As at December 31, 2008 RMB millions	As at December 31, 2009 RMB millions	As at June 30, 2010 RMB millions
Non-current assets						
Property, plant and equipment	**12**	1,108	1,383	3,006	3,683	3,786
Lease prepayments		291	344	914	907	1,090
Intangible assets	**13**	47	49	1,386	1,432	1,202
Goodwill	**14**	—	—	2,029	2,082	1,812
Interests in associates	**15**	55	87	78	71	70
Other financial assets		2	16	12	15	13
Trade and other receivables	**17**	62	86	106	229	479
Receivables under finance lease	**18**	—	255	1,432	5,060	8,766
Pledged bank deposits	**19**	53	74	98	234	281
Deferred tax assets	**23(b)**	19	67	124	148	264
Total non-current assets		1,637	2,361	9,185	13,861	17,763
Current assets						
Inventories	**16**	1,502	2,632	5,171	6,272	7,174
Trade and other receivables	**17**	1,186	2,437	4,782	6,265	9,415
Receivables under finance lease	**18**	—	126	815	3,283	5,607
Pledged bank deposits	**19**	132	248	356	755	2,141
Cash and cash equivalents	**20**	805	729	2,913	3,439	7,041
Total current assets		3,625	6,172	14,037	20,014	31,378
Total assets		5,262	8,533	23,222	33,875	49,141
Current liabilities						
Loans and borrowings	**21(a)**	921	847	6,234	8,553	6,868
Trade and other payables	**22**	2,085	3,518	6,920	10,632	16,128
Income tax payable	**23(a)**	1	80	70	283	444
Total current liabilities		3,007	4,445	13,224	19,468	23,440
Net current assets		618	1,727	813	546	7,938
Total assets less current liabilities		2,255	4,088	9,998	14,407	25,701
Non-current liabilities						
Loans and borrowings	**21(b)**	9	324	4,154	5,621	9,488
Other non-current liabilities	**25**	—	—	61	684	1,205
Deferred tax liabilities	**23(b)**	—	13	572	550	491
Total non-current liabilities		9	337	4,787	6,855	11,184
NET ASSETS		2,246	3,751	5,211	7,552	14,517
CAPITAL AND RESERVES						
Share capital	**26(a)**	507	761	1,521	1,673	1,971
Reserves	**26(b)**	1,699	2,868	3,550	5,755	12,440
Total equity attributable to equity shareholders of the Company		2,206	3,629	5,071	7,428	14,411
Non-controlling interests		40	122	140	124	106
TOTAL EQUITY		2,246	3,751	5,211	7,552	14,517

3 Company balance sheets

	Section B Note	As at December 31, 2007 RMB millions	2008 RMB millions	2009 RMB millions	As at June 30, 2010 RMB millions
Non-current assets					
Property, plant and equipment, net	**12**	1,174	1,900	2,397	2,538
Lease prepayments		299	457	448	620
Intangible assets	**13**	33	17	59	63
Investments in subsidiaries	**34**	612	1,794	1,882	3,214
Interests in associates	**15**	81	62	52	53
Other financial assets		14	8	11	10
Trade and other receivables	**17**	86	106	215	477
Pledged bank deposits	**19**	74	82	147	177
Deferred tax assets	**23(b)**	56	45	62	99
Total non-current assets		2,429	4,471	5,273	7,251
Current assets					
Inventories	**16**	2,320	3,541	4,209	5,553
Trade and other receivables	**17**	2,587	4,470	8,242	12,244
Pledged bank deposits	**19**	242	327	631	1,893
Cash and cash equivalents	**20**	546	1,799	2,292	5,378
Total current assets		5,695	10,137	15,374	25,068
Total assets		8,124	14,608	20,647	32,319
Current liabilities					
Loans and borrowings	**21(a)**	762	2,379	1,644	2,268
Trade and other payables	**22**	3,328	4,769	9,792	13,573
Income tax payable	**23(a)**	72	47	270	413
Total current liabilities		4,162	7,195	11,706	16,254
Net current assets		1,533	2,942	3,668	8,814
Total assets less current liabilities		3,962	7,413	8,941	16,065
Non-current liabilities					
Loans and borrowings	**21(b)**	300	2,296	1,575	1,462
Other non-current liabilities		—	—	—	91
Deferred tax liabilities	**23(b)**	1	1	5	—
Total non-current liabilities		301	2,297	1,580	1,553
NET ASSETS		3,661	5,116	7,361	14,512
CAPITAL AND RESERVES					
Share capital	**26(a)**	761	1,521	1,673	1,971
Reserves	**26(b)**	2,900	3,595	5,688	12,541
TOTAL EQUITY		3,661	5,116	7,361	14,512

4 Consolidated statements of changes in equity

	Attributable to equity shareholders of the Company								
	Share capital (Section B Note 26(a))	Capital reserve (Section B Note 26(b)(i))	Statutory surplus reserve (Section B Note 26(b)(ii))	Exchange reserve (Section B Note 26(b)(iii))	Fair value reserve (Section B Note 26(b)(iv))	Retained earnings	Total	Non-controlling interests	Total equity
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Balance at January 1, 2007	**507**	**494**	**240**	**2**	**—**	**963**	**2,206**	**40**	**2,246**
Appropriation (Section B Note 26(b)(ii))	—	—	134	—	—	(134)	—	—	—
Cash dividends (Section B Note 26(c)(i))	—	—	—	—	—	(20)	(20)	—	(20)
Bonus shares (Section B Note 26(c)(ii))	254	(254)	—	—	—	—	—	—	—
Acquisition of subsidiaries	—	—	—	—	—	—	—	84	84
Total comprehensive income for the year	—	—	—	—	4	1,439	1,443	(2)	1,441
Balance at December 31, 2007	**761**	**240**	**374**	**2**	**4**	**2,248**	**3,629**	**122**	**3,751**
Appropriation (Section B Note 26(b)(ii))	—	—	155	—	—	(155)	—	—	—
Cash dividends (Section B Note 26(c)(i))	—	—	—	—	—	(76)	(76)	—	(76)
Bonus shares (Section B Note 26(c)(ii))	760	(228)	—	—	—	(532)	—	—	—
Acquisition of subsidiaries	—	—	—	—	—	—	—	23	23
Total comprehensive income for the year	—	—	—	(20)	(6)	1,544	1,518	(5)	1,513
Balance at December 31, 2008	**1,521**	**12**	**529**	**(18)**	**(2)**	**3,029**	**5,071**	**140**	**5,211**
Appropriation (Section B Note 26(b)(ii))	—	—	240	—	—	(240)	—	—	—
Cash dividends (Section B Note 26(c)(i))	—	—	—	—	—	(152)	(152)	—	(152)
Bonus shares (Section B Note 26(c)(ii))	152	—	—	—	—	(152)	—	—	—
Acquisition of non-controlling interest	—	10	—	—	—	—	10	(25)	(15)
Acquisition of subsidiaries	—	—	—	—	—	—	—	11	11
Contributions from non-controlling interests (Section B Note 34)	—	2	—	—	—	—	2	29	31
Total comprehensive income for the year	—	—	—	47	3	2,447	2,497	(31)	2,466
Balance at December 31, 2009 carried forward	**1,673**	**24**	**769**	**29**	**1**	**4,932**	**7,428**	**124**	**7,552**

4 Consolidated statements of changes in equity (continued)

	Attributable to equity shareholders of the Company								
	Share capital (Section B Note 26(a))	Capital reserve (Section B Note 26(b)(i))	Statutory surplus reserve (Section B Note 26(b)(ii))	Exchange reserve (Section B Note 26(b)(iii))	Fair value reserve (Section B Note 26(b)(iv))	Retained earnings	Total	Non-controlling interests	Total equity
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Balance at December 31, 2009 brought forward	**1,673**	**24**	**769**	**29**	**1**	**4,932**	**7,428**	**124**	**7,552**
Appropriation (Section B Note 26(b)(ii))	—	—	215	—	—	(215)	—	—	—
Issuance of new shares in a private placement (Section B Note 26(a))	298	5,181	—	—	—	—	5,479	—	5,479
Cash dividends (Section B Note 26(c)(i))	—	—	—	—	—	(492)	(492)	—	(492)
Dividends by subsidiaries to non-controlling interests	—	—	—	—	—	—	—	(10)	(10)
Total comprehensive income for the period	—	10	—	(214)	(2)	2,202	1,996	(8)	1,988
Balance at June 30, 2010	**1,971**	**5,215**	**984**	**(185)**	**(1)**	**6,427**	**14,411**	**106**	**14,517**
Unaudited									
Balance at December 31, 2008	**1,521**	**12**	**529**	**(18)**	**(2)**	**3,029**	**5,071**	**140**	**5,211**
Cash dividends (Section B Note 26(c)(i))	—	—	—	—	—	(152)	(152)	—	(152)
Bonus shares (Section B Note 26(c)(ii))	152	—	—	—	—	(152)	—	—	—
Acquisition of subsidiaries	—	—	—	—	—	—	—	11	11
Contributions from non-controlling interests (Section B Note 34)	—	2	—	—	—	—	2	29	31
Total comprehensive income for the period	—	—	—	9	3	1,136	1,148	(38)	1,110
Balance at June 30, 2009	**1,673**	**14**	**529**	**(9)**	**1**	**3,861**	**6,069**	**142**	**6,211**

5 Consolidated cash flow statements

	Section B Note	For the years ended December 31, 2007 RMB millions	2008 RMB millions	2009 RMB millions	Six months ended June 30, 2009 RMB millions (unaudited)	2010 RMB millions
Operating activities						
Profit before taxation		**1,471**	**1,744**	**2,828**	**1,290**	**2,558**
Adjustments for:						
Depreciation of property, plant and equipment		84	179	245	122	172
Amortization of lease prepayments		9	19	21	11	12
Amortization of intangible assets		4	18	63	28	31
Share of profits less losses of associates		—	(7)	(6)	—	(5)
Interest income		(25)	(165)	(431)	(180)	(395)
Interest expense		65	347	438	215	386
Loss on disposal of property, plant and equipment		26	5	10	4	9
Gain on disposal of lease prepayments		(106)	—	—	—	—
(Gain)/loss on disposal of subsidiaries and associates		(12)	(3)	6	—	—
Impairment loss on property, plant and equipment and intangible assets		5	24	5	—	—
Gain on bargain purchase	14(a)	(29)	—	—	—	—
		1,492	2,161	3,179	1,490	2,768
Increase in inventories		(979)	(1,182)	(1,093)	(215)	(902)
Increase in trade and other receivables		(857)	(576)	(1,703)	(1,545)	(3,227)
Increase in receivables under finance lease		(381)	(1,866)	(6,096)	(1,381)	(6,030)
Increase in trade and other payables		1,042	448	4,206	2,242	6,211
Cash generated from/(used in) operations		317	(1,015)	(1,507)	591	(1,180)
Interest received		25	165	431	180	395
Interest paid		(65)	(231)	(498)	(313)	(415)
Income tax paid		(4)	(274)	(256)	(103)	(348)
Net cash generated from/(used in) operating activities carried forward		**273**	**(1,355)**	**(1,830)**	**355**	**(1,548)**

5 Consolidated cash flow statements (continued)

	Section B Note	For the years ended December 31, 2007 RMB millions	2008 RMB millions	2009 RMB millions	Six months ended June 30, 2009 RMB millions (unaudited)	2010 RMB millions
Net cash generated from/(used in) operating activities brought forward		**273**	**(1,355)**	**(1,830)**	**355**	**(1,548)**
Investing activities						
Payment for the purchase of property, plant and equipment		(386)	(720)	(829)	(670)	(417)
Lease prepayments		(111)	(173)	(3)	(3)	(195)
Payment for purchase of intangible assets		(6)	(12)	(70)	(27)	(13)
Payment for acquisition of investments in associates and equity investments		(41)	(3)	(15)	(2)	—
Proceeds from disposal of investments in associates		12	3	7	—	—
Proceeds from disposal of property, plant and equipment and intangible assets		100	71	79	34	23
Proceeds from disposal of leases prepayments		192	—	—	—	—
Payment for acquisitions of subsidiaries, net of cash acquired		(165)	(1,938)	(28)	(28)	—
Proceeds from disposal of a subsidiary		—	6	—	—	—
(Increase)/decrease in pledged bank deposits		(137)	(132)	(535)	183	(1,433)
Net cash used in investing activities		**(542)**	**(2,898)**	**(1,394)**	**(513)**	**(2,035)**
Financing activities						
Proceeds from loans and borrowings		1,279	7,363	11,581	4,779	7,959
Repayments of loans and borrowings		(1,066)	(824)	(7,712)	(4,282)	(5,783)
Dividends paid		(20)	(76)	(152)	—	(428)
Contribution from non-controlling shareholders		—	—	31	31	—
Net proceeds from private placement of new shares		—	—	—	—	5,479
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
Cash and cash equivalents at beginning of year/period		805	729	2,913	2,913	3,439
Effect of foreign exchange rate changes		—	(26)	2	—	(42)
Cash and cash equivalents at end of year/period	20	**729**	**2,913**	**3,439**	**3,283**	**7,041**

B NOTES TO THE FINANCIAL INFORMATION

1 Principal activities of reporting entity, organization and basis of preparation

(a) Principal activities of reporting entity

Changsha Zoomlion Heavy Industry Science and Technology Development Co., Ltd. (the "Company") and its subsidiaries (collectively, referred to as the "Group") are principally engaged in the research, development, manufacturing and sale and leasing of concrete machinery, crane machinery, environmental and sanitation equipment, road construction and pile foundation machinery and other related heavy machinery and capital equipment in the People's Republic of China ("PRC"). Following the acquisition of Compagnia Italiana Forme Acciaio S.p.A ("CIFA") in September 2008 (Note 14(b)(ii)), the Group is also engaged in manufacturing and sale of concrete machinery in Italy.

(b) Organization

The Company was incorporated in the PRC on August 31, 1999 by six founding shareholders with registered and issued share capital of 100 million ordinary shares with a par value of RMB1 per share. Upon the Company's incorporation, Construction Machinery Research Institute of Changsha, the Ministry of Construction ("Research Institute"), a state-owned entity, held 74.7% equity interest in the Company and the other five founding shareholders held 25.3% equity interest in the Company in aggregate. These founding shareholders are hereinafter referred to as the non-public shareholders.

On October 12, 2000, the Company completed an initial public offering of 50 million newly issued ordinary shares with a par value of RMB1 per share to public shareholders. Upon the initial public offering, the public shareholders owned 33.3% of the equity interest in the Company. The equity interest of Research Institute and the other five non-public shareholders in the Company was then reduced to 49.8% and 16.9%, respectively.

During the years from 2001 to 2004, the Company completed several stock splits in the form of bonus shares to achieve wider distribution and improve marketability of the ordinary shares. As a result, the Company's share capital increased from RMB 150 million to RMB 507 million, which remained unchanged up to March 2007 when another stock split in the form of bonus shares took place (see Note 26 (c)(ii)).

