

Under the rules of Shenzhen Stock Exchange on which our A shares are listed, we are required to file interim financial report containing unaudited interim financial statements prepared in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance on February 15, 2006, and application guidance, bulletins and other relevant accounting regulations issued subsequently (collectively referred as “PRC GAAP”). Because we released such interim financial statements for the three months and nine months ended September 30, 2010 (including comparative information for the same period in 2009) prior to the date of this prospectus, we have prepared interim financial report in accordance with International Accounting Standard 34 “Interim Financial Reporting” and have included such report in this prospectus.



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December 13, 2010

**INDEPENDENT REVIEW REPORT
TO THE BOARD OF DIRECTORS OF CHANGSHA ZOOMLION HEAVY INDUSTRY
SCIENCE AND TECHNOLOGY DEVELOPMENT CO., LTD.**

INTRODUCTION

We have reviewed the interim financial information set out in sections I to V below, which comprises the consolidated balance sheet of Changsha Zoomlion Heavy Industry Science and Technology Development Co., Ltd. (the “Company”) and its subsidiaries (the “Group”) as at September 30, 2010, the consolidated statement of comprehensive income for the three-month and nine-month periods ended September 30, 2010, the consolidated statement of changes in equity and the consolidated statement of cash flows for the nine-month period ended September 30, 2010, and explanatory notes. The Company’s directors are responsible for the preparation and presentation of the interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

Our responsibility is to form a conclusion, based on our review, on the interim financial information and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of the interim financial information consists of making enquires, 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 of Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

KPMG

Certified Public Accountants
Hong Kong, China

I UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Section V Note	For the three-month ended September 30,		For the nine-month ended September 30,	
		2009	2010	2009	2010
		RMB millions	RMB millions	RMB millions	RMB millions
Turnover	3	5,579	7,812	14,806	23,901
Cost of sales and services		(4,120)	(5,644)	(10,970)	(17,082)
Gross profit		1,459	2,168	3,836	6,819
Other revenues and net income		16	(4)	44	2
Sales and marketing expenses		(342)	(581)	(781)	(1,567)
General and administrative expenses		(281)	(372)	(701)	(1,224)
Research and development expenses		(14)	(50)	(96)	(166)
Profit from operations		838	1,161	2,302	3,864
Net finance costs	4(a)	(84)	(82)	(258)	(232)
Share of profits less losses of associates		2	(1)	2	4
Profit before taxation	4	756	1,078	2,046	3,636
Income tax	5	(126)	(177)	(315)	(572)
Profit for the period		630	901	1,731	3,064
Other comprehensive income for the period (after tax)					
Change in fair value of available-for-sale equity securities		(1)	—	2	(2)
Others		—	—	—	10
Exchange differences on translation of financial statements of subsidiaries outside PRC		65	119	71	(64)
Total other comprehensive income for the period		64	119	73	(56)
Total comprehensive income for the period ...		<u>694</u>	<u>1,020</u>	<u>1,804</u>	<u>3,008</u>
Profit attributable to:					
Equity shareholders of the Company		639	923	1,775	3,125
Non-controlling interests		(9)	(22)	(44)	(61)
Profit for the period		<u>630</u>	<u>901</u>	<u>1,731</u>	<u>3,064</u>
Total comprehensive income attributable to:					
Equity shareholders of the Company		692	1,068	1,840	3,064
Non-controlling interests		2	(48)	(36)	(56)
Total comprehensive income for the period ...		<u>694</u>	<u>1,020</u>	<u>1,804</u>	<u>3,008</u>
Basic and diluted earnings per share (RMB) ...	6	<u>0.15</u>	<u>0.19</u>	<u>0.42</u>	<u>0.65</u>

