ZOOMLION

長沙中聯重工科技發展股份有限公司
CHANGSHA ZOOMLION HEAVY INDUSTRY SCIENCE AND TECHNOLOGY DEVELOPMENT CO., LTD.*

(a joint stock company incorporated in the People's Republic of China with limited liability)

H Share Stock Code : 1157
A Share Stock Code : 000157

2010
ANNUAL REPORT

ZOOMLION
CHANGSHA HEAVY INDUSTRY
SCIENCE AND TECHNOLOGY
DEVELOPMENT

* For identification purpose only

Important Notice

1. The Board of Directors and the Supervisory Board of the Company and its directors, supervisors and senior management warrant that there are no mis-representation, misleading statements or material omissions in this report and they shall, individually and jointly, accept full responsibility for the truthfulness, accuracy and completeness of the contents of this report.

2. Dr. Zhan Chunxin, Chairman of the Board, Ms. Hong Xiaoming, Vice-president and the person in charge of financial affairs, and Ms. Du Yigang, head of accounting department warrant the truthfulness and completeness of the financial report contained in this annual report.

3. The domestic and international financial statements of the Company have been audited by Baker Tilly China Certified Public Accountants Co., Ltd. and KPMG, respectively, upon which each of them has issued a standard unqualified auditors' report.

4. This report has been prepared in English and Chinese respectively. In case of discrepancy, the Chinese version shall prevail, except for the financial statements prepared in accordance with International Financial Reporting Standards, of which the English version shall prevail.

5. Definitions

   Unless the context otherwise requires, the following terms shall have the meanings set out below:

   "The Company" or "Zoomlion" refers to Changsha Zoomlion Heavy Industry Science and Technology Development Co., Ltd.

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Company Profile

I. Company name (in Chinese): 長沙中聯重工科技發展股份有限公司
Chinese abbreviation: 中聯重科
Company name (in English): Changsha Zoomlion Heavy Industry Science And Technology Development Co., Ltd.
English abbreviation: Zoomlion

II. Legal representative of the Company: Zhan Chunxin

III. Secretary of the Board of Directors/Company Secretary: Shen Ke
Representative of securities affairs: Guo Tao
Contact Address: No. 361 Yinpen South Road, Changsha, Hunan Province, PRC
Telephone: (86 731) 88923908
Fax: (86 731) 88923904
E-mail: 157@zoomlion.com

IV. Registered address and place of business of the Company: No. 361 Yinpen South Road, Changsha, Hunan Province, PRC
Postal code: 410013
Website: http://www.zoomlion.com/
E-mail: 157@zoomlion.com

V. Authorized representatives: Zhan Chunxin
Shen Ke
Address: No. 361 Yinpen South Road, Changsha, Hunan Province, PRC

VI. Newspapers for disclosure of the Company's information: China Securities Journal, Shanghai Securities News, Securities Times
Website publishing the A share announcement: http://www.cninfo.com.cn
Website publishing the H share announcement: http://www.hkexnews.hk
Address for Inspection of the Annual Report: No. 361 Yinpen South Road, Changsha, Hunan Province, PRC

VII. Listing information: A Shares
Shenzhen Stock Exchange of China ("SZSE")
Stock Name: ZOOMLION
Stock Code: 000157
Corporate Bonds Name: 2008 Zoomlion Bonds (08中聯債)
Corporate Bonds Code: 112002
H Shares
The Stock Exchange of Hong Kong Limited ("SEHK")
Stock Name: ZOOMLION
Stock Code: 1157

VIII. H Share Registrar: Computershare Hong Kong Investor Services Limited
Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East,
Wanchai, Hong Kong

IX. Legal Advisors:
As to PRC law: Beijing Tianyin Law Firm
15/F, Zhong Kun Mansion, No. 59 Gaoliangqiao Road, Haidian District, Beijing, PRC
As to Hong Kong law: Norton Rose Hong Kong
38/F, Jardine House, 1 Connaught Place, Central, Hong Kong

X. Auditors:
Domestic auditors: Baker Tilly China Certified Public Accountants Co., Ltd. ("Baker Tilly China")
Address: Room 208, Block B, Huatong Building, B 19 Chegongzhuang West Road,
Haidian District, Beijing, PRC
International auditors: KPMG
Address: 8/F, Prince's Building, 10 Chater Road, Central, Hong Kong, PRC

XI. Compliance Advisor: Anglo Chinese Corporate Finance, Limited
Address: 40th floor, Two Exchange Square, 8 Connaught Place, Central,
Hong Kong, PRC

XII. Other relevant information:
First registration date: 31 August 1999
First registration address: No. 307 Yinpen South Road, Changsha, Hunan Province, PRC
Date of registration for subsequent change: 20 October 2010
Place of registration for subsequent change: No. 361 Yinpen South Road, Changsha,
Hunan Province, PRC
Enterprise legal business licence registration number: 430000400000198
Taxation registration number: 430104712194405
Organisation Code: 71219440-5

Chairman's Statement

Chairman
Zhan Chunxin

Zoomlion has recorded average annual growth rate of over 60% since its establishment. It has 13 product series with intellectual property rights and over 450 leading products. The number of product types of Zoomlion exceeds that of the internationally-renowned enterprises.

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors of Zoomlion, I am pleased to present to the shareholders the results of operations and annual report of the Company for the year ended 31 December 2010, and to express our sincere thanks for your continuing support and concern.

In 2010, macro economy of China presented a promising recovery. Domestic construction machinery Industry grew at a relatively rapid pace and the global construction machinery market saw its resurgence. Leveraging on this opportunity, Zoomlion optimised the management system and insisted to make its own innovation. In addition to the rapid growth in the results of operations, the Company successfully completed the listing on the Main Board of SEHK. The Company was the first A and H-share listed company in the domestic construction machinery manufacturing industry, thus fostering achievement in internationalisation. I would like to report our results of operations to the shareholders from the following aspects:

Results of Operations

The year of 2010 is the year of milestone for Zoomlion. Marking the tenth anniversary of the listing of our A Shares, the H Shares was also successfully listed in Hong Kong. The size of concrete machinery and crane machinery businesses, our two core segments, exceeded RMB10 billion. Several popular products represented by crane machineries, environmental and sanitation machinery and earth working machinery, grew rapidly, resulting in a sustainable and rapid growth of the Company and demonstrating an outstanding and rapid development of the Company.

In 2010, our revenue totalled RMB32,193 million, representing an increase of 55.1% as compared to last year. Net profit attributable to equity shareholders of the Company amounted to RMB4,666 million, representing an increase of 90.7% over the previous year, and the basic earnings per share was RMB0.96.

Corporate Governance

In 2010, the Company strictly complied with the requirements of laws and regulations of domestic and foreign regulatory institutions such as CSRC, SFC, SZSE and SEHK. The Company continued to optimise the corporate governance structure, regulate the operation procedures, improve the internal control system, and examined and rationalised the corporate governance and internal control of the subsidiaries of the Company. The procedures of shareholders' meeting, board meeting and supervisory board meeting were standardised to maintain operation efficiency and safeguard the interests of all shareholders and the Company.

Chairman's Statement

Corporate Social Responsibility

Adhering to the time-honoured core value of integrity and sincerity, Zoomlion has taken an active role in fulfilling corporate social responsibility as a large-scale enterprise. The Company protected the interests of shareholders and creditors by optimising governance structure and developing profitable operation. The Company was devoted to protecting the interests of employees and enhancing the value of human resources by developing harmonious labour relations, nurturing a proactive corporate culture emphasising performance and efficiency, organising various staff training programs and insisting on production safety. To secure the interests of suppliers, customers and consumers, the Company was committed to the development and improvement of service and product quality. The Company took a leading role in technology development of the industry with its own innovation. In addition, the Company actively fulfilled its social responsibility by providing support and assistance to the needy and participating in the rescuing operation of earthquakes and natural disasters. Our commitments to social corporate responsibility was well-recognised by the government, media and industry.

Dividend Distribution

Based on the total registered capital of 5,927,656,962 shares as at 28 March 2011, the Board proposed the following dividends distribution to all shareholders:

1. Cash dividends of RMB2.6 (tax inclusive) for every 10 shares;

2. 3 bonus shares for every 10 outstanding shares by capitalisation of the capital reserve.

Prospects

The development of the Company in 2011 will be full of opportunities and challenges.

Internationally, the United States saw its bottom-out and has recorded economic growth for five consecutive quarters. Shadowing by the European sovereign debt crisis, the recovery of European countries remains stagnant. The rapid development of emerging markets such as Russia, India, Middle East and Brazil presented strong potential for business growth.

Domestically, the economy of China will maintain its growth momentum during the period of "Twelfth Five-Year Plan". Under the guidance of the austerity policies of the PRC, the construction machinery market in China will be thriving due to increase in investment in highways, high speed railways, subways, water resources and wind power, the acceleration of low-income housing construction and the development of Western Region as well as the expedition of urbanisation progress. During the period of "Twelfth Five-Year Plan", the CAGR of the construction machinery market of the PRC will achieve approximately 17% and the size of the industry will reach RMB900 billion by 2015. However, RMB appreciation, increase in costs of raw materials and intensifying market competition will bring challenges to the development of the Company.

Chairman's Statement

The Company will continue to follow its principles of achieving "reform and innovation; smooth operation; unit breakthrough; and overall improvement". It will promote the vision of, and develop itself into, a "learning organisation" to enhance innovation and execution capabilities. With an aim to become a renowned brand in the construction machinery industry, the Company strives to strengthen its strategic services, implement business strategies and improve management quality. Research and development of advanced technologies will be conducted to make quality enhancement and management innovation. In addition, the Company will further expand into the overseas markets and explore more sales channels and formulate an integrated sales model to enhance overall competitiveness of the Company.

In 2011, Zoomlion will grasp the opportunity arising from the H Share listing to achieve excellent operating results and accelerate its internationalisation. The Company will dedicate to provide remarkable returns and contributions to our shareholders and the society.

Zhan Chunxin
Chairman

28 March 2011

Principal Financial Data and Indicators

I. Financial data and indicators prepared in accordance with China Accounting Standards for Business Enterprises ("PRC GAAP")

(I) Profit of the Year

Unit: RMB

Item	Amount
Operating profit	5,373,872,292.61
Gross Profit	5,416,105,284.48
Net profit attributable to equity shareholders of the Company	4,665,589,677.74
Net profit attributable to equity shareholders of the Company before extraordinary gain and loss	4,633,371,902.38
Net cash flow from operating activities	545,177,864.65

Extraordinary items are set out below:

Unit: RMB

Extraordinary items	Amount
Loss on disposal of non-current assets	-37,263,563.00
Government grants recorded in current profit and loss, except regular grants of fixed amount closely related to the normal business operations of the Company and entitled pursuant to government policy	70,352,283.40
Gain from debt restructuring	8,678,711.16
Non-operating income and expenses other than those set out above	465,560.31
Tax effect	-10,144,712.55
Less: minority interests	129,496.04
Total	32,217,775.36

Principal Financial Data and Indicators

(II) Principal Financial Data

Unit: RMB

	2010	2009 Before adjustment	2009 After adjustment	change compared to the previous years (%) After adjustment	2008 Before adjustment	2008 After adjustment
Operating income	**32,192,673,210.38**	20,762,163,099.20	20,762,163,099.20	55.05%	13,548,784,328.04	13,548,784,328.04
Gross Profit	**5,416,105,284.48**	2,827,394,127.04	2,827,394,127.04	91.56%	1,785,179,930.25	1,785,179,930.25
Net profit attributable to equity shareholders of the Company	**4,665,589,677.74**	2,372,404,303.36	2,446,404,303.36	90.71%	1,569,380,126.81	1,585,773,999.81
Net profit attributable to equity shareholders of the Company before extraordinary gain and loss	**4,633,371,902.38**	2,296,596,441.65	2,370,596,441.65	95.45%	1,473,939,553.39	1,490,333,426.39
Net cash flow from operating activities	**545,177,864.65**	1,333,301,618.08	-1,297,365,040.32	140.93%	312,621,636.30	-658,059,270.63

	End of 2010	End of 2009 Before adjustment	End of 2009 After adjustment	Change compared to the end of the previous years (%) After adjustment	End of 2008 Before adjustment	End of 2008 After adjustment
Total assets	**62,995,275,498.09**	34,005,753,115.31	33,914,557,915.31	85.75%	23,121,994,122.85	23,030,798,922.85
Shareholders' equity attributable to equity shareholders of the Company	**27,415,214,655.29**	7,389,761,046.13	7,467,601,306.71	267.12%	5,082,420,126.47	5,112,413,999.47
Share capital (shares)	**5,797,219,562.00**	1,673,100,000.00	1,673,100,000.00	246.50%	1,521,000,000.00	1,521,000,000.00

(III) Principal Financial Indicators

Unit: RMB

	2010	2009 Before adjustment	2009 After adjustment	change compared to the previous years (%) After adjustment	2008 Before adjustment	2008 After adjustment
Basic earnings per share	**0.97**	1.42	0.58	67.24%	1.03	0.38
Diluted earnings per share	**0.97**	1.42	0.58	67.24%	1.03	0.38
Earnings per share based on the latest share capital	**0.79**	–	–	–	–	–
Basic earnings per share before extraordinary gain and loss	**0.96**	1.37	0.57	68.42%	0.97	0.36
Weighted average return on net assets (%)	**33.41%**	38.12%	38.82%	-5.41%	35.91%	36.22%
Weighted average return on net assets before extraordinary return (%)	**33.22%**	36.90%	37.84%	-4.62%	34.10%	34.41%
Net cash flow gain and loss from operating activities per share	**0.09**	0.80	-0.78	140.92%	0.21	-0.43

	End of 2010	End of 2009 Before adjustment	End of 2009 After adjustment	Change compared to the end of the previous years (%) After adjustment	End of 2008 Before adjustment	End of 2008 After adjustment
Net assets attributable to equity shareholders of the Company per share	**4.7290**	4.4168	4.4633	5.95%	3.3415	3.3612

II. Summary Financial Information of the Company of the Past Four Years prepared in accordance with International Financial Reporting Standards ("IFRSs")

Unit: RMB million

Turnover and profits	2010	2009	2008	2007
Turnover	**32,193**	20,762	13,548	8,973
Profit before taxation	**5,416**	2,828	1,744	1,471
Income tax	**(828)**	(409)	(191)	(34)
Profit for the year	**4,588**	2,419	1,553	1,437
Profit for the year attributable to:				
Equity shareholders of the Company	**4,666**	2,447	1,544	1,439
Non-controlling shareholders	**(78)**	(28)	9	(2)
Profit attributable to ordinary shareholders of the Company: Basic and diluted earnings per share (RMB)	**0.96 (Note)**	0.59	0.37	0.34

Unit: RMB million

Assets and liabilities	End of 2010	End of 2009	End of 2008	End of 2007
Non-current assets	**19,372**	13,861	9,185	2,361
Current assets	**43,670**	20,014	14,037	6,172
Current liabilities	**26,067**	19,468	13,224	4,445
Net current assets	**17,603**	546	813	1,727
Total assets less current liabilities	**36,975**	14,407	9,998	4,088
Non-current liabilities	**9,540**	6,855	4,787	337
Net assets	**27,435**	7,552	5,211	3,751
Total equity attributable to the equity shareholders of the Company	**27,376**	7,428	5,071	3,629
Non-controlling interests	**59**	124	140	122

Note: The Company issued 869,582,800 H Shares on 23 December 2010, the share capital of the Company increased accordingly. The earnings per share of 2010 under IFRSs was based on weighted average number shares calculated by day, while the earnings per share under PRC GAAP was based on weighted average number of shares calculated by month, and therefore, the above newly issued shares were not taken into account under PRC GAAP.

III. Reconciliation of Financial Information prepared under PRC GAAP and IFRSs

Unit: RMB million

Total equity adjustment	End of 2010	End of 2009
Total equity reported under PRC GAAP	**27,475**	7,592
Acquisition-related costs incurred on prior year business combination	**(40)**	(40)
Total equity reported under IFRSs	**27,435**	7,552

There is no material difference between consolidated comprehensive income and consolidated cash flow of the Group under PRC GAAP and IFRSs.

Changes in Share Capital and Shareholders

I. Changes in Share Capital (As at 31 December 2010)

(I) Change in shares

Unit: Share

	Before this change		Increase(+)/Decrease(-) in this change				After this change	
	Number	Percentage	New shares	Bonus shares	Others	Sub-total	Number	Percentage
I. Shares subject to sales restriction	851,119,230	50.87%	297,954,705	447,930,008	-850,453,929	-104,569,216	746,550,014	12.88%
1. State-owned shares	16,108,810	0.96%	0	0	-16,108,810	-16,108,810	0	0.00%
2. Shares held by state-owned legal persons	418,128,700	24.99%	146,300,000	219,450,000	-418,128,700	-52,378,700	365,750,000	6.31%
3. Other domestic shares	210,114,926	12.56%	100,372,580	150,558,870	-210,114,926	40,816,524	250,931,450	4.33%
Including: shares held by domestic non-state-owned legal persons	210,114,926	12.56%	100,372,580	150,558,870	-210,114,926	40,816,524	250,931,450	4.33%
shares held by domestic natural persons	0	0	0	0	0	0	0	0
4. Foreign invested shares	206,122,567	12.32%	0	0	-206,122,567	-206,122,567	0	0.00%
Including: shares held by overseas legal persons	206,122,567	12.32%	0	0	-206,122,567	-206,122,567	0	0.00%
shares held by overseas natural persons	0	0.00%	0	0	0	0	0	0.00%
5. Shares held by senior management	644,227	0.04%	0	997,951	21,074	1,019,025	1,663,252	0.03%
6. Others	0	0	51,282,125	76,923,187	0	128,205,312	128,205,312	2.21%
II. Shares not subject to sales restriction	821,980,770	49.13%	869,582,800	2,421,693,769	937,412,209	4,228,688,778	5,050,669,548	87.12%
1. Ordinary shares denominated in RMB (A Shares)	821,980,770	49.13%	0	2,421,693,769	850,453,929	3,272,147,698	4,094,128,468	70.62%
2. Domestically listed foreign invested shares	0	0.00%	0	0	0	0	0	0.00%
3. Overseas listed foreign invested shares (H Shares)	0	0.00%	869,582,800	0	86,958,280	956,541,080	956,541,080	16.50%
4. Others	0	0.00%	0	0	0	0	0	0.00%
III. Total number of shares	1,673,100,000	100.00%	1,167,537,505	2,869,623,777	86,958,280	4,124,119,562	5,797,219,562	100.00%

(II) Change in shares subject to sales restriction

Unit: Share

Name of shareholder	Number of shares subject to sales restriction as at the beginning of the year	Number of shares released from sales restrictions during the year	Additional shares subject to sales restriction during the year	Number of shares subject to sales restrictions as at the end of the year	Reason of sales restriction	Date of release of sales restriction
State-owned Assets Supervision and Administration Commission of Hunan Provincial People's Government	418,128,700	418,128,700	0	0	Further undertaking of share reform	15 April 2010
Changsha Hesheng Science and Technology Investment Co., Ltd.	126,349,109	126,349,109	0	0		
Changsha Yifang Science and Technology Investment Co., Ltd.	83,765,817	83,765,817	0	0		
Real Smart International Limited	56,030,647	56,030,647	0	0		
Hunan Development and Investment Group Co., Ltd.	16,108,810	16,108,810	0	0		
Good Excel Group Limited	150,091,920	150,091,920	0	0		
Hony Capital Fund I (Tianjin), L.P.	0	0	131,575,000	131,575,000	Non-public offering	14 February 2011
China Jianyin Investment Co., Ltd.	0	0	127,500,000	127,500,000		
Xiangjiang Industrial Investment Co., Ltd.	0	0	87,500,000	87,500,000		
Guangdong Hengjian Investment Holding Co., Ltd.	0	0	77,500,000	77,500,000		
Youngor Group Co., Ltd.	0	0	75,000,000	75,000,000		
Anhui Province Investment Group Co., Ltd.	0	0	73,250,000	73,250,000		
Zhonghai Fund Management Co., Ltd.	0	0	64,102,750	64,102,750		
PICC Property and Casualty Co., Ltd — traditional — ordinary insurance products	0	0	53,500,000	53,500,000		
PICC Life Insurance Co., Ltd — dividends — personal dividends	0	0	10,602,562	10,602,562		
Bainian Cosmetics and Personal Care Co., Ltd.	0	0	44,356,450	44,356,450		
Shares held by senior management	644,227	161,056	1,180,081	1,663,252	Increase of shareholding	Nil
Total	851,119,230	850,636,059	746,066,843	746,550,014		

(III) Issuance and listing of securities

(a) As approved by the China Securities Regulatory Commission (Zheng Jian Xu Ke [2010] No.97), 297,954,705 ordinary Shares denominated in RMB (A Shares) were issued to nine specified investors on 28 January 2010, at an offer price of RMB18.70 per share, from which the total proceeds amounted to RMB5,571,752,983.50. Shares related to the non-public offering were listed on the SZSE on 12 February 2010. Therefore, the total share capital of the Company was changed into 1,971,054,705 shares.

(b) The Company implemented the "Proposal for Distribution of Accumulated Profit prior to the Issuance of H Shares" on 27 August 2010, pursuant to which the Company distributed 15 bonus shares and RMB1.7 in cash (tax included) per 10 shares to all holders of A shares based on the total share capital of the Company of 1,971,054,705 shares. Total share capital of the Company was changed into 4,927,636,762 shares after the distribution of profits.

(c) As approved by the China Securities Regulatory Commission (Zheng Jian Xu Ke [2010] No.1654) and SEHK, 869,582,800 H Shares were issued at an offer price of HK$14.98 per share, and were listed on the main board of SEHK on 23 December 2010. 130,437,400 H shares, of which the over-allotment option was exercised in full on 5 January 2011, were listed and traded on the SEHK on 13 January 2011. A total of 1,000,020,200 H shares were issued in the initial public offering, with total proceeds of HK$14,980,302,596. Upon the completion of the H Share offering, the total share capital of the Company was changed into 5,927,656,962 shares.

(d) Interests of the corporate bonds were paid by the Company on 21 April 2010. The par value interest rate of each board lot of the 2008 Changsha Zoomlion Bonds (08中聯債) for the period was 6.50%. An interest of RMB65.00 was paid for each board lot of the 2008 Changsha Zoomlion Bonds (08中聯債) with the par value of RMB1,000 each (tax included; as for individual holders, an effective interest of RMB52.00 (after tax) for each board lot of the bonds with the par value of RMB1,000 each was paid).

(e) There are no employee shares of the Company.

(IV) Purchase, Sale or Redemption of shares by the Company and its subsidiaries

For the year ended 31 December 2010, saved as disclosed above, there was no purchase, sale or redemption of any securities of the Company by the Company or any of its subsidiaries under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules of Hong Kong").

II. Introduction of Shareholders (As at 31 December 2010)

(I) Particulars of the top ten shareholders of the Company

Unit: Share

Total number of shareholders as at the end of the reporting period					527,886
Shareholding of the top ten shareholders					
Name of shareholder	Nature of shareholder	Percentage of shareholding	Total number of shares held	Number of shares subject to sales restriction	Number of shares pledged or frozen
State-owned Assets Supervision and Administration Commission of Hunan Provincial People's Government	State-owned legal person	16.77%	972,082,934	0	0
HKSCC Nominees Limited (Note)	H share	16.48%	955,179,080	0	0
Good Excel Group Limited	Overseas legal person	6.27%	363,634,100	0	0
Changsha Hesheng Science and Technology Investment Co., Ltd.	Domestic ordinary legal person	5.23%	303,199,961	0	0
Changsha Yifang Science and Technology Investment Co., Ltd.	Domestic ordinary legal person	3.27%	189,726,962	0	0
Real Smart International Limited	Overseas legal person	2.42%	140,076,617	0	0
Hony Capital Fund I (Tianjin), L.P.	Domestic ordinary legal person	2.27%	131,575,000	131,575,000	0
China Jianyin Investment Co., Ltd.	State-owned legal person	2.20%	127,500,000	127,500,000	0
Xiangjiang Industrial Investment Co., Ltd.	State-owned legal person	1.51%	87,500,000	87,500,000	0
Guangdong Hengjian Investment Holding Co., Ltd.	State-owned legal person	1.34%	77,500,000	77,500,000	0

Note: The H shares were held by HKSCC Nominees Limited on behalf of various clients.

Changes in Share Capital and Shareholders

Top ten holders of shares not subject to sales restriction		
Name of shareholder	Number of shares held not subject to sales restriction	Class of shares
State-owned Assets Supervision and Administration Commission of Hunan Provincial People's Government	972,082,934	Ordinary shares denominated in RMB
HKSCC Nominees Limited	955,179,080	H shares
Good Excel Group Limited	363,634,100	Ordinary shares denominated in RMB
Changsha Hesheng Science and Technology Investment Co., Ltd.	303,199,961	Ordinary shares denominated in RMB
Changsha Yifang Science and Technology Investment Co., Ltd.	189,726,962	Ordinary shares denominated in RMB
Real Smart International Limited	140,076,617	Ordinary shares denominated in RMB
Hunan Development and Investment Group Co., Ltd.	37,046,153	Ordinary shares denominated in RMB
Bank of China — E-funds Shenzhen Stock Exchange 100 Index Open-Ended Securities Investment Fund (易方達深證100交易型開放式指數證券投資基金)	30,141,241	Ordinary shares denominated in RMB
Industrial and Commercial Bank of China — Rong Tong Shenzhen Stock Exchange 100 Index Investment Fund (融通深證100指數證券投資基金)	24,052,305	Ordinary shares denominated in RMB
Hong Dong Hua Qing Coal Chemical Company Limited (洪洞華清煤焦化學有限公司)	20,016,464	Ordinary shares denominated in RMB
Description of the connected relationships between the above shareholders or shareholders who are parties acting in concert	Saved for Good Excel Group Limited and Real Smart International Limited which are parties acting in concert, and Changsha Hesheng Science and Technology Investment Co., Ltd. and Changsha Yifang Science and Technology Investment Co., Ltd. which are parties acting in concert, the Company was not aware of any connected relationships among the other shareholders and the shareholders are not parties acting in concert within the meaning of the Administrative Measures for Information Disclosure on Change of the Shareholdings of Listed Companies.	

Listing date of shares subject to sales restriction

Unit: Share

Date	Number of additional shares to be listed and traded upon the expiry of the sales restriction period	Balance of number of shares subject to sales restriction	Balance of number of shares not subject to sales restriction	Description
4 January 2011	18,563	746,531,451	5,037,644,377	Release from sales restriction for part of the shares held by the existing senior management under the laws
21 January 2011	210,732	746,320,719	5,181,336,243	1. Release from sales restriction for the restricted shares held by former senior management 2. On 13 January 2011, the H shares of the Company were over-allotted and transferred.
14 February 2011	744,886,762	1,433,957	5,926,223,005	1. Release from sales restriction for non-public offer shares. 2. On 13 January 2011, the H shares of the Company were over-allotted and transferred.