In July 2006, the public shareholders accepted the share reform proposal offered by the non-public shareholders whereby the non-public shareholders transferred a total of 54 million ordinary shares to the public shareholders, in exchange for the approval for the listing of all shares held by the non-public shareholders. After the share transfer, the equity interest in the Company held by Research Institute and the other five non-public shareholders was reduced from 49.8% and 16.9% to 41.9% and 14.1%, respectively, while the public shareholders' equity interest in the Company was increased from 33.3% to 44.0%.

In December 2008, Research Institute was deregistered and the then 41.9% equity interest of the Company held by Research Institute was transferred to Research Institute's shareholders, consisting of 25% equity interest transferred to Hunan State-owned Assets Supervision and Administration Commission of the People's Government of Hunan Province ("Hunan SASAC") and 16.9% equity interest transferred to the four other shareholders of Research Institute.

The Company's shares are listed in the Shenzhen Stock Exchange of China.

(c) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). IFRSs include all individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group are set out in Note 2.

These financial statements are the Group's first consolidated financial statements prepared in accordance with IFRSs and IFRS 1 "First-time Adoption of International Financial Reporting Standards" has been applied. An explanation of how the transition to IFRSs has affected the reported financial position, results of operations and cash flows of the Group is provided in Note 33.

As set out in Note 35, the IASB has issued certain new and revised IFRSs that are not yet effective for the periods presented. The Group has not early adopted these IFRSs in preparing the financial statements for the periods presented.

(ii) Basis of measurement

The measurement basis used in the preparation of the financial statements is historical cost basis except for the re-measurement of available-for-sale equity securities (Note 2(i)) to fair value.

(iii) Use of estimates and judgments

The preparation of financial statements in accordance with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key assumptions and estimates made by management in the application of IFRSs that have significant effect on the financial statements and the major sources of estimation uncertainty are disclosed in Note 32.

2 Significant accounting policies

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

(a) Business combinations

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgment is applied in determining the acquisition date and determining whether control is transferred from one party to another.

The Group measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination (see below). If a business combination results in the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognized in other expenses. When share-based payment awards exchanged (replacement awards) for awards held by the acquiree's employees (acquiree's awards) relate to past services, then a part of the market-based measure of the awards replaced is included on the consideration transferred. If they require future services, then the difference between the amount included in consideration transferred and the market-based measure of the replacement awards is treated as post-combination compensation cost.

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

The Group measures any non-controlling interest at its proportionate share of the recognized amount of the identifiable net assets at the acquisition date.

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

(b) Non-controlling interests

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Profit or loss and each component of comprehensive income are attributed to the equity shareholders of the Company and the non-controlling interests according to their respective interests in the subsidiary, even if this results in the non-controlling interests having an overall deficit balance.

Acquisitions of non-controlling interests are accounted for as transactions with equity shareholders in their capacity as equity shareholders and therefore no goodwill is recognized as a result of such transactions.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment losses (Note 2(j)).

The details of the Group's principal subsidiaries are set out in Note 34.

(d) Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is held for sale. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associates' net assets and any impairment loss relating to the investment (Notes 2(e) and (j)). The Group's share of the post-acquisition, post-tax results of the associates for the year are recognized in profit or loss.

When the Group's share of losses exceeds its interests in the associates, the Group's interests are reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates. For this purpose, the Group's interests are the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investments in the associates.

Unrealized profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

In the Company's balance sheet, investments in associates are stated at cost less impairment losses (Note 2(j)).

(e) Goodwill

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to cash-generating units, or groups of cash generating units, that is expected to benefit the synergies of the combination and is tested annually for impairment (Note 2(j)). In respect of goodwill arising on investment in associates, the carrying amount of goodwill is included in the carrying amount of the interests in the associates and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (Note 2(j)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognized immediately in profit or loss.

On disposal of a cash-generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the gain or loss on disposal.

(f) Intangible assets

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalized includes the costs of materials, direct labor, and an appropriate proportion of overheads and borrowing costs, where applicable (Note 2(g)). Capitalized development costs are stated at cost less accumulated amortization and impairment losses (Note 2(j)). Other development expenditure is recognized as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (Note 2(j)).

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

—technical know how	14 years
—software, patents and similar rights	4 to 10 years
—customer relationships	12 years
—capitalized development costs	5 years

Both the period and method of amortization are reviewed annually.

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

The Group's intangible asset that is determined to have an indefinite useful life consists of trademarks.

(g) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost, less accumulated depreciation and impairment losses (Note 2(j)). The cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized is added to the carrying amount of the asset when it is probable that the future economic benefits, in excess of the original assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognized as an expense in profit or loss in the period in which it is incurred.

Construction in progress represents buildings and various machinery, plant and equipment under construction and pending installation, and is stated at cost less impairment losses (Note 2(j)). Cost comprises direct costs of construction as well as interest charges and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the periods of construction.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment, are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized as income or expense on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	25 to 35 years
Machinery, plant and equipment	10 years
Motor vehicles	10 years
Office equipment	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reassessed annually.

(h) Lease prepayments

Lease prepayments represent cost paid to the relevant government authorities for land use rights. Land use rights are carried at cost less the accumulated amount charged to expense and impairment losses (Note 2(j)). The cost of lease prepayments is charged to profit or loss on a straight-line basis over the respective periods of the rights, which range from 34 to 50 years.

(i) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, receivables under finance lease, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not classified as at fair value through profit or loss, any directly attributable transaction costs.

A financial instrument is recognized when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Financial liabilities are derecognized if the Group's obligations specified in the contract expire or are discharged or cancelled.

Financial assets and liabilities are offset and the net amount presented in the balance sheets when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Investments in equity securities

Investments in quoted securities that are classified as available-for-sale are carried at fair value with any change in fair value recognized in other comprehensive income and accumulated separately in equity in the fair value reserve. When these investments are derecognized or impaired, the cumulative gain or loss is reclassified from equity to profit or loss. Investments in equity securities, other than investments in associates that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are recognized in the balance sheet at cost less impairment losses (Note 2(j)).

Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost less impairment losses for bad and doubtful debts (Note 2(j)), except where the effect of discounting would be immaterial. In such case, the receivables are stated at cost less impairment losses for bad and doubtful debts (Note 2(j)).

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Interest-bearing borrowings

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

Trade and other payables

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

(ii) Derivative financial instruments

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

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

(j) Impairment of assets

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

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

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

If any such evidence exists, any impairment loss is determined and recognized as follows:

- For investments in associates recognized using the equity method (Note 2(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with Note 2(j)(ii). The impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount in accordance with Note 2(j)(ii).
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.
- For trade, bills and other receivables, receivables under finance lease and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. The Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant. The assessment is then made collectively for financial

assets carried at amortized cost which are not individually significant but share similar credit risk characteristics, and have not been individually assessed as impaired. Future cash flows of financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective asset group, and ageing profile of the collective asset group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

- For available-for-sale equity securities, the cumulative loss that has been recognized in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognized in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognized in the profit or loss.

  Impairment losses recognized in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognized in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade, and other receivables and receivables under finance lease, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables and receivables under finance lease directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

(ii) Impairment of other assets

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

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

- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

- Reversals of impairment losses

  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

(k) Inventories

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(l) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values. Further information of the Group's retirement plans is set out in Note 24.

Termination benefits, such as employee reduction expenses, are recognized when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(m) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to business combinations, or items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
- the same taxable entity; or
- different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(n) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

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

(ii) Other provisions and contingent liabilities

Provisions are recognized for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) Sale of goods

Revenue is recognized when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and is after deduction of any trade discounts.

(ii) Finance income under finance lease

Where the Group provides finance leasing of its machinery products to customers, the Group recognizes profit or loss equivalent to the profit or loss resulting from an outright sale of the machinery products being leased at normal selling prices and finance income over the period of the lease. Finance income implicit in finance lease is recognized over the period of the lease so as to produce an approximately constant periodic rate of return on the outstanding net investment in the lease for each accounting period. Commission paid to dealers for acquisition of finance lease loans is included in the carrying value of the assets and amortized to the profit or loss over the expected life of the lease as an adjustment to finance income.

(iii) Government grants

Government grants are recognized in the balance sheet initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as other revenues in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognized in profit or loss on a systematic basis over the useful life of the asset.

(p) Translation of foreign currencies

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

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognized in profit or loss and are reported in net finance costs on a net basis.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of the Company's subsidiaries outside the mainland PRC are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside mainland PRC, the cumulative amount of the exchange differences relating to that operation is reclassified from equity to the profit or loss when the profit or loss on disposal is recognized.

(q) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and gains on the disposal of available-for-sale financial assets. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date. Finance income under finance lease is included in the Group's turnover (Note 2(o)(ii)). Interest expense relating to factoring of receivables under finance lease is considered to be direct cost of finance lease income and is therefore recorded in cost of services.

Finance costs comprise interest expense on loans and borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(r) Lease

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification

Leases that transfer substantially all the risks and rewards of ownership to the lessee are classified as finance leases. Leases that do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases.

(ii) Finance lease (as lessor)

Where the Group provides finance leasing of its machinery products to customers, an amount representing the net investment in the lease is included in the balance sheet as receivables under finance lease. Finance income earned under finance lease is accounted for in accordance with accounting policy as set out in Note 2(o)(ii). Impairment losses of receivables under finance lease are accounted for in accordance with the accounting policy as set out in Note 2(j).

Receivables under finance lease are derecognized when the contractual rights to receive the cash flows from the receivables expire, or where the receivables together with substantially all the risks and rewards of ownership, have been transferred.

(iii) Operating lease (as lessee)

Where the Group has the use of assets held under operating lease, payments made under the lease are charged to profit or loss in equal installments over the accounting periods covered by the lease term.

(s) Dividends

Dividends are recognized as a liability in the period in which they are declared.

(t) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 Turnover

The principal activities of the Group are research, development, manufacturing and sale and leasing of concrete machinery, crane machinery, environmental and sanitation machinery, road construction and pile foundation machinery and other related heavy machinery and capital equipment in the PRC and manufacturing and sale of concrete machinery in Italy.

Turnover represents revenue from sales and lease of the Group's machinery products, net of value-added tax and is after deduction of any trade discounts.

The amounts of each significant category of revenue recognized in turnover are as follows:

	The Group				
	For the years ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
				(unaudited)	
Sales of					
Concrete machinery	3,509	4,682	7,157	3,534	7,037
Crane machinery	4,206	6,237	8,298	3,663	5,910
Environmental and sanitation machinery	564	871	1,230	474	710
Road construction and pile foundation machinery	487	610	787	391	539
Earth working machinery	—	116	445	201	450
Material handling machinery and systems	—	261	873	163	281
Other machinery products	193	635	1,575	634	808
Finance income under finance lease	14	136	397	167	354
	8,973	13,548	20,762	9,227	16,089

4 Other revenues and net income

	The Group				
	For the years ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
				(unaudited)	
Government grants (note)	—	138	74	16	20
Loss on disposal of property, plant and equipment	(26)	(5)	(10)	(4)	(9)
Others	45	9	41	16	(5)
	19	142	105	28	6

Note:
Government grants mainly represent value-added tax refunds and other grants, which are akin to government operating subsidies. There were no unfulfilled conditions and other contingencies attached to these grants.

5 Profit before taxation

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

(a) Net finance costs:

	The Group				
	For the years ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions (unaudited)	RMB millions
Finance income:					
Interest income on bank deposits	(11)	(29)	(34)	(13)	(41)
Finance costs:					
Interest on loans and borrowings (note)	65	334	372	212	226
Less: Interest expense capitalized*	—	—	(35)	(21)	—
Net interest expense	65	334	337	191	226
Net exchange losses/(gains)	6	(4)	(8)	(4)	(35)
	71	330	329	187	191
	60	301	295	174	150
* Interest rates per annum at which borrowing costs have been capitalized for construction in progress	—	—	1.0% to 7.2%	1.0% to 7.2%	—

Note:
Interest expense on factoring the Group's receivables under finance lease amounted to nil, RMB9 million, RMB122 million, RMB19 million (unaudited) and RMB147 million for the years ended December 31, 2007, 2008 and 2009, and six-month periods ended June 30, 2009 and 2010, respectively, and are included in cost of sales and services.

(b) Staff costs:

	The Group				
	For the years ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions (unaudited)	RMB millions
Salaries, wages and other benefits	693	1,012	1,279	566	991
Contributions to retirement schemes (Note 24)	28	82	104	40	61
	721	1,094	1,383	606	1,052

(c) Other items:

	The Group				
	For the years ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
				(unaudited)	
Cost of inventories	6,409	9,842	15,307	6,849	11,292
Depreciation of property, plant and equipment (Note 12)	84	179	245	122	172
Amortization of lease prepayments	9	19	21	11	12
Amortization of intangible assets (Note 13)	4	18	63	28	31
Operating lease charges	13	35	58	36	49
Auditors' remuneration—audit services	8	13	6	5	10
Product warranty costs (Note 22(b))	68	117	87	17	64
Impairment losses:					
—trade receivables (Note 17(b))	65	104	87	66	247
—intangible assets (Note 13)	—	22	—	—	—
—property, plant and equipment (Note 12)	5	2	5	—	—

6 Income tax

Income tax in the consolidated statements of comprehensive income represents:

	The Group				
	For the years ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
				(unaudited)	
Current tax—PRC income tax					
Provision for the year / period	78	167	459	222	504
Current tax—Income tax in other tax jurisdictions					
Provision for the year / period	—	12	9	6	5
Deferred taxation (Note 23(b))					
Origination and reversal of temporary difference	(39)	(10)	(41)	(21)	(114)
Effect on deferred tax balances resulting from a change in tax rate/ tax status	(5)	22	(18)	(18)	—
	34	191	409	189	395

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

	The Group				
	For the years ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
				(unaudited)	
Profit before taxation	1,471	1,744	2,828	1,290	2,558
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned (note (a))	485	437	705	323	640
Tax effect of non-deductible expenses	178	35	52	7	11
Tax effect of non-taxable income	(35)	(40)	(5)	(3)	(5)
Tax effect of tax concessions (note (b))	(589)	(164)	(251)	(110)	(234)
Additional deduction for qualified research and development expenses (note (c))	—	(29)	(73)	(10)	(17)
Effect of change in tax rate / tax status (notes (a) and (b))	(5)	22	(18)	(18)	—
Tax credit for PRC equipment purchased	—	(70)	(1)	—	—
Actual income tax expense	34	191	409	189	395

Notes:

(a) The PRC statutory income tax rate prior to January 1, 2008 was 33%. On March 16, 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the PRC Enterprise Income Tax Law which revised the PRC's statutory income tax rate to 25%. The new tax law became effective from January 1, 2008.

The Company's subsidiaries in Italy, CIFA and its subsidiaries, are subject to income tax at rates ranging from 27.5% to 31.4% for 2008, 2009 and 2010.

The Company's subsidiaries in the HKSAR, which were incorporated in 2008, are subject to Hong Kong profits tax at 16.5% for 2008, 2009 and 2010. No provision for Hong Kong profits tax was made in the consolidated financial statements for 2008, 2009 and 2010 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.

(b) The Company, being one of the designated high-technology enterprises, was granted exemption from income tax for the period from October 1, 2000 to September 30, 2007. In addition, the Company, being a recognized high-technology enterprise, was entitled to a preferential income tax rate of 15% for the period from October 1, to December 31, 2007.