II UNAUDITED CONSOLIDATED BALANCE SHEETS

		As at December 31, 2009	As at September 30, 2010
	<i>Section V Note</i>	<u>RMB millions</u>	<u>RMB millions</u>
Non-current assets			
Property, plant and equipment		3,683	3,821
Lease prepayments		907	1,125
Intangible assets		1,432	1,306
Goodwill		2,082	1,964
Interests in associates		71	70
Other financial assets		15	11
Trade and other receivables	9	229	503
Receivables under finance lease	10	5,060	10,204
Pledged bank deposits		234	276
Deferred tax assets		148	264
Total non-current assets		<u>13,861</u>	<u>19,544</u>
Current assets			
Inventories	8	6,272	7,142
Trade and other receivables	9	6,265	10,058
Receivables under finance lease	10	3,283	6,196
Pledged bank deposits		755	1,697
Cash and cash equivalents	11	3,439	5,507
Total current assets		<u>20,014</u>	<u>30,600</u>
Total assets		<u>33,875</u>	<u>50,144</u>
Current liabilities			
Loans and borrowings	12(a)	8,553	8,072
Trade and other payables	13	10,632	16,047
Income tax payable		283	589
Total current liabilities		<u>19,468</u>	<u>24,708</u>
Net current assets		<u>546</u>	<u>5,892</u>
Total assets less current liabilities		14,407	25,436
Non-current liabilities			
Loans and borrowings	12(b)	5,621	8,346
Other non-current liabilities		684	1,396
Deferred tax liabilities		550	492
Total non-current liabilities		<u>6,855</u>	<u>10,234</u>
NET ASSETS		<u>7,552</u>	<u>15,202</u>
CAPITAL AND RESERVES			
Share capital	14	1,673	4,928
Reserves		5,755	10,216
Total equity attributable to equity shareholders of the Company		<u>7,428</u>	<u>15,144</u>
Non-controlling interests		124	58
TOTAL EQUITY		<u>7,552</u>	<u>15,202</u>

APPENDIX II

UNAUDITED INTERIM FINANCIAL INFORMATION

III UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity shareholders of the Company										Non-controlling interests RMB millions	Total equity RMB millions
	Share capital RMB millions	Capital reserve RMB millions	Statutory surplus reserve RMB millions	Exchange reserve RMB millions	Fair value reserve RMB millions	Retained earnings RMB millions	Total RMB millions	Non-controlling interests RMB millions	Total equity RMB millions			
Balance at January 1, 2009	1,521	12	529	(18)	(2)	3,029	5,071	140	5,211	(152)		
Cash dividends	—	—	—	—	—	(152)	(152)	—	(152)	—		
Bonus shares	152	—	—	—	—	(152)	—	—	—	—		
Acquisition of subsidiaries	—	—	—	—	—	—	—	11	11	—		
Contributions from non-controlling interests	—	2	—	—	—	—	2	29	31	—		
Total comprehensive income for the period	—	—	—	63	2	1,775	1,840	(36)	1,804	—		
Balance at September 30, 2009	1,673	14	529	45	—	4,500	6,761	144	6,905	—		
Balance at January 1, 2010	1,673	24	769	29	1	4,932	7,428	124	7,552	—		
Appropriation	—	—	215	—	—	(215)	—	—	—	—		
Issuance of new shares in a private placement (Section V Note 14(a))	298	5,181	—	—	—	—	5,479	—	5,479	—		
Cash dividends (Section V Note 14(b)(i))	—	—	—	—	—	(827)	(827)	—	(827)	—		
Bonus shares (Section V Note 14(b)(ii))	2,957	—	—	—	—	(2,957)	—	—	—	—		
Dividends by subsidiaries to non-controlling interests	—	—	—	—	—	—	—	(10)	(10)	—		
Total comprehensive income for the period	—	10	—	(69)	(2)	3,125	3,064	(56)	3,008	—		
Balance at September 30, 2010	4,928	5,215	984	(40)	(1)	4,058	15,144	58	15,202	—		

IV UNAUDITED CONSOLIDATED CASH FLOW STATEMENTS

	For the nine-month ended September 30,	
	2009	2010
	RMB millions	RMB millions
Operating activities		
Profit before taxation	2,046	3,636
Adjustments for:		
Depreciation of property, plant and equipment	176	246
Amortization of lease prepayments	16	17
Amortization of intangible assets	34	47
Share of profits less losses of associates	2	4
Interest income	(289)	(716)
Interest expense	329	548
Loss on disposal of property, plant and equipment	5	36
	<u>2,319</u>	<u>3,818</u>
Increase in inventories	(862)	(870)
Increase in trade and other receivables	(1,679)	(3,956)
Increase in receivables under finance lease	(2,824)	(8,057)
Increase in trade and other payables	2,873	6,272
Cash used in operations	(173)	(2,793)
Interest received	289	716
Interest paid	(453)	(599)
Income tax paid	(131)	(413)
Net cash used in operating activities carried forward	(468)	(3,089)