Top ten holders of shares subject to sales restrictions and terms of sales restriction

Unit: Share

Name of holders of shares subject to sales restriction	Number of shares held subject to sales restriction	Listing date	Number of additional shares to be listed and traded	Terms of sales restriction
Hony Capital Fund I (Tianjin), L.P.	131,575,000		0	
China Jianyin Investment Co., Ltd.	127,500,000		0	
Xiangjiang Industrial Investment Co., Ltd.	87,500,000		0	
Guangdong Hengjian Investment Holding Co., Ltd.	77,500,000		0	
Youngor Group Co., Ltd.	75,000,000		0	
Anhui Province Investment Group Co., Ltd.	73,250,000		0	
Zhonghai Fund Management Co., Ltd. — SDB — Zhonghai Trust Fund Co., Ltd.	64,102,750	14 February 2011	0	Shares subscribed are subject to sales restriction of 12 months from the listing date of 12 February 2010
PICC Property and Casualty Co., Ltd. — traditional — ordinary insurance product	53,500,000		0	
PICC Life Insurance Co., Ltd — dividends — personal dividends	10,602,562		0	
Bainian Cosmetics and Personal Care Co., Ltd.	44,356,450		0	

(II) Shareholders of the Company

1. **The largest shareholder of the Company**

State-owned Assets Supervision and Administration Commission of Hunan Provincial People's Government

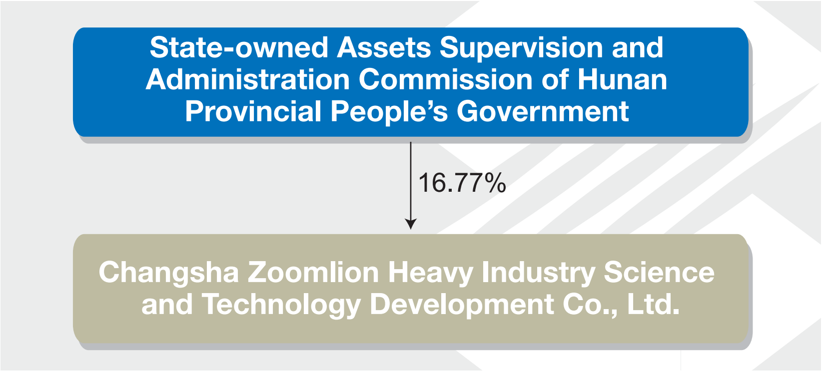
Registered Address: No. 2 Office Building, Tower 2, Provincial Government Administrative Office, 351 Wu Yi Road, Changsha, Hunan Province

Legal Representative: Mo Dewang

Type: State-owned Legal Entity

State-owned Assets Supervision and Administration Commission of Hunan Provincial People's Government is a legal entity responsible for the supervision and administration of state-owned assets on behalf of the People's Government of Hunan Province.

2. **The following chart sets out the shareholding structure and relationship between the Company and its largest shareholder**



3. Substantial Shareholders' interests and short positions in the shares of the Company

As at 31 December 2010, the following persons (other than the directors and supervisors of the Company) had an interest and/or short position in the shares or underlying shares of the Company which is required to be disclosed to the Company pursuant to Section 2 and 3 of Part XV of the Securities and Futures Ordinance, or required to be recorded in the register to be kept by the Company pursuant to Section 336 of Securities and Futures Ordinance:

Name	Nature of interest	Class of shares	Number of shares	Percentage of class of shares issued (%)	Percentage of total shares issued (%)
Changsha Hesheng Science and Technology Investment Co., Ltd.[1]	Beneficial	A shares	303,199,961(L)	6.26	5.23
Good Excel Group Limited[2]	Beneficial	A shares	363,634,100(L)	7.51	6.27
Rise Honour Investments Limited[2]	Interests of controlled corporation	A shares	503,710,717(L)	10.41	8.69
Hony Capital II L.P.[2]	Interests of controlled corporation	A shares	503,710,717(L)	10.41	8.69
Hony Capital GP Ltd.[2]	Interests of controlled corporation	A shares	503,710,717(L)	10.41	8.69
Right Lane Limited[2]	Interests of controlled corporation	A shares	503,710,717(L)	10.41	8.69
Legend Holdings Limited[2, 3]	Interests of controlled corporation	A shares	635,285,717(L)	13.12	10.96
Employees' Shareholding Society of Legend Holdings Limited[3, 4]	Interests of controlled corporation	A shares	635,285,717(L)	13.12	10.96
Chinese Academy of Sciences Holdings Co, Ltd.[3, 4]	Interests of controlled corporation	A shares	635,285,717(L)	13.12	10.96
Chinese Academy of Sciences[3, 4]	Interests of controlled corporation	A shares	635,285,717(L)	13.12	10.96
State-owned Assets Supervision and Administration Commission of Hunan Provincial People's Government	Beneficial	A shares	972,082,934(L)	20.08	16.77
JPMorgan Chase & Co.[5]	Interests of controlled corporation and custodian corporation/ approved lending agent	H shares	56,543,785(L) 56,543,785(P)	5.91 5.91	0.98 0.98
Lone Pine Capital LLC[5]	Beneficial and investment manager	H shares	79,173,200(L)	8.28	1.37
National Council for Social Security Fund[5]	Beneficial	H shares	87,348,880(L)	9.13	1.51
Wellington Management Company, LLP[5]	Beneficial and investment manager	H shares	104,537,600(L)	10.93	1.80
The Goldman Sachs Group, Inc.[5, 6]	Interests of controlled corporation and common interests	H shares	130,437,400(L) 130,437,400(S)	13.64 13.64	2.25 2.25
Morgan Stanley[5, 7]	Interests of controlled corporation and common interests	H shares	131,869,000(L) 249,000(S)	13.79 0.03	2.27 0.004

Changes in Share Capital and Shareholders

Notes: L refers to long position. S refers to short position. P refers to shares available for lending.

(1) Changsha Hesheng Science and Technology Investment Co., Ltd. is an investment entity controlled and owned by the management of the Group.

(2) Good Excel Group Limited and Real Smart International Limited are beneficially interested in 363,634,100 and 140,076,617 A shares respectively. Good Excel Group Limited and Real Smart International Limited are interested in an aggregate of 503,710,717 A shares. Good Excel Group Limited and Real Smart International Limited each is a 67.71% owned subsidiary of Rise Honour Investments Limited. Rise Honour Investments Limited is controlled by Hony Capital II L.P., which is controlled by Hony Capital II GP. Ltd.. Hony Capital II G.P. Ltd. is wholly owned by Right Lane Limited, which is a wholly owned company of Legend Holdings Limited.

(3) Legend Holdings Limited is deemed to be interested in 131,575,000 A shares held by Hony Capital Fund I (Tianjin), L.P.. Legend Holdings Limited is deemed to be interested in 635,285,717 A shares.

(4) Employees' Shareholding Society of Legend Holdings Limited and Chinese Academy of Sciences Holdings Co, Ltd. hold 35% and 36% interests of Legend Holdings Limited, while Chinese Academy of Sciences Holdings Co, Ltd. is wholly owned by Chinese Academy of Sciences.

(5) The disclosure is based on the information provided on the website of SEHK (www.hkexnews.com.hk).

(6) The Goldman Sachs Group, Inc. is deemed or considered to be interested in 130,437,400 H shares of the Company. Among these shares, each of GS India Holdings (Delaware), Goldman Sachs (Asia) Corporate Holdings L.P., Goldman Sachs Holdings (Hong Kong) Limited, L.L.C. and Goldman Sachs (Asia) L.L.C. are interested in 130,437,400 H shares of the Company and is a subsidiary directly or indirectly controlled by The Goldman Sachs Group, Inc.. The Goldman Sachs Group, Inc. holds 130,437,400 H shares in short position by way of vesting.

(7) Morgan Stanley is deemed or considered to be interested in 131,869,000 H shares of the Company through the holding companies directly or indirectly owned by it, namely Morgan Stanley Capital Management, L.L.C., Morgan Stanley Domestic Holdings, Inc., Morgan Stanley International Incorporated, Morgan Stanley International Holdings Inc., Morgan Stanley Asia Pacific (Holdings) Limited, Morgan Stanley (Hong Kong) Holdings Limited, Morgan Stanley Hong Kong 1239 Limited, Morgan Stanley Hong Kong 1238 Limited, Morgan Stanley Asia Securities Products LLC, Morgan Stanley Asia Limited, Morgan Stanley & Co, Inc., Morgan Stanley International Limited, Morgan Stanley Group (Europe), Morgan Stanley UK Group, Morgan Stanley & Co. International plc., China International Capital Corporation Limited, China International Capital Corporation (Hong Kong) Limited and China International Capital Corporation Hong Kong Securities Limited. Morgan Stanley holds 249,000 H shares in short position by way of vesting.

Save as disclosed above, to the best knowledge of the Directors, Supervisors and chief executives, as at 31 December 2010, none of other person had an interest and/or short position in the shares or underlying shares of the Company (as the case may be) which is required to be recorded in the register to be kept pursuant to Section 336 of Part XV of the Securities and Futures Ordinance, or were substantial shareholders of the Company.

4. Public float

According to the public information available to the Company and to the best knowledge of the Directors, the Directors confirmed that the Company maintained sufficient public float prescribed by the Listing Rules from the Listing Date of the H shares to the Latest Practicable Date prior to the printing of this annual report.

5. Pledged or frozen shares of shareholders holding 5% or more of the Company's shares

As at 31 December 2010, the shareholders holding 5% or more of the Company's shares (other than HKSCC Nominees Limited) did not hold any pledged or frozen shares.

III. Particulars of holders of corporate bonds

The Company issued corporate bonds in par value of RMB100 from 21 April to 25 April 2008, with total proceeds of RMB1,100 million. On 9 May 2008, the corporate bonds ("2008 Changsha Zoomlion Bonds") were approved to be listed and traded on the SZSE under the stock code "112002" for a period of eight years (the holders of the bonds have an option to redeem in whole or in part, of the bonds held by them on the payment date of the fifth anniversary of the effective term of bonds at par value). The bonds bear interest at a rate of 6.5% per annum. On 21 April 2010, the Company paid the interests accrued during the period from 21 April 2009 to 20 April 2010.

Top ten holders of the corporate bonds of the Company

Name of holder of the corporate bonds	Number of bonds held	Percentage
China Construction Bank — ICBCCS Credit Value-added Debt Securities Investment Fund	1,099,350	9.99%
ICBC Credit Suisse Asset Management — ICBC — Specific clients asset	1,047,927	9.53%
CITIC Securities Co., Ltd.	1,001,191	9.10%
CITIC Securities — CITIC — CITIC Securitized Assets Portfolio Management Plan (中信證券債券優化集合資產管理計劃)	777,960	7.07%
Haitong — BOC — Fortis Bank	548,993	4.99%
Industrial and Commercial Bank of China — Fuguo Tianli Bond Investment Growth Fund (富國天利增長債券投資基金)	544,910	4.95%
National Social Insurance Fund 206 Package	540,097	4.91%
National Social Insurance Fund 203 Package	536,850	4.88%
China Construction Bank — Fuguo Tianfeng Enhanced Income Bond Investment Fund (富國天豐強化收益債券型證券投資基金)	470,840	4.28%
Industrial and Commercial Bank of China — China AMC Hope Bonds Investment Fund	395,340	3.59%
Description of the connected relationships between the above holders of bonds	Both ICBCCS Credit Value-added Debt Securities Investment Fund and ICBC Credit Suisse Asset Management — ICBC — Specific clients asset were managed by ICBC Credit Suisse Asset Management Co., Ltd. Both CITIC Securities Co., Ltd. and CITIC Securitized Assets Portfolio Management Plan (中信證券債券優化集合資產管理計劃) were managed by CITIC Securities Co., Ltd.. Both Fuguo Tianli Bond Investment Growth Fund (富國天利增長債券投資基金) and Fuguo Tianfeng Enhanced Income Bond Investment Fund (富國天豐強化收益債券型證券投資基金) were managed by Fullgoal Fund Management Co., Ltd. Both National Social Insurance Fund 206 Package and National Social Insurance Fund 203 Package were managed by the National Social Security Fund. Saved as the above, there was no other connected relationship between other holders of the bonds.	

Directors, Supervisors, Senior Management and Employees

I. Directors, Supervisors and Senior Management

(I) Summary of directors, supervisors and senior management

Name	Position	Sex	Age	Date of term of office commenced	Date of term of office ended	Numbers of Shares held in the beginning of the year	Number of Shares held in the end of the year	Reason of Change	Total Remuneration received from the Company during the reporting period (in ten thousand RMB)	Whether received remuneration from shareholders or connected parties
Zhan Chunxin	Chairman and Chief Executive Officer	Male	55	22 July 2010	22 July 2013	80,960	202,400	Bonus Shares	194.4	No
Liu Quan	Executive Director	Male	47	22 July 2010	22 July 2013	58,190	145,475	Bonus Shares	120	No
Qiu Zhongwei	Non-executive director	Male	42	22 July 2010	22 July 2013	0	0	–	0	Yes
Liu Changkun	Independent non-executive director	Male	67	22 July 2010	22 July 2013	0	0	–	0	No
Qian Shizeng	Independent non-executive director	Male	58	22 July 2010	22 July 2013	0	0	–	10	No
Wang Zhile	Independent non-executive director	Male	62	22 July 2010	22 July 2013	0	0	–	10	No
Lian Weizeng	Independent non-executive director	Male	64	22 July 2010	22 July 2013	0	0	–	10	No
Cao Yonggang	Chairman of Supervisory Board	Male	38	22 July 2010	22 July 2013	0	0	–	0	Yes
Liu Chi	Supervisor	Male	53	22 July 2010	22 July 2013	42,680	106,700	Bonus Shares	80.6	No
Luo Anping	Employee Supervisor	Male	49	22 July 2010	22 July 2013	42,571	106,427	Bonus Shares	80.3	No
Zhang Jianguo	Senior president	Male	51	22 July 2010	22 July 2013	57,367	143,417	Bonus Shares	120.8	No
Yin Zhengfu	Senior president	Male	54	22 July 2010	22 July 2013	55,000	137,500	Bonus Shares	110	No
He Jianming	Senior president	Male	47	22 July 2010	22 July 2013	50,600	126,500	Bonus Shares	100	No
Du Youqi	Senior president	Female	52	22 July 2010	22 July 2013	3,080	7,700	Bonus Shares	100	No
Fang Minghua	Senior president	Male	53	22 July 2010	22 July 2013	48,731	121,828	Bonus Shares	100	No
Wang Chunyang	Senior president	Male	55	22 July 2010	22 July 2013	48,620	121,549	Bonus Shares	100	No
Xu Wuquan	Senior president	Male	53	22 July 2010	22 July 2013	38,500	96,251	Bonus Shares	95	No
Xiong Yanming	Vice president	Male	46	22 July 2010	22 July 2013	39,600	74,250	Bonus Shares and Shareholding reduction	120	No
Su Yongzhuan	Vice president	Male	38	22 July 2010	22 July 2013	35,200	88,000	Bonus Shares	110	No
Guo Xuehong	Vice president	Male	48	22 July 2010	22 July 2013	55,000	137,500	Bonus Shares	115	No
Sun Changjun	Vice president	Male	48	22 July 2010	22 July 2013	49,500	123,751	Bonus Shares	110	No
Li Jiangtao	Vice president	Male	47	22 July 2010	22 July 2013	47,080	117,700	Bonus Shares	110	No
Hong Xiaoming	Vice president and financial controller	Female	47	22 July 2010	22 July 2013	0	0	–	130.4	No
He Wenjin	Vice president	Male	40	22 July 2010	22 July 2013	0	0	–	100	No
Wan Jun	Vice president	Male	38	22 July 2010	22 July 2013	0	0	–	100	No
Chen Xiaofei	Vice president	Male	47	22 July 2010	22 July 2013	0	0	–	51	No
Chen Peiliang	Vice president	Male	38	22 July 2010	22 July 2013	22,000	55,000	Bonus Shares	95	No
Wang Yukun	Chief Information Officer	Male	44	22 July 2010	22 July 2013	0	0	–	95	No
Shen Ke	Secretary to the Board of Directors	Male	39	22 July 2010	22 July 2013	0	0	–	31	No
Total						774,679	1,911,948		2,398.5	

Further details regarding the remuneration of directors, supervisors and senior management during the year are set out in notes 7 and 31(c) to the financial statements prepared under IFRSs.

(II) Biography of directors, supervisors and senior management

1. **Directors**

Dr. Zhan Chunxin (詹純新), male, born in 1955, is the Chairman and Chief Executive Officer of our Company. Dr. Zhan has been appointed as a director of our Company since the establishment of our Company in 1999, and as the Chairman since 2001. Currently, Dr. Zhan also serves as the chairman of various subsidiaries of our Company, including Zoomlion Powermole Limited, Hunan Teli Hydraulic Co., Ltd. and Hunan Zhongchen Rolled Steel Manufacturing Engineering Co., Ltd., and he is a director of Zoomlion H.K. Holding Co., Ltd., Zoomlion International Trade, and Zoomlion Capital (H.K.). Dr. Zhan became an expert entitled to special government subsidy granted by the State Council in January 1994, a senior engineer as recognised by the Ministry of Construction in 1995 and a researcher-level senior engineer specialized in management and engineering as recognised by the Ministry of Construction in September 1997. Dr. Zhan has previously served various senior positions in Construction Machinery Research Institute of Changsha, the Ministry of Construction ("Research Institute"), including the deputy head of Research Institute from February 1992 to July 1996 and head of Research Institute from July 1996 to December 2008. Dr. Zhan has been serving various public functions. He was appointed as a representative at the 10th National People's Congress in 2003. Dr. Zhan has also served as the deputy chairman of China Entrepreneurs Association and China Enterprise Confederation since September 2008. Dr. Zhan has received various titles and awards, including 1994–1995 Annual Outstanding Leading Cadre of the Ministry of Construction awarded in March 1996, the National Advanced Worker awarded in April 2000, the 1st Session of National Outstanding Entrepreneur in Construction Machinery Industry awarded in 2002, the 2003 Top 10 News Figures of China awarded in December 2003, the 3rd Session of National Outstanding Pioneering Entrepreneur awarded in March 2004, the National Star Entrepreneur in Construction Machinery Industry in December 2004, the Young- and Middle-Aged Experts in Science Technology and Management with Outstanding Contribution to the Ministry of Construction in 2008, the 2008 China's Most-recognised Entrepreneur awarded in January 2009, and the Yuan Baohua Enterprises Management Gold Award awarded in May 2010 which is the most distinguished award for corporate executives in China, and the 2010 Leonardo Award in Italy awarded in January 2011. Dr. Zhan graduated from Northwestern Polytechnical University in 1978 and obtained a master's degree in aeronautical engineering from Northwestern Polytechnical University in 2000 and a doctorate degree in system engineering from Northwestern Polytechnical University in December 2005.

Mr. Liu Quan (劉權), male, born in 1963, is an executive director of our Company. Mr. Liu has been appointed as a director of our Company since August 1999. Currently, Mr. Liu is also a director of Zoomlion Financing and Leasing (Beijing) Co., Ltd. ("Beijing Zoomlion Leasing") and deputy general manager of the mobile crane branch of our Company. Mr. Liu has become an expert entitled to special government subsidy granted by the State Council since April 1999. Mr. Liu has previously served various senior positions in Research Institute and our Group, including the head of the concrete machinery research institute of Research Institute from 1993 to 1995, deputy general manager of the concrete machinery branch of our Company from 1999 to 2001, and chief engineer and chief researcher of our Company from 2002 to 2005. Mr. Liu has received various titles and awards, including Changsha City Science and Technology Advancement Award (Grade I) awarded in December 1996, the Science and Technology Advancement Award of Hunan Province Grade I awarded in October 1997 and Grade III awarded in December 2001, the Outstanding Young- and Middle-Aged Experts of Hunan Province awarded in January 1998, the National Science and Technology Advancement Award (Grade III) awarded in December 1998, the Outstanding Youth for the Science and Technology Innovation of Hunan Province in December 2001, the Outstanding Inventor with Great Contribution to the Invention of Patents of Hunan Province awarded in December 2002, the National Labor Day Medallion awarded in April 2003, the Advanced Worker of Hunan Province awarded in April 2003, the Hunan Province Technology Innovation Advanced Individuals in June 2004, the Top 10 Talented Youths with Scientific Innovation in Changsha City awarded in July 2005, the 2005 Huaxia Construction, the Science and Technology Award (Grade II) awarded in January 2006, the Outstanding Leader in Quality Group Activities of Hunan Province awarded in August 2006, and the Outstanding Leader in National Quality Management Group Activities awarded in September 2006. Mr. Liu received his bachelor's degree in construction machinery from Harbin University of Civil Engineering and Architecture in 1984.

Mr. Qiu Zhongwei (邱中偉), male, born in 1968, is a non-executive director of our Company. Mr. Qiu has been appointed as a non-executive director of our Company since July 2006. Mr. Qiu is currently the managing director of Beijing Hony Future Investment Advisor Ltd. Mr. Qiu was the section chief of China Huaneng Group, a diversified energy conglomerate listed on the New York Stock Exchange, from 1990 to 2000 and vice president of Goldpark China Limited (stock code: GKC.H), a subsidiary of China Huaneng Group and listed on the Toronto Stock Exchange, from 1999 to 2000. Mr. Qiu was the vice president of China Yintai Investments from 2000 to 2004, chairman of the board of directors and CEO of Metro Land Corporation Ltd. (stock code: 600683), a company listed on the Shanghai Stock Exchange, from 2003 to 2004. Mr. Qiu was also a non-executive director of Digital China Holdings Ltd. (stock code: 861), a company listed on the SEHK, from February 2009 to September 2010. Mr. Qiu received a bachelor's degree in technology economics from Xi'an Jiaotong University in 1990, a master's degree in business administration jointly awarded by the Kellogg School of Management at Northwestern University and the Hong Kong University of Science and Technology in Hong Kong in April 2003.

Mr. Liu Changkun (劉長琨), male, born in 1943, is an independent non-executive director of the Company. Mr. Liu has been appointed as an independent non-executive director of our Company since July 2006. Mr. Liu has been acting as senior officers of various public bodies, including the chairman of the China Association of Chief Financial Officers since December 2007, associate professor of Jiangxi University of Finance and Economics and Shandong University of Finance since October 2003, and deputy director of China National Committee for the Well Being of the Next Generation since May 2004. Mr. Liu had previously held senior positions in various governmental bodies, including the assistant to the Ministry of Finance from 1996 to 1998, special inspector appointed by the State Council from 1998 to 2000, and chairman of the supervisory boards of various major state-owned large-scaled enterprises from 2000 to 2004. Mr. Liu received a bachelor's degree in Chinese language and literature from Beijing Normal College in 1965, and a master's degree in comparative studies on Chinese and foreign cultures from Renmin University of China through the correspondence course in 1989.

Dr. Qian Shizheng (錢世政), male, born in 1952, is an independent non-executive director of the Company. Dr. Qian has been appointed as an independent non-executive director of our Company since November 2007. Dr. Qian was an associate professor at Fudan University specialized in accounting from 1995 to 1997. Dr. Qian joined Shanghai Industrial Investment (Group) Co., Ltd. in January 1998 and has served as its vice president since January 2002. Since January 2002, Dr. Qian has been appointed as the executive director and deputy chief executive officer of Shanghai Industrial Holdings Limited (stock code: 363), a company listed on SEHK and deputy chairman of the board of directors of Haitong Securities Company Limited (stock code: 600837), a company listed on the Shanghai Stock Exchange, since July 2007. Dr Qian has been also the executive director of Shanghai Industrial Urban Development Group Limited (stock code: 563) since July 2010, a company listed on SEHK, and an independent non-executive director of Lonking Holdings Limited (stock code: 3339), a company listed on SEHK, since February 2005. Dr. Qian received a bachelor's degree in accounting from Shanghai University of Finance and Economics in 1983, and obtained a doctorate degree in management science and engineering from Fudan University in July 2001.

Mr. Lian Weizeng (連維增), male, born in 1946, is an independent non-executive director of our Company. Mr. Lian has been appointed as an independent non-executive director of our Company since May 2009. Since April 2009, Mr. Lian has served as an external director of China National Machinery Industry Corporation, a state-owned enterprise. Mr. Lian has become an economist as recognised by the Personnel Bureau of the State Economic Commission since 1988. Mr. Lian had previously served senior positions in governmental bodies, including the vice-director and director of the coordination office of the Personnel Bureau of the State Economic Commission from December 1982 to May 1988, director of office of cadres directly subordinated to the Personnel Bureau of the State Planning Commission from May 1988 to May 1991, deputy head of Personnel Department of the State Planning Commission from May 1991 to March 1994, deputy head and head of Personnel Department of the State Economic and Trade Commission from March 1994 to March 2003, and head of Personnel Bureau of SASAC from May 2003 to January 2007. Mr. Lian acted as an external director of China Railway Engineering Group Co., Ltd. from January 2007 to February 2008. Mr. Lian received a diploma in economics and management from Beijing Committee Party School in Beijing City in January 1988 and received a bachelor's degree in economics and management from Party School of the Chinese Communist Party Central Committee in 1997.

Mr. Wang Zhile (王志樂), male, born in 1948, is an independent non-executive director of our Company. Mr. Wang has been appointed as an independent non-executive director of our Company since May 2009. Mr. Wang has become an expert entitled to special government subsidy granted by the State Council since October 1995. Mr. Wang was the lecturer and associate professor of the history department of Renmin University of China from 1982 to 1995, researcher and head of Research Centre on Transnational Corporations of Chinese Academy of International Trade and Economic Cooperation from 1992 to March 2008. Mr. Wang is currently the head of Beijing New-century Academy on Transnational Corporations. He holds senior management positions in various public companies, including the supervisor of China Oilfield Services Limited (stock code: 2883; 601808), a company listed on SEHK and the Shanghai Stock Exchange, since June 2009. Mr. Wang was an independent director of SGSB Group Co., Ltd. (stock code: 600843), a company listed on the Shanghai Stock Exchange, from November 2004 to November 2010 and an independent director of Gemdale Corporation (stock code: 600383), a company listed on the Shanghai Stock Exchange, since May 2009. Mr. Wang received the Scientific Research Achievement Award from the Ministry of Commerce in 2000. Mr. Wang received his master's degree in history from Liaoning University in 1982.

2. **Supervisors**

Mr. Cao Yonggang (曹永剛), male, born in 1972, is the Chairman of the Supervisory Board of our Company. Mr. Cao is currently the general manager of risk management department of Beijing Hony Future Investment Advisor Ltd. Mr. Cao has been qualified as a lawyer in the PRC since 1996. Prior to joining Beijing Hony Future Investment Advisor Ltd. in September 2004, Mr. Cao acted as a corporate legal counsel of Sinochem Tianjin Corporation from 1995 to 1997 and a project lawyer of Beijing Jingtian & Gongcheng Attorneys at Law from March 2002 to September 2004. Mr. Cao graduated from Nankai University with a bachelor's degree in laws in 1995, and master's degree in international law from Peking University and Erasmus University Rotterdam in September 2001 and February 2002 respectively, and a master's degree in Executive MBA from China Europe International Business School in September 2010.

Mr. Luo Anpin (羅安平), male, born in 1961, is an employee supervisor of our Company. He is also the deputy general manager of the concrete machinery branch of our Company. Mr. Luo was the deputy chief of the administrative security department of Research Institute, head of the administration department of Research Institute and the deputy head of Research Institute successively from January 1996 to December 2008. Mr. Luo was also the general manager of Changsha High-tech Development Area Zhongwang Co., Ltd. from May 2000 to January 2003. Mr. Luo has been the supervisor of our Company since July 2006. Mr. Luo graduated from Central South University with a diploma in administrative management in 1989 and received a bachelor's degree from Party School of the Chinese Communist Party Central Committee through the correspondence course in 1994.