According to the new income tax law and its relevant regulations, entities that qualified as high-technology enterprises under the new tax law are entitled to a preferential income tax rate of 15%. In 2008, the Company and certain of its subsidiaries were recognized as high-technology enterprises from 2008 to 2010 and accordingly are subject to income tax at 15% for the years from 2008 to 2010.

In 2009, a subsidiary of the Company was recognized as a high-technology enterprise for 2009 to 2011 and accordingly, its income tax rate was reduced from 25% in 2008 to 15% for the years from 2009 to 2011.

The 15% preferential tax rate applicable to high-technology enterprises is subject to renewal approval jointly by the relevant authorities, upon expiry of the three-year grant period, according to the then prevailing income tax regulations.

(c) Under the new income tax law and its relevant regulations, a 50% additional tax deduction is allowed for qualified research and development expenses.

7 Directors' and supervisors' remuneration

The following table sets out the remuneration received or receivable by the Company's directors and supervisors.

	Directors'/ supervisors' fee	Salaries, allowances and other benefits	Discretionary bonuses	Retirement scheme contributions	Total
	RMB thousands	RMB thousands	RMB thousands	RMB thousands	RMB thousands
For the year ended December 31, 2007					
Executive directors					
ZHAN Chunxin	—	365	365	11	741
LIU Quan	—	300	300	11	611
Non-executive director					
QIU Zhongwei	—	—	—	—	—
Independent non-executive directors					
LIU Changkun	80	—	—	—	80
WANG Zhongming	80	—	—	—	80
LIU Keli	80	—	—	—	80
QIAN Shizheng^	—	—	—	—	—
Supervisors					
LONG Guojian	—	310	310	11	631
LUO Anping	—	190	190	10	390
LIU Chi	—	190	190	10	390
Total	240	1,355	1,355	53	3,003
For the year ended December 31, 2008					
Executive directors					
ZHAN Chunxin	—	365	365	13	743
LIU Quan	—	300	300	13	613
Non-executive director					
QIU Zhongwei	—	—	—	—	—
Independent non-executive directors					
LIU Changkun*	67	—	—	—	67
QIAN Shizheng^	80	—	—	—	80
WANG Zhongming	80	—	—	—	80
LIU Keli	80	—	—	—	80
Supervisors					
LONG Guojian	—	310	310	13	633
LUO Anping	—	190	190	12	392
LIU Chi	—	190	190	12	392
Total	307	1,355	1,355	63	3,080

	Directors'/ supervisors' fee	Salaries, allowances and other benefits	Discretionary bonuses	Retirement scheme contributions	Total
	RMB thousands	RMB thousands	RMB thousands	RMB thousands	RMB thousands
For the year ended December 31, 2009					
Executive directors					
ZHAN Chunxin	—	778	778	14	1,570
LIU Quan	—	530	530	14	1,074
Non-executive director					
QIU Zhongwei	—	—	—	—	—
Independent non-executive directors					
QIAN Shizheng	80	—	—	—	80
LIAN Weizeng^	47	—	—	—	47
WANG Zhile^	47	—	—	—	47
WANG Zhongming*	40	—	—	—	40
LIU Keli*	40	—	—	—	40
LIU Changkun*	—	—	—	—	—
Supervisors					
LONG Guojian	—	530	530	14	1,074
LUO Anping	—	312	312	13	637
LIU Chi	—	312	312	14	638
Total	254	2,462	2,462	69	5,247
For the six months ended June 30, 2010					
Executive directors					
ZHAN Chunxin	—	301	301	8	610
LIU Quan	—	167	167	8	342
Non-executive director					
QIU Zhongwei	—	—	—	—	—
Independent non-executive directors					
QIAN Shizheng	40	—	—	—	40
LIAN Weizeng	40	—	—	—	40
WANG Zhile	40	—	—	—	40
Supervisors					
LONG Guojian	—	328	328	8	664
LUO Anping	—	78	78	8	164
LIU Chi	—	163	163	8	334
Total	120	1,037	1,037	40	2,234

	Directors'/ supervisors' fee	Salaries, allowances and other benefits	Discretionary bonuses	Retirement scheme contributions	Total
	RMB thousands	RMB thousands	RMB thousands	RMB thousands	RMB thousands
For the six months ended June 30, 2009 (unaudited)					
Executive directors					
ZHAN Chunxin	—	301	301	7	609
LIU Quan	—	167	167	7	341
Non-executive director					
QIU Zhongwei	—	—	—	—	—
Independent non-executive directors					
QIAN Shizheng	40	—	—	—	40
LIAN Weizeng^	7	—	—	—	7
WANG Zhile^	7	—	—	—	7
WANG Zhongming*	40	—	—	—	40
LIU Keli*	40	—	—	—	40
LIU Changkun*	—	—	—	—	—
Supervisors					
LONG Guojian	—	265	265	7	537
LUO Anping	—	78	78	6	162
LIU Chi	—	156	156	7	319
Total	134	967	967	34	2,102

* Mr. Wang Zhongming and Mr. Liu Keli retired as independent non-executive directors of the Company on May 21, 2009. Mr. Liu Changkun retired as independent non-executive directors of the Company on July 13, 2009.

^ Mr. Qian Shizheng was appointed as an independent non-executive director of the Company on November 16, 2007. Mr. Lian Weizeng and Mr. Wang Zhile were appointed as independent non-executive directors of the Company on May 21, 2009.

None of these directors and supervisors received any inducements or compensation for loss of office, or waived any emoluments during the periods presented.

8 Individuals with highest emoluments

Of the five highest paid individuals of the Group, three individuals were directors or supervisors of the Company for the years ended December 31, 2007, 2008 and 2009, whose emoluments are disclosed in Note 7. Of the five highest paid individuals of the Group, two individuals were directors or supervisors of the Company for the six-month periods ended June 30, 2009 and 2010.

The aggregate of the emoluments in respect of the remaining two individuals for the years ended December 31, 2007, 2008 and 2009, and the remaining three individuals for the six-month periods ended June 30, 2009 and 2010 respectively, are as follows:

	The Group				
	For the years ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB thousands	RMB thousands	RMB thousands	RMB thousands	RMB thousands
				(unaudited)	
Salaries, allowances and other benefits in kind	1,200	1,300	3,058	1,941	1,779
Retirement scheme contributions	21	13	14	22	26
	1,221	1,313	3,072	1,963	1,805

For the years ended December 31, 2007, 2008 and 2009, and the six-month periods ended June 30, 2009 and 2010, the emoluments of the non-director/supervisor employees among the five highest paid individuals are within the following bands:

	The Group				
	For the years ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	Number of individuals	Number of individuals	Number of individuals	Number of individuals	Number of individuals
				(unaudited)	
Nil—RMB500,000	—	—	—	2	—
RMB 500,001—RMB1,000,000	2	2	—	1	3
RMB1,000,001—RMB1,500,000	—	—	1	—	—
RMB1,500,001—RMB2,000,000	—	—	1	—	—
	2	2	2	3	3

None of these employees received any inducements or compensation for loss of office, or waived any emoluments during the periods presented.

9 Profit attributable to equity holders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB1,442 million, RMB1,537 million, RMB2,395 million, RMB1,127 million (unaudited) and RMB2,155 million recorded in the stand-alone financial statements of the Company for the years ended December 31, 2007, 2008 and 2009, and for the six-month periods ended June 30, 2009 and 2010, respectively.

10 Basic and diluted earnings per share

For the purpose of calculating earnings per share, the number of ordinary shares used in the calculation has been retrospectively adjusted to reflect the stock split in the form of bonus shares issued in March 2007, May 2008, May 2009 and July 2010 (see Notes 26(c) and 36) as if it had occurred at the beginning of the earliest period presented and such shares had been outstanding for all periods.

The calculation of basic earnings per share for the years ended December 31, 2007, 2008 and 2009, and six-month periods ended June 30, 2009 and 2010 is based on the profit attributable to equity shareholders of the Company of RMB1,439 million, RMB1,544 million, RMB2,447 million, RMB1,136 million (unaudited) and RMB2,202 million respectively, and the weighted average number of shares of 4,183 million for years ended December 31, 2007, 2008 and 2009, and 4,183 million (unaudited) and 4,795 million for the six-month periods ended June 30, 2009 and 2010, respectively.

There were no dilutive potential ordinary shares in issue as at December 31, 2007, 2008 and 2009, and June 30, 2009 and 2010.

11 Segment reporting

The Group manages its businesses by divisions, which are organized by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments. No operating segments have been aggregated to form the following reportable segments:

(i) Concrete machinery segment: this segment primarily researches, develops, manufactures and sells various concrete machineries, including truck-mounted concrete pumps, trailer-mounted concrete pumps, concrete placing booms, concrete mixing plants, truck-mounted concrete mixers, truck-mounted line concrete pumps and self-propelled boom concrete pumps.

(ii) Crane machinery segment: this segment primarily researches, develops, manufactures and sells a variety of cranes, including truck cranes, all-terrain truck cranes, crawler cranes and various types of tower cranes.

(iii) Environmental and sanitation machinery segment: this segment primarily researches, develops, manufactures and sells a wide range of environmental and sanitation machineries, including road sweepers, washing vehicles and waste treatment equipment.

(iv) Road construction and pile foundation machinery segment: this segment primarily researches, develops, manufactures and sells different types of road construction and pile foundation machineries, including road surface heaters, motor graders, road rollers, pavers, road surface cold planners, asphalt mixing equipment and rotary drilling rigs.

(v) Earth working machinery: this segment primarily researches, develops, manufactures and sells a variety of earth working machineries, including loaders, bulldozers and excavators.

(vi) Material handling machinery and systems segment: this segment primarily researches, develops, manufactures and sells different types of machineries and systems for handling huge materials, including stackers and reclaimers, pipe conveyors, port loading/unloading equipment and portal cranes.

(vii) Finance lease segment: this segment primarily provides finance lease services to customers for purchasing machinery products of the Group and from other vendors.

Other operating segments of the Group include research, development, manufacturing and sale of other machinery products, including specialized vehicles and vehicle axles. None of these segments met any of the quantitative thresholds for determining reportable segments for the years ended December 31, 2007, 2008 and 2009 and the six-month period ended June 30, 2010.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases:

The measure used for reporting segment profit is turnover less cost of sales and services.

A measurement of segment assets and liabilities is not provided regularly to the Group's most senior executive management and accordingly, no segment assets or liabilities information is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended December 31, 2007, 2008 and 2009, and the six–month periods ended June 30, 2009 and 2010 is set out below:

	The Group				
	For the years ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions (unaudited)	RMB millions
Reportable segment revenue:					
Concrete machinery	3,509	4,682	7,157	3,534	7,037
Crane machinery	4,206	6,237	8,298	3,663	5,910
Environmental and sanitation machinery	564	871	1,230	474	710
Road construction and pile foundation machinery	487	610	787	391	539
Earth working machinery	—	116	445	201	450
Material handling machinery and systems	—	261	873	163	281
Finance lease services	14	136	397	167	354
Total reportable segment revenue	8,780	12,913	19,187	8,593	15,281
Revenue from all other segments	193	635	1,575	634	808
Total	8,973	13,548	20,762	9,227	16,089
Reportable segment profit:					
Concrete machinery	1,126	1,292	2,042	985	2,182
Crane machinery	1,116	1,638	1,963	876	1,634
Environmental and sanitation equipment	183	271	406	139	234
Road construction and pile foundation machinery	83	235	260	135	193
Earth working machinery	—	5	72	25	81
Material handling machinery and systems	—	64	86	31	17
Finance lease services	12	127	232	144	195
Total reportable segment profit	2,520	3,632	5,061	2,335	4,536
Profit from all other segments	48	74	279	42	115
Total	2,568	3,706	5,340	2,377	4,651

(b) Reconciliation of segment profit

	The Group				
	For the years ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
				(unaudited)	
Total segment profit	2,568	3,706	5,340	2,377	4,651
Other revenues and net income	19	142	105	28	6
Sales and marketing expenses	(691)	(959)	(1,250)	(439)	(986)
General and administrative expenses	(400)	(734)	(878)	(420)	(852)
Research and development expenses	(83)	(120)	(194)	(82)	(116)
Gain on disposal of lease prepayments	106	—	—	—	—
Gain/(loss) on disposal of subsidiaries and associates	12	3	(6)	—	—
Net finance costs	(60)	(301)	(295)	(174)	(150)
Share of profits less losses of associates	—	7	6	—	5
Consolidated profit before taxation	1,471	1,744	2,828	1,290	2,558

(c) Geographic information

The following tables set out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, and lease prepayments ("specified non-current assets"). The geographical location of revenue is based on the selling location. The geographical location of specified non-current assets is based on the physical location of the asset. No geographic information is presented for trademarks, technical know-how and goodwill as these assets are commonly used by the Group both in and outside PRC. All other non-current assets are physically located in the PRC, except for customer relationships acquired through business combination of CIFA, which are determined to be outside PRC.