IV UNAUDITED CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

	For the nine-month ended September 30,	
	2009	2010
	RMB millions	RMB millions
Net cash used in operating activities brought forward	(468)	(3,089)
Investing activities		
Payment for the purchase of property, plant and equipment	(693)	(639)
Lease prepayments	(3)	(236)
Payment for purchase of intangible assets	(35)	(15)
Payment for acquisition of investments in associates and equity investments	(2)	—
Proceeds from disposal of property, plant and equipment and intangible assets	45	48
Payment for acquisition of subsidiary, net of cash acquired	(28)	—
Increase in pledged bank deposits	(1,070)	(984)
Dividends received from associates	—	6
Net cash used in investing activities	(1,786)	(1,820)
Financing activities		
Proceeds from loans and borrowings	6,910	9,590
Repayments of loans and borrowings	(5,657)	(7,368)
Dividends paid	(134)	(707)
Contribution from non-controlling shareholder	31	—
Net proceeds from private placement of new shares	—	5,479
Net cash generated from financing activities	1,150	6,994
Net (decrease)/increase in cash and cash equivalents	(1,104)	2,085
Cash and cash equivalents at beginning of period	2,913	3,439
Effect of foreign exchange rate changes	—	(17)
Cash and cash equivalents at end of period	1,809	5,507

V NOTES TO THE INTERIM FINANCIAL INFORMATION**1 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, cranes, 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”). The Group is also engaged in manufacturing and sale of concrete machinery in Italy.

2 Basis of preparation

The interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (“IASB”).

This interim financial information has been prepared in accordance with the same accounting policies adopted by the Group as set out in the audited financial statements included in the Accountants’ Report dated December 13, 2010, the text of which is set out in Appendix I to the Prospectus.

The preparation of interim financial information in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

This interim financial information contains consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2009 annual financial statements. The consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

This interim financial information is unaudited, but has been reviewed by KPMG 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 Hong Kong Institute of Certified Public Accountants.

3 Turnover

	For the three-month ended September 30,		For the nine-month ended September 30,	
	2009	2010	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions
Sales of				
Concrete machinery	2,226	3,707	5,760	10,744
Crane machinery	1,996	2,293	5,659	8,203
Environmental and sanitation machinery	306	541	780	1,251
Road construction and pile foundation machinery	191	341	582	880
Earth working machinery	62	202	263	652
Material handling machinery and systems	119	78	282	359
Other machinery products	575	351	1,209	1,159
Finance income under finance lease	104	299	271	653
	<u>5,579</u>	<u>7,812</u>	<u>14,806</u>	<u>23,901</u>

4 Profit before taxation

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

(a) Net finance costs:

	For the three-month ended September 30,		For the nine-month ended September 30,	
	2009	2010	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions
Finance income:				
Interest income on bank deposits	(5)	(22)	(18)	(63)
Finance costs:				
Interest on loans and borrowings (note)	86	77	298	303
Less: Interest expense capitalized*	(4)	—	(25)	—
Net interest expense	82	77	273	303
Net exchange losses / (gains)	7	27	3	(8)
	<u>89</u>	<u>104</u>	<u>276</u>	<u>295</u>
	<u>84</u>	<u>82</u>	<u>258</u>	<u>232</u>
* Interest rates per annum at which borrowing costs have been capitalized for construction in progress	<u>1.0% to 7.2%</u>	<u>—</u>	<u>1.0% to 7.2%</u>	<u>—</u>

Note:

Interest expense on factoring the Group's receivables under finance lease amounted to RMB37 million and RMB98 million for the three-month periods ended September 30, 2009 and 2010, respectively, and RMB56 million and RMB245 million for the nine-month periods ended September 30, 2009 and 2010, respectively. They are included in cost of sales and services.