Mr. Liu Chi (劉馳), male, born in 1957, is a supervisor of our Company. Mr. Liu has become an engineer as recognised by Research Institute since October 1988, and a senior engineer as recognised by the Ministry of Construction in December 1992. Mr. Liu was the head of science research management division of the Science and Technology Department of the Ministry of Construction from 1992 to 2002. Mr. Liu was a member of the 2nd session of the Board of Directors and head of executive office of our Company from October 2002 to September 2004. Mr. Liu was the executive deputy general manager of environmental and sanitation machinery branch of our Company from 2004 to 2008. Mr. Liu was our employee Supervisor from July 2006 to July 2010. Mr. Liu was previously a senior visiting scholar at the University of Queensland, Australia from 1989 to 1992. Mr. Liu received the National Science and Technology Advancement (Grade III) Award in November 1992, and was awarded as the National Advanced Management Officer of Technology Innovation under the National 8th Five-year Plan in March 1997. Mr. Liu graduated from Hunan Agricultural College (currently known as Hunan Agricultural University) with a bachelor's degree in agricultural machinery in July 1982, and received his master's degree in architectural and civil engineering from Chongqing Architecture University (currently known as Chongqing University) in January 2000.

3. **Senior Management**

Dr. Zhang Jianguo (張建國), male, born in 1959, is a senior president of our Company. He is also the general manager of the concrete machinery branch of our Company and 中聯CIFA混凝土機械管理公司 (an international concrete machinery company) and head of supervisor board of Hunan Teli Hydraulic Co., Ltd.. He became a senior engineer as recognised by Research Institute in December 1997, and has been an expert entitled to government special subsidy granted by the State Council since July 2001. Dr. Zhang was the deputy head of Research Institute from November 1998 to December 2008. Dr. Zhang was the deputy general manager of our Company from August 1999 to July 2000, secretary to the Board of Directors of our Company from August 1999 to March 2001 and a member of the 1st and 2nd sessions of the board of directors of our Company from August 1999 to July 2006. He was appointed as an executive president of our Company in August 2006, and has become a senior president of our Company since August 2007. Dr. Zhang was also a director of Zoomlion Fire Control Machinery Co., Ltd from April 2004 to December 2007. Dr. Zhang has received various titles and awards, including Changsha City Science and Technology Advancement Award (Grade I) awarded in December 1996, the Science and Technology Advancement (Grade I) Award of Hunan Province in October 1997, the National Science and Technology Advancement (Grade III) Award in December 1998, and the Young- and Middle-Aged Experts in Science, Technology and Management with Outstanding Contribution awarded by the Ministry of Construction in December 1999. Dr. Zhang obtained a master's degree from Shanghai University of Technology in 1991, and a doctorate degree in systems engineering from Northwestern Polytechnical University in Xi'an City, the PRC in 2005.

Mr. Yin Zhengfu (殷正富), male, born in 1956, is a senior president of our Company. Currently, Mr. Yin is also a director of both Hunan Teli Hydraulic Co., Ltd. and Changde Zoomlion Hydraulic Pressure Co., Ltd., and the chairman of the board of directors of Hunan Zoomlion Axle Co., Ltd. Mr. Yin obtained the qualification certificate of senior professional manager of machinery enterprises issued by CMEMA in May 2006. Mr. Yin was previously the head of factory office and deputy general manager of Hunan Puyuan Factory from April 1988 to May 1995, general manager of Changsha Heavy Equipment Factory from June 1995 to August 2001, vice chairman of the board of directors and general manager of Puyuan Group from September 2001 to September 2003, general manager of Hunan Puyuan Construction Machinery Co., Ltd. from September 2003 to September 2004. Mr. Yin was the general manager of our Company and a member of the 2nd session of Board of Directors from September 2004 to July 2006. He was appointed as an executive president of our Company in August 2006, and has become a senior president of our Company since August 2007. Currently, Mr. Yin is a senior chairman of Changsha Entrepreneurs Association and vice chairman of Hunan Association of Machinery Industry. Mr. Yin has received various titles and awards, including the Outstanding Entrepreneur of Hunan Province awarded in 2003, the National Outstanding Entrepreneur in Machinery Systems awarded in 2005 and the Star Entrepreneur of the China Machinery Industry awarded in 2007. Mr. Yin obtained a bachelor's degree in business administration from the College of Management (secondary bachelor's degree class) of the China University of Geosciences in Wuhan City, the PRC in 2004.

Mr. Fang Minghua (方明華), male, born in 1957, is a senior president of our Company. Mr. Fang is also a director of Hunan Teli Hydraulic Co., Ltd., Hunan Zoomlion Hardware Co., Ltd., and chairman of the board of directors of Zoomlion Financing and Leasing (Beijing) Co., Ltd. Mr. Fang was a member of the 1st and 2nd sessions of the Board of Directors of our Company from July 2000 to April 2001 and October 2002 to June 2006 respectively. Mr. Fang was the deputy general manager of our Company from February 2000 to April 2001, general manager of our Company from April 2001 to September 2004. Mr. Fang was appointed as a vice president of our Company in August 2006 and has become a senior president of our Company since September 2008. Mr. Fang has received various titles and awards, including the Ministry of Science and Technology Outstanding Torch Projects (Grade II) awarded in 1998, the Outstanding Entrepreneur of Changsha New & Hi-Tech Industrial Development Zone awarded in February 2001, the 3rd Grand Prize of the Hunan Young Entrepreneur awarded in October 2006 and the Advanced Worker for the Top Ten Landmark Project Construction in Hunan Province in 2007. Mr. Fang completed a bachelor's program in business administration from Jiangnan University in Wuxi City, the PRC through internet education in 2004.

Mr. He Jianming (何建明), male, born in 1963, is a senior president of our Company. He is the chairman of the board of directors of Zoomlion Material Handling Equipment Co., Ltd. and Hunan Zoomlion Hardware Co., Ltd. Mr. He has become a senior accountant as recognised by the Department of Personnel of Hunan Province since August 2001. He was previously the deputy chief of the business section I and chief of the general administration office of finance inspectors of the Ministry of Finance in Hunan Province from November 1995 to April 2001. Since Mr. He joined our Group in April 2001, he was the chief financial officer of our Company from April 2001 to August 2004 and from August 2006 to July 2007 respectively. He was also a member of the 2nd session of the Supervisory Board of our Company from September 2004 to July 2006. Mr. He has been serving various other positions. Mr. He was a graduate tutor of the School of Accounting, Hunan University from December 2003 to December 2006. Mr. He has been a member of senior accountant appraisal committee of Hunan Province since August 2003, managing director of the 3rd session management committee of Hunan Association of Chief Accountants since March 2004 and vice chairman of Listed Company Division of Chief Accountants Association of Hunan Province since September 2009. Mr. He obtained a master's degree in business administration for senior management staff from Wuhan University in Wuhan City, the PRC in 2007.

Ms. Du Youqi (杜幼琪), female, born in 1958, is a senior president of our Company. She has become a senior engineer as recognised by the Ministry of Construction since 1996. She was previously a senior engineer of Research Institute from December 1984 to February 1998, manager of production planning department of Zoomlion Construction Machinery Industry Company from March 1998 to December 1998, assistant to the general manager and manager of integrated planning department of the hoisting machinery branch of Zoomlion Construction Machinery Industry Company from January 1999 to July 1999. Ms. Du was the deputy general manager of the hoisting machinery branch of our Company from August 1999 to January 2000, deputy head and head of the human resources department of our Company from February 2000 to November 2003, deputy general manager of the No. 2 manufacturing factory of our Company from November 2003 to April 2004, head of price center of our Company from May 2004 to December 2004, head of the corporate operation department of our Company from January 2005 to February 2006, head of the department for on-going improvement of our Company from March 2006 to October 2007. Ms. Du was appointed as the assistant to the Chairman of our Company in September 2006 and has become a senior president of our Company since November 2007. Ms. Du obtained a bachelor's degree in hydraulic machinery from Huazhong Institute of Technology (currently known as Huazhong University of Science and Technology) in Wuhan City, the PRC in 1982.

Mr. Wang Chunyang (王春陽), male, born 1955, is a senior president of our Company. Mr. Wang is a director of Hunan Teli Hydraulic Co., Ltd. and Hunan Zoomlion Hardware Co., Ltd., and the chairman of the supervisory board of Hunan Zoomlion Axle Co., Ltd. He has become a senior engineer as recognised by the Department of Personnel of Hunan Province since September 1993, and an expert specialized in engineering technology and entitled to government special subsidy granted by the State Council in 1998. Mr. Wang was the deputy head of Hunan Puyuan Construction Machinery Factory from June 1995 to January 1996, executive deputy general manager, deputy general manager, director and general manager of Puyuan Group from January 1996 to July 2006. Mr. Wang was a member of the 2nd session of the Board of Directors of our Company from September 2004 to July 2006 and the chief engineer of our Company from August 2006 to August 2008. Mr. Wang was also a director of Zoomlion Fire Control Machinery Co., Ltd from April 2004 to December 2007, general manager of Zoomlion Special Vehicle from December 2008 to July 2010. Mr. Wang has received various titles and awards, including the Science and Technology Advancement (Grade I) Award of Hunan Province in 1994, the Outstanding Young and Middle-Aged Experts of Changsha City in 1999, and the Award of National Outstanding Worker in the Use and Industrialization of Patents in 2007. Mr. Wang obtained a bachelor's degree in mechanical engineering from Hunan University in Changsha City, the PRC in 1981.

Mr. Xu Wuquan (許武全), male, born in 1957, is a senior president of our Company. Mr. Xu has become a researcher-level senior engineer specialized in machinery technology as recognised by the Ministry of Construction since 1996, and an expert entitled to government special subsidy granted by the State Council since 1996. He was previously the head and chief engineer of construction crane research station of Research Institute from October 1996 to December 1998, deputy general manager and general manager of the crane machinery manufacturing branch of our Company from January 1999 to March 2002, a member of the 1st and 2nd sessions of the Board of Directors of our Company from August 1999 to August 2004, deputy general manager of our Company from December 2004 to July 2006, assistant to the president of our Company from August 2006 to August 2008 and the chief engineer and chief of research institute of our Company from September 2008 to July 2010. Mr. Xu was also the chairman of labor union of our Company from April 2002 to December 2008. Currently, Mr. Xu is the director-general of the Crane Machinery Division of China Construction Machinery Association. Mr. Xu has received various titles and awards, including the Science and Technology Advancement Award in Grades I, II, III and IV, at city, provincial and government departmental levels in 1989, 1990, 1993, 1994, 1996 and 2002 respectively, the Grade II Awarded of the Academic Conference granted by Crane Machinery Professional Committee in 1992, the Award of Outstanding Technological Development Personnel (Jinniu Award) of Jiangsu Province in 1993, the Outstanding Product of Hebei Province (Grade III) in 1995, the Technological Development Advanced Personnel of Hunan Province in 1997, and the Huaxia Construction Science and Technology Award in 2003. Mr. Xu has obtained a bachelor's degree in construction machinery from Chongqing Architecture Engineering College (currently known as Chongqing University) in Chongqing, the PRC in 1982, and a master's degree in executive business administration from Wuhan University in Wuhan City, the PRC in June 2007.

Mr. Xiong Yanming (熊焰明), male, born in 1964, is a vice president of our Company. Currently, Mr. Xiong is a general manager of the mobile crane branch of our Company and a director of Hunan Zoomlion Axle Co., Ltd. and Hunan Teli Hydraulic Co., Ltd. Mr. Xiong has become a senior engineer specialized in construction machinery as recognised by the Ministry of Construction since December 1999 and he obtained the qualification certificate of senior professional manager of machinery enterprises as conferred by China Machinery Management Association in December 2004. He was previously an assistant engineer and engineer of Research Institute from 1985 to 1998. Mr. Xiong was a member of the 1st session of the Supervisory Board of our Company from August 1999 to March 2001, deputy general manager of our Company from April 2001 to July 2002, executive vice president of our Company from August 2002 to July 2006, member of the 2nd session of the Board of Directors of our Company from September 2004 to July 2006. Mr. Xiong has received various awards, including Hunan Province Technology Innovation Advanced Individuals Award in 1999, Changsha City Advancement Award in Technological Development (Grade II) in 1999, Outstanding Entrepreneur Award granted by the Changsha New & Hi-Tech Industrial Development Zone in 2002, the Award of Succeeding Leader for Academics and Technology of Changsha City in 2007 and the Outstanding Leaders' Award in the Hunan Province Quality Group Activity in 2009. Mr. Xiong obtained a bachelor's degree in port machinery design and manufacturing from Wuhan Marine Engineering College (currently known as Wuhan University of Technology) in Wuhan City, the PRC in 1985 and a master's degree in executive business administration under the BiMBA project from Peking University in Beijing, the PRC in June 2007.

Dr. Su Yongzhuan (蘇用專), male, born in 1972, is a vice president of our Company. Dr. Su was qualified as a senior international finance controller as recognised by International Financial Management Association and China Association of Chief Financial Officers in 2006. Dr. Su was the head of supplies office, deputy manager of the sales division and executive deputy manager of Hunan Province Puyuan Group Co., Ltd. from September 1998 to August 2003, director and deputy general manager of Hunan Puyuan Construction Machinery Co., Ltd. from September 2003 to August 2004, the chief financial officer of our Company from September 2004 to July 2006, and the general manager of the concrete machinery branch of our Company from March 2006 to December 2008. Dr. Su was awarded the Top Ten Outstanding Young Persons of Changsha in December 2005 and the Outstanding Enterprise Management Personnel in Machinery Industry issued by China Machinery Enterprise Management Association in June 2007. Dr. Su obtained a bachelor's degree in business administration from China University of Geosciences in Wuhan City, the PRC in June 2004, a master's degree in machinery engineering from Wuhan University in Wuhan City, the PRC in June 2004. Dr. Su obtained a doctorate degree in management science and engineering jointly conferred by the Wuhan University of Technology and the China University Geosciences in Wuhan City, the PRC in 2008.

Mr. Guo Xuehong (郭學紅), male, born in 1962, is a vice president of our Company. Currently, Mr. Guo is the general manager of the earth working machinery branch of our Company, executive director of Guangdong Zoomlion South Construction Machinery Co., Ltd. and director of Zoomlion Finance and Leasing (China) Co., Ltd. and Hunan Zoomlion Hardware Co., Ltd. Mr. Guo was the head of the technological structure section of technology department of Hunan Puyuan Construction Machinery Factory from June 1992 to February 1995, deputy head of technology department of Hunan Puyuan Construction Machinery Factory from February 1995 to January 1996, head of technology research centre of Puyuan Group and deputy manager of crane company of Puyuan Group from January 1996 to July 2000, the executive deputy general manager of Puyuan Holding Company from August 2000 to January 2002, the assistant to general manager and deputy general manager of Puyuan Group from January 2002 to August 2004. Mr. Guo was the general manager of the Puyuan branch of our Company from September 2004 to February 2006. Mr. Guo received a diploma from Hunan Radio and TV University in technology and equipment of machinery manufacturing in Changsha City, the PRC in 1985, completed a postgraduate program in machinery engineering and management science and engineering at Hunan University in Changsha City, the PRC in March 2004. Mr. Guo obtained a master's degree in executive business administration at Wuhan University in Wuhan City, the PRC in June 2007.

Dr. Sun Changjun (孫昌軍), male, born in 1962, has been a vice president and head of the risk management department of our Company since September 2008. Dr. Sun has become a professor as recognised by the Leaders Team of the Working Group on the Titles Reform of Hunan Province since September 2005. Prior to joining us, he had assumed various positions, including the deputy head officer and head officer of the legal and labor affairs committee of Hunan People's Congress from July 1990 to July 1995, director of criminal law research office of Hunan University of Finance and Economics from July 1998 to May 2000, vice-director of the industrial economics office of Hunan University from June 2000 to September 2001, deputy head of the law faculty of Hunan University from October 2001 to December 2004, and general legal counsel of Research Institute from January 2005 to July 2006. Dr. Sun serves various other positions, including a member of the expert advisory panel of the People's Procuratorate of Hunan Province, an arbitrator of China International Economic Trade Arbitration Commission, member of the 5th session committee of Criminal Law Research Division of China Law Science Association, chairman of the Criminal Law Research Association of Hunan Province, and vice-chairman of the Association for Studies of Conditions in Hunan Province. Dr. Sun has won various titles and awards, including the Research Results (Grade I) Prize of Organisation Division of Central Government in October 2001, the 5-Best Project Prize of Hunan Province in October 2001, Social Science Results (Grade I) of Huhan Province in June 2002, Outstanding Achievements (Grade II) of Philosophy and Social Sciences of Hunan Provinces in 2004, the Outstanding Legal Counsel of the Provincial Supervisory Corporations in 2008 and Outstanding Research Paper (Grade I) of Hunan State-owned Assets Forum in 2010. Dr. Sun graduated from Southwest College of Political Science and Law (currently known as Southwest University of Political Science and Law) in Chongqing, the PRC with a bachelor's degree in laws in 1983, and obtained a doctorate degree in laws from Wuhan University in Wuhan City, the PRC in 1998.

Mr. Li Jiangtao (李江濤), male, born in 1963, is a vice president of our Company. He has become a senior engineer as recognised by Ministry of Construction since November 2000. Mr. Li was the vice mayor (in charge of science and technology) of Lengshuitan City, Hunan Province from April 1989 to June 1992, deputy general manager and office head of Zoomlion Construction Machinery Industry Company from September 1992 to January 1995, deputy general manager of the production company and manager of the material supply department of Zoomlion Construction Machinery Industry Company from January 1995 to May 1998, deputy general manager of the environmental and sanitation machinery industry branch of Zoomlion Construction Machinery Industry Company from June 1998 to February 1999, and general manager of Zhongbiao Industrial Co., Ltd. from March 1999 to October 2003. Mr. Li was a member of the 1st and 2nd sessions of the Supervisory Board of our Company from August 1999 to August 2004, general manager of Zhongbiao business department of our Company from November 2003 to February 2006, deputy general manager of our Company from December 2004 to July 2006, human resources chief officer of our Company from August 2006 to August 2008. Mr. Li was appointed as the deputy managing director of China Association of Urban Environmental and Sanitation from September 2004 to December 2008. Mr. Li has received various titles and awards, including the Outstanding Entrepreneur Award granted by the Changsha New & Hi-Tech Industrial Development Zone in February 2000, and the Model Worker of Changsha City in April 2004. Mr. Li graduated from Chongqing Construction Engineering College (currently known as Chongqing University) in Chongqing City, the PRC with a bachelor's degree in construction machinery in 1986, and China Europe International Business School with a master's degree in executive business administration in Shanghai, the PRC in September 2009.

Ms. Hong Xiaoming (洪曉明), female, born in 1963, is a vice president and the person in charge of financial affairs of our Company. Ms. Hong has become a non-practicing chartered accountant as qualified by Institute of Certified Public Accountant of Shandong Province since 1999. Prior to joining us, Ms. Hong had obtained substantial working experience in accounting. Ms. Hong was the managing accountant of Qingdao Xinhua Printing Factory from 1992 to 1994. She was the assistant to head, deputy head and head of finance department of the Haier Group Technology and Equipment Head Office and chief accountant of Qingdao Household Appliance Technology and Equipment Research Institute from September 1994 to September 2003, and chief accountant, financial controller and chief financial officer of Qingdao Haier Co., Ltd (stock code: 600690), a company listed on the Shanghai Stock Exchange, from October 2003 to January 2010. Ms. Hong has various managerial experience, including the directors of Qingdao East Asia Packaging Co., Ltd. from July 2000 to June 2004, Qingdao Overseas Chinese Industrial Joint Stock Co., Ltd. from May 2000 to May 2007 and Haier Italy Factory from May 2007 to October 2009. Since November 2009, she has been an independent director of Qingdao Soda Ash Industrial Company Ltd. (stock code: 600229), a company listed on the Shanghai Stock Exchange. Ms. Hong completed her postgraduate program in politics and economics at Shandong University in Jinan City, the PRC in May 2001, and she obtained a master's degree in executive business administration from Business School of University of International Business and Economics in Beijing, the PRC in June 2010.

Mr. He Wenjin (何文進), male, born in 1970, is a vice president of our Company. Currently, Mr. He is also the general manager of overseas companies of the Company. Prior to joining us, he was a sales and marketing manager of Mannesmann Demag Representative Office Shanghai from February 1994 to April 2000, products marketing manager, senior business manager of international business department and vice general manager of joint venture of Siemens Ltd. China from April 2000 to September 2005, business development manager in China and North Asia Region of Kodak (China) Investment Company Limited from October 2005 to March 2006, and strategic marketing manager of General Motors (China) Investment Company Limited from May 2006 to May 2008. Mr. He was appointed as the marketing chief officer of our Company in June 2008, and became the vice-president of our Company in July 2010. Mr. He was accredited as the Recruited Talent (first batch) of Changsha under the "313 Plan" in 2009. Mr. He obtained a master's degree in international banking and financial studies from Heriot-Watt University in Edinburgh, UK in July 1998.

Mr. Wan Jun (萬鈞), male, born in 1972, is a vice president of the Company. Mr. Wan is also the head of credit sales department of our Company and general manager of our leasing company, general manager of Zoomlion Financing and Leasing (Beijing) Co., Ltd., executive director of Changsha Zoomlion Construction Machinery Remanufacturing Co., Ltd. and director of Hunan Zoomlion International Trade Co., Ltd. Prior to joining us, he was an assistant to manager in China National Township Enterprises Corporation from August 1994 to October 1997, chief representative of Dicky-john Beijing Representative Office from October 1997 to October 2001, general manager of the China Region of Bran+Lubbe Company from October 2001 to October 2002. Mr. Wan was appointed as assistant to the president and general manager of the financing and leasing department of New Times Trust Corporation Ltd. from October 2005 to February 2007. During the period, Mr. Wan had been in charge of a number of large-scaled financial and leasing projects and the enhancement of the risk management mechanism of the company. He had also provided consultation service to several equipment manufacturing enterprises on risk management prior to joining our Group. Mr. Wan joined our Group as the assistant to the president of our Company and general manager of our finance and leasing company in February 2007 and became the vice president of our Company in July 2010. In order to improve our risk control system, Mr. Wan was appointed as the chairman of our risk management committee and led the committee to build up our risk management mechanism to prevent the pre-leasing and post-leasing risks. Mr. Wan was also heavily involved in the construction of our re-manufacturing center and the second-hand equipment trading center which improved the exit mechanism for financial lease. Mr. Wan obtained his bachelor's degree in national economy and management from the Renmin

University of China in Beijing, the PRC in 1994 and a master's degree in executive business administration from the China Europe International Business School in Beijing, the PRC in October 2003.

Mr. Chen Xiaofei (陳曉非), male, born in 1963, is a vice president of our Company. Currently, Mr. Chen is the deputy general manager of the earth working machinery branch of our Company and general manager of the pile driving business department of our Company. He has become a senior engineer as recognised by the Ministry of Construction since 1996. Mr. Chen was previously the deputy general manager of our Company from 2000 to 2006, executive deputy general manager and vice general manager of concrete machinery branch of our Company from 2006 to December 2008, head of the marketing department of our Company from January 2010 to May 2010 and vice president of the Company in July 2010. Mr. Chen was awarded the National Science and Technology Advancement Award (Grade II) in 1989, 1996 and 1999 respectively, the Individual's Award in Advanced Development in Technology in Hunan Province in 1997 and the 4th Hunan Province Young Scientists Award in 2003. Mr. Chen graduated from Chongqing Construction and Engineering College (subsequently known as Chongqing Construction University and currently merged with Chongqing University) in Chongqing, the PRC with a bachelor's degree in construction machinery in 1984.

Mr. Chen Peiliang (陳培亮), male, born in 1972, is a vice president of our Company. Currently, Mr. Chen is the executive vice general manager of concrete machinery branch of our Company, vice general manager of an international concrete machinery company and director of Hunan Zoomlion International Trade Co., Ltd. Prior to joining us, Mr. Chen was a manager of the import and export department, deputy general manager and general manager of Hunan Xinhualian International Trade Co., Ltd. from May 1996 to July 2002. Mr. Chen was the general manager of Zoomlion International Trade Co., Ltd. from September 2002 to May 2010. Mr. Chen was also appointed as the assistant to president of the Company in November 2007, and became the vice president of our Company in July 2010. Mr. Chen graduated from Hunan University of Finance and Economics (currently merged with Hunan University) in Changsha City, the PRC with a bachelor's degree in international trade in June 1994.

Mr. Wang Yukun (王玉坤), male, born in 1966, is the chief information officer of our Company. Prior to joining us, Mr. Wang was the assistant to the general manager of AVIC Information Technology Co., Ltd. from December 2000 to October 2007. Mr Wang was also the researcher-level senior engineer of Aviation Industry Corporation of China from October 2004 to September 2006. Mr. Wang joined our Company as the information officer in October 2008 and was appointed as the chief information officer of our Company in July 2010. Mr. Wang has received various awards, including the Individual's Award (Grade III) from China Aviation Industry Corporation of China in 1994, the Technology Advancement Award (Grade II) from State Commission of Science and Technology for National Defense Industry in 1997 and the China AVIC Industry and Technology Advancement (Grade II) in 1994 and 1997. Mr. Wang graduated from Shenyang Institute of Aeronautical Engineering (currently known as Shenyang Aerospace University) with a bachelor's degree in electronic engineering in Shenyang City, the PRC in July 1988 and completed a postgraduate program in management science and engineering at University of Science and Technology of China in Hefei City, the PRC in June 1999.

Mr. Shen Ke (申柯), male, born in 1971, is an assistant to the president, the secretary to the Board of Directors and secretary of our Company. Currently, Mr. Shen is an executive director and legal representative of Hunan Zoomlion Special Vehicle Co. Ltd., chairman and legal representative of Zoomlion Gulf FZE, director of Zoomlion Material Handling Equipment Co., Ltd and supervisor of Hunan Zoomlion Hardware Co., Ltd. and Changde Zoomlion Hydraulic Co., Ltd. Mr. Shen was the vice manager and head of investment development department of our Company from July 2003 to August 2008, deputy head of investment financing management department of our Company from September 2008 to July 2010. Mr. Shen graduated from Shenyang University of Technology in Shenyang City, the PRC with a bachelor's degree in industrial management in July 1993, and Central South University of Technology (currently known as Central South University) in Changsha City, the PRC with a master's degree in management science and engineering in December 1998.

(III) Annual remunerations of directors, supervisors and senior management

1. The remunerations of directors, supervisors and senior management of the Company are determined according to the Tentative Remuneration System for Senior Management of the Company proposed by the Remuneration and Audit Committee of the Board of Directors and reviewed and approved by all directors of Chairman's Office, and with reference to the assessment according to the Assessment Method for Senior Management of the Company.

2. Independent directors received their allowances according to the standards set out in the Resolution on Adjusting the Allowance for Independent Directors reviewed and passed in the first extraordinary general meeting of the Company in 2010. Since 1 July 2010, the allowance for each independent director was adjusted to RMB120,000 per year (tax inclusive). The travelling expense for attending the meetings of the Board of Directors and shareholders and other expenses necessary for performing their duties pursuant to the Articles of Association shall be fully reimbursed.