	The Group				
	For the years ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
				(unaudited)	
Revenue from external customers					
Mainland PRC	8,973	13,017	18,993	8,468	15,305
Outside PRC, primarily from Italy	—	531	1,769	759	784
Total	8,973	13,548	20,762	9,227	16,089

	The Group			
	As at December 31,			As at June 30,
	2007	2008	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions
Specified non-current assets				
Mainland PRC	1,727	3,583	4,287	4,639
Outside PRC, primarily in Italy	—	337	303	237
Total	1,727	3,920	4,590	4,876

12 Property, plant and equipment

The Group

	Buildings	Machinery, plant and equipment	Motor vehicles and office equipment	Construction in progress	Total
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Cost:					
Balance at January 1, 2007	564	490	142	197	1,393
Additions	25	53	47	219	344
Transferred from construction in progress	67	28	14	(109)	—
Acquired through business combinations	74	60	7	5	146
Disposals	(2)	(168)	(18)	—	(188)
Balance at December 31, 2007	728	463	192	312	1,695
Balance at January 1, 2008	728	463	192	312	1,695
Additions	20	154	85	691	950
Transferred from construction in progress	102	54	27	(183)	—
Acquired through business combinations	442	412	61	2	917
Disposals	(34)	(55)	(32)	—	(121)
Effect of exchange rate difference	—	(1)	—	—	(1)
Balance at December 31, 2008	1,258	1,027	333	822	3,440
Balance at January 1, 2009	1,258	1,027	333	822	3,440
Additions	45	95	128	706	974
Transferred from construction in progress	555	421	12	(988)	—
Acquired through business combinations	16	15	1	—	32
Disposals	(42)	(39)	(54)	—	(135)
Effect of exchange rate difference	2	7	1	—	10
Balance at December 31, 2009	1,834	1,526	421	540	4,321
Balance at January 1, 2010	1,834	1,526	421	540	4,321
Additions	30	26	43	249	348
Transferred from construction in progress	291	98	7	(396)	—
Disposals	(9)	(21)	(13)	(6)	(49)
Reclassification	—	(37)	37	—	—
Effect of exchange rate difference	(10)	(34)	(9)	—	(53)
Balance at June 30, 2010	2,136	1,558	486	387	4,567

	Buildings	Machinery, plant and equipment	Motor vehicles and office equipment	Construction in progress	Total
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Accumulated depreciation and impairment:					
Balance at January 1, 2007	(85)	(146)	(54)	—	(285)
Depreciation charge for the year	(23)	(42)	(19)	—	(84)
Impairment losses for the year	(1)	(2)	(2)	—	(5)
Written back on disposals	—	55	7	—	62
Balance at December 31, 2007	(109)	(135)	(68)	—	(312)
Balance at January 1, 2008	(109)	(135)	(68)	—	(312)
Depreciation charge for the year	(44)	(101)	(34)	—	(179)
Impairment losses for the year	(1)	—	(1)	—	(2)
Written back on disposals	14	24	21	—	59
Balance at December 31, 2008	(140)	(212)	(82)	—	(434)
Balance at January 1, 2009	(140)	(212)	(82)	—	(434)
Depreciation charge for the year	(70)	(124)	(51)	—	(245)
Impairment losses for the year	—	—	(5)	—	(5)
Written back on disposals	10	24	13	—	47
Effect of exchange rate difference	—	(1)	—	—	(1)
Balance at December 31, 2009	(200)	(313)	(125)	—	(638)
Balance at January 1, 2010	(200)	(313)	(125)	—	(638)
Depreciation charge for the period	(46)	(91)	(35)	—	(172)
Written back on disposals	3	9	5	—	17
Reclassification	—	4	(4)	—	—
Effect of exchange rate difference	2	8	2	—	12
Balance at June 30, 2010	(241)	(383)	(157)	—	(781)
Net book value:					
Balance at December 31, 2007	619	328	124	312	1,383
Balance at December 31, 2008	1,118	815	251	822	3,006
Balance at December 31, 2009	1,634	1,213	296	540	3,683
Balance at June 30, 2010	1,895	1,175	329	387	3,786

The Company

	Buildings	Machinery, plant and equipment	Motor vehicles and office equipment	Construction in progress	Total
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Cost:					
Balance at January 1, 2007	521	460	110	196	1,287
Additions	18	47	48	212	325
Transferred from construction in progress	23	70	13	(106)	—
Disposals	(1)	(143)	(9)	—	(153)
Balance at December 31, 2007	561	434	162	302	1,459
Balance at January 1, 2008	561	434	162	302	1,459
Additions	19	80	70	671	840
Transferred from construction in progress	148	8	7	(163)	—
Disposals	(2)	(29)	(11)	—	(42)
Balance at December 31, 2008	726	493	228	810	2,257
Balance at January 1, 2009	726	493	228	810	2,257
Additions	39	60	113	458	670
Transferred from construction in progress	404	352	4	(760)	—
Disposals	(25)	(19)	(26)	—	(70)
Balance at December 31, 2009	1,144	886	319	508	2,857
Balance at January 1, 2010	1,144	886	319	508	2,857
Additions	29	9	27	223	288
Transferred from construction in progress	284	61	7	(352)	—
Disposals	(2)	(10)	(9)	(6)	(27)
Transferred to subsidiaries	—	(29)	(8)	(2)	(39)
Reclassification	—	(37)	37	—	—
Balance at June 30, 2010	1,455	880	373	371	3,079

	Buildings	Machinery, plant and equipment	Motor vehicles and office equipment	Construction in progress	Total
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Accumulated depreciation and impairment:					
Balance at January 1, 2007	(82)	(136)	(43)	—	(261)
Depreciation charge for the year	(21)	(39)	(16)	—	(76)
Written back on disposals	—	48	4	—	52
Balance at December 31, 2007	(103)	(127)	(55)	—	(285)
Balance at January 1, 2008	(103)	(127)	(55)	—	(285)
Depreciation charge for the year	(20)	(47)	(23)	—	(90)
Impairment losses for the year	—	—	(1)	—	(1)
Written back on disposals	—	9	10	—	19
Balance at December 31, 2008	(123)	(165)	(69)	—	(357)
Balance at January 1, 2009	(123)	(165)	(69)	—	(357)
Depreciation charge for the year	(30)	(55)	(37)	—	(122)
Impairment losses for the year	—	—	(5)	—	(5)
Written back on disposals	3	13	8	—	24
Balance at December 31, 2009	(150)	(207)	(103)	—	(460)
Balance at January 1, 2010	(150)	(207)	(103)	—	(460)
Depreciation charge for the period	(26)	(45)	(25)	—	(96)
Written back on disposals	—	5	3	—	8
Transferred to subsidiaries	—	4	3	—	7
Reclassification	—	4	(4)	—	—
Balance at June 30, 2010	(176)	(239)	(126)	—	(541)
Net book value:					
Balance at December 31, 2007	458	307	107	302	1,174
Balance at December 31, 2008	603	328	159	810	1,900
Balance at December 31, 2009	994	679	216	508	2,397
Balance at June 30, 2010	1,279	641	247	371	2,538

13 Intangible assets

The Group

	Trademarks	Technical know how	Software, patents and similar rights	Customer relationships	Capitalized development costs	Total
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Cost:						
Balance at January 1, 2007	36	33	8	—	—	77
Additions	—	—	6	—	—	6
Balance at December 31, 2007	36	33	14	—	—	83
Balance at January 1, 2008	36	33	14	—	—	83
Additions	—	—	8	—	4	12
Acquired through business combinations	854	93	18	412	15	1,392
Disposals	—	(31)	—	—	—	(31)
Effect of exchange rate difference	(8)	(1)	—	(4)	—	(13)
Balance at December 31, 2008	882	94	40	408	19	1,443
Balance at January 1, 2009	882	94	40	408	19	1,443
Additions	—	—	57	—	13	70
Disposals	—	—	(1)	—	—	(1)
Effect of exchange rate difference	24	3	1	12	1	41
Balance at December 31, 2009	906	97	97	420	33	1,553
Balance at January 1, 2010	906	97	97	420	33	1,553
Additions	—	—	8	—	5	13
Effect of exchange rate difference	(133)	(15)	(4)	(65)	(6)	(223)
Balance at June 30, 2010	773	82	101	355	32	1,343

	Trademarks	Technical know how	Software, patents and similar rights	Customer relationships	Capitalized development costs	Total
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Accumulated amortization and impairment:						
Balance at January 1, 2007	(15)	(13)	(2)	—	—	(30)
Amortization for the year	—	(3)	(1)	—	—	(4)
Balance at December 31, 2007	(15)	(16)	(3)	—	—	(34)
Balance at January 1, 2008	(15)	(16)	(3)	—	—	(34)
Amortization for the year	—	(3)	(5)	(8)	(2)	(18)
Impairment losses for the year	(22)	—	—	—	—	(22)
Written back on disposals	—	17	—	—	—	17
Balance at December 31, 2008	(37)	(2)	(8)	(8)	(2)	(57)
Balance at January 1, 2009	(37)	(2)	(8)	(8)	(2)	(57)
Amortization for the year	—	(7)	(14)	(34)	(8)	(63)
Effect of exchange rate difference	—	—	—	(1)	—	(1)
Balance at December 31, 2009	(37)	(9)	(22)	(43)	(10)	(121)
Balance at January 1, 2010	(37)	(9)	(22)	(43)	(10)	(121)
Amortization for the period	—	(3)	(7)	(16)	(5)	(31)
Effect of exchange rate difference	—	2	1	7	1	11
Balance at June 30, 2010	(37)	(10)	(28)	(52)	(14)	(141)
Net book value:						
Balance at December 31, 2007	21	17	11	—	—	49
Balance at December 31, 2008	845	92	32	400	17	1,386
Balance at December 31, 2009	869	88	75	377	23	1,432
Balance at June 30, 2010	736	72	73	303	18	1,202

The additions of intangible assets in 2008 arose from the acquisition of CIFA. The fair value of the acquired intangible assets was based on a valuation performed by an independent appraiser. Further details of the acquisition of CIFA are set out in Note 14(b)(ii).

The Company

	Trademarks	Technical know how	Software, patents and similar rights	Total
	RMB millions	RMB millions	RMB millions	RMB millions
Cost:				
Balance at January 1, 2007	36	2	8	46
Additions	—	—	5	5
Balance at December 31, 2007	36	2	13	51
Balance at January 1, 2008	36	2	13	51
Additions	—	—	8	8
Balance at December 31, 2008	36	2	21	59
Balance at January 1, 2009	36	2	21	59
Additions	—	—	45	45
Balance at December 31, 2009	36	2	66	104
Balance at January 1, 2010	36	2	66	104
Additions	—	—	8	8
Balance at June 30, 2010	36	2	74	112
Accumulated amortization and impairment:				
Balance at January 1, 2007	(14)	(1)	(2)	(17)
Amortization for the year	—	—	(1)	(1)
Balance at December 31, 2007	(14)	(1)	(3)	(18)
Balance at January 1, 2008	(14)	(1)	(3)	(18)
Amortization for the year	—	—	(2)	(2)
Impairment loss	(22)	—	—	(22)
Balance at December 31, 2008	(36)	(1)	(5)	(42)
Balance at January 1, 2009	(36)	(1)	(5)	(42)
Amortization for the year	—	—	(3)	(3)
Balance at December 31, 2009	(36)	(1)	(8)	(45)
Balance at January 1, 2010	(36)	(1)	(8)	(45)
Amortization for the period	—	—	(4)	(4)
Balance at June 30, 2010	(36)	(1)	(12)	(49)
Net book value:				
Balance at December 31, 2007	22	1	10	33
Balance at December 31, 2008	—	1	16	17
Balance at December 31, 2009	—	1	58	59
Balance at June 30, 2010	—	1	62	63

The impairment loss of trademarks in 2008 relates to the trademark "Zhong Biao" used for environmental and sanitation machinery products, which was acquired in 2003. In 2008, the Group adopted an unified trademark of "Zoomlion" on all of the Group's products manufactured in the PRC and abandoned the use of the "Zhong Biao" trademark. Therefore, a full impairment provision was made against this trademark as the Group expects that there will be no future cash flows arising from the use of this trademark. The impairment loss was recorded in general and administrative expenses.

14 Goodwill

	The Group			
	2007	2008	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions
Balance at January 1	—	—	2,029	2,082
Acquired through business combinations	—	2,029	—	—
Effect of exchange rate difference	—	—	53	(270)
Balance at December 31/June 30	—	2,029	2,082	1,812

During the periods presented, the Company had the following significant business combinations:

(a) Business combinations in 2007

In December 2007, the Company completed the acquisitions of the entities listed below (including the entire assets and business operations of Hunan Zoomlion Special Vehicles Co., Ltd. (formerly known as Puyuan Motor Vehicles Co., Ltd.) from Research Institute and its affiliated companies and certain third parties for total cash consideration of RMB283 million (RMB270 million paid/payable to Research Institute and its affiliated companies), of which RMB214 million was paid and RMB65 million and RMB4 million were included in amounts due to related parties and accrued expenses and other payables, respectively as at December 31, 2007.

Name of entity	Acquired from related parties	Acquired from third parties	Total acquired
Changsha High-tech Development Area Zhongwang Co., Ltd.	90.0%	10.0%	100.0%
Hunan Teli Hydraulic Co., Ltd.	66.8%	—	66.8%
Puyuan Construction Machinery Head Factory Shanghai Branch Factory	67.4%	—	67.4%
Hunan Changde Wuling Second Factory	75.5%	24.5%	100.0%
Hunan Zhongchen Rolled Steel Manufacturing Engineering Co., Ltd. (Note)	40.0%	—	40.0%
Hunan Zoomlion Special Vehicles Co., Ltd.	100.0%	—	100.0%

Note:
Prior to the acquisition, the Group owned 22% equity interest in this entity. After the acquisition, the Group owns 62% equity interest in the entity and has consolidated this entity.

Historically, the above entities were vendors of raw materials and components for the Group's products and providers of procurement services. The Company acquired these entities to streamline the supply of raw materials and components in production and to reduce related party transactions.

The above acquisitions were accounted for under the acquisition method. The Company allocated the purchase price to identifiable assets acquired and liabilities assumed based on their estimated fair values. Management determined the fair values of the identifiable assets acquired and liabilities assumed based on respective valuations performed by an independent appraiser.

The following table summarizes the purchase price allocation of the fair value of the identifiable assets acquired and liabilities assumed in respect of the above acquisitions at the acquisition date.

	RMB millions
Property, plant and equipment	146
Lease prepayments	37
Deferred tax assets	4
Inventories	151
Trade and other receivables	418
Cash and cash equivalents	49
Total assets acquired	805
Loans and borrowings	(28)
Trade and other payables	(364)
Income tax payable	(5)
Deferred tax liabilities	(12)
Total liabilities assumed	(409)
Non-controlling interests	(84)
Gain on bargain purchase	(29)
Total cost of acquisition	283
Considerations payable	(69)
Cash acquired	(49)
Net cash outflow	165

Had the acquisitions of the 2007 acquired entities occurred on January 1, 2007, management estimates that, on a pro forma basis, consolidated turnover of the Group for the year ended December 31, 2007 would have been RMB9,170 million and consolidated profit for the year ended December 31, 2007 would have been RMB1,519 million. In determining these figures it has been assumed that the fair value adjustments at January 1, 2007 would have been the same as the fair value adjustments that arose at the respective dates of acquisitions in respect of the 2007 acquired entities. This pro forma financial information has been prepared taking into account the impact of fair value adjustments on property, plant and equipment, and the related adjustments on deferred taxes and depreciation. The pro forma financial information does not purport to represent the actual results of the Group that would have been had the respective acquisitions taken place on January 1, 2007 and should not be taken to be representative of future results.

(b) Business combinations in 2008

(i) Business combinations in the PRC

In 2008, the Company completed the acquisitions of the entities listed below from third parties for cash consideration of RMB525 million. The primary reason for these acquisitions was to expand the Group's product portfolio of machineries.

Name of entity	Equity interest acquired	Date of acquisition	Principal activities
Shaanxi Zoomlion Earth Working Machinery Co., Ltd. ("Zoomlion Earth Working", formerly known as Shaanxi Xinhuanggong Machinery Co., Ltd.)	100%	June 2008	Manufacture of earth working machinery
Hunan Zoomlion Axle Co., Ltd. ("Zoomlion Axle") . . .	84.9%	June 2008	Manufacture of motor vehicle components
Zoomlion Material Handling Equipment Co., Ltd. ("Zoomlion Material Handling", formerly known as Huatai Machinery Manufacturing Co., Ltd.)	82%	July 2008	Manufacture of material handling machinery

The above business combinations were accounted for under the acquisition method. The Company allocated the purchase price to identifiable assets acquired and liabilities assumed based on their estimated fair values. Management determined the fair values of the identifiable assets acquired and liabilities assumed based on valuations performed by an independent appraiser. Goodwill of RMB135 million, RMB11 million and RMB67 million was recognized for the acquisitions of Zoomlion Earth Working, Zoomlion Axle and Zoomlion Material Handling respectively, which relates to the assembled workforce of Zoomlion Earth Working, Zoomlion Axle and Zoomlion Material Handling and the synergies expected to be achieved from integrating the business of these entities with the Group's existing business. The goodwill recognized in connection with the acquisitions of Zoomlion Earth Working, Zoomlion Axle and Zoomlion Material Handling is not deductible for tax purposes. The goodwill arising from the acquisition of Zoomlion Earth Working, Zoomlion Axle and Zoomlion Material Handling respectively is allocated to the related business segments these entities belong to, which represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

The following table summarizes the aggregate purchase price allocation of the fair value of the identifiable assets acquired and liabilities assumed in respect of the above acquisitions at the acquisition date.