(b) Staff costs:

	For the three-month ended September 30,		For the nine-month ended September 30,	
	2009	2010	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions
Salaries, wages and other benefits	297	555	863	1,546
Contributions to retirement schemes	8	18	48	79
	<u>305</u>	<u>573</u>	<u>911</u>	<u>1,625</u>

(c) Other items:

	For the three-month ended September 30,		For the nine-month ended September 30,	
	2009	2010	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions
Cost of inventories	4,068	5,494	10,917	16,786
Depreciation of property, plant and equipment	54	74	176	246
Amortization of lease prepayments	5	5	16	17
Amortization of intangible assets	6	16	34	47
Operating lease charges	12	30	48	79
Product warranty costs	40	33	57	97
Impairment losses—trade receivables	5	32	71	279
	<u>4,068</u>	<u>5,494</u>	<u>10,917</u>	<u>16,786</u>

5 Income tax

Income tax in the consolidated statements of comprehensive income represents:

	For the three-month ended September 30,		For the nine-month ended September 30,	
	2009	2010	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions
Current tax—PRC income tax	113	204	335	708
Current tax—Income tax in other tax jurisdictions	4	3	10	8
Deferred taxation	9	(30)	(30)	(144)
	<u>126</u>	<u>177</u>	<u>315</u>	<u>572</u>

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

	For the three-month ended September 30,		For the nine-month ended September 30,	
	2009	2010	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions
Profit before taxation	756	1,078	2,046	3,636
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned (note (a))	189	269	512	909
Tax effect of non-deductible expenses	11	2	18	13
Tax effect of non-taxable income	(2)	(5)	(5)	(10)
Tax effect of tax concessions (note (b))	(69)	(80)	(179)	(314)
Additional deduction for qualified research and development expenses (note (c))	(3)	(9)	(13)	(26)
Effect of change in tax rate / tax status	—	—	(18)	—
Actual income tax expense	126	177	315	572

Notes:

- (a) The PRC statutory income tax rate is 25%.
The Company's subsidiaries in Italy, CIFA and its subsidiaries, are subject to income tax at rates ranging from 27.5% to 31.4%.
The Company's subsidiaries in the HKSAR are subject to Hong Kong profits tax at 16.5%. No provision for Hong Kong profits tax was made in the consolidated financial statements 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 and certain of its subsidiaries in the PRC were recognized as high-technology enterprises during the periods presented and accordingly were subject to a preferential income tax rate of 15%.
- (c) Under the PRC income tax law and its relevant regulations, a 50% additional tax deduction is allowed for qualified research and development expenses.

6 Basic and diluted earnings per share

The calculation of basic earnings per share for the three-month periods ended September 30, 2009 and 2010 is based on the profit attributable to equity shareholders of the Company of RMB639 million and RMB923 million respectively, and the weighted average number of shares of 4,183 million and 4,928 million for the three-month periods ended September 30, 2009 and 2010, respectively.

The calculation of basic earnings per share for the nine-month periods ended September 30, 2009 and 2010 is based on the profit attributable to equity shareholders of the Company of RMB1,775 million and RMB3,125 million respectively, and the weighted average number of shares of 4,183 million and 4,832 million for the nine-month periods ended September 30, 2009 and 2010, respectively.

There were no dilutive potential ordinary shares in issue as at September 30, 2009 and 2010.

7 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 three-month periods and the nine-month periods ended September 30, 2009 and 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.