(IV) Changes of directors, supervisors and senior management

1. According to a resolution reviewed in the eleventh meeting of the 3rd session of Board of Directors convened on 28 April 2010, Ms. Hong Xiaoming was appointed as the Vice President and the person in charge of financial affairs of the Company, and Mr. Zheng Fangding agreed to resign from the position of Chief Financial Officer of the Company.

2. According to a resolution reviewed in the first meeting of the 4th session of the Board of Directors convened on 22 July 2010, the senior management of the new session was as follows: Dr. Zhan Chunxin was appointed as Chief Executive Officer of the Company; Dr. Zhang Jianguo, Mr. Yin Zhengfu, Mr. He Jianmin, Ms. Du Youqi, Mr. Fang Minghua, Mr. Wang Chunyang and Mr. Xu Wuquan were appointed as Senior Presidents; Mr. Xiong Yanming, Dr. Su Yongzhuan, Mr. Guo Xuehong, Dr. Sun Changjun, Mr. Li Jiangtao, Mr. He Wenjin, Mr. Wan Jun, Mr. Chen Peiliang and Mr. Chen Xiaofei were appointed as Vice Presidents; Ms. Hong Xiaoming was appointed as Vice President and financial controller; Mr. Wang Yukun was appointed as Chief Information Officer; Mr. Shen Ke was appointed as assistant to the President of the Company and designated to perform the duties of Secretary to the Board of Directors. The management duties of Mr. Li Jianda, the former Secretary to the Board of Directors of the Company, were rearranged upon the expiry of his term of office.

3. According to a resolution reviewed in the first meeting of the 4th session of the Board of Directors convened on 22 July 2010, the members of special committees of Board of Directors were re-appointed as follows:

   - Audit Committee: Dr. Qian Shizheng (as chairman), Mr. Liu Changkun and Mr. Qiu Zhongwei (as members)

   - Nomination Committee: Mr. Lian Weizeng (as chairman), Dr. Zhan Chunxin and Mr. Wang Zhile (as members)

   - Remuneration and Audit Committee: Mr. Lian Weizeng (as chairman), Mr. Wang Zhile and Mr. Qiu Zhongwei (as members)

   - Strategy and Investment Decision-Making Committee: Dr. Zhan Chunxin (as chairman), Mr. Qiu Zhongwei and Mr. Wang Zhile (as members)

4. According to a resolution reviewed in the third extraordinary meeting of the 4th session of the Board of Directors convened on 1 December 2010, Mr. Shen Ke was appointed as the Company Secretary.

According to a resolution reviewed in the first extraordinary meeting of the 4th session of the Board of Directors convened on 18 February 2011, Mr. Shen Ke was appointed as the Secretary to the Board of Directors.

(V) Service contracts of directors and supervisors

None of the directors or supervisors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

(VI) Directors' and supervisors' interests in contracts

No director or supervisor had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

II. Employees the Company (As of 31 December 2010)

Unit: headcount

Number of employees		**22,356**	**% of total number of employees**
By educational level	Postgraduate or above	786	3.52%
	Bachelor's Degree	5,996	26.82%
	Tertiary Education	5,769	25.80%
	Others	9,805	43.86%
By positions	Production	11,012	49.26%
	Sales	2,792	12.49%
	Technical	4,393	19.64%
	Financial	553	2.48%
	Management	3,606	16.13%

Corporate Governance and Corporate Governance Report

The H Shares of the Company was listed on the Main Board of SEHK on 23 December 2010. The Company has established and improved the structure of its corporate governance to regulate its operation strictly in accordance with the Company Law, Securities Law, the relevant regulations of the CSRC and the principles & code provisions of the code on Corporate Governance contained in Appendix 14 to the Listing Rules of Hong Kong. According to the relevant regulations, the Company improves its internal control, the regulations of shareholders' meeting, board meeting and supervisor meeting so as to implement a comprehensive governance system and disclosure procedures. The Company ensures its sustainable and healthy development to further enhance the corporate value and safeguard the interests of all shareholders and itself.

I. Statement of the Compliance of Corporate Governance Requirements of the PRC Regulatory Authorities and Code on Corporate Governance of Hong Kong

The corporate governance of the Company is substantially the same as required by the regulatory requirements of the CSRC on listing companies. As required by the "Notice on Examination of Corporate Governance and Internal Control of Subsidiaries of Listed Companies" (No. 23XZJGSZ [2010]) of the Hunan Securities Regulatory Bureau, the Board of Directors (the "Board") of the Company submitted a "Self Examination Report on Corporate Governance and Internal Control" to Hunan Securities Regulatory Bureau on 30 June 2010.

The Articles of Association of the Company were considered and approved by the first extraordinary shareholders' general meeting of 2010 and the second extraordinary shareholders' general meeting of 2010 on 22 July 2010 and 7 September 2010 respectively. The Articles of Association of the Company have incorporated the principles and major code provisions of the Code on Corporate Governance contained in Appendix 14 to the Listing Rules of Hong Kong. The Articles of Association became effective on 23 December 2010, the date on which the H Shares of the Company were listed on SEHK.

Dr. Zhan Chunxin acted as the Chairman and Chief Executive Officer of the Company in 2010. The Board considers that Dr. Zhan Chunxin acting as Chairman and Chief Executive Officer can be more efficient in the planning and implementation of the corporate strategies. Under the supervision of the Board and Independent Non-executive Directors, such arrangement will not create conflict between the Board and the Company in business operation and will not jeopardize the balance of power.

Save as the above, the Company has complied with the Code on Corporate Governance contained in Appendix 14 to the Listing Rules of Hong Kong throughout the year of 2010.

II. Shareholders and Shareholder's General Meeting

The shareholders' general meetings are convened and conducted strictly in accordance with the relevant PRC and overseas statutory requirements and the Articles of Association. Lawyer is invited to attend and witness the meeting. Minutes of shareholders' general meeting are properly maintained to secure the rights of shareholders.

The shareholdings of the Company is set out in section “Change of share capital and shareholders” in this report.

The Company maintains effective communication with its shareholders through disclosures of financial and operation results in annual reports, interim reports and quarterly reports. The Company has investor telephone hotline and email account to receive advices from shareholders. Website of the Company is updated regularly to allow investors and public to understand the latest development of the Company. The date, contents, method of delivery and announcement of notice of shareholders’ general meeting and the voting conducted at shareholders’ general meeting are strictly in compliance with the Company Law and Securities Law of the PRC and the Company Ordinance of Hong Kong, Listing Rules of Shenzhen and Hong Kong and the Articles of Association to ensure that shareholders are entitled to attend the meeting.

State-owned Assets Supervision and Administration Commission of Hunan Provincial People’s Government is the substantial shareholder of the Company. The Company is independent of the substantial shareholder in terms of employee, assets, financial management, organisation and operation. The substantial shareholder has not directly or indirectly intervened in the decision and operation of the Company other than the exercise of its rights at shareholders’ meeting.

III. Directors and Board

All directors have attended and conducted board meetings and shareholders’ general meetings strictly in accordance with Articles of Association and Rules of Board Meeting. Directors have participated in the relevant training programs to understand the requirements of laws and regulations and the rights, obligations and liabilities of directors to ensure the smooth operation of the Board and the rational decisions are made. The directors oversee and regulate the operation of the Company for its best interest. They have joint and several liabilities for the management, supervision and operation of the Company.

The number of members and structure of the Board are in compliance with the relevant laws and regulations. Independent directors represent a majority of the Board. The Board has performed its duties in accordance with the relevant laws and regulations and the Articles of Association. The decisions of the Board are legal and efficient.

(I) Responsibilities of the Board

The Board shall convene shareholders’ general meeting to submit their work report to shareholders and then promptly implement the resolutions passed at shareholders’ general meeting. The Board shall also monitor the overall development of business strategies and determine the business plans and investment plans of the Company. In addition, the Board shall supervise and provide guidance to the management of the Company. The Board shall be responsible for the supervision of operation and financial performance and formulation of budget and auditing plans of the Company.

The directors understand that they have the responsibility to prepare annual financial statements for each financial year to give a true and fair view of the position, results and cashflow of the Company. In preparing the financial statements for the year ended 31 December 2010, the directors have consistently adopted proper accounting policies and made reasonable estimates and have complied with all applicable accounting standards. Having made duly enquiries, the directors are satisfied that the Company has adequate resources for its business in the foreseeable future. Therefore, the Company's financial statements have been prepared on a going concern basis.

(II) Composition of the Board

The Board of the Company has seven members, including a chairman, an executive director, a non-executive director who has extensive experience in the business and operation of the Company and four independent non-executive directors who have extensive experience and relevant academic qualifications in finance, management, business strategy and human resources management. The independent non-executive directors are very active in the supervision of the internal control procedures of the Company to protect the interest of all shareholders, in particular the minority shareholders. The particulars and term of office of all directors are set out in section "Directors, Supervisor, Senior Management and Employees" in this report. There is no significant financial, business, family and other major relationship among the directors.

The Company confirms that it has received the annual confirmation of independence from all independent non-executive directors in accordance with Rule 3.13 of Listing Rules of Hong Kong and the Company is satisfied that all Independent Non-executive Directors are independent in respect of the independence requirement under the Listing Rules of Hong Kong.

(III) Appointment and removal of directors

A director of the Company shall have a term of office of 3 years and shall be entitled to be re-appointed if so elected provided that the term of office of independent non-executive directors shall not be more than 6 years. The appointment and removal of directors shall be approved by shareholders at general meeting. The Company has entered into 3-year Director Service Contracts with the directors. During the year, the changes of directors of the Company are set out in section "Changes of Directors, Supervisors and Senior Management" in this report.

(IV) Board meetings

1. According to the Articles of Association, the Board shall hold at least four meetings a year. In 2010, the Board had held 7 meetings, details of which are set out in section "Daily Operation of the Board" in this report. The independent directors duly perform their duties in accordance with the "Code on Corporate Governance of Listed Companies", "Guidelines for Establishment of Independent Directors System of Listed Companies" and the Articles of Association to

supervise the operation and management of the Company. During the period under review, the independent directors attended the board meetings and shareholders' general meetings and used their respective professional knowledge in performing their duties. They have made useful advice in respect of the operation procedures of the Board and made significant contribution to decisions of the Board. Their independent and objective advices have enabled the Board to make rational decision for the best interest of the Company and its shareholders as a whole. During the period under review, the independent directors have made no objection to the resolutions and proposals raised at boarding meetings and other meetings of the Company.

The attendance of the board meetings in 2010 was as follows:

Position	Name of directors	Number of meetings held	Attended in person	Attended by proxy	Absent
Chairman	Dr, Zhan Chunxin	7	7	0	0
Executive director	Mr. Liu Quan	7	7	0	0
Non-executive director	Mr. Qiu Zhongwei	7	7	0	0
Independent non-executive director	Mr. Liu Changkun	7	7	0	0
	Dr. Qian Shizheng	7	7	0	0
	Mr. Lian Weizeng	7	7	0	0
	Mr. Wang Zhile	7	7	0	0

2. Prior to the listing of H Shares on the Main Board of SEHK on 23 December 2010, the Company convened its board meeting by giving 10 days' notice in advance for regular meetings and 5 days' notice in advance for ad-hoc meetings in accordance with the relevant laws and listing rules of the PRC and the Company's Articles of Association. The secretary to the board shall deliver all relevant materials of regular board meetings (including reports from all committees of the Board) to all directors not less than 3 days before the date of the meeting.

   For ad-hoc board meeting, the relevant meeting materials shall be delivered to all directors through email or fax and allow the directors have adequate time to consider before the meeting. The secretary to the board shall promptly reply any questions raised by directors and take necessary action to ensure that the board meeting is conducted in accordance with the relevant provisions of the Company Law, Company's Articles of Association and Listing Rules.

No meeting of the Board had been held in Hong Kong since the listing of the Company on the Main Board of SEHK until 31 December 2010. The Board confirms that the Company shall strictly comply with the the principles and the code provisions of the Code on Corporate Governance contained in Appendix 14 to the Listing Rules of the Hong Kong from listing date of the Company on the Main Board of SEHK to give at least 14 days' notice to convene ordinary Board meeting.

3. Minutes of each board meeting shall be endorsed by all attending directors and recorder and shall be kept for a period of not less than 10 years. The minutes shall be available for inspection upon request by directors.

4. When considering connected transactions, directors who are considered of having significant interest in the relevant transactions have been absent from the meeting and abstained from voting in respect of the matters concerned.

(V) Performance of Independent Directors

The Independent Non-executive Directors have performed their duties strictly in accordance with the "Code on Corporate Governance of Listed Companies", "Guidelines for Establishment of Independent Directors System of Listed Companies" and the Articles of Association so as to understand the operation and management of the Company. During the period under review, the Independent Non-executive Directors attended the board meetings and shareholders' general meetings and use their respective professional knowledge in performing their duties. They have made useful advice in respect of the operation procedures of the Board and made significant contribution to decisions of the Board. Their independent and objective advices have enabled the Board to make rational decision for the best interest of the Company and its shareholders as a whole. During the period under review, the Independent Non-Executive Directors have made no objection to the resolutions and proposals raised at boarding meetings and other meetings of the Company.

(VI) Measures to ensure that directors can perform their duties properly

1. Upon appointment of a director, the Company will provide all necessary materials to the director to allow the director to understand the requirement of the Listing Rules and other relevant laws and regulations. The director shall also be provided with the updates of the relevant laws and regulation and internal circulations concerning the duties of directors. On-going training will also be provided to allow the directors to fully understand their duties under the Listing Rules of Shenzhen and Hong Kong and other relevant law and regulations and the operation of the Company. On-site inspections and meetings with accounting staff and auditors will also be organised for independent non-executive directors.

2. In formulating their opinion on guarantee for third party, appropriation of funds and connected transactions, directors may seek independent advice from independent auditor, compliance adviser and solicitor at the cost of the Company.

(VII) Responsibilities of the Board and the management

The responsibilities of the Board and the management have clear separation. The responsibilities of the Board are set out in Article 149 of the Company's Articles of Association. The management shall report to the Board and provide update information to the Board and its committees to enable them to make informed decisions. Further information shall also be provided upon request.

IV. Committees of the Board

The Board has established four committees, namely the Audit Committee, Remuneration Committee, Nomination Committee and Strategy and Investment Decision-making Committee. On 22 July 2010, the first meeting of the 4th session of the Board elected the members of the 4th session of the Audit committee, Remuneration Committee, Nomination Committee and Strategy and Investment Decision-making Committee. The committees have their terms of reference which set out their respective structures, responsibilities and obligations. The procedures of meeting of these committees are based on the procedures of board meeting.

(I) Remuneration Committee

1. Role and responsibilities

The Remuneration Committee shall determine the criteria for and shall conduct the performance appraisal of directors and senior management. The committee shall also propose the remuneration packages for directors and senior management for approval by the Board. The committee shall procure the resolutions in relation to remuneration or performance appraisal of directors and senior management to be implemented. It shall perform other duties in relation to the remuneration and performance appraisal of directors and senior management in accordance with the Articles of Association and instruction by the Board.

2. Members and meetings of Remuneration Committee

The Remuneration Committee has three members, including two independent non-executive directors and a non-executive director. The chairman of Remuneration Committee is Mr Lian Weizeng, independent non-executive director, and the members are Mr Wang Zhile and Mr Qiu Zhongwei.

In 2010, the Remuneration Committee had convened one meeting and the attendance of the meeting was as follow:

Position	Members of Remuneration Committee	Number of meetings held	Attended in person	Attended by proxy	Absent
Non-executive director	Mr Qiu Zhongwei	1	1	0	0
Independent non-executive director	Mr Lian Weizeng	1	1	0	0
	Mr Wang Zhile	1	1	0	0

3. **Determination and the basis of remuneration packages of directors and senior management**

   The remuneration of directors and senior management shall be proposed by the Remuneration Committee based on their individual responsibilities and the remuneration level of other listed companies for approval by the Board and shareholders' general meeting.

   The Remuneration Committee shall review the remuneration and performance appraisal results and propose the remuneration packages for the next year. The committee shall conduct annual appraisal of the senior management and determine their remuneration accordingly.

4. **Activities of the committee during the year under review**

   In 2010, the committee held one meeting to review the performance of directors, supervisors, senior management in 2009 and determine their respective remuneration accordingly.

(II) Nomination Committee

1. **Role and Responsibilities**

   The Nomination Committee is responsible for the establishment of the criteria and procedures for the election of directors and senior management. The committee shall determine the qualifications, the election procedures and term of office of directors and senior management in accordance with relevant laws and regulations and the Articles of Association, and with reference to the Company's condition, for approval by the Board.

2. Composition and meetings of the Nomination Committee

The Nomination Committee has three members, including two independent non-executive directors and an executive director. Mr Lian Weizeng, an independent non-executive director, is the chairman of the committee and other members include Dr. Zhan Chunxin and Mr Wang Zhile. The committee did not conduct any meeting during the period under review.

3. Appointment of directors and senior management

Executive directors and non-executive directors of the Company shall be nominated by shareholders for approval by shareholders at general meeting.

The independent non-executive directors of the Company shall be nominated by the Board for approval by shareholders at general meeting.

The nomination, appointment and re-appointment of directors are based on the professional knowledge, experience, integrity, commitment, qualifications and other relevant standards of the candidates.

(III) Audit Committee

1. Role and Responsibilities

The Audit committee shall give advice to the Board on the appointment, termination, fee and terms of appointment of external auditors. The committee shall also oversee the internal audit system of the Company. The committee shall examine the integrity and accuracy of financial information of the Company, including the financial statements, annual report, interim report and quarterly report. The committee shall review the major opinions in the financial returns of the Company. The committee shall review the financial control, internal control and risk management systems of the Company and examine major connected transactions.

2. Composition and meetings of the Audit Committee

The Audit committee has three members, including two independent non-executive directors and one non-executive director. The chairman of Audit committee is Dr. Qian Shizheng, an independent non-executive director, and other members are Mr. Liu Changkun, an independent non-executive director, and Mr. Qiu Zhongwei, a non-executive director. The composition of the Audit Committee complies with the requirement of the Listing Rules of Hong Kong.

In 2010, the Audit committee held four meetings and the attendance of the meetings was as follows:

Position	Members of Audit committee	Number of meetings held	Attended in person	Attended by proxy	Absent
Independent non-executive director	Dr. Qian Shizheng	4	4	0	0
	Mr. Liu Changkun	4	4	0	0
Non-executive director	Mr. Qiu Zhongwei	4	4	0	0

3. **Activities of the Audit Committee**

During the year, the Audit committee had held four meetings to review the results for 2009 and the interim results for 2010 of the Company. The Audit committee has reviewed the audited annual results of the Company for the year ended 31 December 2010. The committee has also reviewed the accounting principles and practices adopted by the Company for the preparation of financial statements and the internal control over financial reporting.

(IV) Strategy and Investment Decision-making Committee

1. **Responsibilities of the Strategy and Investment Decision-making Committee**

The committee is mainly responsible for the development of long-term development strategy and the provision of advice on major investment decision of the Company.

2. **Composition and meeting of the Strategy and Investment Decision-making Committee**

The Strategy and Investment Decision-making Committee has three members, including an executive director, a non-executive director and an independent non-executive director. The chairman of the Strategy and Investment Decision-making Committee is Dr. Zhan Chunxin, an executive director. The members of the committee are Mr. Qiu Zhongwei and Mr. Wang Zhile.

During the reporting period, the Strategy and Investment Decision-making Committee did not hold any meeting.

V. Supervisors and Supervisory Board

All supervisors have performed their duties strictly in accordance with the Articles of Association, Rules of Board Meeting and Rules of Supervisory Board Meeting. All supervisors have attended the meetings of the Board, Supervisory Board and shareholders' general meetings. They have received training to understand the requirements of the relevant laws and regulations as well as the rights, obligation and liabilities of supervisor. The composition of the Supervisory Board is in compliance with the relevant laws and regulations. The Supervisory Board has performed their duties in accordance with the relevant laws and regulations and the Articles of Association to supervise the performance of the directors and senior management of the Company.

(I) Composition and meetings of the Supervisory Board

The Supervisory Board has three members, including a supervisor elected by employees and two supervisors elected by the general meeting of shareholders. Mr. Cao Yonggang is the Chairman and Mr. Liu Chi and Mr. Luo Anping are members of the Supervisory Board. Changes of supervisors during the year are set out in section "Changes of Directors, Supervisors and Senior Management" in this report.

In 2010, the Supervisory Board had held five meetings and the attendance was as follows:

Position	Name of supervisors	Number of meetings should be attended	Attended in person	Attended by proxy	Absent
Chairman	Mr. Cao Yonggang	3	3	0	0
Supervisor	Mr. Liu Chi	5	5	0	0
Supervisor (representative of employees)	Mr. Luo Anping	5	5	0	0

Note: On 22 July 2010, Mr. Cao Yonggang was elected as supervisor by the shareholders' general meeting and was elected by the Supervisory Board as its chairman. Mr. Long Guojian was the chairman of the Supervisory Board of the Company from 1 January 2010 to 22 July 2010 and he attended two meetings of Supervisory Board in person.

(II) Meetings and activities of the Supervisory Board in 2010 are set out in section "Report of the Supervisory Board" in this report.

VI. Remuneration and Interests of Directors, Supervisors and Senior Management

(I) Remuneration

The remuneration of directors, supervisors and senior management of the Company for the year is set out in section "Summary of Directors, Supervisors and Senior Management" in this report.

Further details of the annual remuneration of the Directors and Supervisors for the year are set out in note 7 to the financial statements prepared under IFRSs.

(II) Interests

(1) Service contract of directors and supervisors and their contractual interests

The Company has not entered into any service contract with any of its Directors or Supervisors which is not terminable by the Company in less than one year without payment of compensation (except statutory compensation).

(2) Directors and supervisors' interests in contracts

None of the Directors and Supervisors had any material interest, whether directly or indirectly, in any contract of significance subsisted at the end of the year or at any time during the year of 2010.

(3) Directors, supervisors and senior management's interests in shares or debentures

The Directors, supervisors and senior management's interests in shares of the Company as at 31 December 2010 are set out in Section "Summary of directors, supervisors and senior management" in this report.

(4) Directors, supervisors and senior management's interests or short positions in securities of the Company or its associated corporations

As at 31 December 2010, the directors, supervisors and senior management who have interest or a short position in the shares, underlying shares and debentures of the Company or associated corporation (as defined in Part XV of SFO) which are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or required to be disclosed to the Company and SEHK were as follows:

Name of Directors/ Supervisors	Nature of interest	Class of share	Number of share	Percentage of the total share capital (%)
Zhan Chunxin	Beneficiary owner	A Share	202,400(L)	0.0042
Liu Quan	Beneficiary owner	A Share	145,475(L)	0.0030
Liu Chi	Beneficiary owner	A Share	106,700(L)	0.0022
Luo Anping	Beneficiary owner	A Share	106,427(L)	0.0022

Note: L represents long position.

As at 31 December 2010, save as disclosed above, none of the directors, supervisors or chief executive officer has any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to the Company and SEHK pursuant to the Appendix X to the Listing Rules of Hong Kong "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code").

As at 31 December 2010, none of the directors, supervisors, or chief executive officers or their respective spouse or children under 18 years of age has any rights to acquire the shares or debentures of the Company or any of its associated corporations nor exercise any of these rights.

(5) **Dealings in securities by directors and supervisors**

The Company has adopted the Model Code to regulate the dealing in shares of the Company by directors. Having made specific enquiry of all directors and supervisors, the directors and supervisors confirmed that they had complied with the Model Code during 2010. The Company was not aware of any non-compliance of Model Code by the directors or supervisors during the reporting period.

VII. Auditors

Baker Tilly China and KPMG, respectively, were the domestic and international auditors of the Company for 2010.

It was the first time for the two CPA firms to provide audit services for the Company. The aggregate audit fee paid was RMB7.85 million. During the year, no non-audit service was provided by the two CPA firms.

Baker Tilly China has been the domestic auditor of the Company since 25 May 2010. Prior to that, ZhongXi Certified Public Accountants Co., Ltd was the domestic auditor of the Company for more than five consecutive years.

The responsibility statements of Baker Tilly China and KPMG on the financial statements of the Company were set out in the Domestic Auditor's Report and International Auditor's Report respectively.

VIII. Establishment and Improvement of Internal Control System and Self-evaluation

(I) Establishment of the internal control system

The Company has established its internal control system in accordance with the Company Law, Securities Law, Corporate Internal Control Regulation (企業內部控制基本規範) and Guidelines on Internal Control of Listed Companies (上市公司內部控制指引) . Based on the conditions of the Company, the Company has established internal systems and practices on corporate structure, corporate objectives, event identification, risk assessment, risk management, control activities, information and communication, inspection and monitoring in accordance with the "Constitution of

Zoomlion" (中聯憲章) and the Articles of Association on the basis of equality, control, authorization, effectiveness and systematic. Through the establishment and improvement of the internal control system, risk assessment and rectification system, the internal control of the Company can be modified to cope with the changing environment and can effectively control the operation risks of the Company. The Board of the Company acknowledged its responsibility for the internal control of the Company.

(II) Effectiveness of the internal control system

The Company has established internal control systems at three different levels, including the Articles of Association, "Constitution of Zoomlion" and basic internal control system at the corporate level and the implementation rules for various business departments. The "Constitution of Zoomlion" represents the Corporate culture, values and basic rules of the Company and sets out the direction and standards of conduct and ideology. The basic internal control system contains rules to regulate the operation of the Company with a view to maintaining effective control. Implementation rules of various business departments are devised to implement the "Constitution of Zoomlion" and basic internal control system at departmental level taking into consideration of the conditions of the individual department.

The Company has established and adopted a comprehensive internal control system which covers all areas of its operation, including corporate governance, information management, financial management, inspection and internal audit, human resources management, remuneration, performance appraisal and incentive, risk management and management of subsidiaries. In 2010, the Company continued to strengthen its internal control system by modifying 35 internal control mechanisms to cope with the different conditions of individual operation departments. The Company also established an internal control system for business operation, which laid a solid foundation for a sustainable and healthy development of the Company.

(III) Self assessment of internal supervision and control

The Company has established its effective control system and measures in respect of corporate structure, corporate objectives, event identification, risk assessment, risk management, control activities, information and communication, inspection and monitoring.

1. The audit department conducts regular and ad-hoc inspections of the implementation of internal control activities and reports to the Board of its findings.

2. The Risk Management Committee conducts risk management inspections from time to time and alerts the management of any potential risks by submitting a "Risk Warning Report" which contains the advice of the Risk Management Committee. The committee also submits a "Report on Annual Inspection of Risk Management of the Company" to the management of the Company by the end of every year.

3. The secretariat of the Board coordinated the relevant departments to conduct inspection of the internal control system when necessary with regard to the change in business development, corporate structure and mode of management. It may propose changes of the internal control system and manage the implementation of the changes. The secretariat carries out comprehensive inspection and assessment of the internal control of the Company and submits to the Board a "Report on Annual Assessment of the Internal Control" at the end of every year.

4. The Supervisory Board oversees the internal control of the Company by attending all meetings and major activities of the Company and conducting routine examinations of the internal control practices. It also reviews the "Report on Annual Assessment of the Internal Control" and gives its opinion thereon.