	RMB millions
Property, plant and equipment	577
Lease prepayments	416
Other financial assets	3
Deferred tax assets	7
Inventories	344
Trade and other receivables	599
Cash and cash equivalents	139
Total assets acquired	2,085
Loans and borrowings	(225)
Trade and other payables	(1,377)
Deferred tax liabilities	(74)
Total liabilities assumed	(1,676)
Non-controlling interests	(97)
Goodwill	213
Total cost of acquisition	525
Cash acquired	(139)
Net cash outflow	386

(ii) Business combination in Europe

In September 2008, the Company and other three co-investors acquired 100% of the equity interests in CIFA, an unlisted Italian company. The Company's share of CIFA's equity interest is 60% and the other co-investors' share is 40%. CIFA is engaged in the manufacturing of concrete machinery, including truck-mounted concrete pumps and truck mixers. The Company's cost of acquisition was approximately EUR162.6 million (equivalent to RMB1,680 million) payable in cash. The primary reason for the acquisition was to expand the Group's product portfolio and geographical markets. The business combination was recorded using the acquisition method of accounting. The fair value of the identifiable assets acquired and liabilities assumed of CIFA was based on a valuation performed by an independent appraiser. Goodwill of RMB1,816 million was recorded for the acquisition, which relates to the assembled workforce of CIFA and the synergies expected to be achieved from integrating CIFA's concrete machinery business with the Group's existing business. The goodwill recognized in connection with the business combination of CIFA is not deductible for tax purpose. The goodwill arising from the acquisition of CIFA is allocated to Group's concrete machinery business segment, which represents the lowest level within the Group at which the goodwill is monitored for internal management purpose.

The following table summarizes the aggregate purchase price allocation of the fair value of the identifiable assets acquired and liabilities assumed in respect of the above acquisition at the acquisition date.

	RMB millions
Property, plant and equipment	340
Intangible assets	1,392
Interests in associates	3
Deferred tax assets	68
Inventories	1,008
Trade and other receivables	1,036
Cash and cash equivalents	197
Total assets acquired	4,044
Loans and borrowings	(2,453)
Trade and other payables	(1,218)
Income tax payable	(85)
Deferred tax liabilities	(498)
Total liabilities assumed	(4,254)
Non-controlling interests	74
Goodwill	1,816
Total cost of acquisition	1,680
Cash acquired	(197)
Net cash outflow	1,483

(iii) From the respective acquisition dates of Zoomlion Earth Working, Zoomlion Axle, Zoomlion Material Handling and CIFA (the "2008 acquired entities") to December 31, 2008, the 2008 acquired entities contributed a total of RMB1,414 million to the consolidated turnover and RMB42 million to the consolidated profit of the Group for the year ended December 31, 2008.

Had the acquisitions of the 2008 acquired entities occurred on January 1, 2008, management estimates that, on a pro forma basis, consolidated turnover of the Group for the year ended December 31, 2008 would have been RMB16,894 million and consolidated profit for the year ended December 31, 2008 would have been RMB1,587 million. In determining these figures it has been assumed that the fair value adjustments at January 1, 2008 would have been the same as the fair value adjustments that arose at the respective dates of acquisitions in respect of the 2008 acquired entities. This pro forma financial information has been prepared taking into account the impact of fair value adjustments on property, plant and equipment and intangible assets, and the related adjustments on deferred taxes, depreciation and amortization. The pro forma financial information does not purport to represent the actual results of the Group that would have been had the respective acquisitions taken place on January 1, 2008 and should not be taken to be representative of future results.

(c) Business combination in 2009

In January 2009, the Company acquired from third parties 75% of the equity interests in Changde Zoomlion Hydraulic Pressure Co., Ltd. (formerly known as Changde Xincheng Hydraulic Pressure Co., Ltd.), which is a manufacturer of hydraulic components in the PRC, in order to strengthen the supply chain of hydraulic components. The purchase price was

RMB30 million cash which approximated the Company's share of fair value of the acquiree's identifiable net assets at acquisition date. The financial statements of the acquiree has been consolidated into the Group's consolidated financial statements since January 1, 2009.

(d) Goodwill impairment test

In accordance with the Group's accounting policies, management has assessed the recoverable amount of the goodwill and determined that goodwill has not been impaired. The recoverable amount of the respective cash-generating units has been determined by a value-in-use calculation, which uses cash flow projections based on financial budgets approved by management. For the acquirees in the PRC, the cash flow projections covered a period of five years and adopted a pre-tax discount rate of approximately 19.0%; while for CIFA, the cash flow projections covered a period of three years and adopted a pre-tax discount rate of approximately 11.3%. The discount rates were determined based on the applicable weighted average cost of capital of the acquirees in the PRC and CIFA respectively, which reflect the time value of money and the specific risks relating to the respective acquirees' businesses. The cash flow projections have taken into account the historical financial performance, expected sales growth rates and profit margins of the respective acquirees, market conditions and other available information. The assumptions used are based on management's past experience of the specific market, having made reference to external sources of information. Cash flows beyond the five-year period and three-year period for the acquirees in the PRC and CIFA are extrapolated using estimated growth rate of 3.0% and 2.5% respectively, that do not exceed the long-term average growth rate for the business in which the respective cash-generating units operate.

15 Interests in associates

	The Group				The Company			
	As at December 31,			As at June 30,	As at December 31,			As at June 30,
	2007	2008	2009	2010	2007	2008	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Unlisted share, at cost	—	—	—	—	81	62	52	53
Share of net assets	87	78	71	70	—	—	—	—
	87	78	71	70	81	62	52	53

The following contains particulars of the principal associates of the Group as at June 30, 2010:

Name of company	Particulars of issued and paid up capital (millions)	The Group's effective interest in the company	Principal activities
Changsha Zoomlion Fire Control Machinery Co., Ltd.	RMB 11	49%	Manufacture of fire fighting vehicles and equipment
Bichamp Cutting Technology (Hunan) Co., Ltd.	RMB 100	32%	Manufacture of metallic products and materials

None of the associates is individually and in aggregate material to the Group's and the Company's financial condition or results of operations for all periods presented.

16 Inventories

	The Group				The Company			
	As at December 31,			As at June 30,	As at December 31,			As at June 30,
	2007	2008	2009	2010	2007	2008	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB Millions	RMB millions	RMB millions
Raw materials	939	2,398	3,055	3,068	724	1,654	1,768	2,143
Work in progress	770	1,017	1,620	1,676	681	686	1,194	1,166
Finished goods	923	1,756	1,597	2,430	915	1,201	1,247	2,244
	2,632	5,171	6,272	7,174	2,320	3,541	4,209	5,553

17 Trade and other receivables

	The Group				The Company			
	As at December 31,			As at June 30,	As at December 31,			As at June 30,
	2007	2008	2009	2010	2007	2008	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Trade receivables	1,822	3,936	5,401	8,175	1,702	2,533	3,826	6,689
Less: allowance for doubtful debts (Note (b))	(153)	(255)	(340)	(572)	(133)	(182)	(249)	(479)
	1,669	3,681	5,061	7,603	1,569	2,351	3,577	6,210
Less: trade receivables due after one year	(86)	(106)	(229)	(479)	(86)	(106)	(215)	(477)
	1,583	3,575	4,832	7,124	1,483	2,245	3,362	5,733
Bills receivable (Note (c))	191	308	491	408	163	100	171	215
	1,774	3,883	5,323	7,532	1,646	2,345	3,533	5,948
Amounts due from related parties (Note 31(b))	138	23	29	58	135	23	25	52
Amounts due from subsidiaries	—	—	—	—	473	1,730	4,405	5,500
Prepayments for purchase of raw materials	264	329	394	886	271	190	128	306
Prepayments for purchase of property, plant and equipment	61	8	20	186	37	8	14	148
Prepaid expenses	105	87	113	200	12	22	24	57
VAT recoverable	—	231	81	192	—	131	55	33
Others	95	221	305	361	13	21	58	200
	2,437	4,782	6,265	9,415	2,587	4,470	8,242	12,244

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

The Group allows certain customers with appropriate credit standing to make payments in equal monthly installments over a maximum period of 24 months ("installment payment method"). Installment payments with terms more than one year are discounted at a rate which approximates the debtor's borrowing rate in transactions with an independent lender under comparable terms and conditions. For the years ended December 31, 2007, 2008 and 2009, and six-month period ended June 30, 2010, the weighted average discount rates were approximately 5.3%, 5.3%, 5.3% and 5.3% per annum, respectively. As at December 31, 2007, 2008 and 2009, and June 30, 2010, trade receivables due after one year of RMB86 million, RMB106 million, RMB229 million, and RMB479 million were presented net of unearned interest of RMB6 million, RMB7 million, RMB14 million, and RMB30 million, respectively.

(a) Ageing analysis of trade receivables

Ageing analysis of trade receivables (net of allowance for doubtful debts) as at the balance sheet dates is as follows:

	The Group				The Company			
	As at December 31,			As at June 30,	As at December 31,			As at June 30,
	2007	2008	2009	2010	2007	2008	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Within 1 month	608	1,579	2,133	2,848	621	593	1,252	2,271
Over 1 month but less than 3 months	163	532	382	944	145	364	259	809
Over 3 months but less than 1 year	594	1,109	1,427	2,630	527	989	1,074	2,120
Over 1 year but less than 2 years	207	392	931	913	197	366	834	779
Over 2 years but less than 3 years	53	32	161	222	44	13	143	193
Over 3 years but less than 5 years	44	37	27	46	35	26	15	38
	1,669	3,681	5,061	7,603	1,569	2,351	3,577	6,210

As part of the Group's ongoing control procedures, management monitors the creditworthiness of customers to which it grants credit in the normal course of business. Credit terms normally range from 1 to 3 months from the date of billing, except that for certain products, customers are allowed to withhold retention money amounting to 5-10 percents of the invoice amount until the product's warranty period expires. Credit exposure limits are established to avoid concentration risk with respect to any single customer.

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (Note 2(j)).

The movement in the allowance for doubtful debts during the periods presented, including both specific and collective loss components, is as follows:

	The Group				The Company			
	2007	2008	2009	2010	2007	2008	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Balance at January 1	(90)	(153)	(255)	(340)	(75)	(133)	(182)	(249)
Impairment losses recognized	(65)	(104)	(87)	(247)	(60)	(50)	(68)	(245)
Uncollected amounts written off	2	2	2	15	2	1	1	15
Balance at December 31/ June 30	(153)	(255)	(340)	(572)	(133)	(182)	(249)	(479)

(c) To manage credit risk, the Group may from time to time demand customers to pay by bills receivable. Bills receivable primarily represent short-term bank acceptance notes receivable that entitle the Group to receive the full face amount from the banks at maturity, which generally ranges from 1 to 6 months from the date of issuance. Historically, the Group had experienced no credit losses on bills receivable.

18 Receivables under finance lease

	The Group			
	As at December 31,			As at June 30,
	2007	2008	2009	2010
	RMB millions	RMB millions	RMB millions	RMB 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

The Group provides equipment finance lease services to customers purchasing machinery products of the Group or other vendors through its leasing subsidiaries. Under the finance lease arrangement, the collectability of the minimum lease payments is reasonably predictable, there is no significant uncertainty surrounding the amount of un-reimbursable cost yet to be incurred by the Group under the lease arrangement. The finance lease contracts entered into by the Group typically are for a period of 2 to 4 years. At the end of the lease term, the lessee has an option to purchase the leased machinery at nominal value and the ownership of the leased machinery is then transferred to the lessee. The leases do not provide any guarantee of residual values. The Group monitors the credit risk arising from finance lease arrangement through various control measures as set out in Note 28(a). Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, finance income under finance lease is recognized in accordance with the accounting policies as set out in Note 2(o)(ii). The minimum lease payments receivable at the respective balance sheet dates are as follows:

	The Group			
	As at December 31,			As at June 30,
	2007	2008	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions
Present value of the minimum lease payments				
Within 1 year	126	815	3,283	5,607
Over 1 year but less than 2 years	137	805	2,665	4,654
Over 2 years but less than 3 years	104	501	1,865	3,132
Over 3 years	14	126	530	980
	381	2,247	8,343	14,373
Unearned finance income				
Within 1 year	26	115	478	882
Over 1 year but less than 2 years	13	56	252	456
Over 2 years but less than 3 years	7	30	96	180
Over 3 years	2	8	21	38
	48	209	847	1,556
Gross investment				
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
	429	2,456	9,190	15,929

As at December 31, 2007, 2008 and 2009, and June 30, 2010, receivables under finance lease of RMB43 million, RMB1,018 million, RMB4,671 million and RMB7,570 million respectively (included in the above balances) were factored to banks with recourse.

19 Pledged bank deposits

The pledged bank deposits represent cash maintained at banks as security for guarantees of payment relating to the issuance of bills payable to certain vendors of the Group, for guarantees given by the Group to banks in respect of loans provided by such banks to certain customers for purchase of the Group's products (Note 30(a)) and for finance lease receivables that have been factored. Upon maturity of the bills payable, which generally range from 3 to 6 months, or upon full repayment of the customers' loans or finance lease receivables, the restriction on the bank deposits is released.

20 Cash and cash equivalents

	The Group				The Company			
	As at December 31,			As at June 30,	As at December 31,			As at June 30,
	2007	2008	2009	2010	2007	2008	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Cash at bank and on hand								
—RMB denominated	701	2,203	2,965	6,305	546	1,798	2,270	5,265
—USD denominated	28	567	344	343	—	—	7	102
—EUR denominated	—	143	112	340	—	1	1	1
—Other currencies	—	—	18	53	—	—	14	10
	729	2,913	3,439	7,041	546	1,799	2,292	5,378

21 Loans and borrowings

(a) Short-term loans and borrowings:

		The Group				The Company			
		As at December 31,			As at June 30,	As at December 31,			As at June 30,
		2007	2008	2009	2010	2007	2008	2009	2010
	Note	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Secured short-term bank loans									
—RMB denominated	(i)	28	131	55	65	—	—	—	—
—EUR denominated	(ii)	—	2,337	2,475	—	—	—	—	—
Unsecured short-term bank loans									
—RMB denominated		759	1,340	1,012	30	748	1,020	470	—
—JPY denominated		—	42	568	632	—	—	133	572
—EUR denominated		—	94	144	376	—	—	—	214
—USD denominated		41	674	2,002	1,882	14	259	1,041	1,098
—Other currencies		—	—	—	61	—	—	—	—
Unsecured RMB denominated commercial paper	(iii)	—	900	—	—	—	900	—	—
Current portion of long-term bank loans		19	716	2,297	3,822	—	200	—	384
		847	6,234	8,553	6,868	762	2,379	1,644	2,268

Notes:

(i) The RMB denominated secured short-term bank loans as at December 31, 2007, 2008 and 2009, and June 30, 2010 respectively, were secured by certain properties with an aggregate carrying value of RMB13 million, RMB133 million, RMB85 million and RMB88 million.