APPENDIX II
UNAUDITED INTERIM FINANCIAL INFORMATION

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 three-month periods and the nine-month periods ended September 30, 2009 and 2010 is set out below:

	For the three-month ended September 30,		For the nine-month ended September 30,	
	2009	2010	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions
Reportable segment revenue:				
Concrete machinery	2,226	3,707	5,760	10,744
Crane machinery	1,996	2,293	5,659	8,203
Environmental and sanitation machinery	306	541	780	1,251
Road construction and pile foundation machinery	191	341	582	880
Earth working machinery	62	202	263	652
Material handling machinery and systems	119	78	282	359
Finance lease services	104	299	271	653
Total reportable segment revenue	5,004	7,461	13,597	22,742
Revenue from all other segments	575	351	1,209	1,159
Total	5,579	7,812	14,806	23,901
Reportable segment profit:				
Concrete machinery	657	1,023	1,642	3,205
Crane machinery	457	571	1,333	2,205
Environmental and sanitation equipment	110	175	249	409
Road construction and pile foundation machinery	59	133	194	326
Earth working machinery	9	26	34	107
Material handling machinery and systems	12	11	43	28
Finance lease services	74	162	218	357
Total reportable segment profit	1,378	2,101	3,713	6,637
Profit from all other segments	81	67	123	182
Total	1,459	2,168	3,836	6,819

(b) Reconciliation of segment profit

	For the three-month ended September 30,		For the nine-month ended September 30,	
	2009	2010	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions
Total segment profit	1,459	2,168	3,836	6,819
Other revenues and net income	16	(21)	44	(15)
Sales and marketing expenses	(342)	(581)	(781)	(1,567)
General and administrative expenses	(281)	(349)	(701)	(1,201)
Research and development expenses	(14)	(50)	(96)	(166)
Net finance costs	(84)	(82)	(258)	(232)
Share of profits less losses of associates	2	(7)	2	(2)
Consolidated profit before taxation	756	1,078	2,046	3,636

(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 the 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.

	For the three-month ended September 30,		For the nine-month ended September 30,	
	2009	2010	2009	2010
	RMB millions	RMB millions	RMB millions	RMB millions
Revenue from external customers				
Mainland PRC	5,311	7,513	13,779	22,818
Outside PRC, primarily from Italy	268	299	1,027	1,083
Total	<u>5,579</u>	<u>7,812</u>	<u>14,806</u>	<u>23,901</u>

	As at December 31, 2009	As at September 30, 2010
	RMB millions	RMB millions
	Specified non-current assets	
Mainland PRC	4,287	4,703
Outside PRC, primarily in Italy	303	243
Total	<u>4,590</u>	<u>4,946</u>

8 Inventories

	As at December 31, 2009	As at September 30, 2010
	RMB millions	RMB millions
	Raw materials	3,055
Work in progress	1,620	1,726
Finished goods	1,597	2,100
	<u>6,272</u>	<u>7,142</u>

9 Trade and other receivables

	As at December 31, 2009	As at September 30, 2010
	<u>RMB millions</u>	<u>RMB millions</u>
Trade receivables	5,401	8,985
Less: allowance for doubtful debts	(340)	(603)
	5,061	8,382
Less: trade receivables due after one year	(229)	(503)
	4,832	7,879
Bills receivable	491	429
	5,323	8,308
Amounts due from related parties (Note 17(b))	29	59
Prepayments for purchase of raw materials	394	745
Prepayments for purchase of property, plant and equipment	20	138
Prepaid expenses	113	174
VAT recoverable	81	187
Others	305	447
	<u>6,265</u>	<u>10,058</u>

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

	As at December 31, 2009	As at September 30, 2010
	<u>RMB millions</u>	<u>RMB millions</u>
Within 1 month	2,133	2,932
Over 1 month but less than 3 months	382	1,056
Over 3 months but less than 1 year	1,427	3,101
Over 1 year but less than 2 years	931	1,041
Over 2 years but less than 3 years	161	202
Over 3 years but less than 5 years	27	50
	<u>5,061</u>	<u>8,382</u>

10 Receivables under finance lease

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

APPENDIX II
UNAUDITED INTERIM FINANCIAL INFORMATION

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

	As at December 31, 2009	As at September 30, 2010
	RMB millions	RMB millions
<i>Present value of the minimum lease payments</i>		
Within 1 year	3,283	6,196
Over 1 year but less than 2 years	2,665	5,646
Over 2 years but less than 3 years	1,865	3,485
Over 3 years	530	1,073
	<u>8,343</u>	<u>16,400</u>
<i>Unearned finance income</i>		
Within 1 year	478	932
Over 1 year but less than 2 years	252	522
Over 2 years but less than 3 years	96	187
Over 3 years	21	38
	<u>847</u>	<u>1,679</u>
<i>Gross investment</i>		
Within 1 year	3,761	7,128
Over 1 year but less than 2 years	2,917	6,168
Over 2 years but less than 3 years	1,961	3,672
Over 3 years	551	1,111
	<u>9,190</u>	<u>18,079</u>

As at December 31, 2009 and September 30, 2010, receivables under finance lease of RMB 4,671 million and RMB6,398 million respectively (included in the above balances) were factored to banks with recourse.