The management of the Company stresses the importance of internal control. When problems are found in the internal control of the Company, the management will take immediate remedial actions.

(IV) Continuous improvement of internal control of the Company

The Company has established a comprehensive internal control system in accordance with the Company Law and Guidelines on Internal Control of Listed Companies (上市公司內部控制指引) to ensure the healthy and sustainable development of the Company. In 2010, the Company launched the "Improvement of Corporate Governance" campaign to examine the internal control system of the Company and improve the corporate governance of the Company.

In 2011, as a listed company in both Shenzhen and Hong Kong, the operation, management, structure and activities of Company will be strictly in accordance with the relevant laws and regulations of the PRC and Hong Kong. The Company will further improve its internal control system and implement various measures to enhance corporate governance to ensure the effectiveness and integrity of the internal control system.

(V) Self inspection and assessment of internal control system

The Board inspected the Company's internal control system in 2010 in accordance with the requirement of the securities regulatory authorities in the PRC and Hong Kong for listed companies and for the purposes of enhancing soundness and effectiveness of internal control system. The Board is of the view that the internal control system of the Company in respect or corporate structure, corporate objectives, event identification, risk assessment, risk management, control activities, information and communication, inspection and monitoring is sound and effective and complies with the securities regulatory authorities of the PRC and Hong Kong.

The Company will further enhance its internal control system to maintain its effectiveness with regard to its business, management and internal structure, and in accordance with laws and regulations of the PRC and Hong Kong, so as to ensure the healthy and sustainable development of the Company.

The "Report on Self Assessment of Internal Control System in 2010" of the Company is posted in the website of 巨潮資訊網 (www.cninfo.com.cn).

(VI) The view of the Supervisory Board on the self assessment of internal control system

The "Report on Self Assessment of Internal Control System in 2010" gives a true view of the internal control of the Company and sets out the major improvement and results. The report also gives details of the existing corporate structure, subsidiaries, connected transactions, third party guarantee, application of proceeds from public offering and disclosure of information. The Supervisory Board is of the view that the internal control system should be further improved to enhance the corporate governance to ensure the healthy and sustainable development of the Company.

(VII) The independent view of the Independent Directors on the self assessment of internal control system

In 2010, the Company has established a comprehensive internal control system in accordance with the relevant laws and regulations of the PRC and Hong Kong. The system is based on the conditions of the Company and is effectively implemented in compliance with the relevant laws and securities regulatory requirements of the PRC and Hong Kong. The "Report on Self Assessment of Internal Control System in 2010" gives a true view of the internal control of the Company. The Independent Directors are of the view that the internal control system should be further improved to enhance the risk management function to ensure the healthy and sustainable development of the Company.

(VIII) Implementation plan on internal control measures of the Company in 2011

The Company will formulate the implementation plan on internal control measures in 2011 to ensure sustainable development of the Company, protect interests of investors, maximize value for all stakeholders and maintain effectiveness of the internal control system.

1. Organisations

Organisations for internal control, including a leading group and a working group for standardising internal control, were established.

In order to understand the key factors contributing to effective internal control, the Company will learn from the advanced internal control experiences from other companies and engage professional organisations to provide advice on its internal control.

The Company will implement comprehensive budget management and the budget of the internal control of the Company will be included in its comprehensive budget management system.

The Company will establish a comprehensive corporate governance structure and a system for corporate organisation management.

2. The objectives of internal control

The objectives of internal control of the Company are to ensure the operation and management of the Company are in compliance with laws and regulations, the security of assets and the truthfulness and completeness of financial reports and relevant financial information. As such, the Company can enhance the efficiency and effectiveness of operation, implement its strategies and achieve its targets. In particular, the objectives of internal control of the Company include:

(i) Operating objectives: to ensure the effectiveness and efficiency of the operation of the Company and to secure the assets of the Company.

(ii) Reporting objectives: to ensure the reliability of financial reports of the Company.

(iii) Compliance objectives: to ensure the operation and management of the Company are in compliance with laws and regulations.

(iv) Strategic objectives: to ensure the successful implementation of all strategies and the realisation of strategic objectives.

3. The working plan of implementing internal control measures in 2011

(1) Establishing risk data base and preparing and updating the list of risks. Through questionnaire, onsite investigation and communication, seminar, visiting primary level workers, the Company will analyse and regulated risks for major business processes of the Company (including its branches and subsidiaries) and collected risk data. By analysing risk data, the Company will formulate the list of risks and update the risk data base of the Company of 2011 so as to identify the major aspects and segments which involve risks.

(2) Identifying internal control deficiencies. The Company will check the existing polices and systems against the list of risks to identify internal control deficiencies. The Company classified the internal control deficiencies into three classes: general deficiencies, material deficiencies and major internal control deficiencies.

(3) Formulating and implementing rectification plans for internal control deficiencies. The Company will formulate different rectification plans based on different classes of internal control deficiencies. Rectification plans will be implemented for restructuring, process optimisation, policies changes, employee headcounts adjustment and modification of

implementation measures. The Company will organise its rectification measures and prioritize the rectification of material and major deficiencies based on its rectification plans.

(4) Reviewing rectification effects. The Company will review the rectification effects and formulate evaluation rectification reports.

(5) Disclosing the implementation of internal control under requirements. The Company will report its implementation of internal control to Hunan Branch of CSRC, the SZSE and SEHK by 30 June 2011 and 31 December 2011 respectively under the requirements of the regulatory authorities. The Company will also disclose the standardisation of internal control in the 2011 Annual Report.

4. Internal control self-evaluation plan in 2011

(1) Formulating evaluation plan

① To determine self-evaluation aspects. There are five evaluation aspects: internal operation environment, risk evaluation mechanism, control activities, information and communication and internal supervision. The evaluation involves major business processes.

② To set out tasks. By evaluating the internal control effectiveness of the Company, the Company will conclude the experience of internal control and identify the internal control deficiencies. The Company will also disclose necessary information in time so as to protect interest of stakeholders of the Company.

③ To establish working group. The group for standardising internal control will implement and organise evaluation on internal control and formulate the evaluation plan.

④ To complete the evaluation and formulate evaluation report.

⑤ To formulate budgets for internal control. The Company will complete the formulation of budgets for internal control based on the standardisation requirements for the budget management department.

(2) Establishing execution group for implementing internal control measures

The internal control evaluation group is responsible for establishing an execution group to implement internal control measures. The group is responsible for collecting comments on internal control for the internal control evaluation group.

(3) Organising self-evaluation. Through onsite investigation, the execution group will identify internal control deficiencies and evaluate the rectification effects and report the effects to the evaluation group.

(4) Conclusion drawn by evaluation group.

(5) Formulating self-evaluation report of internal control.

(6) Preparing the self-evaluation report on internal control for the Board of Directors for consideration and approval and disclosing the report under relevant requirements.

5. Audit of internal control in 2011

(1) To engage an accounting firm for auditing internal control.

(2) The accounting firm will formulate an audit plan, including setting up an audit group.

(3) To carry out audit procedures, such as evaluating internal control deficiencies.

(4) To complete the audit and prepare the audit report.

(5) To disclose the audit report on internal control in accordance with relevant requirements.

IX. Performance Appraisal and Award System of Senior Management

To strengthen the regulation, award and promotion of senior management, to cultivate the sense of responsibility and to improve the management skill and efficiency of senior management, the Company has established the performance appraisal and award system of senior management and the relevant rules and regulations. The system successfully aligned the remuneration with the operation results of the Company and performance of individual staff.

The Remuneration Committee is under the supervision of the Board and is responsible for the determination of the compensation packages and appraisal criteria of directors and senior management. The committee shall conduct annual appraisal of the performance of the senior management and determine their compensation accordingly.

X. Appraisal and Award System

The Company determines the compensation of the employees based on their respective function, position and performance. The performance and work efficiency of the employees are assessed to determine if they shall be awarded. The appraisal criteria and award mechanism are fair and open. The appointment of employees is conducted in an open and transparent manner and is in compliance with the relevant laws and regulations.

XI. Investors' Relationship

The Company maintains close relationship with its investors through telephone hotline, email and direct contact. The shareholders' general meeting is an important annual event and directors, supervisors and senior management will attend to answer questions from shareholders.

Details of the investor relationship activities of the Company in 2010 are set out in section "Visits, Communication and Interviews of Investors".

Looking forward, the Company will enhance the communication with investors to seek their continuous support.

XII. Stakeholders

The Company fully respects and protects legal rights of the stakeholders such as creditors, employees and consumers. It also attaches importance to the cooperation with its stakeholders, which helps to jointly promote sustainable and healthy development of the Company.

XIII. Connected Transactions

All connected transactions of the Company were conducted in a fair and reasonable way under proper decision-making process. The decision making procedures were in compliance with laws and regulations. The considerations of transaction were determined on the basis of market rates and the basis of determination was fully disclosed. The Company has strictly complied with the relevant regulations in the Listing Rules of Hong Kong since its listing in Hong Kong. Please refer to "F. Major Connected Transactions of the Company during the Year" in "Significant Events" for details.

XIV. Information Disclosure and Transparency

The secretary to the Board is responsible for disclosing information, receiving shareholders visits and answering enquiries. The Company is required to disclose relevant information in a true, accurate, complete and timely manner, maintain good relationship with investors and ensure all shareholders received information equally pursuant to the laws, regulations and requirements of the Articles of Association. The Company is very serious about the accuracy of the information disclosed and the relevant officer will be held responsible for any disclosure of inaccurate information. The Company has further improved the quality and transparency of information disclosure in the annual report. The Company also formulated and implemented the management system for information insider and external information user (內幕信息知情人和外部信息使用人管理制度) .

XV. Promotion of Corporate Governance

The Company launched a campaign to promote corporate governance in April 2007 pursuant to the requirements of Notice on Corporate Governance Promotion Campaign of Listed Companies (關於開展加強上市公司治理專項活動有關事項的通知) and Notice on Organisation of Corporate Governance Promotion Campaign of Listed Companies (關於做好加強上市公司治理專項活動有關工作的通知) issued by the China Securities Regulatory Commission and SZSE respectively under the supervision of the Chairman. The working team of the campaign has involved our employees to organise various activities to promote corporate governance, including internal inspection, improvement plan, public assessment, on-site inspection by the regulatory authorities and implementation of remedial measures. The Company has improved certain problems in corporate governance identified by internal inspection, public assessment and on-site inspection of Hunan Securities Regulatory Bureau. The internal control system and corporate governance structure of the Company were significantly improved.

During the reporting period, the Company further improved its corporate governance by rectifying the issues found in the corporate governance promotion campaign. According to the requirements of Notice of Inspection on Corporate Governance and Internal Control of Listed Companies and their subsidiaries (關於對上市公司控股子公司公司治理和內控情況進行檢查的通知) (XZJGSZ [2010] No. 23) issued by Hunan Securities Regulatory Bureau, the Board of Directors of the Company inspected and improved its corporate governance and internal control system. A Self-inspection Report on Corporate Governance and Internal Control of Subsidiaries was submitted to Hunan Securities Regulatory Bureau on 30 June 2010.

During the period under review, according to the requirement of listed companies for 2010 imposed by Hunan Securities Regulatory Bureau, the Company has strengthened internal training in respect of laws and regulations of capital market, principles of policy, regulatory requirements and typical cases for the directors, supervisors and senior management. The Company submitted Internal Training Report of 2010 to Hunan Securities Regulatory Bureau on 8 December 2010.

XVI. "Five Independence" of Staff, Assets, Finance, Business and Organisation from the Controlling Shareholders

(I) Staff independence

The Company has a Human Resources Department to deal with matters in relation to human resources, staff performance assessment and determination of remuneration. The Human Resources Department has formulated an independent and comprehensive human resources and remuneration system.

(II) Assets independence

The Company has its own operating system and ancillary facilities. Purchase and sale of goods as well as provision of service are conducted by the Company independently. Intangible assets such as non-patent technologies and trademarks of the Company are independently owned by the Company.

(III) Financial independence

The Company and its subsidiaries have their independent Finance Departments and independent bank accounts. Each of the Company and its subsidiaries are treated as independent body in respect of tax assessment. The Company has also established an independent audit system and financial management system according to the requirements for listed company. The Company has its internal control system to manage its financial matters independently.

(IV) Operation independence

The Company has its own business and operation system. It is an independent decision-making body, self-financed and assume its corresponding responsibilities and risks.

(V) Organisational independence

The establishment and functions of our organisations are independent from the controlling shareholder. The controlling shareholder is not involved in the labour and human resources management and remuneration determination. The Board of Directors and Board of Supervisors are operating independently and are not under the direction of the controlling shareholder.

XVII. Corporate Social Responsibility Report

Details of the Social Responsibility Report in 2010 are posted in 巨潮資訊網 (www.cninfo.com.cn).

XVIII. Remuneration and Retirement Benefits of Employees

The remuneration package of our employees includes salary, bonuses and allowances. Our employees also enjoy medical insurance, housing subsidies, pension and other benefits. The Company participated in the social insurance scheme administrated by relevant government authorities pursuant to applicable regulations. Under the scheme, the Company is required to contribute social insurance for the staff at specific proportion of the monthly salary of the staff. Details of the five highest paid individuals of the Company for the year provided by the Human Resources Department are set out in note 8 to the financial statements prepared under IFRSs.

Details of staff welfare benefits offered by the Company are set out in note 24 to the financial statements prepared under IFRSs.

Summary of Shareholders' Meetings

I. Annual General Meeting of Shareholders for 2010

Annual General Meeting of Shareholders for 2010 of the Company was convened at Multi-function Conference Room, 2/F of the Company at 14:00 on 25 May 2010. The meeting has been conducted through a combination of onsite meeting and online voting. Notice of the meeting and resolutions passed at such meeting were disclosed in China Securities Journal, Shanghai Securities News, Securities Times and www.cninfo.com.cn on 30 April 2010 and 26 May 2010, respectively.

II. The First Extraordinary General Meeting of Shareholders in 2010

The First Extraordinary General Meeting of Shareholders in 2010 of the Company was convened at Multi-function Conference Room, 2/F of the Company at 14:00 on 22 July 2010. The meeting has been conducted through a combination of onsite meeting and online voting. Notice of the meeting and resolutions passed at such meeting were disclosed in China Securities Journal, Shanghai Securities News, Securities Times and www.cninfo.com.cn on 7 July 2010 and 23 July 2010, respectively.

III. The Second Extraordinary General Meeting of Shareholders in 2010

The Second Extraordinary General Meeting of Shareholders in 2010 of the Company was convened at Multi-function Conference Room, 2/F of the Company at 9:30 on 7 September 2010. The meeting has been conducted by ways of onsite meeting. Notice of the meeting and resolutions passed at such meeting were disclosed in China Securities Journal, Shanghai Securities News, Securities Times and www.cninfo.com.cn on 23 August 2010 and 8 September 2010, respectively.

Report of the Board of Directors

The Board of Directors (the "Board") of the Company is pleased to announce the Report of the Directors for the year ended 31 December 2010 together with the audited financial statements of the Company and the Group.

I. Business Review of the Company

1. Constant rapid growth in operating results

In 2010, the Company recorded turnover of RMB32,193 million (2009: RMB20,762 million), a year-on-year growth of 55.1%. Net profit attributable to equity shareholders of the Company was RMB4,666 million (2009: RMB2,447 million), a year-on-year growth of 90.7%.

2. Significant progress in going global

The Company has implemented various measures and proactively recruited international talents in order to adopt international practices. In June 2010, more than 150 sales and marketing talents joined the Company from different parts of the world, which accelerated the strategic development of our overseas sales and marketing network. We expanded our international sales network by adding 5 subsidiaries, 10 representative offices and 23 distributors in overseas countries. Our plan on becoming an international research and development centre and production base was enhanced by leveraging on the synergy effects between CIFA and our Group. Meanwhile, the successful listing of the Company's H shares also propelled our strategy in going global and substantially extended the Company's global outreach in terms of sales and marketing, production, research and development. Accordingly, the Company achieved another important milestone this year and has entered into a new phase of rapid growth and development.

3. Conspicuous innovations in technologies

The Company is in a position to formulate industrial standards for the engineering machinery industry in the PRC. It is also a Participating Member of the International Organisation for Standardisation (ISO). In 2010, the Company participated in the formulation and revision of 16 nation-wide and industry-wide standards. The Company is the only corporate enterprise in the PRC which possesses a National Key Laboratory on Key Technologies for Construction Machinery, which has established laboratories specialising in experiments which are structural, transmissional, intelligent control and hydraulic in nature. The Company is in a leading position among its peers in terms of its innovative technologies and research capabilities. The Company has attained fruitful results through its continuous effort on proprietary technological innovations. Our projects in "Research and Industrialisation of Key Technology for Crawler Cranes" ("系列履帶式起重機關鍵技術研究與產業化") and "Set Equipment for Hyper-Compression Concrete Pump and Installation Technology" ("超高壓泵送混凝土成套設備及施工技術") received the Hunan Provincial Technological Progress Award (First Class) and China Construction Machinery Industry Science and Technology

Award (First Class), respectively. We have also attained noticeable achievements in the development of new products:

— For concrete machinery, we have successfully launched equipment in sets comprising dry mortar mixing plant, mortar mixer and other accessories, making the Company the sole supplier of dry mortar mixing equipment in sets in the PRC. We have also launched our proprietary Zoomlion-CIFA series of concrete mixers and a number of enhancement plants and engineering plants. During the year, the Company developed the only X-legged and 6-section truck-mounted concrete bump (over 60m in height) in the PRC and launched the new truck-mounted concrete pumps equipped with carbon fibre arms, which earned the reputation as "a groundbreaking masterpiece in the research of fundamental technologies for engineering machinery in the world";

— For tower crane, the Company successfully developed the largest uplifting, revolving and self-propelling tower crane (D5200) in the world. In this connection, we have achieved a new record for construction of tower cranes in the world;

— For road construction machinery, the newly developed SUPER130 roller-paver has placed the Company in a leading position of the industry in terms of industrial technologies. In terms of its functionality and quality, this domestically manufactured new product of road surface rolling-paving equipment has completely outperformed its imported brand-name counterparts and was instrumental to the development of road surface rolling-paving technology. It is awarded the "2010 Award of Top 50 Applications Contributing to the Construction Machinery in China (Gold)" ("2010中國工程機械年度產品TOP50應用貢獻金獎").

4. Substantially enhanced brand image

The Company is a leading construction machinery manufacturer in the PRC and enjoys high brand recognition. In 2010, Dr. Zhan Chunxin, chairman of the Board, received the "Yuan Baohua Gold Award", which is the most distinguished award for corporate management executives in China and the "International Leonardo Award 2010" of Italy (so far only 8 persons in the world have received this award). In addition, the Board was also selected as the "Most Outstanding Board of Directors" during the "Golden Roundtable Award" campaign of the Sixth Session of the Board of Directors of Listed Companies in the PRC. According to the ranking by "China Mechanical Engineering", an authoritative publication in the industry, the Company is amongst the top 10 construction machinery manufacturers in the world. In the massive earthquake which stricken Yushu district, Qinghai province, as well as in the Wenchuan earthquake, our rescue team once again was the first rescue team equipped with premium class and large-scale rescue machineries to arrive at the affected areas in the nation. In addition, the Company donated RMB10 million to the disaster devastated area, as a result our brand image was further enhanced.

5. Steady improvements on production capabilities of core parts and components

Through measures such as accelerated development of new products and extensive input in technological improvements, the Company has significantly improved its production capacity of core parts and components including hydraulic vaults, tanks, axles, electronic control systems and proprietary chassises. The increasingly high rate of internal completion of set equipment further strengthens the core competitiveness of the Company.

6. Substantial achievement in specialised management

The Company saw substantial achievements in consolidating its comprehensive budget control, internal control and information technology development system. Our budgeting system operated effectively with significantly increased efficiency. The Company has also introduced a specialised production and zero-error management system to reduce inventory level while increasing production efficiency and minimising losses resulting from product defects. Further improvements on internal control system were seen and hence achieved better synergy. Our information technology development has obtained key progresses. We have successfully commenced operation of ERP pilot schemes and established financial leasing IT systems, all of these in turn helped various business plans to put into practices. In 2010, the gross profit margin of the Company increased by 4.6%; both turnover days for trade receivables and inventory decreased, and the inspection passing ratio of new machines increased by 3 percentage points as compared with that of 2009.

7. High performance in risk control

The Company has established a comprehensive risk management system including credit risk management, legal risk management and crisis risk management, that allows for more systematic, dynamic and specialised risk control. The Company has adopted a credit rating system for its customers, implemented remote controls over its products, strengthened its property protection and collection teams and engaged third party guarantee institutions to effectively minimize risk and keep the overall risk level at acceptable level.

(III) Major Scope of Business and Operation of the Company

The Company is a national advanced-technology enterprise of the construction machinery industry. It is currently one of the largest research and manufacture bases of major machineries for infrastructure construction in the PRC.

The Company is mainly engaged in the development, manufacture, sales and leasing business of concrete machinery, crane machinery, road construction machinery and environmental and sanitation machinery as well as the accessories.

Details of the revenue of major businesses of the Company by industries, product mix and geographical locations are set out in “Management Discussion and Analysis”.

Major suppliers and customers

(1) Total purchases by the Company from the top five suppliers amounted to RMB3,827,637,400, accounting for 16.52% of the aggregate annual purchase of the Company. To the best knowledge of Directors, during the reporting period, none of the directors, supervisors, their associates or shareholders holding more than 5% of the Company's share capital in issue has an interest in the top five suppliers of the Company.

(2) Total sales to the top five customers of the Company amounted to RMB1,598,145,900, accounting for 4.96% of the aggregate annual sales of the Company. To the best knowledge of Directors, during the reporting period, none of the directors, supervisors, their associates or shareholders holding more than 5% of the Company's share capital in issue has an interest in the top five customers of the Company.

(IV) Financial Position

Details of financial position of the Company are set out "Management Discussion and Analysis".

(V) Operation and Results of Principal Subsidiaries and Associates of the Company (Relevant Total Assets And Net Profits are Based on the Data in the Financial Statements Prepared Under PRC GAAP)

Name	Nature of business	Major products or services	Registered capital (in RMB ten thousand)	Share of investment	Total assets (RMB)	Net profit (RMB)
Guangdong Zoomlion South Construction Machinery Co., Ltd.	Business	Production and sales of construction and engineering machinery and components; sales and leasing services	1,000	100.00%	128,431,529.79	11,878,056.97
Zoomlion Financing and Leasing (Beijing) Co., Ltd.	Business	Leasing and sales of construction machinery and equipment	150,200	100.00%	8,403,737,628.67	121,708,213.45
Hunan Teli Hydraulic Co., Ltd.	Manufacturing	Production and sales of hydraulic cylinder and hydraulic valve	10,466	66.75%	658,323,691.24	128,005,896.84
Hunan Zoomlion Special Vehicle Co., Ltd.	Manufacturing	Manufacturing of specialized vehicles	6,870	100.00%	376,802,305.24	-29,371,945.94
Hunan Zoomlion Axle Co., Ltd.	Manufacturing	Production and sales of machinery, electromechanical products and complete equipment	28,908.06	88.86%	911,175,924.09	23,112,415.12
Zoomlion Material Handling Equipment Co., Ltd.	Manufacturing	Production and sales of special machinery equipment and equipment for handling large materials	10,000.00	82%	918,548,544.88	-57,662,005.22

Name	Nature of business	Major products or services	Registered capital (in RMB ten thousand)	Share of investment	Total assets (RMB)	Net profit (RMB)
Shaanxi Zoomlion Earth Working Machinery Co., Ltd.	Manufacturing	Production and sales of vehicles, customized vehicles and vehicle components	47,394	100%	552,569,541.79	-3,740,602.63
Zoomlion H.K. Holding Co., Limited	Investment vehicle	Investment holding	US$67,500,000	100%	15,363,308,126.50	23,934,866.52
Hunan Zoomlion Hardware Co., Ltd.	Manufacturing	Design, manufacturing and sales of thin plate for cab and operating cabinet	10,000	75.60%	227,140,725.40	15,378,525.92
Bichamp Cutting Technology (Hunan) Co., Ltd.	Manufacturing	Manufacturing and sales of machine tools and components	10,000	32%	290,766,064.64	45,996,608.81
Changde Zoomlion Hydraulic Pressure Co., Ltd.	Manufacturing	Production and sales of hydraulic products	1,460	75%	182,427,638.09	37,741,359.66
Changsha Zoomlion Fire Control Machinery Co., Ltd.	Manufacturing	Manufacture and sales of fire fighting vehicles and equipment	1,122.45	49%	152,380,783.47	2,598,689.68
Hunan Zhonghan Macromolecular Materials Science and Technology Co., Ltd.	Manufacturing	Production of coating materials for construction machinery	2,000.00	30%	42,639,957.24	734,341.45
Hunan Zoomlion Crawling Crane Co., Ltd.	Manufacturing	Production and sales of crawling crane	36,000	100%	871,258,117.48	68,644,074.77
Changsha Zoomlion Engineering Machinery Remanufacturing Co., Ltd.	Manufacturing	Remanufacturing of construction machinery	1,000	100%	25,036,773.00	5,599,572.92
Changsha Zoomlion Used Equipment Sales Co., Ltd.	Manufacturing	Distribution of used equipment	1,000	100%	138,153,070.46	-27,056,873.05

The investment income from associates had not contributed to more than 10% of the Company's net profit.

II. Business Outlook

1. Economic trends and industry developments

In 2011, we believe the recovery of the global economy will remain steady. International demands for construction and engineering machinery will increase due to strong economic recoveries in the America and developed countries in Europe, as well as the fact that some developing countries are still in rapid growing stage, in particular the emerging economies. During the "12th Five-year Plan" period in the PRC, it is expected that macroeconomic environment in the PRC will remain positive, China's urbanisation will provide sustainable growth for the real estate development and related industries, growth in investment in construction projects of transportation infrastructure and energy facilities will promote steady and rapid growth of the construction machinery industry in the PRC, upgrading of industrial structure will enhance the competitiveness of the high-end equipment manufacturing industry and high-end products of construction machinery, for example intelligent control equipments will highly likely to benefit from all the aspects mentioned above.

2. Opportunities and challenges in the development of the Company in 2011

In 2011, it is believed that the construction machinery industry in the PRC will enjoy a relatively broader room for development as a result of the State's adjustments to economic structure, an increased investment volume in the region and the accelerated urbanisation process. The improvements in global economies will be beneficial to the Company in obtaining rapid growth in overseas sales. by exposing to a positive macroeconomic environment, the Company will see significant business opportunities. At the same time, the Company will face challenges due to the increased costs of raw materials, the appreciation of Renminbi, intensified competition in the market and so on.

3. Major business directions and action initiatives in 2011

In 2011, the Company will continue to follow its principles of achieving "reform and innovation; smooth operation; unit breakthrough; and overall improvement". It will promote the vision of, and develop itself into. a learning organisation to enhance innovation and execution capabilities. With an aim to become a renowned brand in the construction machinery industry, the Company strives to strengthen its strategic services, implement business strategies and improve management quality.

(1) Strengthen strategy management to augment its growth

With an aim to become a hundred billion dollar worth player in the market, the Company will need to sustain its robust sales and profit growth, enlarge market shares and enhance customer satisfaction by better implementing its overall strategies.