(ii) As at December 31, 2008 and 2009, the EUR denominated secured short-term bank loans were secured by trade receivables and 100% equity interests of the Company's certain subsidiaries in Italy. The loans were subject to the fulfillment of certain quarterly financial covenants applicable to the Company's subsidiaries in Italy. Such loans were fully repaid in June 2010.

(iii) The RMB denominated unsecured commercial paper was issued on February 2, 2008 and repaid on February 3, 2009. The commercial paper bore interest at 6.3% per annum and was used to repay bank loans and provide working capital.

(b) Long-term loans and borrowings:

		The Group				The Company			
		As at December 31,			As at June 30,	As at December 31,			As at June 30,
		2007	2008	2009	2010	2007	2008	2009	2010
	Note	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Secured long-term bank loans									
—RMB denominated	(i)	43	1,014	4,515	7,337	—	—	—	—
—EUR denominated	(ii)	—	—	—	1,486	—	—	—	—
Unsecured long-term bank loans									
—RMB denominated	(iii)	300	1,409	486	484	300	1,407	485	483
—EUR denominated	(iv)	—	14	12	831	—	—	—	—
—USD denominated	(v)	—	1,344	1,815	2,081	—	—	—	272
Unsecured bond	(vi)	—	1,089	1,090	1,091	—	1,089	1,090	1,091
		343	4,870	7,918	13,310	300	2,496	1,575	1,846
Less: Current portion of long-term bank loans . . .		(19)	(716)	(2,297)	(3,822)	—	(200)	—	(384)
		324	4,154	5,621	9,488	300	2,296	1,575	1,462

Notes:

(i) The RMB denominated secured long-term bank loans as at December 31, 2007, 2008 and 2009, and June 30, 2010 were secured by certain receivables under finance lease with a carrying value of RMB43 million, RMB1,018 million, RMB4,671 million and RMB7,570 million and had maturities ranging from 1 to 4 years from the respective balance sheet date.

(ii) As at June 30, 2010, the EUR denominated secured long-term bank loans are secured by 100% equity interest of certain Company's subsidiaries in Italy. Such loans bear interest at EURIBOR plus 2.2% per annum and are repayable in full in June 2013.

(iii) The RMB denominated unsecured long-term bank loans as at December 31, 2007, 2008 and 2009, and June 30, 2010 had maturities ranging from 10 months to 4 years from the respective balance sheet date.

(iv) As at June 30, 2010, EUR denominated unsecured long-term bank loan of RMB823 million bore interest at EURIBOR plus 2.0% per annum and are repayable in full in June 2013.

As at December 31, 2008, 2009 and June 30, 2010, EUR denominated unsecured long-term bank loans of RMB14 million, RMB12 million and RMB8 million respectively are repayable in quarterly installments through 2014.

(v) As at December 31, 2008, 2009 and June 30, 2010, the USD denominated unsecured long-term bank loans of RMB1,344 million, RMB1,351 million and RMB1,348 million respectively bears interest at LIBOR plus 0.9% per annum and is repayable in full in September 2011. This long-term bank loan is subject to the fulfillment of certain semi-annual and annual financial covenants of the Group. As at December 31, 2008 and 2009, and June 30, 2010, the Group was in compliance with these financial covenants.

As at December 31, 2009 and June 30, 2010, the remaining unsecured long-term bank loans of RMB464 million and RMB733 million respectively bear interest at LIBOR plus 1.2% to 2.2% per annum and have maturities ranging from 20 months to 2 years from the respective balance sheet date.

(vi) In April 2008, the Company issued bonds with principal amount of RMB1,100 million to public and institutional investors. The bonds bear interest at a fixed rate of 6.5% per annum and mature in April 2016. The holders of the bonds have an option to redeem, in whole or in part, of the principal amount of the bond on the fifth anniversary date of the bond issuance date at par value.

(c) Except as disclosed in Notes 21(a)(ii) and 21(b)(v) above, none of the Group's loans and borrowings contains any financial covenants.

22 Trade and other payables

	The Group				The Company			
	As at December 31,			As at June 30,	As at December 31,			As at June 30,
	2007	2008	2009	2010	2007	2008	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Trade creditors	1,519	3,150	4,369	6,662	1,021	1,411	2,108	4,379
Bills payable	614	1,539	3,843	5,482	600	1,379	3,499	5,165
Trade creditors and bills payable (Note (a))	2,133	4,689	8,212	12,144	1,621	2,790	5,607	9,544
Amounts due to related parties (Note 31(b))	157	1	—	—	152	1	—	—
Amounts due to subsidiaries	—	—	—	—	419	823	2,659	1,239
Receipts in advance	430	366	446	1,080	395	271	331	751
Payable for acquisition of property, plant and equipment	13	243	386	438	13	153	358	381
Accrued staff costs	293	494	402	493	262	257	224	332
VAT payable	71	109	265	686	67	44	163	554
Security deposits (Note 25)	147	391	270	417	109	191	217	205
Product warranty provision (Note (b))	30	127	87	93	30	44	36	52
Sundry taxes payable	12	53	63	95	6	22	20	56
Dividend payable	—	—	—	65	—	—	—	65
Other accrued expenses	232	447	501	617	254	173	177	394
	3,518	6,920	10,632	16,128	3,328	4,769	9,792	13,573

Notes:

(a) Ageing analysis of trade creditors and bills payable as at the balance sheet dates is as follows:

	The Group				The Company			
	As at December 31,			As at June 30,	As at December 31,			As at June 30,
	2007	2008	2009	2010	2007	2008	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Due within 1 month or on demand	1,441	2,458	1,901	4,668	989	1,145	1,788	3,454
Due after 1 month but within 3 months	393	1,043	2,105	2,759	369	748	1,761	2,240
Due after 3 months but within 6 months	241	788	2,238	3,081	235	659	1,968	2,898
Due after 6 months but less than 12 months	58	400	1,968	1,636	28	238	90	952
	2,133	4,689	8,212	12,144	1,621	2,790	5,607	9,544

(b) Product warranty provision

	The Group	The Company
	RMB millions	RMB millions
Balance at January 1, 2007	19	19
Provision for the year	68	68
Utilization during the year	(57)	(57)
Balance at December 31, 2007	30	30
Balance at January 1, 2008	30	30
Assumed through business combinations	81	—
Provision for the year	117	112
Utilization during the year	(101)	(98)
Balance at December 31, 2008	127	44
Balance at January 1, 2009	127	44
Provision for the year	87	85
Utilization during the year	(127)	(93)
Balance at December 31, 2009	87	36
Balance at January 1, 2010	87	36
Provision for the period	64	54
Utilization during the period	(58)	(38)
Balance at June 30, 2010	93	52

A provision for warranties is recognized when the underlying products are sold. Under the terms of the Group's sales agreements, the Group will rectify any product defects arising within predominantly 3 to 12 months from the date of sale. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of products sold which are still within the warranty period. The amount of provision takes into account the Group's recent claim experience, historical warranty data and a weighting of all possible outcomes against their associated probabilities.

23 Income tax in the balance sheets

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

	The Group				The Company			
	As at December 31,			As at June 30,	As at December 31,			As at June 30,
	2007	2008	2009	2010	2007	2008	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Provision for PRC income tax	80	62	281	443	72	47	270	413
Provision for income tax in other tax jurisdictions	—	8	2	1	—	—	—	—
	80	70	283	444	72	47	270	413

(b) Deferred tax assets and liabilities recognized:

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

The Group

Year ended December 31, 2007

	Balance at January 1, 2007	Credited to profit or loss	Charged to reserve	Acquired through business combinations	Balance at December 31, 2007
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Deferred tax assets arising from:					
Trade and other receivables	18	17	—	4	39
Inventories	1	8	—	—	9
Accrued expenses	—	19	—	—	19
Total	19	44	—	4	67
Deferred tax liabilities arising from:					
Property, plant and equipment	—	—	—	(6)	(6)
Lease prepayments	—	—	—	(6)	(6)
Available-for-sale equity securities	—	—	(1)	—	(1)
Total	—	—	(1)	(12)	(13)

Year ended December 31, 2008

	January 1, 2008	(Charged)/ credited to profit or loss	Credited to reserve	Acquired through business combinations	Effects of exchange rate	Balance at December 31, 2008
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Deferred tax assets arising from:						
Trade and other receivables	39	(3)	—	—	—	36
Inventories	9	(7)	—	27	—	29
Accrued expenses	19	(5)	—	31	(1)	44
Available-for-sale equity securities	—	—	1	—	—	1
Others	—	(2)	—	17	(1)	14
Total	67	(17)	1	75	(2)	124
Deferred tax liabilities arising from:						
Property, plant and equipment	(6)	3	—	(35)	1	(37)
Intangible assets	—	—	—	(469)	4	(465)
Lease prepayments	(6)	1	—	(48)	1	(52)
Available-for-sale equity securities	(1)	—	1	—	—	—
Others	—	1	—	(20)	1	(18)
Total	(13)	5	1	(572)	7	(572)

Year ended December 31, 2009

	Balance at January 1, 2009	Credited/ (charged) to profit or loss	Acquired through business combinations	Effect of exchange rate	Balance at December 31, 2009
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Deferred tax assets arising from:					
Trade and other receivables	36	10	—	3	49
Inventories	29	(1)	—	—	28
Accrued expenses	44	(3)	—	5	46
Available-for-sale equity securities	1	—	—	—	1
Tax losses	—	17	—	—	17
Others	14	(7)	—	—	7
Total	124	16	—	8	148
Deferred tax liabilities arising from:					
Property, plant and equipment	(37)	26	—	(1)	(12)
Intangible assets	(465)	17	—	(12)	(460)
Lease prepayments	(52)	4	(1)	—	(49)
Others	(18)	(4)	—	(7)	(29)
Total	(572)	43	(1)	(20)	(550)

Period ended June 30, 2010

	Balance at January 1, 2010	Credited/ (charged) to profit or loss	Effect of exchange rate	Balance at June 30, 2010
	RMB millions	RMB millions	RMB millions	RMB millions
Deferred tax assets arising from:				
Trade and other receivables	49	32	(1)	80
Inventories	28	3	(2)	29
Accrued expenses	46	32	(6)	72
Available-for-sale equity securities	1	(1)	—	—
Tax losses	17	37	(6)	48
Others	7	32	(4)	35
Total	148	135	(19)	264
Deferred tax liabilities arising from:				
Property, plant and equipment	(12)	1	—	(11)
Intangible assets	(460)	2	74	(384)
Lease prepayments	(49)	1	—	(48)
Others	(29)	(25)	6	(48)
Total	(550)	(21)	80	(491)

The Company

Year ended December 31, 2007

	Balance at January 1, 2007	Credited to profit or loss	Charged to reserve	Balance at December 31, 2007
	RMB millions	RMB millions	RMB millions	RMB millions
Deferred tax assets arising from:				
Trade and other receivables	10	24	—	34
Inventories	1	2	—	3
Accrued expenses	—	19	—	19
Total	11	45	—	56
Deferred tax liabilities arising from:				
Available-for-sale equity securities	—	—	(1)	(1)
Total	—	—	(1)	(1)

Year ended December 31, 2008

	Balance at January 1, 2008	(Charged)/ credited to profit or loss	Credited to reserve	Balance at December 31, 2008
	RMB millions	RMB millions	RMB millions	RMB millions
Deferred tax assets arising from:				
Trade and other receivables	34	(6)	—	28
Inventories	3	(1)	—	2
Accrued expenses	19	(6)	—	13
Available-for-sale equity securities	—	—	1	1
Others	—	1	—	1
Total	56	(12)	1	45
Deferred tax liabilities arising from:				
Property, plant and equipment	—	(1)	—	(1)
Available-for-sale equity securities	(1)	—	1	—
Total	(1)	(1)	1	(1)

Year ended December 31, 2009

	Balance at January 1, 2009	Credited/ (charged) to profit or loss	Balance at December 31, 2009
	RMB millions	RMB millions	RMB millions
Deferred tax assets arising from:			
Trade and other receivables	28	10	38
Inventories	2	(2)	—
Accrued expenses	13	10	23
Available-for-sale equity securities	1	—	1
Others	1	(1)	—
Total	45	17	62
Deferred tax liabilities arising from:			
Property, plant and equipment	(1)	1	—
Others	—	(5)	(5)
Total	(1)	(4)	(5)

Period ended June 30, 2010

	Balance at January 1, 2010	Credited/ (charged) to profit or loss	Balance at June 30, 2010
	RMB millions	RMB millions	RMB millions
Deferred tax assets arising from:			
Trade and other receivables	38	31	69
Accrued expenses	23	4	27
Available-for-sale equity securities	1	(1)	—
Others	—	3	3
Total	62	37	99
Deferred tax liabilities arising from:			
Others	(5)	5	—

24 Employee benefits plans

As stipulated by the regulations of the PRC, the Company and its subsidiaries in the PRC participate in various defined contribution retirement plans organized by municipal and provincial governments for the Group's PRC employees. These entities are required to make contributions to the retirement plans at rates ranging from 18% to 22% of the salaries, bonuses and certain allowances of the employee, subject to certain salary limits. A member of the above plans is entitled to a pension equal to a fixed percentage of the salary prevailing at his or her retirement date. In addition, pursuant to Italian Law, CIFA and its Italian subsidiaries are required to contribute to a government-mandated pension fund at 7.5% of the employee's salary each month. Contributions to these retirement plans are charged to profit or loss as the related employee service is provided (Note 5(b)). The Group has no other material obligation for the payment of benefits associated with these plans beyond the contributions described above.

25 Other non-current liabilities

Other non-current liabilities primarily represent security deposits received from customers that finance their purchase of the Group's machinery products through finance lease or guarantee sales arrangement (see Note 30(a)). The Group requires such customers to pay deposits as part of the credit risk control measures. The security deposits will be refunded to customers upon receipt of the final lease payment or upon full repayment of the guaranteed bank loans by the customers. The amount of security deposits expected to be refunded after one year are classified as non-current liabilities, and the amounts expected to be refunded within one year are classified as current liabilities under the caption "Trade and other payables".

26 Capital and reserves

(a) Share capital

	The Group and The Company			
	As at December 31,			As at June 30,
	2007	2008	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions
Registered capital				
1,971,054,705 (2009: 1,673,100,000; 2008: 1,521,000,000; 2007: 760,500,000) ordinary shares of RMB 1.00 each	761	1,521	1,673	1,971
Ordinary shares issued and fully paid:				
At January 1	507	761	1,521	1,673
Bonus shares issued (Note 26(c)(ii))	254	760	152	—
Issuance of new shares in private placement	—	—	—	298
At December 31/June 30	761	1,521	1,673	1,971

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

The Company issued 297,954,705 ordinary shares through a private placement to nine institutional investors at RMB18.70 per share on February 5, 2010. The private placement raised gross proceeds of approximately RMB5,572 million. Direct transaction costs of RMB93 million have been offset against the gross proceeds, giving rise to net proceeds of RMB5,479 million. The amount of net proceeds in excess of the par value of the new shares issued was RMB5,181 million and was recorded in the capital reserve.