11 Cash and cash equivalents

	As at December 31, 2009	As at September 30, 2010
	RMB millions	RMB millions
Cash at bank and on hand		
—RMB denominated	2,965	4,783
—USD denominated	344	519
—EUR denominated	112	177
—Other currencies	18	28
	<u>3,439</u>	<u>5,507</u>

12 Loans and borrowings

(a) Short-term loans and borrowings:

		As at December 31, 2009	As at September 30, 2010
	<i>Note</i>	RMB millions	RMB millions
Secured short-term bank loans			
—RMB denominated	(i)	55	40
—EUR denominated		2,475	—
Unsecured short-term bank loans			
—RMB denominated		1,012	63
—JPY denominated	(ii)	568	1,063
—EUR denominated		144	553
—USD denominated		2,002	1,799
—Other currencies		—	61
Current portion of long-term bank loans		<u>2,297</u>	<u>4,493</u>
		<u>8,553</u>	<u>8,072</u>

Notes:

- (i) The RMB denominated secured short-term bank loans as at December 31, 2009 and September 30, 2010 were secured by certain properties with an aggregate carrying value of RMB85 million and RMB30 million respectively.
- (ii) As at September 30, 2010, JPY denominated unsecured short-term loans of RMB144 million are subject to the fulfillment of certain annual financial covenants of the Group.

(b) Long-term loans and borrowings:

		As at December 31, 2009	As at September 30, 2010
	<i>Note</i>	RMB millions	RMB millions
Secured long-term bank loans			
—RMB denominated	(i)	4,515	5,790
—EUR denominated	(ii)	—	1,641
Unsecured long-term bank loans			
—RMB denominated	(iii)	486	945
—EUR denominated	(iv)	12	916
—USD denominated	(v)	1,815	2,456
Unsecured bond	(vi)	<u>1,090</u>	<u>1,091</u>
		7,918	12,839
Less: Current portion of long-term bank loans		<u>(2,297)</u>	<u>(4,493)</u>
		<u>5,621</u>	<u>8,346</u>

Notes:

- (i) The RMB denominated secured long-term bank loans as at December 31, 2009 and September 30, 2010 were secured by certain receivables under finance lease with a carrying value of RMB4,671 million and RMB6,398 million respectively, and had maturities ranging from 2 months to 4 years from the respective balance sheet date.
- (ii) As at September 30, 2010, the EUR denominated secured long-term bank loan is secured by 100% equity interest of certain Company's subsidiaries in Italy. Such loan bears interest at EURIBOR plus 2.2% per annum and is repayable in full in June 2013.
- (iii) The RMB denominated unsecured long-term bank loans as at December 31, 2009 and September 30, 2010 had maturities ranging from 7 months to 3 years from the respective balance sheet date. As at September 30, 2010, RMB230 million of such long-term bank loan is subject to the fulfillment of certain annual financial covenants of the Group.
- (iv) As at September 30, 2010, EUR denominated unsecured long-term bank loan of RMB909 million bore interest at EURIBOR plus 2.0% per annum and are repayable in full in June 2013. The remaining unsecured long-term bank loans of RMB7 million are repayable in quarterly instalments through 2014.

- (v) As at December 31, 2009 and September 30, 2010, the USD denominated unsecured long-term bank loan of RMB1,351 million and RMB1,330 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, 2009 and June 30, 2010, the Group was in compliance with these financial covenants. As at December 31, 2009 and September 30, 2010, the remaining unsecured long-term bank loans of RMB464 million and RMB1,126 million respectively bear interest at LIBOR plus 1.2% to 2.2% per annum and have maturities ranging from 17 months to 3 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 12(a)(ii), 12(b)(iii) and 12(b)(v) above, none of the Group's loans and borrowings contains any financial covenants.