(2) Accelerate global expansion through H Shares listing

The Company will take advantage of its H Shares listing to accelerate the process of its global expansion. It will form strategic alliances, accelerate construction of research and development and manufacturing facilities and improve overseas sales and service network to enhance its global competitiveness and footprints in overseas market.

(3) Establish leading brand and deliver full-range product

The Company will promote its "full brand awareness" and aim to establish a leading brand name. In addition to leverage on its well-established and leading products, the Company will improve products with competitive strength and develop new products with promising market potentials so as to gradually deliver high quality full-range product to the market and build global renowned brand in the construction machinery industry.

(4) Enhance research and development efforts to sustain leading position in technology

The Company will from time to time improve its incentive scheme for research and development personnel in order to enhance innovation capabilities of the Company. The Company will seek and recruit high-carlibre talent to improve its research capabilities. In order to become an industry leader, the Company will need to focus on, and accelerate application of, the most advanced technologies, such as intelligence technology, energy saving and environmental friendly technology and light weight technology in its products. The Company also aims to become an icon for leading technology and increase its influences on global market through research and development and trial production of innovative construction machinery. Apart from efforts to expand environment and sanitation machinery line, more resources will be allocated to research and development of core parts and components, which can strengthen internal assembly capabilities of the Company

(5) Strengthen internal control and enhance management quality

In line with its strategy of global expansion, the Company will take initiatives to modify operating procedures of its functional departments. The Company will streamline its work procedures and standardise work requirements such that the Company can tighten internal control, deliver timely services, and achieve better coordination, integration efficiency and synergies among departments. Assessment and accountablilty system of the Company will be improved to enhance accountability and crisis identification skills of our management and employees. These initiatives can enhance the management quality and achieve sustainable long-term development of the Company.

4. The overall objective for 2011

The Company aimed to achieve revenue of RMB50 billion in 2011.

III. Capital Expenditure of the Company during the Reporting Period

Major capital expenditure projects during the reporting period

(I) Investment projects not using funds from the proceeds of the issue of Shares

Unit: RMB ten thousand

Name of Project	Amount of Project	Progress of Project	Profits of Project
Zoomlion Industrial Park Construction	90,000.00	100%	Total revenue of 2010 was approximately RMB2,945 million.
Hanshou Industrial Park Project (concrete-mixing plant)	18,000.00	70%	To be confirmed upon completion of the project since it is under construction
Total	108,000.00		

(II) Investment projects using funds from the proceeds of the issue of Shares

1. Use of proceeds from the Non-public offering of A Shares

Unit: RMB ten thousand

Total proceeds	557,175.30	**Total proceeds used during the year**	331,081.03
Total proceeds for which uses changed during the reporting period	0.00		
Accumulated proceeds for which uses changed	0.00	**Accumulated proceeds used**	331,081.03
Proportion of accumulated proceeds for which uses changed	0.00%		

Investment project committed and use of proceeds	Whether the project changed (including partly changed)	Total committed investment from proceeds	Total investment after adjustment (1)	Total amount used during the year	Accumulated amount used as of the end of period (2)	Progress of investment as of the end of the period (%) (3) = (2)/(1)	Expected date of project ready for operation	Realised profits during the year	Whether the expected profits was attained	Whether the feasibility of the project had material changes
Committed investment projects										
Establishment of a global finance leasing system and a construction machinery remanufacturing centre	No	150,221.40	150,221.40	133,200.00	133,200.00	88.67%	31 December 2011	8,838.31	No	No
Industrialization of heavy cranes	No	80,060.77	80,060.77	65,791.01	65,791.01	82.18%	31 December 2013	69,995.60	No	No
Upgrade of medium and large scale excavators	No	60,680.00	60,680.00	25,230.39	25,230.39	41.58%	31 December 2011	34.72	No	No
Industrialization of key equipments of social emergency rescue system	No	55,000.00	55,000.00	19,125.27	19,125.27	34.77%	31 December 2012	0.00	No	No
Industrialization of underground construction equipment	No	20,000.00	20,000.00	18,121.70	18,121.70	90.61%	31 December 2011	17,682.00	Yes	No

Investment project committed and use of proceeds	Whether the project changed (including partly changed)	Total committed investment from proceeds	Total investment after adjustment (1)	Total amount used during the year	Accumulated amount used as of the end of period (2)	Progress of investment as of the end of the period (%) (3) = (2)/(1)	Expected date of project ready for operation	Realised profits during the year	Whether the expected profits was attained	Whether the feasibility of the project had material changes
Establishment of a new platform for digital research and development, manufacturing and innovation	No	30,001.45	30,001.45	6,193.55	6,193.55	20.64%	31 December 2012	0.00	No	No
Upgrade of key hydraulic products for construction machinery	No	30,000.00	30,000.00	3,419.11	3,419.11	11.40%	31 December 2011	0.00	No	No
Replenishment of working capital	No	50,000.00	50,000.00	50,000.00	50,000.00	100.00%	28 April 2011	0.00	No	No
Research and development and technical innovation of complete set of bulk material conveying machinery	No	51,211.68	51,211.68	0.00	0.00	0.00%	31 June 2011	0.00	No	No
Construction of the station of specialized vehicles for crane machinery	No	10,000.00	10,000.00	10,000.00	10,000.00	100.00%	31 December 2011	0.00	No	No
Industrialization of complete set of environmental-friendly asphalt concrete re-producing equipment	No	20,000.00	20,000.00	0.00	0.00	0.00%	31 December 2011	0.00	No	No
Sub-total of committed investment projects	–	557,175.30	557,175.30	331,081.03	331,081.03	–	–	96,550.63	–	–
Use of proceeds from over-subscription										
Repayment of bank borrowings (if any)	–	–	–	–	–					
Replenishment of working capital (if any)	–	–	–	–	–					
Subtotal of proceeds from over-subscription	–	0.00	0.00	0.00	0.00	–	–	0.00	–	–
Total	–	557,175.30	557,175.30	331,081.03	331,081.03	–	–	96,550.63	–	–

The conditions and reasons for not achieving the planned progress or expected profits (by project)	1. Part of the proceeds was used in establishing a global finance leasing system. The establishment of construction machinery renovation centre is in the early stage of preparation. Whether expected profits are achieved will be confirmed upon the completion of the project. 2. Industrialization of heavy cranes. As of 31 December 2010, preliminary investment was made on part of the project. Whether expected profits are achieved will be confirmed upon the completion of the project. 3. Upgrade of medium and large scale excavators. As of 31 December 2010, preliminary investment was made on part of the project. Whether expected profits are achieved will be confirmed upon the completion of the project. 4. Industrialization of key equipments of social emergency and rescuing system. Since the project is under construction, whether expected profits are achieved will be confirmed upon its completion. 5. Industrialization of underground construction equipment. Expected profits were achieved. 6. Establishment of a new platform for digital research and development, manufacturing and innovation. Since the project is under construction, whether expected profits are achieved will be confirmed upon its completion. 7. Upgrade of hydraulic parts and components Industry. Since the project is under construction, whether expected profits are achieved will be confirmed upon its completion. 8. Replenishment of working capital. 9. Research, development and technical innovation of complete set of bulk material conveying machinery. Not yet commenced. 10. Construction of the station of specialized vehicles for crane machinery. Since the project is under construction, whether expected profits are achieved will be confirmed upon its completion. 11. Industrialization of complete set of environmental-friendly asphalt concrete re-producing equipment. Not yet commenced.
Description on material change to project feasibility	Nil

<table>
<tr><th>Investment project committed and use of proceeds</th><th>Whether the project changed (including partly changed)</th><th>Total committed investment from proceeds</th><th>Total investment after adjustment (1)</th><th>Total amount used during the year</th><th>Accumulated amount used as of the end of period (2)</th><th>Progress of investment as of the end of the period (%) (3) = (2)/(1)</th><th>Expected date of project ready for operation</th><th>Realised profits during the year</th><th>Whether the expected profits was attained</th><th>Whether the feasibility of the project had material changes</th></tr>
<tr><td>Amount, usage and utilizing status of proceeds from over-subscription</td><td colspan="10">N/A</td></tr>
<tr><td>Relocation of investment projects financed by the proceeds</td><td colspan="10">Applicable
Taking into account the business strategies and development planning, the Company intends to relocate the “Manufacturing Project of Key Equipment of Social Emergency Rescue System (社會應急救援系統關鍵裝備產業化項目)” from Hunan Wangcheng Economic Development Zone to Hunan Wangcheng Economic Development Zone, Hanshou Industrial Park and Ligu Industrial Park of Changsha High-Technology Zone.</td></tr>
<tr><td>Change to implementation of investment projects financed by proceeds</td><td colspan="10">Applicable
The “Upgrade of Key Hydraulic Products for Construction Machinery (工程機械關鍵液壓件產業升級項目)” was originally planned to be implemented by the Company. However, Hunan Teli Hydraulic Co., Ltd. (“Teli Hydraulic”), a subsidiary of the Company, had funded the construction of hydraulic cylinder for such project with its internal fund of RMB34.1911 million before the proceeds can be utilized. Besides, Changde Zoomlion Hydraulic Pressure Co., Ltd. (“Zoomlion Hydraulic”), the existing hydraulic valve business platform of the Company, will invest in the construction of hydraulic valves for the project. In view of synergy and management efficiency, the project was mainly implemented by Teli Hydraulic and Zoomlion Hydraulic instead of the Company. Zoomlion will utilize a total of RMB300 million from the proceeds to increase its investments in these subsidiaries, namely Teli Hydraulic and Zoomlion Hydraulic, by RMB240 million and RMB60 million respectively.
The Changsha Crawler Crane Park Project (長沙履帶吊園區項目) under the project of “Industrialization of Heavy Crane (大噸位起重機產業化項目)” was originally planned to be implemented by the Company. However, Zoomlion Material Handling Equipment Co., Ltd. (“Material Handling Equipment Company”), a subsidiary of the Company, had invested the construction of large-capacity crawler crane for such project on its owned land before the proceeds can be utilized. Therefore, a joint venture company, Hunan Zoomlion Crawling Crane Co., Ltd. (“Crawler Crane Company”), was established by the Company and Material Handling Equipment Company with a registered capital of RMB360 million. Zoomlion invested RMB260.3418 million and held 72.32% interests while the Material Handling Equipment Company contributed a piece of land with a valuation of RMB99.6582 million and held 27.68% interests. The Crawler Crane Company was responsible for the implementation of the project. In order to ensure smooth implementation, the Changsha Crawler Crane Park Project for the above industrialization project” was mainly implemented by the Crawler Crane Company instead of the Company. The Company invested RMB260.3418 million from the proceeds in the Crawler Crane Company and acquired 27.68% interests of the Crawler Crane Company held by the Material Handling Equipment Company by utilizing RMB99.6582 million from the proceeds.</td></tr>
<tr><td>Injection and replacement of the internal fund used in investment projects</td><td colspan="10">Applicable
On 28 April 2010, the eleventh meeting of the 3rd session of the Board of the Company considered and approved “Resolution on replacing the internal fund used in investment projects with the proceeds of Changsha Zoomlion Heavy Industry Science and Technology Development Co., Ltd.”. The Company replaced the internal fund used in investment projects with the proceeds of RMB1,006,895,100. The particulars are as follows:
Units: RMB ten thousand
<table>
<tr><th>Name of Project</th><th>Investment amount</th><th>The amount of the proceed for replacing the internal fund used</th></tr>
<tr><td>Industrialization of heavy cranes</td><td>80,061.77</td><td>65,668.01</td></tr>
<tr><td>Upgrading of medium and large excavators</td><td>60,680.00</td><td>12,121.92</td></tr>
<tr><td>Industrialization of underground construction equipment</td><td>20,000.00</td><td>15,717.18</td></tr>
<tr><td>Establishment of a new platform for digital research and development, manufacturing and innovation</td><td>30,001.45</td><td>3,763.29</td></tr>
<tr><td>Upgrading of key hydraulic products for construction machinery</td><td>30,000.00</td><td>3,419.11</td></tr>
<tr><td>Total</td><td>220,743.22</td><td>100,689.51</td></tr>
</table></td></tr>
</table>

Investment project committed and use of proceeds	Whether the project changed (including partly changed)	Total committed investment from proceeds	Total investment after adjustment (1)	Total amount used during the year	Accumulated amount used as of the end of period (2)	Progress of investment as of the end of the period (%) (3) = (2)/(1)	Expected date of project ready for operation	Realised profits during the year	Whether the expected profits was attained	Whether the feasibility of the project had material changes
Temporary replenishment of working capital with unused proceeds	Applicable On 28 April 2010, the eleventh meeting of the 3rd session of the Board of the Company considered and approved "Resolution on replenishing working capital with part of unused proceeds of Changsha Zoomlion Heavy Industry Science and Technology Development Co., Ltd.", pursuant to which if the construction of projects are adequately financed by the proceeds, the Company may apply the unused proceeds of less than RMB300 million for the project of the industrialization of key equipment of social emergency rescue system and the unused proceeds of less than RMB200 million for the research and development and technical innovation of the complete set of bulk material conveying machinery, totaling of RMB500 million, in replenishing the working capital within 6 months after the passing of the resolutions by the Board of the Company. On 28 October 2010, the second extraordinary meeting of the fourth session of the Board of Company in 2010 considered and approved "Resolution on further replenishing working capital with part of unused proceeds", pursuant to which the Company may use the unused proceeds of less than RMB300 million for the project of the industrialization of key equipment of social emergency rescue system and the unused proceeds of less than RMB200 million for the research and development and technical innovation of complete set of bulk material conveying machinery, totaling of RMB500 million, in replenishing the working capital within 6 months.									
Balance of proceeds used in the projects and reasons	N/A									
Planned usage of the unused proceeds	Deposited in designated accounts									
Problems or other situations regarding the use and disclosure of the proceeds	No									

2. Use proceeds from the issue of H Shares

The H Shares of the Company were listed on 23 December 2010. None of the proceeds from the issue of H Shares has been used by the Company as of 31 December 2010.

IV. The Annual Financial Statements for the Year Ended 31 December 2010 prepared by the Company in accordance with PRC GAAP and IFRSs were audited by Baker Tilly China and KPMG, respectively, each of whom issued Standard Unqualified Auditors' Report.

V. During the Reporting Period, there were Neither Changes in the Accounting Estimates nor any Corrections on Material Accounting Errors.

(I) There was no change in the accounting policies adopted for the preparation of financial statements under IFRSs.

(II) The changes in the accounting policies for the preparation of financial statements under PRC GAAP were as follows:

In order to implement the Accounting Standards for Business Enterprises and achieve continuous convergence and efficiency of accounting standards, the Ministry of Finance of China promulgated "Enterprise Accounting Standards No. 4" (Cai Hui [2010] No.15) on 14 July 2010. Pursuant to the "Enterprise Accounting Standards No. 4", the excess of the loss attributable to the minority interests during the period over the minority interests' share of the equity at the beginning of the reporting periods is deducted from minority interests. This change in the accounting policy was applied retrospectively and the comparative financial statements were restated.

The cumulative effect of the retrospective application of the new accounting policy on the equity attributable to the equity shareholders of the Company for the beginning of 2009 amounted to RMB29,993,873.00. Of which, the undistributed profits for the beginning of 2009 was adjusted to RMB16,393,873.00 while the foreign currency translation differences was adjusted to RMB13,600,000.00.

The effect of the retrospective application of new accounting policy on the equity attributable to the equity shareholders of the Company in 2009 amounted to RMB47,846,387.58. Of which, the effect on the net profits attributable to the equity shareholders of the Company in 2009 was RMB74,000,000.00, the effect on the foreign currency translation differences attributable to the equity shareholders of the Company was RMB3,200,000.00 and the effect on the capital reserves attributable to the equity shareholders of the Company amounted to RMB29,353,612.42.

VI. Daily Operation of the Board

(I) Meetings of the Board during the reporting period

1. The first extraordinary meeting of the third session of the Board of the Company in 2010 was convened on 27 January 2010 by way of telecommunication. Details of the meeting were disclosed on China Securities Journal, Shanghai Securities News, Securities Times and www.cninfo.com.cn (巨潮資訊網) dated 29 January 2010.

2. The eleventh meeting of the third session of the Board of the Company was convened on 28 April 2010 in Beijing. Details of the meeting were disclosed on China Securities Journal, Shanghai Securities News, Securities Times and www.cninfo.com.cn (巨潮資訊網) dated 30 April 2010.

3. The second extraordinary meeting of the third session of the Board of the Company in 2010 was convened on 6 July 2010 in Beijing. Details of the meeting were disclosed on China Securities Journal, Shanghai Securities News, Securities Times and www.cninfo.com.cn (巨潮資訊網) dated 7 July 2010.

4. The first meeting of the fourth session of the Board of the Company was convened on 22 July 2010 in Changsha. Details of the meeting were disclosed on China Securities Journal, Shanghai Securities News, Securities Times and www.cninfo.com.cn (巨潮資訊網) dated 24 July 2010.

5. The first extraordinary general meeting of the fourth session of the Board of the Company in 2010 was convened on 19 August 2010 in Changsha. Details of the meeting were disclosed on China Securities Journal, Shanghai Securities News, Securities Times and www.cninfo.com.cn (巨潮資訊網) dated 23 August 2010.

6. The second extraordinary meeting of the fourth session of the Board of the Company in 2010 was convened on 28 October 2010 in Changsha. Details of the meeting were disclosed on China Securities Journal, Shanghai Securities News, Securities Times and www.cninfo.com.cn (巨潮資訊網) dated 30 October 2010.

7. The third extraordinary meeting of the fourth session of the Board of the Company in 2010 was convened on 1 December 2010 in Changsha. Details of the meeting were disclosed on China Securities Journal, Shanghai Securities News, Securities Times and www.cninfo.com.cn (巨潮資訊網) dated 2 December 2010.

(II) The implementation of resolutions of the general meetings of the Board

In accordance with the requirements of the Company Law, the Securities Law and the Articles of Association, the Board of the Company strictly implemented, and was authorized to implement, the resolutions of the general meetings as follows:

1. Profit distribution for 2009

The Profit Distribution Plan for 2009 (2009年度利潤分配方案) was approved at the 2009 annual general meeting convened on 25 May 2010, pursuant to which the Company distributed RMB2.5 (tax included) for every 10 shares in cash to all shareholders based on the total share capital of the Company of 1,971,054,705 shares.

The shares under the Profit Distribution Plan for 2009 were registered on 17 June 2010. The ex-rights and ex-dividend date was 18 June 2010, and the date of distribution of cash dividend was 18 June 2010. The distribution of profits for 2009 was completed on 18 June 2010 by the Company.

2. Distribution of accumulated profit prior to the issuance of H shares

The Company has approved the "Resolution on Distribution of Accumulated Profit prior to the Issuance of H Shares" at the 2010 first extraordinary general meeting held on 22 July 2010, pursuant to which the Company distributed 15 bonus shares and RMB1.7 (tax included) for every 10 shares to all shareholders based on the total share capital of the Company of 1,971,054,705 shares.

The registration date for shares under the Profit Distribution Plan, the ex-rights and ex-dividend date and the date of distribution of bonus shares and cash dividend were 26 August 2010, 27 August 2010 and 27 August 2010 respectively. The distribution of profit was completed on 27 August 2010 by the Company.

(III) Duties of the audit committee of the Board

1. Operation of the audit committee of the Board

In 2010, the audit committee of the Board convened four meetings to review the annual results for 2009 and the interim results for 2010.

According to the requirements of the China Securities Regulatory Commission and the SZSE in relation to the Preparation of 2010 Annual Report by Listed Companies and Relevant Tasks (有關做好上市公司2010年年度報告及相關工作的規定) and the Operation Rules of the Audit Committee of the Board of the Company (公司董事會審計委員會工作細則), the Operation Mechanism of Annual Report for the Independent Directors of the Company (公司獨立董事年報工作制度), the Operation Regulations on Reviewing Annual Financial Report by the Audit Committee of the Company (公司董事會審計委員會年度財務報告審議工作規則), the audit committee has monitored the internal audit system of the Company and its implementation, reviewed the financial information of the Company and its disclosure, supervised the audit of accounting firm with due diligence, expertise and experiences. The duties performed by the audit committee are as follows:

The audit committee is comprised of two independent non-executive directors and one non-executive director. The convener is Dr. Qian Shizheng, an independent non-executive director who has professional accounting background.

(1) The audit committee had carefully reviewed the audit plan and relevant information for 2010. It determined the schedule of audit work for 2010 annual financial report with the audit teams of Baker Tilly China and KPMG which took charge of the annual audit of the Company.

(2) The audit committee had prudently reviewed the Company's draft financial statements and provided written comments before the fieldwork of the auditors.

(3) The audit committee communicated and discussed the problems discovered in the course of audit and submission time of the audit report with the auditors after the commencement of audit fieldwork.

(4) The audit committee reviewed the 2010 financial statements again and provided written comments after the communication of preliminary audit results by the auditors of the Company.

(5) The audit committee held a meeting following the issuance of Auditors' Reports for the year 2010 by Baker Tilly China and KPMG, respectively, in which the audit committee reviewed the work performed by Baker Tilly China and KPMG for the year. The meeting also considered the resolutions on financial statements for the year 2010 and the appointment of auditors for 2011 and the resolutions were passed at the meeting.

2. Resolutions of the 2010 annual meeting of the audit committee of the Board

The 2010 annual meeting of the audit committee of the Board of Zoomlion was held on 28 March 2011. The audit committee of the Board unanimously approved the following resolutions by signatures:

(1) "Resolution on the Appointment of Auditors for the Financial Statements for the Year of 2011 by the Audit Committee of the Board" (董事會審計委員會關於聘請2011年度財務決算審計機構的議案)

(2) "2010 Domestic Auditor's Report and International Auditor's Report of the Company" (公司2010年度中國審計報告及國際核數師報告)

(3) "Summary Report of the Audit Committee of the Board on the Work performed by Baker Tilly China and KPMG for the Year" (董事會審計委員會關於天職國際會計師事務所有限公司、畢馬威會計師事務所從事本年度公司審計工作的總結報告)

(4) "Resolution on Changes of Accounting Policies of Audit Committee of the Board" (董事會審計委員會關於公司會計政策變更的議案)

(5) "The Annual Working Report of Audit Committee of the Board of 2010" (董事會審計委員會2010年年度工作報告)

(IV) Duties of the remuneration and assessment committee of the Board

The remuneration and assessment committee of the Board is comprised of three directors, two of which are independent directors. The committee is chaired by Mr. Lian Weizeng, an independent director and the members are Mr. Wang Zhile, an independent director, and Mr. Qiu Zhongwei, a director.

During the period under review, the remuneration and assessment committee of the Board carried out performance assessment on the directors, supervisors and senior management pursuant to the assessment standards based on the fulfilment of major financial indicators and operating targets in 2010, scope of work and major responsibilities of directors, supervisors and senior management, and fulfilment of targets in the relevant performance assessment system. The performance assessment was submitted to the Board of the Company for review.

In accordance with the applicable laws and regulations of the China Securities Regulatory Commission and SZSE as well as relevant requirements of internal control system and the Terms of Reference of Remuneration and Assessment Committee of the Board (董事會薪酬與考核委員會工作細則), the remuneration and assessment committee reviewed the remuneration of directors, supervisors and senior management that were disclosed in 2010 and its opinions are as follows:

The remuneration and assessment committee of the Board is responsible for formulating and assessing remuneration plans and proposals of directors, supervisors and senior management based on the major scope of work, responsibilities, importance and remuneration level of similar positions in the industry. The proposals mainly include performance assessment standards and procedures, major assessment system as well as incentive and punishment plans and systems. The committee also formulates assessment standards for directors (other than independent directors), supervisors and senior management, assesses their performance and conducts annual performance assessment pursuant to the assessment standards and remuneration policy and plans.

The Board of the Company determined the remuneration standards of directors, supervisors and senior management for the year pursuant to the remuneration management system and the annual performance assessment conducted by the remuneration and assessment committee of the Board. In 2010, remuneration of directors, supervisors and senior management disclosed was in compliance with the remuneration management system of the Company. The remuneration was not in violation or inconsistent with the remuneration management system.

VII. Distributable Reserve and Profit Distribution Plan for the Year

According to the provisions of the Articles of Association and the Company's policy, the profit distribution of the Company is made out of the lesser of the distributable profits as determined in the financial statements prepared under PRC GAAP and IFRSs.

According to the audited financial statements prepared under PRC GAAP, net profit of the Company of 2010 was RMB4,433 million and profit distributable to the equity shareholders of the Company was RMB5,134 million. According to the financial statements prepared under IFRSs, net profit of the Company was RMB4,424 million and profit distributable to the equity shareholders of the Company was RMB5,107 million, details of which are set out in note 26(b) to the financial statements prepared under IFRSs. Based on the total number of 5,927,656,962 shares registered on 28 March 2011, the Board of Directors proposed the following profit distribution plan for the shareholders:

1. Cash dividend of RMB2.6 (tax included) for every 10 shares;

2. 3 bonus shares for every 10 outstanding shares by capitalisation of the capital reserve.

This profit distribution plan shall be subject to approval of the general meeting of the Company.

Cash dividend distributed by the Company in the past three years is as following:

Unit: RMB

	Cash dividend (tax included)	Net profit attributable to owners of Company in the consolidated financial statements (Note)	Percentage of net profit attributable to owners of Company in the consolidated financial statements
2009	492,763,676	2,446,404,303.36	20.14%
2008	152,100,000	1,585,773,999.81	9.59%
2007	76,050,000	1,333,586,392.70	5.70%

Note: Based on the financial statements prepared under PRC GAAP

VIII. Statement of Baker Tilly China on the use of funds of the Company by controlling shareholders and other related parties in 2010

Tian Zhi Xiang SJ [2011] No.282-2

To the shareholders of Changsha Zoomlion Heavy Industry Science and Technology Development Co., Ltd.:

We were engaged to audit the consolidated balance sheet and balance sheet as at 31 December 2010, the consolidated income statement and income statement, the consolidated statement of changes in equity and statement of changes in equity, the consolidated cash flow statement and cash flow statement for 2010 and the notes to financial statements ("Financial Statements") of Changsha Zoomlion Heavy Industry Science and Technology Development Co., Ltd. ("Zoomlion") according to the Auditing Standards for CPAs in China, and issued the auditor's report with unqualified opinion on 28 March 2011.

According to the Notice Concerning the Regulation on the Flow of Funds between Listed Companies and their Related Parties and the Provision of Guarantees by Listed Companies to External Parties (關於規範上市公司與關聯方資金往來及上市公司對外擔保若干問題的通知) (Zheng Jian Fa [2003] No.56) issued by the China Securities Regulatory Commission and the State-owned Assets Supervision and Administration Commission of the State Council, Zoomlion prepared the attached Summary on Use of Funds by Controlling Shareholders and Other Related Parties of Listed Company in 2010 (上市公司2010年度控股股東及其他關聯方資金佔用情況彙總表) (the "Summary").

The management of Zoomlion is responsible for preparing and disclosing the Summary and ensuring its truthness, legitimacy and completeness. We reviewed the information set out in the attached Summary and relevant contents in accounting information of the 2010 Financial Statements and audited Financial Statements of Zoomlion, and no inconsistency was found in all material aspects. In addition to the relevant auditing on connected transactions for Financial Statements of Zoomlion in 2010, no additional auditing or other process was carried out on information set out in the Summary.