(b) Reserves

(i) Capital reserve

Under PRC rules and regulations, capital reserve is non-distributable other than in liquidation and may be utilized for business expansion or converted into ordinary shares by the issuance of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by the shareholders.

(ii) Statutory surplus reserve

Under PRC rules and regulations, the Company and its PRC subsidiaries are required to set aside 10% of the net income determined in accordance with the PRC accounting rules and regulations to a statutory surplus reserve until such reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of any dividend to shareholders. For the years ended December 31, 2007, 2008 and 2009, and six-month period ended June 30, 2010, the Company transferred RMB134 million, RMB155 million, RMB240 million and RMB215 million, respectively, being 10% of the respective years' and periods' net profit as determined in accordance with PRC accounting rules and regulations, to this reserve.

The statutory surplus reserve is non-distributable other than in liquidation and can be used to make good previous years' losses, if any, and may be utilized for business expansion or converted into ordinary shares by the issuance of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by the shareholders, provided that the balance after such issuance is not less than 25% of the registered capital. No such statutory surplus reserve is required for the Group's subsidiaries outside the mainland PRC.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Group's subsidiaries outside the mainland PRC which are dealt with in accordance with the accounting policies set out in Note 2(p).

(iv) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale equity securities held at the balance sheet dates and is dealt with in accordance with the accounting policies in Notes 2(i)(i) and 2(j)(i).

(c) Profit appropriations

(i) Cash dividends

Pursuant to the shareholders' approval at the Annual General Meeting held on March 20, 2007, a final cash dividend of RMB0.04 per share based on 507 million ordinary shares totalling RMB20 million in respect of the year ended December 31, 2006 was declared, and was paid on April 12, 2007.

Pursuant to the shareholders' approval at the Annual General Meeting held on May 15, 2008, a final cash dividend of RMB0.10 per share based on 761 million ordinary shares totalling RMB76 million in respect of the year ended December 31, 2007 was declared, and was paid on June 3, 2008.

Pursuant to the shareholders' approval at the Annual General Meeting held on May 21, 2009, a final cash dividend of RMB0.10 per share based on 1,521 million ordinary shares totalling RMB152 million in respect of the year ended December 31, 2008 was declared, and was paid on July 10, 2009.

Pursuant to the shareholders' approval at the Annual General Meeting held on May 25, 2010, a final cash dividend of RMB0.25 per share based on 1,971 million ordinary shares totalling RMB492 million in respect of the year ended December 31, 2009 was declared, and was paid on June 18, 2010.

(ii) Bonus shares

In March 2007, the Company announced a stock split in the form of bonus shares on the basis of 0.5 share for every outstanding ordinary share. The total number of shares issued was 254 million. The par value of new ordinary shares issued of RMB254 million was charged to capital reserve in accordance with the Board of Directors' resolution as approved by the shareholders in the general meeting.

In May 2008, the Company announced a stock split in the form of bonus shares on the basis of 1 share for every outstanding ordinary share. The total number of shares issued was 760 million. The par value of new ordinary shares issued of RMB760 million was charged to capital reserve (RMB228 million) and retained earnings (RMB532 million) respectively in accordance with the Board of Directors' resolution as approved by the shareholders in the general meeting.

In May 2009, the Company announced a stock split in the form of bonus shares on the basis of 0.1 share for every outstanding ordinary share. The total number of shares issued was 152 million. The par value of new ordinary shares issued of RMB152 million was charged to retained earnings in accordance with the Board of Directors' resolution as approved by the shareholders in the general meeting.

27 Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide investment returns for shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk and by securing access to finance at a reasonable cost.

Management regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Management monitors its capital structure on the basis of adjusted debt-to-equity ratio. For this purpose, the Group defines debt as total loans and borrowings excluding loans arising from factoring of receivables under finance lease with recourse and loans obtained to finance business combinations. Management considers that although the current finance lease receivable factoring arrangement does not satisfy the derecognition criteria as set out in Note 2(r), the residual risk on these receivables are low. Management also evaluates and manages the loans obtained to finance business combination separately, which take into consideration, the terms of the loans, including interest rate and the related projected cash flows from the acquired business, etc.. As such, loans arising from factoring of receivables under finance lease with recourse and loans obtained to finance business combination are excluded for the purpose of calculating the debt-to-equity ratio. The Group defines equity as all components of equity attributable to equity shareholders of the Company.

For the years ended December 31, 2007, 2008 and 2009, and the six–month period ended June 30, 2010, the Group's strategy was to maintain the adjusted debt-to-equity ratio at the lower end of the range 50% to 100%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt. For 2008, the Group made use of certain bank loans obtained for general working capital purposes to finance its acquisitions in the PRC and thus resulted in the adjusted debt-to-equity ratio exceeding 100%. The Group managed to reduce the ratio within the target range in 2009.

As at December 31, 2007, 2008 and 2009, and June 30, 2010, the Group's adjusted debt-to-equity ratio was as follows:

	As at December 31,			As at June 30,
	2007	2008	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions
Short-term loans and borrowings	847	6,234	8,553	6,868
Long-term loans and borrowings	324	4,154	5,621	9,488
	1,171	10,388	14,174	16,356
Less:				
Loans arising from factoring of receivables under finance lease with recourse	(43)	(1,014)	(4,515)	(7,337)
Loans obtained to finance business combinations	—	(3,681)	(3,826)	(3,657)
Adjusted debt	1,128	5,693	5,833	5,362
Total equity	3,751	5,211	7,552	14,517
Adjusted debt-to-equity ratio	30%	109%	77%	37%

28 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations, and arises principally from the Group's deposits placed with financial institutions and receivables from customers.

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

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

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

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At 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 the Group's largest customer and 6.4%, 9.7% 7.3% and 4.7% of the total trade and bills receivables was due from the Group's five largest customers respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 17.

In the normal course of business, certain customers of the Group may finance their purchase of the Group's machinery products through bank loans. The Group provides guarantees for such bank loans drawn by customers. Pursuant to the guarantee arrangement the Group agrees to pay any outstanding loan principal and interest due to the banks should such customers default. Details of the Group's exposure and credit control policy in respect of such guarantees provided are disclosed in Note 30(a).

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

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

The Group

	As at December 31, 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 millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB 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 guarantees issued						
Maximum amount guaranteed	—	1,946	1,946	—	—	—

	As at 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 millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB 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 guarantees issued						
Maximum amount guaranteed	—	2,696	2,696	—	—	—

	As at December 31, 2009					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Loans and borrowings	14,174	15,158	9,015	3,458	1,491	1,194
Trade and other payables	10,632	10,632	10,632	—	—	—
Other non-current liabilities	684	684	—	159	525	—
	25,490	26,474	19,647	3,617	2,016	1,194
Financial guarantees issued						
Maximum amount guaranteed	—	3,369	3,369	—	—	—

	As at 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 millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Loans and borrowings	16,356	17,569	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	—
	33,689	34,902	23,501	5,136	5,107	1,158
Financial guarantees issued						
Maximum amount guaranteed	—	3,802	3,802	—	—	—

The Company

	As at 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 millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Loans and borrowings	1,062	1,120	807	210	103	—
Trade and other payables	3,328	3,328	3,328	—	—	—
	4,390	4,448	4,135	210	103	—
Financial guarantees issued						
Maximum amount guaranteed	—	1,946	1,946	—	—	—

	As at 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 millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Loans and borrowings	4,675	5,437	2,558	508	1,105	1,266
Trade and other payables	4,769	4,769	4,769	—	—	—
	9,444	10,206	7,327	508	1,105	1,266
Financial guarantees issued						
Maximum amount guaranteed	—	2,696	2,696	—	—	—

	As at December 31, 2009					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Loans and borrowings	3,219	3,725	1,749	566	216	1,194
Trade and other payables	9,792	9,792	9,792	—	—	—
	13,011	13,517	11,541	566	216	1,194
Financial guarantees issued						
Maximum amount guaranteed	—	3,369	3,369	—	—	—

	As at 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 millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Loans and borrowings	3,730	4,200	2,367	181	494	1,158
Trade and other payables	13,573	13,573	13,573	—	—	—
Other non-current liabilities	91	91	—	—	91	—
	17,394	17,864	15,940	181	585	1,158
Financial guarantees issued						
Maximum amount guaranteed	—	3,802	3,802	—	—	—

Management believes that the Group's current cash on hand, expected cash flows from operations and available standby credit facilities from financial institutions will be sufficient to meet the Group's working capital requirements and repay its borrowings and obligations when they become due.

(c) Interest rate risk

The Group's and the Company's interest rate risk exposure arises primarily from bank deposits, receivables under finance lease, short-term and long-term loans and borrowings. These financial instruments bearing interest at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk, respectively. The following table sets out the interest rate profile of the Group's and the Company's bank deposits, receivables under finance lease and loans and borrowings at the end of each year/period presented.

The Group

	As at December 31,						As at June 30,	
	2007		2008		2009		2010	
	Weighted average interest rate	Amount	Weighted average interest rate	Amount	Weighted average interest rate	Amount	Weighted average interest rate	Amount
	%	RMB millions	%	RMB millions	%	RMB millions	%	RMB millions
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
Receivables 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 amount		261		(4,774)		(1,403)		7,480

The Company

	As at December 31,						As at June 30,	
	2007		2008		2009		2010	
	Weighted average interest rate	Amount	Weighted average interest rate	Amount	Weighted average interest rate	Amount	Weighted average interest rate	Amount
	%	RMB millions	%	RMB millions	%	RMB millions	%	RMB millions
Fixed rate financial instruments:								
Short-term loans and borrowings	—	—	5.5%	(1,666)	2.2%	(470)	2.6%	(1,201)
Long-term loans and borrowings	5.3%	(200)	6.7%	(1,089)	6.7%	(1,090)	6.7%	(1,091)
		(200)		(2,755)		(1,560)		(2,292)
Variable rate financial instruments:								
Pledged bank deposits	0.7%	316	0.4%	409	0.4%	778	0.4%	2,070
Bank deposits	0.7%	546	0.4%	1,799	0.4%	2,292	0.4%	5,378
Short-term loans and borrowings	6.4%	(762)	5.7%	(713)	1.4%	(1,174)	3.3%	(1,067)
Long-term loans and borrowings	6.8%	(100)	5.5%	(1,207)	4.2%	(485)	3.5%	(371)
		—		288		1,411		6,010
Net amount		(200)		(2,467)		(149)		3,718

As at December 31, 2007, 2008 and 2009, and June 30, 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after taxation for the year 2007 and retained earnings by approximately RMB5 million, decrease/increase the Group's profit after taxation for the year 2008 and retained earnings by approximately RMB4 million, and increase/decrease the Group's profit after taxation for the year 2009 and retained earnings by approximately RMB44 million, and increase/decrease the Group's profit after taxation for the six-month period ended June 30, 2010 and retained earnings by approximately RMB 27 million respectively.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and the change was applied to the Group's debts outstanding at the respective balance sheet date which had exposure to interest rate risk. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next balance sheet date. The analysis is performed on the same basis for the years ended December 31, 2007, 2008 and 2009, and the six-month period ended June 30, 2010.

(d) Currency risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, loans and borrowings and cash balances that are denominated in a foreign currency, that is, a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily US dollars, Japanese Yen and Euro.

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

The Group

	Exposure to foreign currencies (expressed in RMB millions)											
	As at December 31,									As at June 30, 2010		
	2007			2008			2009					
	USD	EUR	Yen	USD	EUR	Yen	USD	EUR	Yen	USD	EUR	Yen
Trade debtors	105	—	—	376	8	—	298	4	—	544	52	22
Cash and cash equivalents	29	—	—	119	6	—	99	19	23	144	9	33
Trade creditors	(144)	(40)	(30)	(42)	(188)	(17)	(360)	(151)	(120)	(520)	(258)	(46)
Short-term loans and borrowings	(41)	—	—	(315)	—	(43)	(1,404)	(118)	(568)	(1,288)	(364)	(632)
Net exposure arising from recognized assets and liabilities	(51)	(40)	(30)	138	(174)	(60)	(1,367)	(246)	(665)	(1,120)	(561)	(623)

The Company

	Exposure to foreign currencies (expressed in RMB millions)											
	As at December 31,									As at June 30, 2010		
	2007			2008			2009					
	USD	EUR	Yen	USD	EUR	Yen	USD	EUR	Yen	USD	EUR	Yen
Trade debtors	101	—	—	362	8	—	263	2	—	253	40	3
Cash and cash equivalents	—	—	—	—	1	—	7	1	14	102	1	10
Trade creditors	(61)	—	—	(44)	(8)	—	(9)	(1)	—	(463)	(170)	—
Short-term loans and borrowings	(15)	—	—	(260)	—	—	(1,041)	—	(133)	(1,098)	(214)	(572)
Net exposure arising from recognized assets and liabilities	25	—	—	58	1	—	(780)	2	(119)	(1,206)	(343)	(559)

The following table indicates the change in the Group's profit after taxation (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group's financial assets and liabilities have significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant. The analysis is performed on the same basis for the years ended December 31, 2007, 2008 and 2009, and for the six-month period ended June 30, 2010.

	The Group							
	2007		2008		2009		June 30, 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 millions		RMB millions		RMB millions		RMB millions
USD	5%	(3)	5%	6	5%	(58)	5%	(48)
	-5%	3	-5%	(6)	-5%	58	-5%	48
EUR	5%	(2)	5%	(7)	5%	(10)	5%	(24)
	-5%	2	-5%	7	-5%	10	-5%	24
Yen	5%	(1)	5%	(3)	5%	(28)	5%	(26)
	-5%	1	-5%	3	-5%	28	-5%	26

Other than the amounts as disclosed above, the amounts of other financial assets and liabilities of the Group are substantially denominated in the functional currency of the respective entity within the Group.

(e) Fair values

(i) Financial instruments carried at fair value

The fair values of the Group's financial instruments (other than long-term loans and borrowings and available-for-sale equity securities) approximate their carrying amounts due to the short-term maturity of these instruments. The fair values of the Group's non-current receivables under finance lease and non-current trade receivables are stated at discounted present values which are not materially different from their fair values as at December 31, 2007, 2008 and 2009, and June 30, 2010.

The Group's available-for-sale listed equity securities are stated at fair value measured using the quoted market prices on a PRC stock exchange. The fair value of the Group's available-for-sale listed equity securities was RMB7 million, RMB9 million, RMB9 million and RMB5 million as at December 31, 2007, 2008 and 2009, and June 30, 2010 respectively.

(ii) Fair values of financial instruments carried at other than fair value

The disclosures of the fair value estimates, and their methods and assumptions of the Group's financial instruments should be read in conjunction with the Group's consolidated financial statements and related notes. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Group's investments in unlisted equity securities have no quoted market prices and accordingly, a reasonable estimate of their fair values could not be made without incurring excessive costs. Such securities are stated at cost less impairment losses.