13 Trade and other payables

	As at December 31, 2009	As at September 30, 2010
	RMB millions	RMB millions
Trade creditors	4,369	6,452
Bills payable	3,843	5,698
Trade creditors and bills payable (note)	8,212	12,150
Amounts due to related parties (Note 17(b))	—	12
Receipts in advance	446	880
Payable for acquisition of property, plant and equipment	386	354
Accrued staff costs	402	537
VAT payable	265	516
Security deposits	270	387
Product warranty provision	87	103
Sundry taxes payable	63	239
Dividend payable	—	120
Other accrued expenses	501	749
	<u>10,632</u>	<u>16,047</u>

Note:

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

	As at December 31, 2009	As at September 30, 2010
	RMB millions	RMB millions
Due within 1 month or on demand	1,901	5,508
Due after 1 month but within 3 months	2,105	2,372
Due after 3 months but within 6 months	2,238	3,013
Due after 6 months but within 12 months	1,968	1,257
	<u>8,212</u>	<u>12,150</u>

14 Capital and reserves

(a) Private placement of shares

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 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) Profit appropriations

(i) Cash dividends

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.

Pursuant to the shareholders' approval at the Extraordinary General Meeting held on July 22, 2010, a cash dividend of RMB0.17 per share based on 1,971 million ordinary shares totalling RMB335 million was declared, and among which RMB215 million was paid during the quarter ended September 30, 2010, and the remaining balance is expected to be paid by the end of 2010.

(ii) Bonus shares

In July 2010, the Company announced 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 2,957 million. The par value of new ordinary shares issued of RMB2,957 million was charged to retained earnings in accordance with the Board of Director's resolution as approved by the shareholders at the Extraordinary General Meeting on July 22, 2010.

15 Commitments

(a) Capital commitments

At December 31, 2009 and September 30, 2010, the Group had capital commitments as follows:

	As at December 31, 2009	As at September 30, 2010
	RMB millions	RMB millions
Authorized and contracted for		
—property, plant and equipment	115	198
—equity investments	8	—
—intangible assets	—	19
	<u>123</u>	<u>217</u>
Authorized but not contracted for		
—property, plant and equipment	12	441
—lease prepayments	—	36
	<u>12</u>	<u>477</u>

(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.

At December 31, 2009 and September 30, 2010, the future minimum lease payments under operating lease are as follows:

	As at December 31, 2009	As at September 30, 2010
	RMB millions	RMB millions
Within 1 year	38	58
After 1 but within 2 years	24	45
After 2 but within 3 years	19	18
After 3 but within 4 years	14	11
After 4 but within 5 years	9	8
Thereafter	<u>26</u>	<u>21</u>
	<u>130</u>	<u>161</u>

16 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, 2009 and September 30, 2010, the Group's maximum exposure to such guarantees was RMB3,369 million and RMB3,999 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 year ended December 31, 2009 and the three-month and nine-month periods ended September 30, 2010, the Group made payments of RMB117 million, RMB22 million and RMB83 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 September 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.

17 Related party transactions

(a) Transactions with related parties

	For the nine-month ended September 30,	
	2009	2010
	RMB millions	RMB millions
Transactions with associates:		
Sales of products	(2)	(7)
Lease of properties and equipment	3	—
Purchase of raw materials	<u>5</u>	<u>22</u>

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 arise 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.

18 Reconciliation of financial information prepared under PRC GAAP to IFRSs**(a) Reconciliation of total equity of the Group**

	As at December 31, 2009	As at September 30, 2010
	<u>RMB millions</u>	<u>RMB millions</u>
Total equity reported under PRC GAAP	7,592	15,242
—Acquisition-related costs	<u>(40)</u>	<u>(40)</u>
Total equity reported under IFRSs	<u>7,552</u>	<u>15,202</u>

- (b) There is no material difference between total comprehensive income of the Group for the three-month and nine-month periods ended September 30, 2009 and 2010 reported under PRC GAAP and IFRSs.