For a better understanding of the use of funds of Zoomlion by controlling shareholders and other related parties in 2010, please read the Summary in conjunction with the audited Financial statements.

Baker Tilly China

Certified Public Accountant in the PRC: Liu Zhiqing
Certified Public Accountant in the PRC: Chen Jianbang

Beijing, the PRC
28 March 2011

IX. Statement and Independent Opinions of Independent Directors on Use of Funds by Controlling Shareholders and Other Related Parties as well as Guarantees Provided to External Parties by the Company

According to the requirements of Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 3 — The Contents and Formats of Interim Report (Revision 2007), the Notice Concerning the Regulation on the Flow of Funds between Listed Companies and their Related Parties and the Provision of Guarantees by Listed Companies to External Parties (Zheng Jian Fa [2003] No.56) and the Notice Concerning Provision of Guarantees by Listed Companies to External Parties (關於規範上市公司對外擔保行為的通知) (Zheng Jian Fa [2005] No.120) issued by the China Securities Regulatory Commission, we, as the independent directors of the Company, have examined and supervised the guarantees provided by the Company to external parties during the period under review, and issued our independent opinions regarding the use of funds by controlling shareholders and other related parties as well as the provision of guarantees by the Company to external parties in 2010 as follows:

1. During the period under review, neither controlling shareholders nor other related parties used the capital of the Company.

2. During the period, no additional guarantee was provided to third parties, and the guarantees provided to third parties amounted to US$200 million, all of which were guarantees provided to the Company's subsidiaries. Guarantees given to the subsidiaries were used to satisfy operation and capital needs of the Company and had no adverse effect on the interests of shareholders, particularly those of minority shareholders. The total guarantees provided to third parties of the Company accounted for 4.83% of the net assets in the consolidated financial statements for the latest accounting year. Save as disclosed above, the Company did not provide other guarantees. During the period under review, no improper guarantees were provided to third parties by the Company. Guarantees provided to external parties by the Company and relevant issues were in compliance with regulations of Zheng Jian Fa [2003] No.56 and Zheng Jian Fa [2005] No.120.

X. Pre-emptive Rights

The Articles of Associations and laws of China do not contain any pre-emptive provision requiring the Company to issue new shares to shareholders at the ratio of existing shareholdings of these shareholders.

XI. Property, Plant and Equipment

Movements of the property, plant and equipment of the Group during the reporting period are set out in note 12 to the financial statements prepared under IFRSs.

XII. Donations

During the reporting period, the charity donations and other donations of the Group amounted to RMB11 million.

Management Discussion and Analysis

The following discussion and analysis is based on IFRS financial statements data.

Overview

As a leading China-based construction machinery manufacturer, the Company provides comprehensive and diversified products and value-added services and has experienced significant growth in the last decade benefiting from China's ongoing urbanisation and significant growth in the infrastructure sector. It derived its turnover from several business lines, including the following: (i) concrete machinery, (ii) crane machinery, (iii) environmental and sanitation machinery, (iv) road construction and pile foundation machinery, (v) earth working machinery, (vi) material handling machinery and systems, and (vii) finance lease services.

Management Discussion and Analysis

The Company has experienced significant growth in business during 2010. The consolidated turnover increased from RMB20,762 million in 2009 to RMB32,193 million in 2010, representing an annual growth rate of approximately 55.1%. The profit for the year increased from RMB2,419 million in 2009 to RMB4,588 million in 2010, representing a growth rate of approximately 89.7%.

The majority of consolidated turnover was derived from the sales of products in China during 2010. The demand for construction machinery is affected by the general economic conditions in China. Historically, the Company's business expansion and the growth of the construction machinery industry have been driven by rapid economic growth in China and associated urbanisation and increase in fixed asset investments.

The Company started providing finance lease services as a payment option to its customers in 2007, which could provide customers with an additional flexible payment option, and attracted more customers. In 2010, sales of the Company's products through finance lease services amounted to RMB9,720 million (2009: RMB7,463 million).

Results of Operations

The following table sets forth a summary of the Company's consolidated results of operations for 2010. Each item has also been expressed as a percentage of the consolidated turnover.

	Year Ended 31 December			
	2010		2009	
	RMB	**%**	RMB	%
	(in millions, except for percentages)			
Turnover	**32,193**	**100.0**	20,762	100.0
Cost of sales and services	**(22,424)**	**(69.7)**	(15,422)	(74.3)
Gross profit	**9,769**	**30.3**	5,340	25.7
Other revenues and net income	**54**	**0.1**	105	0.5
Sales and marketing expenses	**(2,146)**	**(6.6)**	(1,250)	(6.0)
General and administrative expenses	**(1,645)**	**(5.1)**	(878)	(4.2)
Research and development expenses	**(265)**	**(0.8)**	(194)	(0.9)
Profit from operations.	**5,767**	**17.9**	3,123	15.1
Loss on disposal of associates	**—**	**—**	(6)	—
Net finance costs	**(365)**	**(1.1)**	(295)	(1.4)
Share of profits less losses of associates	**14**	**—**	6	—
Profit before taxation	**5,416**	**16.8**	2,828	13.7
Income tax expense	**(828)**	**(2.5)**	(409)	(2.0)
Profit for the year	**4,588**	**14.3**	2,419	11.7
Profit attributable to:				
Equity shareholders of the Company	**4,666**	**14.5**	2,447	11.8
Non-controlling interests	**(78)**	**(0.2)**	(28)	(0.1)
Profit for the year	**4,588**	**14.3**	2,419	11.7

Turnover

Turnover is primarily generated from the following operating segments:

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

The following table sets forth the breakdown of the Company's consolidated turnover by the operating segments, and each expressed as a percentage of the consolidated turnover, for 2010:

	Year Ended 31 December			
	2010		2009	
	RMB	**%**	RMB	%
	(in millions, except for percentages)			
Concrete machinery	**14,085**	**43.8**	7,157	34.5
Crane machinery	**11,077**	**34.4**	8,298	40.0
Environmental and sanitation machinery	**1,874**	**5.8**	1,230	5.9
Road construction and pile foundation machinery	**1,246**	**3.9**	787	3.8
Earth working machinery	**772**	**2.4**	445	2.1
Material handling machinery and systems	**422**	**1.3**	873	4.2
Financial lease services	**1,043**	**3.2**	397	1.9
Total of reportable segments	**30,519**	**94.8**	19,187	92.4
All other segments	**1,674**	**5.2**	1,575	7.6
Total	**32,193**	**100.0**	20,762	100.0

Management Discussion and Analysis

Turnover increased by 55.1% from RMB20,762 million in 2009 to RMB32,193 million in 2010. The increase was mainly due to the fact that the Company seized the opportunity of strong market demand for construction machinery, continuously extended marketing channels and developed new products. The Company derived the majority of consolidated turnover from sales of concrete machinery and crane machinery, the sales volume of which increased continuously in 2010. Turnover from sales of concrete machinery increased by 96.8%, from RMB7,157 million in 2009 to RMB14,085 million in 2010, which was mainly attributed to increased sales volume of truck-mounted concrete pumps and concrete mixing plants. Turnover from sales of crane machinery increased by 33.5% from RMB8,298 million in 2009 to RMB11,077 million in 2010.

Sales of environmental and sanitation machinery and earth working machinery had also increased significantly in 2010 as a result of strong market demand.

The following table sets forth the breakdown of the Company's turnover by the geographic sales location, and each expressed as a percentage of the consolidated turnover for 2010:

	Year Ended 31 December			
	2010		2009	
	RMB	**%**	RMB	%
	(in millions, except for percentages)			
PRC	**30,663**	**95.2**	18,993	91.5
Outside PRC[(1)]	**1,530**	**4.8**	1,769	8.5
Total	**32,193**	**100.0**	20,762	100.0

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

The following table sets forth the breakdown of the Company's turnover by the end-users' geographic location, and each expressed as a percentage of the consolidated turnover, for 2010:

	Year Ended December 31			
	2010		2009	
	RMB	**%**	RMB	%
	(in millions, except for percentages)			
China	**30,350**	**94.3**	18,147	87.4
Overseas[(1)]	**1,843**	**5.7**	2,615	12.6
Total	**32,193**	**100.0**	20,762	100.0

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

The Company's products have been sold to a diversified customer base and in 2009 and 2010, no single customer, including dealers, accounted for more than 10.0% of the consolidated turnover on an individual basis. At 31 December 2010, 1.6% (2009: 1.9%) of the total trade and bills receivables was due from the largest customer and 2.0% (2009: 7.3%) of the total trade and bills receivables was due from the five largest customers respectively.

Cost of sales and services

Cost of sales and services primarily consists of:

- raw materials, i.e., costs of raw materials, parts and components, including steel, branded chassis, hydraulic parts and components, engines, tires and electric controls, and a variety of other raw materials and fabricated or manufactured components;

- staff costs, including salaries and benefits for personnel directly involved in manufacturing activities;

- depreciation and amortization of property, plant and equipment used for manufacturing purposes;

- costs of finance lease services, including fees, other surcharges and interest related to factoring of receivables under finance lease; and

- others, including manufacturing overhead, such as maintenance of production equipment and utility costs, including electricity, steam and water and costs associated with waste treatment.

The following table sets forth the major components of cost of sales and services both in absolute terms and as a percentage of the consolidated turnover for 2010:

	Year Ended 31 December			
	2010		2009	
	RMB	**%**	RMB	%
	(in millions, except for percentages)			
Raw materials	**20,740**	**64.5**	14,281	68.8
Staff costs	**842**	**2.6**	533	2.6
Depreciation and amortization	**239**	**0.7**	150	0.7
Costs of finance lease services	**354**	**1.1**	165	0.8
Others	**249**	**0.8**	293	1.4
Total cost of sales and services	**22,424**	**69.7**	15,422	74.3

Costs of raw materials, parts and components have accounted for the majority of cost of sales and services.

The following table sets forth the breakdown of cost of sales and services by the Company's operating segments, and each expressed as a percentage of the segment turnover for 2010:

	Year Ended 31 December			
	2010		2009	
	RMB	**%**	RMB	%
	(in millions, except for percentages)			
Concrete machinery	**9,575**	**68.0**	5,115	71.5
Crane machinery	**7,995**	**72.2**	6,335	76.3
Environmental and sanitation machinery	**1,282**	**68.4**	824	67.0
Road construction and pile foundation machinery	**765**	**61.4**	527	67.0
Earth working machinery	**607**	**78.6**	373	83.8
Material handling machinery and systems	**390**	**92.4**	787	90.1
Financial lease services	**354**	**33.9**	165	41.6
Total cost of sales and services of reportable segments	**20,968**	**68.7**	14,126	73.6
All other business segments	**1,456**	**87.0**	1,296	82.3
Total cost of sales and services	**22,424**	**69.7**	15,422	74.3

Cost of sales and services as a percentage of consolidated turnover decreased from 74.3% in 2009 to 69.7% in 2010. The fluctuation of such ratios for concrete machinery and crane machinery was primarily driven by changes in product mix and fluctuation in selling prices. In 2010, cost of sales and services as a percentage of turnover from the sales of concrete machinery decreased from 71.5% to 68.0%, and the ratio for crane machinery decreased from 76.3% to 72.2%, which was mainly due to (i) increased sales volume of certain models of truck-mounted concrete pumps, which were technologically advanced with higher profit margins, and (ii) increased sales generated from high value-added products such as heavy-duty cranes, which pushed up the gross margin.

Gross profit

The following table sets forth the gross profits and gross margins breakdown by operating segments, for the periods presented:

	Year Ended 31 December			
	2010		2009	
	RMB	**%**	RMB	%
	(in millions, except for percentages)			
Concrete machinery	**4,510**	**32.0**	2,042	28.5
Crane machinery	**3,082**	**27.8**	1,963	23.7
Environmental and sanitation machinery	**592**	**31.6**	406	33.0
Road construction and pile foundation machinery	**481**	**38.6**	260	33.0
Earth working machinery	**165**	**21.4**	72	16.2
Material handling machinery and systems	**32**	**7.6**	86	9.9
Financial lease services	**689**	**66.1**	232	58.4
Total gross profit of reportable segments	**9,551**	**31.3**	5,061	26.4
All other business segments	**218**	**13.0**	279	17.7
Total gross profit	**9,769**	**30.3**	5,340	25.7

Gross profit increased by 82.9% from RMB5,340 million in 2009 to RMB9,769 million in 2010, and the gross margin increased from 25.7% to 30.3%, as the Company continued to optimise product mix and improve manufacturing efficiency. In particular, the gross margin for concrete machinery segment and crane machinery segment, which in aggregate represented 78.2% of consolidated turnover in 2010, increased to 32.0% and 27.8%, respectively, for 2010 from 28.5% and 23.7%, respectively, for 2009.

Other revenues and net income

Other revenues and net income includes government grants and other income. Government grants mainly include operating subsidies and other grants received from the PRC government. In 2010, the Company recognised government grants in the amount of RMB70 million (2009: RMB74 million). Other revenues and net income decreased by 48.6% from RMB105 million in 2009 to RMB54 million in 2010, primarily due to a decrease in other income and an increase in loss on disposal of property, plant and equipment.

Sales and marketing expenses

Sales and marketing expenses increased by 71.7% from RMB1,250 million in 2009 to RMB2,146 million in 2010. This increase was primarily due to the fact that the Company expanded distribution network and strengthened sales and marketing efforts, which resulted in increases in salaries and benefits to the sales and marketing personnel and expenses related to advertisement and promotion.

General and administrative expenses

General and administrative expenses increased by 87.4% from RMB878 million in 2009 to RMB1,645 million in 2010. This increase was primarily due to the fact that the Company expanded the business which resulted in increases in salaries and benefits to staff. The increase in general and administrative expenses was also attributable to impairment loss recognised in the amount of RMB258 million, which consisted primarily of provision for doubtful debts because of the increased trade receivables balance and certain debtors that were individually determined to be impairment during the year. General and administrative expenses as a percentage of consolidated turnover increased from 4.2% for 2009 to 5.1% for 2010.

Research and development expenses

Research and development expenses increased by 36.6% from RMB194 million in 2009 to RMB265 million in 2010. This increase was primarily due to the Company's continuous investment to improve its research and development capability.

Profit from operations

As a result of the foregoing, income from operations increased by 84.7% from RMB3,123 million in 2009 to RMB5,767 million in 2010. Operating margin increased from 15.1% in 2009 to 17.9% in 2010.

Net finance costs

Net finance costs increased by 23.7% from RMB295 million in 2009 to RMB365 million in 2010 primarily due to increases in interest expenses on long-term loans and exchange losses resulting from depreciation of foreign currencies.

Income tax expense

Income tax expense increased by 102.4% from RMB409 million in 2009 to RMB828 million in 2010, primarily as a result of an increase in taxable income. The effective income tax rate increased from 14.5% in 2009 to 15.3% in 2010.

Profit for the year

As a result of the above factors, profit increased by 89.7% from RMB2,419 million in 2009 to RMB4,588 million in 2010. Net margin increased from 11.7% in 2009 to 14.3% in 2010.

Profit attributable to equity shareholders of the Company

As a result of the above factors, profit attributable to equity shareholders of the Company increased by 90.7% from RMB2,447 million in 2009 to RMB4,666 million in 2010.

Cash Flow and Capital Expenditure

During 2010, the Company has financed its operations primarily through cash proceeds from the operations, proceeds from loans and borrowings, including bank borrowings and factoring of its receivables under finance lease and proceeds from the non-public offering of A Shares in the PRC and issuance of H Shares in Global Offering. As of 31 December 2010, the Company had RMB18,758 million in cash and cash equivalents, 67.2% and 28.6% of which were denominated in Renminbi and Hong Kong Dollar respectively. Cash and cash equivalents primarily consist of cash and demand deposits.

The following table sets forth a summary of the Company's consolidated cash flows for 2010:

	Year Ended 31 December	
	2010	2009
	RMB (in millions)	
Net cash generated from/(used in) operating activities	**451**	(1,366)
Net cash used in investing activities	**(1,833)**	(1,360)
Net cash generated from financing activities	**16,755**	3,250
Net increase in cash and cash equivalents	**15,373**	524
Effect of foreign exchange rate changes	**(54)**	2
Cash and cash equivalents at the beginning of the year	**3,439**	2,913
Cash and cash equivalents at the end of the year	**18,758**	3,439

Operating activities

Net cash generated from operating activities in 2010 was RMB451 million, derived primarily by deducting from the profit before taxation of RMB5,416 million the following items: (i) an increase in receivables under finance lease of RMB7,829 million; (ii) an increase in trade and other receivables of RMB2,371 million; (iii) an increase in inventories of RMB2,416 million; and (iv) income tax paid of RMB519 million and then adding back: (v) depreciation and amortization of RMB415 million; and (vi) an increase in trade and other payables of RMB7,083 million.

Investing activities

Net cash used in investing activities in 2010 was RMB1,833 million, consisting primarily of payments for the purchase of property, plant and equipment of RMB910 million, an increase in pledged bank deposits of RMB773 million and lease prepayments of RMB236 million.

Financing activities

Net cash generated from financing activities in 2010 was RMB16,755 million, consisting primarily of proceeds from loans and borrowings of RMB10,840 million, net proceeds from the non-public offering of A Shares of RMB5,479 million and net proceeds from issuance of H Shares in Global Offering of RMB10,796 million, partially offset by repayments of loans and borrowings of RMB8,906 million, interest paid of RMB743 million and dividends paid in the amount of RMB711 million. In 2010, the Company continued to use factoring to provide additional funding for the operations with an amount of RMB3,954 million. In addition, in June 2010, the Company repaid Euro-denominated bank loans of RMB2,475 million which the Company incurred in connection with the acquisition of CIFA.

Capital Expenditures

The Company incurred capital expenditures of RMB1,166 million in 2010 (2009: RMB1,056 million), for purchase of property, plant and equipment, intangible assets and lease prepayments. A number of industrial parks construction and manufacturing facility upgrade and renovation projects were completed in 2010. The Company planned to fund the capital expenditures primarily with proceeds from the non-public offering of A Shares and proceeds from issuance of H Shares in Global Offering. There were no significant asset disposals or business acquisition in 2010.

Commitments and Contingent Liabilities

As of 31 December 2010, commitments consisted of capital commitments of RMB562 million and operating lease commitments of RMB156 million, of which RMB73 million was payable within one year.

Certain customers of the Company from time to time may finance their purchase of the Company's machinery products through bank loans. The Company provided guarantees to the banks for the amount drawn by the customers. As of 31 December 2010, the maximum exposure to such guarantees was RMB5,950 million. Under the guarantee arrangement, in the event of customer default, the Company is required to repossess the machinery collateralizing the bank loans. In 2010, the Company made payments of RMB102 million (2009: RMB117 million) to banks under the guarantee arrangements as a result of customer defaults. When called upon to fulfill the guarantee obligations, the Company has historically been able to sell the repossessed machinery at a price not significantly different from the guarantee payments the Company made to the banks.

Starting from October 2010, certain of the Company's finance lease contracts with end-user customers are jointly provided by the leasing subsidiaries and a third-party leasing company. Under the joint leasing arrangement, the Company provides guarantee to the third-party leasing company that in the event of customer default, the Company is required make payment to the leasing company for its share of the outstanding lease payments due from the customer. As of 31 December 2010, the maximum exposure to such guarantees was RMB1,334 million (2009: Nil). Up to now, there was no customer default which required the Company to make guarantee payments to the leasing company.

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 and have sought for additional taxes of approximately EUR10.7 million before interest and penalties, if any. In January 2011, the court ruled in favour of Cifa Mixers S.r.l. at the first degree of judgment and dismissed the claim for additional taxes from the tax authorities. Nonetheless, the Company believes that there is a risk that the tax authorities may appeal to the second degree of judgment. Based on tax consultant's advice, it is more likely than not that the subsidiary'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 provided by the former shareholders of Cifa Mixer S.r.l. and CIFA S.p.A.. Accordingly, no provision is made for the contingency as at 31 December 2010.

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

Working Capital and Indebtedness

The table below sets forth the details of the Company's current assets and liabilities as of 31 December 2010:

	As of 31 December	
	2010	2009
	RMB (in million)	
Current Assets		
Inventories	**8,678**	6,272
Trade and other receivables	**8,260**	6,265
Receivables under finance lease	**6,397**	3,283
Pledged bank deposits	**1,577**	755
Cash and cash equivalents	**18,758**	3,439
Total current assets	**43,670**	20,014
Current Liabilities		
Trade and other payables	**17,203**	10,632
Loans and borrowings	**8,107**	8,553
Income tax payable	**757**	283
Total current liabilities	**26,067**	19,468
Net current assets	**17,603**	546

Net current assets significantly increased from RMB546 million as of 31 December 2009 to RMB17,603 million as of 31 December 2010, primarily due to an increase in cash and cash equivalents, receivables under finance lease, inventories and trade and other receivables, and a decrease in loans and borrowings as the Company replaced short-term Euro-denominated loans in connection with the acquisition of CIFA with three-year long-term loans, partially offset by an increase in trade and other payables and income tax payable. The increase in cash and cash equivalents was due to net proceeds from the non-public offering of A Shares and issuance of H Shares in Global Offering. Trade and other receivables, receivables under finance lease, inventories and trade and other payables also increased as the Company continued to expand operations and its business continued to grow.

As of 31 December 2010, outstanding short-term loans and borrowings, including the current portion of long-term loans and borrowings, amounted to RMB8,107 million. The following table is a summary of short-term and long-term loans and borrowings as of 31 December 2010:

	As of 31 December	
	2010	2009
	RMB (in million)	
Current		
Secured short-term bank loans	**23**	2,530
Unsecured short-term bank loans	**4,211**	3,726
Current portion of long-term bank loans	**3,873**	2,297
Total	**8,107**	8,553
Non-current		
Secured long-term bank loans	**5,534**	4,515
Unsecured long-term bank loans	**4,938**	2,313
Unsecured bond	**1,091**	1,090
Less: Current portion of long-term bank loans	**(3,873)**	(2,297)
Total	**7,690**	5,621

As of 31 December 2010, the Company's JPY, EUR and USD denominated unsecured short-term loans of RMB214 million, RMB44 million and RMB1,192 million, respectively, RMB denominated unsecured long-term bank loans of RMB230 million and USD denominated unsecured long-term bank loans of RMB1,319 million are subject to the fulfilment of certain financial covenants. As of 31 December 2010, the Company was in compliance with these financial covenants.

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. As of 31 December 2010, the adjusted debt-to-equity ratio was 29% (2009: 79%). Please refer to note 27 of the financial statements prepared under IFRSs for the calculation basis of such ratio.

Liquidity Risk

Exposure to liquidity risk arises in the normal course of the Company's business. Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company'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 of the financial liabilities as of 31 December 2010, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current prevailing rates as of 31 December 2010) and the earliest date the Company would be required to repay:

	As of 31 December 2010					
	Carrying Amount	Total Contractual Undiscounted Cash Flow	Within 1 Year or on Demand	More Than 1 Year but Less Than 2 Years	More Than 2 Years but Less Than 5 Years	More Than 5 Years
	RMB (in million)					
Loans and borrowings	15,797	16,878	8,650	2,520	4,590	1,118
Trade and other payables	17,203	17,203	17,203	–	–	–
Other non-current liabilities	1,379	1,379	–	387	992	–
	34,379	35,460	25,853	2,907	5,582	1,118
Financial guarantee issued						
Maximum amount guarantee		7,284	7,284	–	–	–

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

The Company's directors confirmed that the current cash and cash equivalents, anticipated cashflow from operations and undrawn committed credit facilities will be sufficient to meet the anticipated cash needs, including its working capital and capital expenditure requirements for at least the next 12 months following the balance sheet date.

Credit Risk

Credit risk is primarily attributable to bank deposits, trade and other receivables, and receivables under finance lease. It is the risk of financial loss if a customer fails to meet its contractual obligations, and arises principally from deposits and receivables from customers. 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. 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 three 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, 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. 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. 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.

Please refer to notes 17 and 28(a) of the financial statements prepared under IFRSs for more quantitative information about the Company's credit risk.

Interest Rate Risk

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 us to cash flow interest rate risk and fair value interest rate risk, respectively. According to the Company's cash requirement forecast, under the condition of payment guarantee, the Company uses a certain arrangement on the terms and currencies to maximize the interest income and lower cost of capital.

Please refer to note 28(c) of the financial statements prepared under IFRSs for more quantitative information about the Company's interest rate risk.

Currency Risk

The Company 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, HK dollars, Japanese Yen and Euro. When a temporary disproportion occurs between accounts receivables and accounts payables denominated in foreign currencies, the company would purchase the foreign currencies at the market exchange rates when necessary, so as to keep exchange rate risk exposure at an acceptable level. As for the foreign currency bank deposits and foreign currency bank loans, the decision to activate such deposits and loans would be anticipated by a sound consideration of the currency risk based on long-term prediction of the currency market of the Company, and be followed with close circumspection of the fluctuation of foreign currencies in order to keep the company in a beneficial position.

Please refer to note 28(d) of the financial statements prepared under IFRSs for more quantitative information about the Company's currency risk.

Report of the Supervisory Board

I. Meetings Convened by Supervisory Board During the Reporting Period

In 2010, our Supervisory Board convened five meetings. It effectively supervised the protection of the interests of the Company and the legal rights of our shareholders, improvement in our corporate governance structure and establishment of a sound management system. Details of the meetings were as follows:

1. The ninth meeting of the third session of the Supervisory Board was convened on 28 April 2010 in Conference Room No. 9 of the Company, at which the Report of the Supervisory Board of the Company for 2009, Audit Report on the Company for 2009, Final Financial Statements of the Company for 2009, Financial Budget of the Company for 2010, Profit Distribution Plan of the Company for 2009, Annual Report and Summary of the Company for 2009, Report on Social Responsibility of the Company for 2009, Report on Internal Control and Self-evaluation of the Company for 2009, Resolution on change of the auditor of the final financial statements for 2010, Resolution on providing guarantees for its holding subsidiaries, Resolution on replacing the internal fund used in investment projects with the proceeds of the Company, Resolution on replenishing the working capital with part of the proceeds of the Company not being used, Resolution on change of certain investment projects financed by the proceeds of the Company and the First Quarterly Report of the Company for 2010 were considered and approved.

2. The first extraordinary meeting of the third session of the Supervisory Board of 2010 was convened on 6 July 2010 in Conference Room No. 9 of the Company, at which Resolution on Candidates for Shareholder Representatives of the Fourth Session of the Supervisory Board of the Company was considered and approved.

3. The first meeting of the fourth session of the Supervisory Board of 2010 was convened on 22 July 2010 in Conference Room No. 9 of the Company, at which Resolution on election of the chairman of the fourth session of the Supervisory Board of the Company was considered and approved.

4. The first extraordinary meeting of the fourth session of the Supervisory Board in 2010 was convened on 19 August 2010 in Conference Room No. 9 of the Company, at which Interim Report and Summary of the Company for 2010, Resolution on the use of proceeds of the previous subscription and Resolution on changes of the accounting policies of the Company were considered and approved.

5. The second extraordinary meeting of the fourth session of the Supervisory Board of 2010 was convened on 28 October 2010 in Conference Room No. 9 of the Company, at which the Third Quarterly Report of the Company for 2010 and Resolution on further replenishing the working capital with part of the proceeds of the Company not being used were considered and approved.