The fair values of the Group's long-term bank loans are estimated by discounting future cash flows using current market interest rates, having considered the foreign currency denomination of the loans and borrowings, which ranged between 2.3% to 5.4% for 2007, 4.2% to 7.0% for 2008, 5.3% to 6.8% for 2009 and 5.4% to 6.0% for six-month period ended June 30, 2010 respectively. The fair value of the Group's bond is determined based on quoted market price of the bond in the PRC Stock Exchange as of the balance sheet date. The following table presents the carrying amount and fair value of the Group's long-term loans and borrowings at December 31, 2007, 2008 and 2009, and June 30, 2010:

	As at December 31,						As at June 30,	
	2007		2008		2009		2010	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	RMB millions		RMB millions		RMB millions		RMB millions	
Long-term bank loans	343	333	3,781	3,766	6,828	6,712	12,219	12,205
Bond	—	—	1,089	1,139	1,090	1,125	1,091	1,175

29 Commitments

(a) Capital commitments

As at December 31, 2007, 2008 and 2009, and June 30, 2010, the Group and the Company had capital commitments as follows:

	The Group				The Company			
	As at December 31,			As at June 30,	As at December 31,			As at June 30,
	2007	2008	2009	2010	2007	2008	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Authorized and contracted for								
—property, plant and equipment	120	302	115	207	120	268	102	175
—lease prepayments	63	—	—	—	63	—	—	—
—equity investments	59	31	8	—	59	31	—	—
—intangible assets	—	—	—	3	—	—	—	3
	242	333	123	210	242	299	102	178
Authorized but not contracted for								
—property, plant and equipment	—	—	12	40	—	—	—	40
—lease prepayments	—	—	—	1	—	—	—	1
	—	—	12	41	—	—	—	41

(b) Operating lease commitments

The Group leases business premises and equipment through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments.

As at December 31, 2007, 2008 and 2009, and June 30, 2010, the future minimum lease payments under operating lease are as follows:

	The Group				The Company			
	As at December 31,			As at June 30,	As at December 31,			As at June 30,
	2007	2008	2009	2010	2007	2008	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Within 1 year	6	34	38	63	5	30	29	27
After 1 but within 2 years	1	21	24	45	—	18	20	18
After 2 but within 3 years	1	17	19	18	—	16	17	16
After 3 but within 4 years	—	15	14	12	—	14	14	12
After 4 but within 5 years	—	13	9	8	—	12	9	8
Thereafter	—	33	26	23	—	32	25	22
	8	133	130	169	5	122	114	103

30 Contingent liabilities

(a) Financial guarantee issued

Certain customers of the Group from time to time may finance their purchase of the Group's machinery products through bank loans. During the periods presented, the Group provided guarantees for such bank loans drawn by customers. Under the guarantee arrangement, in the event of customer default, the Group is entitled to repossess the machinery collateralizing the bank loans, sell the machinery and retain any net proceeds in excess of the guarantee payments made to the banks. At December 31, 2007, 2008 and 2009, and June 30, 2010, the Group's maximum exposure to such guarantees was RMB1,946 million, RMB2,696 million, RMB3,369 million, and RMB3,802 million respectively. The terms of these guarantees coincide with the tenure of bank loans that generally range from 2 to 4 years. The Group, when called upon by the banks to fulfill its guarantee obligations, has historically been able to sell the repossessed machinery for proceeds that are not significantly different from the amount of the guarantee payments. For the years ended December 31, 2007, 2008 and 2009, and the six-month period ended June 30, 2010, the Group made payments of RMB39 million, RMB101 million, RMB117 million, and RMB61 million, respectively, to banks under the guarantee arrangement as a result of customer default. Historically, there has been no significant difference between the sales proceeds of the repossessed machinery and the guaranteed payments to bank for defaulted customers.

(b) Contingent liability in respect of legal claims

In March 2010, Italian tax authorities issued formal tax inspection assessment reports to Cifa Mixers S.r.l., a 59.32% owned subsidiary of the Company. The tax authorities have challenged the deductibility of certain costs incurred by this entity for income tax and value added tax purposes for tax years 2003 to 2007. The amount of additional taxes sought by the tax authorities in relation to these tax deductions is approximately EUR 10.7 million before interest and penalties, if any. As of the approval date of these financial statements, this tax case is pending court hearing. The Group has sought legal advice to defend the subsidiary's tax position. Based on tax consultant's advice, the Group considers that it is more likely than not that the Group's 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 S.p.A. Accordingly, no provision is made for the contingency as at June 30, 2010.

Apart from the above tax case, the Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. Management has assessed the likelihood of an unfavorable outcome of such contingencies, lawsuits or other proceedings and believes that any resulting liabilities will not have a material adverse effect on the financial position, operating results or cash flows of the Group. No provision has therefore been recorded in respect of those lawsuits.

31 Related party transactions

(a) Transactions with related parties

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
				(unaudited)	
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 (Note 14(a))	270	—	—	—	—
Purchase of equity investments	25	—	—	—	—
Purchase of land use rights	—	125	—	—	—
Transactions with associates:					
Sales of products	—	(4)	(4)	(2)	(5)
Lease of properties and equipment	—	—	(3)	—	—
Purchase of raw materials	—	1	10	5	11

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and in accordance with the agreements governing such transactions which are comparable to normal commercial terms. The sales and purchase transactions with associates are expected to continue after the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

(b) Outstanding balances with related parties

Amounts due from/to related parties are arising in the Group's normal course of business and are included in the account captions of trade and other receivables and trade and other payables, respectively. These balances bear no interest, are unsecured and are repayable in accordance with the agreements governing such transactions which are comparable to credit period with third-party customers/suppliers.

(c) Key management personnel emoluments

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and supervisors of the Group. The key management personnel compensation are as follows:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB thousands	RMB thousands	RMB thousands	RMB thousands	RMB thousands
				(unaudited)	
Short-term employee benefits	10,750	11,706	19,830	8,295	8,379
Retirement scheme contributions	212	253	274	145	173
	10,962	11,959	20,104	8,440	8,552

Total emoluments are included in "staff costs" as disclosed in Note 5(b).

(d) Contributions to retirement plans

The details of the Group's employee benefit plans are disclosed in Note 24.

32 Accounting estimates and judgments

The Group's financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the consolidated financial statements. Management bases the assumptions and estimates on historical experience and on other factors that the management believes to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of significant accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the consolidated financial statements. The significant accounting policies are set forth in Note 2 to the financial statements. Note 14 contains information about significant assumptions and their risk factors relating to goodwill impairment. Other key sources of estimation uncertainty are as follows:

(a) Impairment of trade receivables

Management estimates impairment losses of trade receivables (which are recorded in an allowance account for doubtful debts) resulting from the inability of the customers to make the required payments. Management bases its estimates on the ageing of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs may be higher than expected and could significantly affect the results of future periods.

(b) Warranty provision

As explained in Note 22(b), the Group makes product warranty provision based on its best estimate of the expected settlement under the sales agreements in respect of products sold which are still within the warranty period. The amount of provision takes into account the Group's recent claim experience, historical warranty data and a weighing of all possible outcomes against their associated probabilities. As the Group is continually upgrading its product designs and launching new models, it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

(c) Write-down of inventories

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

(d) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss would be recognized in accordance with accounting policy for impairment of long-lived assets as described in Note 2(j)(ii). The carrying amounts of the Group's long-lived assets, including property, plant and equipment, intangible assets and investments in subsidiaries and associates are reviewed periodically to determine whether there is any indication of impairment. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. For goodwill and trademarks with indefinite useful lives, the impairment testing is performed at least annually at the end of each year. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and the fair value less costs to sell. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. It is difficult to precisely estimate selling price of the Group's long-lived assets because quoted market prices for such assets may not be readily available. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to level of revenue, amount of operating costs and applicable discount rate. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

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

(e) Depreciation and amortization

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

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

33 First time adoption of IFRSs

As stated in Note 1(c)(i), these are the Group's first consolidated financial statements prepared in accordance with IFRSs.

The accounting policies set out in Note 2 have been applied consistently in preparing the financial statements for the years ended December 31, 2007, 2008 and 2009, and the six–month period ended June 30, 2010, and in the preparation of an opening IFRS balance sheet at January 1, 2007 (the Group's date of transition to IFRSs).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with the relevant accounting rules and regulations applicable to PRC enterprises ("PRC GAAP"). An explanation of how the transition from PRC GAAP to IFRSs has affected the Group's financial position, results of operations and cash flows is set out in the following tables and the notes that accompany the tables.

(a) Reconciliation of total equity of the Group as at January 1, 2007 (date of transition to IFRSs) and December 31, 2007, 2008 and 2009, and June 30, 2010 (end of the latest period presented in the most recent financial statements under PRC GAAP):

		As at January 1, 2007	As at December 31,			As at June 30, 2010
			2007	2008	2009	
	Note	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Total equity reported under PRC GAAP		2,352	3,751	5,251	7,592	14,557
—Acquisition-related costs	(i)	—	—	(40)	(40)	(40)
—Revaluation of lease prepayments	(ii)	(106)	—	—	—	—
Total equity reported under IFRSs		2,246	3,751	5,211	7,552	14,517

(b) Reconciliation of total comprehensive income of the Group for the years ended December 31, 2007, 2008 and 2009 and the six-month period ended June 30, 2010:

		For the years ended December 31,			For the six-month period ended June 30,
		2007	2008	2009	2010
	Note	RMB millions	RMB millions	RMB millions	RMB millions
Total comprehensive income for the years / period reported under PRC GAAP		1,335	1,553	2,466	1,988
—Acquisition-related costs	(i)	—	(40)	—	—
—Gain on disposal of lease prepayments	(ii)	106	—	—	—
Total comprehensive income for the year reported under IFRSs		1,441	1,513	2,466	1,988

(c) There is no material difference between the cash flow statement reported under IFRSs and the cash flow statement reported under PRC GAAP.

Notes:

(i) The Group has elected to early adopt IFRS 3 (revised) retrospectively to all business combinations that occurred on or after January 1, 2007. IFRS 3 (revised) requires acquisition-related costs to be expensed in profit and loss. As a result, acquisition-related costs of RMB40 million (the related tax impact is nil as the acquisition-related costs were not tax deductible) incurred in business combinations occurred during the year ended December 31, 2008 are expensed in profit or loss under IFRSs. Acquisition-related costs incurred in business combinations during the years ended December 31, 2007 and 2009 were immaterial and had been expensed in the Group's PRC GAAP financial statements.

(ii) Under PRC GAAP, certain land use rights were revalued by the Company in the year 2006 with the revaluation surplus of RMB106 million being credited directly to equity. Under IFRSs, revaluation of land use rights is not permitted; land use rights are stated at cost less accumulated amortization. Upon disposal of the land use rights in the year 2007, a gain of RMB106 million was recorded under IFRSs.

34 Investments in subsidiaries

	The Company			
	As at December 31,			As at June 30,
	2007	2008	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions
Unlisted shares, at cost	612	1,794	1,882	3,214

The following list contains particulars of subsidiaries as at June 30, 2010 which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	held by the Company	held by a subsidiary	Principal activities	Auditor of statutory financial statements	Financial year*
	(millions)						
Compagnia Italiana Forme Acciaio S.p.A. ("CIFA") (note)	EUR15	59.32%	—	59.32%	Manufacture of concrete machinery	Deloitte & Touche S.p.A	2008
						KPMG S.p.A	2009
Shaanxi Zoomlion Earth Working Machinery Co., Ltd.	RMB474	100%	100%	—	Manufacture of earth working machinery	Zhongxi Certified Public Accounts Co., Ltd	2008 2009
Hunan Zoomlion Axle Co., Ltd.	RMB213	84.9%	84.9%	—	Manufacture of motor vehicle components	Zhongxi Certified Public Accounts Co., Ltd	2008 2009
Zoomlion Material Handling Equipment Co., Ltd.	RMB100	82%	82%	—	Manufacture of material handling machinery	Zhongxi Certified Public Accounts Co., Ltd	2008 2009
Zoomlion Finance and Leasing (Beijing) Co., Ltd.	RMB1,502	100%	100%	—	Leasing of construction equipment and machinery	Zhongxi Certified Public Accounts Co., Ltd	2007 2008 2009
Hunan Zoomlion International Trade Co., Ltd.	RMB5	100%	100%	—	Trading of equipment and machinery	Zhongxi Certified Public Accounts Co., Ltd	2007 2008 2009
Hunan Teli Hydraulic Co., Ltd.	RMB105	66.8%	66.8%	—	Manufacture of hydraulic products	Zhongxi Certified Public Accounts Co., Ltd	2007 2008 2009
Hunan Zoomlion Special Vehicles Co., Ltd.	RMB69	100%	100%	—	Manufacture of specialized vehicles	Zhongxi Certified Public Accounts Co., Ltd	2008 2009
Zoomlion Finance and Leasing (China) Co., Ltd.	USD80	100%	—	100%	Leasing of equipment and machinery	KPMG Huazhen	2009
Hunan Zoomlion Crawling Crane Ltd.	RMB72	100%	100%	—	Manufacture of crawling cranes	Zhongxi Certified Public Accounts Co., Ltd	2009
Hunan Zoomlion Hardware Co., Ltd.	RMB100	75.6%	75.6%	—	Manufacture of crane components	Zhongxi Certified Public Accounts Co., Ltd	2008 2009

* The financial years refer to the year in which the Company obtained the control or established the subsidiaries and the years after.

Note:

In June 2009, ZoomlionCifa (Hong Kong) Holdings Limited ("ZoomlionCifa (Hong Kong)"), a special purpose vehicle formed for the acquisition of 100% equity interests of CIFA which the Company and the other co-investors initially held 60% and 40% equity interests respectively, issued 31,000 new shares to certain management personnel of CIFA for cash consideration totalling EUR3.1 million (equivalent to RMB31 million). As a result, the Group's direct and effective interest in ZoomlionCifa (Hong Kong) and its subsidiaries were reduced from 60% to 59.32%. The difference of RMB2 million between the amount by which the non-controlling interests were adjusted and the fair value of the consideration as a result of the transaction has been recognized directly in equity under the caption capital reserve.

All of the above subsidiaries are incorporated and operate in the PRC, except for CIFA which is incorporated and operates in Italy. All of the above subsidiaries are limited liability companies.

35 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending December 31, 2010

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the annual accounting period ending December 31, 2010.

	Effective for accounting period beginning on or after
Improvements to IFRSs 2010	July 1, 2010 or January 1, 2011
IAS 24 (revised), "Related party disclosures"	January 1, 2011
IFRS 9, "Financial instruments"	January 1, 2013

The Company has not adopted the above amendments, new standards and interpretations. Company management is in the process of assessing what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application and has so far concluded that the adoption of these amendments, new standards and interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

36 Post balance sheet events

The Company's 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 shares for every outstanding ordinary share. The total number of shares issued was 2,956,582,057. The par value of the new shares issued of RMB2,957 million was charged against retained earnings. In addition, a cash dividend of RMB0.17 per share based on 1,971 million outstanding ordinary shares totalling RMB335 million was also approved at the Extraordinary General Meeting. Such cash dividend has not been recognized as a liability at June 30, 2010.

C SUBSEQUENT FINANCIAL INFORMATION

No audited financial statements are available in respect of any period subsequent to June 30, 2010.

Yours faithfully,

KPMG
Certified Public Accountants

Hong Kong, China