II. Independent Opinions on the Company's Compliance with the Laws

1. In 2010, the Company made all decisions according to the laws and regulations and established a relatively comprehensive internal control system. No action of any Director or senior management of the Company violated the laws, regulations and our Articles of Associations or prejudiced the interests of the Company when performing their duties. The Supervisory Board has reviewed Report on Internal Control and Self-evaluation of the Company for 2010 and expressed no disagreement.

2. The Supervisory Board has reviewed the annual report, interim report and quarterly reports of the Company, and has regularly reviewed the financial position of the Company. The financial statements had fairly reflected the financial position and operation results of the Company. Baker Tilly China and KPMG had made a comprehensive audit on the financial position of the Company in 2010, and each issued a standard and unqualified auditors' report which has properly, truly, fairly and accurately reflected the financial position and operation results the Company for 2010.

3. The actual use of proceeds was consistent with the committed use of proceeds, and the usages were legal and effective, and has complied with the relevant provisions of The Guidelines on the Regulated Operation of Companies Listed on the Main Board of Shenzhen Stock Exchange (深圳證券交易所主板上市公司規範運作指引).

4. The Company purchased and disposed of assets at a reasonable consideration, and there was no insider dealing which may damage the interests of the shareholders or lead to loss of assets of the Company.

5. No false, fraud or misleading information was disclosed by the Company.

Significant Events

I. Litigations of the Company during the Year

Litigations of the Company during the reporting period are set out below:

1. Guarantee for the borrowing of Xi'an Boai Pharmacy (西安博愛製藥)

Shaanxi Zoomlion Earth Working Machinery Co., Ltd. (陝西中聯重科土方機械有限公司) ("Zoomlion Earth Working"), a wholly-owned subsidiary of the Company, provided guarantees for two loans to Xi'an Boai Pharmaceutical Co., Ltd. (西安博愛製藥) ("Xi'an Boai") amounting to RMB11.63 million and RMB1.85 million respectively. After the maturity of the loan, Xi'an Boai failed to repay the two loans due to deteriorating operation. The creditors instituted legal proceedings in court against Xi'an Boai and Zoomlion Earth Working and applied for legal enforcements after the final judgment. In respect of the loan in the amount of RMB11.63 million, Xi'an Boai and Zoomlion Earth Working entered into a settlement with the creditors pursuant to which Zoomlion Earth Working shall accept guarantee obligation of amounting to RMB3 million and waive the right of recourse against Xi'an Boai. Execution of the case is completed.

The above case happened prior to the acquisition of Shaanxi Xinhuangong Machinery Co., Ltd. (陝西新黃工機械有限責任公司) by Zoomlion and was considered as a historical issue of Zoomlion Earth Working and did not arise in the daily operation of the Company.

2. Dispute on consideration for equity transfer with Skyworth Mobile Communication Limited (創維移動通信)

The Company entered into a written agreement with Skyworth Mobile Communication (創維移動通信) ("Skyworth Mobile") pursuant to which, the Company shall transfer its 65% equity interests in Changsha New High-tech Industrial Development Zone Zhongke Beidou Hangdian Technology Co., Ltd. (長沙高新技術產業開發區中科北斗航電科技有限公司) ("Zoomlion Beidou") to Skyworth Mobile at a total consideration of RMB20.15 million. The registration procedure for the equity transfer was completed on 30 December 2008. However, Skyworth Mobile failed to settle the payment under the agreement and the Company filed a statement of claim against Skyworth Mobile with a court on 7 April 2009, requiring Skyworth Mobile to settle the payment of equity transfer and interest accrued thereon as well as the attorney fees and court costs. The judgment of the people's court of first instance ordered Skyworth Mobile to pay a total amount of RMB21,070,598.44 to the Company in respect of the equity transfer, interest accrued thereon and legal expenses together with the case acceptance fee and custody fees in the total amount of RMB149,954. Skyworth Mobile appealed to the people's court of second instance which upheld the original judgment on 11 December 2009. The court held the property of Skyworth Mobile in custody and froze the account and its equity interests in Zoomlion Beidou upon application of the Company. Skyworth failed to pay the abovementioned amount after the announcement of the judgement of the people's court of second instance. The court accepted the application of the Company on 18 January 2010 for the compulsory enforcement of the debit of RMB585,464.01 in aggregate from the two deposit accounts of Skyworth Mobile. Execution of the case is still in progress.

As the case did not arise from the usual course of business of the Company, which was the plaintiff, and the property of the defendant was under the custody of the legal system, the Company continued to maintain effective control on the relevant property of the defendant. As such, the case would not have significant effects on the Company's operations.

3. Taxation Case of a Subsidiary in Italy

In March 2010, Italian tax authorities issued a tax inspection assessment report to CIFA Mixers S.r.l, a subsidiary of CIFA. The tax authorities have challenged the deductibility of certain costs incurred by this entity for tax purpose for the year from 2003 to 2007. CIFA Mixers S.r.l was allowed to appeal to the court and the management of CIFA Mixers S.r.l sought to resolve such issue through legal means. In January 2011, the court ruled in favour of CIFA Mixers S.r.l. at the first degree of judgement and dismissed the claim for additional taxes from the tax authorities. However, the tax authorities may appeal to the second degree of judgement.

II. No Bankruptcy or Reorganisation of the Company occurred during the Year

III. Shareholding of the Company in Other Listed Companies

Unit: RMB

Stock code	Abbreviation	Initial investment amount	Shareholding percentage	Carrying value at the end of the period	Gain or loss during the reporting period	Changes in owner's equity during the reporting period	Accounting item	Source of shares
601328	BoCom	5,291,736.00	0.00%	4,221,331.68	277,983.60	2,119,742.17	Available-for-sale financial assets	Acquisition of assets
Total		5,291,736.00	–	4,221,331.68	277,983.60	2,119,742.17	–	–

IV. Acquisition and Disposal of Assets and Amalgamation

(1) There is no acquisition and disposal of assets by the Company during the reporting period.

(2) There is no amalgamation by the Company during the reporting period.

V. The Company had no Equity Incentive Plan During the Reporting Period

VI. Major Related Party Transactions and Connected Transactions of the Company during the Year

(I) The Company had no major related party transactions according to the relevant domestic regulations.

(II) As required by the Hong Kong Listing Rules, the continuing connected transactions of the Company during 2010 were as follows:

1. **Framework Sales Agreement with Dongfeng Motor Corporation**

   Dongfeng Motor Corporation holds 11.14% of the equity interest in Hunan Zoomlion Axle Co., Ltd. ("Hunan Zoomlion Axle"), a subsidiary of the Company, and is therefore a substantial shareholder of Hunan Zoomlion Axle and a connected person of the Company. Dongfeng Motor was established in 1969 and is currently one of the top three automakers in China. Its main businesses include production and sales of passenger vehicles, commercial vehicles, engine, auto parts and components, and equipment in the PRC. To regulate the sales and purchase arrangement between the Group and Dongfeng Group after the Listing, the Company has entered into a framework sales agreement (the "Dongfeng Framework Sales Agreement") dated 6 December 2010 with Dongfeng Motor. The Dongfeng Framework Sales Agreement shall take effect from the Listing Date and has a term of three years. Pursuant to the Dongfeng Framework Sales Agreement, Dongfeng Group will purchase axles and other auto components produced by the Group from time to time. In 2010, total sales of the Group to Dongfeng Group amounted to approximately RMB627 million (excluding value-added tax).

2. **Framework Sales Agreement with Sichuan Nanjun Automobile Group Co., Ltd. ("Nanjun Automobile")**

   Nanjun Automobile holds 49% of the equity interests in Hunan Zoomlion Axle Ziyang Co., Ltd. (湖南中聯重科車橋資陽有限公司) ("Zoomlion Ziyang"), a subsidiary of the Company, and is therefore a substantial shareholder of Zoomlion Ziyang and a connected person of the Company. Nanjun Automobile is mainly engaged in production and sales of load automobile. To regulate the supply arrangement between the Group and Nanjun Automobile after the Listing, the Company has entered into a framework sales agreement (the "Nanjun Framework Sales Agreement") dated 4 December 2010 with Nanjun Automobile. The Nanjun Framework Sales Agreement shall take effect from the Listing Date and has a term of three years. Pursuant to the Nanjun Framework Sales Agreement, Nanjun Automobile will purchase axles and other auto components produced by the Group from time to time. In 2010, total sales of the Group to Nanjun Automobile amounted to approximately RMB211 million (excluding value-added tax).

The resolutions on the Dongfeng Framework Sales Agreement and the Nanjun Framework Sales Agreement were approved by the board meeting held on 1 December 2010 and were granted a waiver by SEHK from strict compliance with the announcement requirements under Rule 14A.47 of the Listing Rules for a period of three years which expired on 31 December 2012, provided that the annual value of the transactions did not exceed the annual caps for the relevant period.

The independent non-executive directors unanimously confirmed that the connected transactions of the Company for the year ended 2010 were:

(1) in the ordinary course of business of the Group;

(2) entered into on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties;

(3) fair and reasonable and in the interests of the shareholders of the Company as a whole; and

Each of the annual value for the continuing connected transactions did not exceed the annual caps set out in the Prospectus dated 13 December 2010.

The international auditor of the Company has reviewed those connected transactions and confirmed that:

(1) those connected transactions were approved by the Board of Directors;

(2) those connected transactions were conducted according to the pricing policy of the Company;

(3) those connected transactions were conducted according to the terms of relevant agreements governing the transactions;

(4) the value of those connected transactions did not exceed the respective annual caps specified in the Prospectus dated 13 December 2010.

VII. Material Contracts and the Implementation

(I) During the reporting period, neither assets of other companies were held under trust, contract and lease by the Company nor assets of the Company were held under trust, contract and lease by other companies.

(II) Material guarantees during the reporting period

1. Certain customers of the Company financed their purchases of the products of the Company through bank loans. Pursuant to the loan contracts, after the customers settled 20% to 30% of the total payment, the equipment purchased will be pledged to banks as collaterals, and the Company will provide guarantees for such bank loans. The terms of these guarantees coincide with the tenure of bank loans that generally range from 2 to 4 years. In the event of customer default, the Company is required to repay the outstanding principal and interests accrued thereon for the customers. Pursuant to the loan contracts, in the event of customer default, the Company is required to repossess the machinery collateralizing the bank loans, and is entitled to sell the machinery and retain any proceeds in excess of the guarantee payments made to the banks. In addition, the Company requires the customers to provide a counter guarantee under which the customers agree to undertake the payments including outstanding principal, interest, penalties and legal expenses if the bank loans are not repaid. In the event of overdue, the Company shall pay the amount to the bank from the collateral guarantees on behalf of the customers. The Company, 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. The outstanding bank loans repaid by the Company for the customers shall be accounted for as receivables and provision shall be made according to the age of the relevant amounts. As at 31 December 2010, the bank loans of customers secured by the guarantee of the Company amounted to RMB5,950,171,500, and the Company made payment of RMB102,689,300 to banks under the guarantee arrangement as a results of customer default.

   Starting from October 2010, certain of the Company's finance lease contracts with end-user customers are jointly provided by the leasing subsidiaries and a third-party leasing company. Under the joint leasing arrangement, the Company provides guarantee to the third-party leasing company that in the event of customer default, the Company is required to make payment to the leasing company for its share of the outstanding lease payments due from the customer. As of 31 December 2010, the maximum exposure to such guarantees was RMB1,334,217,100. The terms of these guarantees coincide with the tenure of the lease contacts which generally range from 2 to 4 yeas. For the year ended 31 December 2010, there was no customer default which required the Company to make guarantee payments to the leasing company.

The leasing subsidiaries pledged part of the finance leases receivables due from the customers to secure factoring borrowings from the banks. In the event of customer default of the financial leases, the bank shall be entitled to claim the outstanding financial lease payments and the Company has accounted for the factoring borrowings separately. As at 31 December 2010, the total factoring borrowings from the banks secured by the leasing company amounted to RMB3,954,344,000.

2. On 1 September 2008, the Company entered into an irrevocable letter of counter-guarantee with the Export-Import Bank of China, pursuant to which the Company provided a counter guarantee for the bank loans of Zoomlion Overseas Investment Management (H.K.) Co., Limited, a subsidiary of the Company. The irrevocable letter of counter-guarantee shall be effective from the date of its execution to two years after the expiry date of the guarantee contract. The counter guarantee amounted to US$200 million (equivalent to RMB1,324,540,000 based on the exchange rate of US$1: RMB6.6227 as at 31 December 2010).

   The resolution approving the guarantee was passed at the sixth extraordinary meeting of 2008 and the second extraordinary meeting of 2008 of the third session of the Board of the Company, details of which were disclosed on China Securities Journal, Shanghai Securities News, Securities Times and Cninfo (巨潮資訊網) dated 25 June 2008 and 11 July 2008 respectively.

VIII. Fulfilment of Undertakings of the Company or Shareholders holding 5% or More Interests in the Company

Item	Undertaking	Implementation
Undertakings on voluntary extension of trading moratorium by Shareholders	State-owned Assets Supervision and Administration Commission of Hunan Provincial People's Government, Changsha Hesheng Science and Technology Investment Co., Ltd, Changsha Yifang Science and Technology Investment Co., Ltd., Real Smart International Limited, Hunan Development and Investment Group Co., Ltd. and the Liquidation Committee of the Research Institute made special undertakings on 9 April 2009 that: 152,100,000 unrestricted shares of Zoomlion held by the Research Institute as at 31 March 2009 will be subject to lock-up undertaking within one year from the date of the announcement.	Strictly implemented
Undertakings upon the issue of shares	On 12 February 2010, new shares issued by the Company under a private offering were listed on SZSE. Hony Capital Fund I (Tianjin) (Limited Partnership), China Jianyin Investment Co., Ltd, Xiangjiang Industrial Investment Co., Ltd., Guangdong Hengjian Investment Holding Co., Ltd., Youngor Group Co., Ltd., Anhui Province Investment Group Co., Ltd., Zhonghai Fund Management Co., Ltd., PICC Asset Management Co., Ltd and Bainian Cosmetics and Personal Care Co., Ltd. undertook that the lock-up period of the shares purchased would be 12 months.	Strictly implemented

IX. Appointment of the Auditors during the Reporting Period

(I) Appointment of the auditors

According to a resolution passed at the 11th meeting of the third session of the Board held on 28 April 2010 and the 2009 annual general meeting of the Shareholders held on 25 May 2010, it was approved that Baker Tilly China was appointed as the auditors of the financial statements of the Company for 2010.

The term of appointment of Baker Tilly China would be one year. It will be responsible for auditing the Company's financial statements, verifying its net assets and providing other relevant consultant services to the Company. The resolutions considered and passed at two meetings abovementioned were disclosed in China Securities Journal, Shanghai Securities News, Securities Times and Cninfo (巨潮資訊網) on 30 April 2010 and 26 May 2010 respectively.

(II) The auditors have provided auditing and other relevant consultant services to the Company for one year.

X. During the Reporting Period, neither the Company, the Directors, the Supervisors nor the Senior Management was subject to any Investigation by Competent Authorities, Coercive Measures of Judiciary or Disciplinary Inspection Departments, Transfer to Judiciary Authorities or Claims of Criminal Liabilities, Investigation of CSRC, Administrative Punishment, Banning the Entry to Securities Markets, Criticism by Notice Circulation, Identification as Inappropriate Candidate, Punishment by Other Administrative Departments or Public Censure from any Stock Exchanges.

XI. Researches and Visits to Company

In order to carry through the principle of transparency, fairness and justice of the securities market, to further regulate the information disclosure of listed companies, to secure the fairness of information disclosure and to protect the legal interests of investors, the Company had responded to research enquiries from individual investors, or staff of fund companies and securities companies and interviews from media during the reporting period. In the course of the reception, the Company had strictly complied with the relevant provisions of the Guidelines on the Regulated Operational of Companies Listed on the Main Board of Shenzhen Stock Exchange (深圳證券交易所主板上市公司規範運作指引), and did not disclose, reveal or otherwise provide any non-public material information of the Company to any particular party selectively, personally or in advance, which has ensured the fairness of information disclosure.

Date of Reception	Place of Reception	Activity	Target Group	Particulars and information disclosed
12 October 2010	Changsha	Meeting	BNP Paribas Peregrine, Pioneer Asset Management S.A., Fidelity Investment Managers	A. Main content 1. The development of the Company in the fourth quarter of 2010, as well as the prospect of the construction machinery industry in China and the Company in 2011; 2. The development history, corporate culture, historical operation condition and strategic plans of the Company; 3. The competition and comparison of advantages of various product segments in the industry; 4. Explanations to other enquiries. B. Information 1. Periodic reports and ad hoc announcements of the Company. 2. Brochures of products.
13 October 2010		Meeting	China Gold International Pengana Capital	
18 October 2010		Meeting	Joint Investigation of The Royal Bank of Scotland Group PLC Joint Investigation of Goldman Sachs	
19 October 2010		Meeting	Reverse Roadshow of China Gold International Columbia Asset Management	
20 October 2010		Conference call	Nomura Securities	
22 October 2010		Meeting	Yuanta Securities, Minsen Investment	
26 October 2010		Meeting	Morgan Stanley ETON PARKMoon Capital	
3 November 2010		Meeting	ASPOMA Asset of Switzerland	
4 November 2010		Meeting	Geosphere Capital Management	
5 November 2010		Meeting	EMERGING MARKERS MANAGEMENT	
9 November 2010		Meeting	Everbright Securities	
10 November 2010		Meeting	Sovereign Wealth Fund of Malaysia	
11 November 2010		Meeting	Morgan Stanley	
15 November 2010		Meeting	JihSun Securities of Taiwan	
16 November 2010		Meeting	Nature Asset Management, Tianzhun Investment (天準投資)	
17 November 2010		Meeting	Joint Investigation of China Gold International	
18 November 2010		Meeting	Joint Investigation of Macquarie Fidelity Investment Managers	
22 November 2010		Meeting	Goldman Sachs	
26 November 2010		Meeting	Sinolink Securities, E Fund Management, CCB Principal Asset Management,	
8 December 2010		Meeting	Joint Investigation of Mitsubishi Securities Sumitomo Mitsui Asset Management Life Asset Management of Japan (日本生命資產管理)	
9 December 2010		Conference call	Nomura Securities	
10 December 2010		Meeting	Morgan Stanley, Maverick Capital	
13 December 2010		Meeting	Macquarie Securities, TIAA-CREF (美國教師基金)	
15 December 2010		Meeting	Morgan Stanley	
16 December 2010		Meeting	Xiamen Tongheng Investment (廈門同亨投資)	
17 December 2010		Conference call	Hengtai Securities	
20 December 2010		Meeting	Shanghai Chongyang Investment (上海重陽投資)	
24 December 2010		Meeting	Changjiang Securities	

Notes: 1. For details of the list of researches, interviews and other activities between January and September 2010, please refer to 2010 first quarterly report, 2010 interim report and 2010 third quarterly report of the Company.

2. The Group responded to research enquiries from approximately 82 staff from 50 institutions between October and 31 December 2010.

XII. Other Significant Events

(I) 850,475,003 restricted shares of the Company, which represented 43.14% of its total capital, were released from lock-up restrictions and become outstanding on 15 April 2010 in accordance with the Share Reform Plan. Please refer to "Reminder Announcement regarding Release of Restricted Shares" (No. of Announcement: 2010-006) of the Company dated 13 April 2010 for details. The Company has completed the share reform of A Shares by then.

(II) According to a resolution passed at the second extraordinary meeting of 2010 of the third session of Board of Directors held on 6 July 2010 and the first extraordinary general meeting of 2010 held on 22 July 2010, the Company decided to carry out an initial public offer of overseas listed foreign shares ("H Shares") on the Main Board of the SEHK. Subject to the approval of China Securities Regulatory Commission (CSRC Permit [2010] No. 1654) and the SEHK, the Company issued 869,582,800 H Shares at the price of HK$14.98 per share and such shares were issued and listed on the Main Board of the SEHK on 23 December 2010. The Company has exercised in full the over-allotment option in respect of 130,437,400 H Shares on 5 January 2011, and such shares were listed and traded on Main Board of the SEHK on 13 January 2011. The number of H Shares issued upon the initial public offer was 1,000,020,200 shares, and the proceeds from such subscription amounted to HK$14,980,302,596. At the same time, the State-owned Assets Supervision and Administration Commission of Hunan Provincial People's Government and Hunan Development and Investment Group Co., Ltd., two State-owned shareholders of the Company, transferred part of their State-owned shares (100,002,020 A Shares) into H Shares held by National Council for Social Security Fund in proportion to 10% of H Shares in such issue pursuant to the Temporary Measures on the Management of the Reduction of the State-owned Shares for the Raising of Social Security Funds issued by the State Council (Guofa (2001) No.22).

(III) The State-owned Assets Supervision and Administration Commission of Hunan purchased 4,197,437 shares of the Company at an average cost of RMB19.92 per share through the trading system of the SZSE during the period from 12 July 2010 to 16 July 2010, representing 0.213% of the then total share capital of the Company.

XIII. Index to Significant Events in 2010

Date	Announcement	Newspaper publishing the information
25 January 2010	Announcement on obtaining approval of China Securities Regulatory Commission for non-public issuance of Shares	Page C001 of China Securities Journal
29 January 2010	Announcement on resolutions passed at the first extraordinary meeting of the third session of the Board in 2010	Page D008 of China Securities Journal
2 February 2010	Results forecast announcement	Page B01 of China Securities Journal
11 February 2010	Report and listing announcement of non-public issuance of Shares (summary)	Page B08 of China Securities Journal
3 March 2010	Announcement on Agreement of Tripartite Regulation on Proceeds	Page D005 of China Securities Journal
14 April 2010	Reminder announcement on release of restricted Shares Results forecast announcement	Page D005 of China Securities Journal
15 April 2010	Announcement on payment of interests on 2008 bonds of the Company in 2010	Page A16 of China Securities Journal
26 April 2010	Announcement on donation to disaster area in Yushu, Qinghai province	Page C001 of China Securities Journal
30 April 2010	Summary of 2009 Annual Report Announcement on resolutions passed at the eleventh meeting of the third session of Board Announcement on resolutions passed at the ninth meeting of the third session of Supervisory Committee Notice on convening the 2009 annual general meeting Announcement on the change of the auditor of the final financial statements for 2010 Announcement on providing guarantees for its holding companies Announcement on replacing the fund used in investment projects with the proceeds of subscription Announcement on replenishing the working capital with part of the proceeds of subscription not being used Announcement on change of certain investment projects financed by the proceeds of subscription 2010 First Quarterly Report	Page D097 and D098 of China Securities Journal
20 May 2010	Reminder announcement on convening 2009 Annual General Meeting	Page B005 of China Securities Journal
26 May 2010	Announcement on resolutions passed at 2009 Annual General Meeting	Page A04 of China Securities Journal

Date	Announcement	Newspaper publishing the information
9 June 2010	Announcement on implementation of equity distribution in 2009	Page B008 of China Securities Journal
7 July 2010	Announcement on resolutions passed at the second extraordinary meeting of the third session of Board in 2010 Announcement on resolutions passed at the first extraordinary meeting of the third session of Board in 2010 Declaration statement of independent Director nominees Notice on convening the first extraordinary general meeting of 2010 Results forecast announcement	Page A33 of China Securities Journal
17 July 2010	Reminder announcement on convening the first extraordinary general meeting of 2010	Page B013 of China Securities Journal
20 July 2010	Announcement on increasing of shareholdings of the controlling shareholders	Page B009 of China Securities Journal
23 July 2010	Announcement on resolutions passed at the first extraordinary meeting of 2010	Page B009 of China Securities Journal
24 July 2010	Announcement on resolutions passed at the first meeting of the fourth session of the Board Announcement on resolutions passed at the first meeting of the fourth session of the Supervisory Committee	Page B016 of China Securities Journal
23 August 2010	Summary of 2010 Interim Report Announcement on resolutions passed at the first extraordinary meeting of the fourth session of the Board in 2010 Announcement on resolutions passed at the first extraordinary meeting of the fourth session of the Supervisory Committee in 2010 Announcement on changes of the accounting policies Notice on convening the second extraordinary general meeting of 2010 Announcement on implementation of equity distribution in 2010	Page B026 and B028 of China Securities Journal
31 December 2010	Announcement on obtaining approval from PORC (Public Offering Review Committee of CSRC) for non-public issuance of shares	Page D017 of China Securities Journal
8 September 2010	Announcement on resolutions passed at the second extraordinary general meeting in 2010	Page B005 of China Securities Journal
13 October 2010	Results forecast announcement	Page A40 of China Securities Journal
28 October 2010	Announcement on timely return of proceeds of subscription used to replenish the working capital	Page B005 of China Securities Journal

Significant Events

Date	Announcement	Newspaper publishing the information
30 October 2010	2010 Third Quarterly Report	Page B047 of China Securities Journal
	Announcement on resolutions passed at the second extraordinary meeting of the fourth session of the Board in 2010	
	Announcement on resolutions passed at the second extraordinary meeting of the fourth session of the Supervisory Committee in 2010	
	Announcement on further replenishing the working capital with part of the proceeds of subscription not being used	
22 November 2010	Announcement on obtaining approval from China Securities Regulatory Commission for the issue of overseas listed foreign shares	Page B004 of China Securities Journal
27 November 2010	Announcement on the approval of SEHK for the issue of overseas listed foreign shares of the Company	Page B005 of China Securities Journal
29 November 2010	Announcement on publishing the web proof information pack of H Shares	Page B004 of China Securities Journal
2 December 2010	Announcement on resolutions passed at the third extraordinary meeting of the fourth session of the Board in 2010	Page B004 of China Securities Journal
	Results forecast announcement	
6 December 2010	Announcement on updating the web proof information pack of H Shares	Page B004 of China Securities Journal
13 December 2010	Announcement on publishing of prospectus of H Shares, issue price range of the H Shares and matters related to the Hong Kong public offer of H Shares	Page B001 of China Securities Journal
20 December 2010	Announcement on reduction of State-owned shares in overseas listed foreign shares (H Shares)	Page A32 of China Securities Journal
	Announcement on disclosing the issue price of overseas listed foreign shares (H Shares)	
23 December 2010	Announcement on the listing and trading of overseas listed foreign shares (H Shares)	Page B008 of China Securities Journal

Announcements of the Company were also disclosed in www.cninfo.com.cn. (巨潮資訊網)

Report of the International Auditor

KPMG

To the shareholders of Changsha Zoomlion Heavy Industry Science and Technology Development Co., Ltd.
(Incorporated in The People's Republic of China with limited liability)

We have audited the consolidated financial statements of Changsha Zoomlion Heavy Industry Science and Technology Development Co., Ltd. (the "Company") and its subsidiaries (together the "Group") set out on pages 119 to 208, which comprise the consolidated and company balance sheets as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion

Report of the International Auditor

on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8/F, Prince's Building
10 Chater Road
Hong Kong, China

28 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010
(Expressed in RMB)

	Note	**2010 RMB millions**	2009 RMB millions
Turnover	3	**32,193**	20,762
Cost of sales and services		**(22,424)**	(15,422)
Gross profit		**9,769**	5,340
Other revenues and net income	4	**54**	105
Sales and marketing expenses		**(2,146)**	(1,250)
General and administrative expenses		**(1,645)**	(878)
Research and development expenses		**(265)**	(194)
Profit from operations		**5,767**	3,123
Loss on disposal of associates		**—**	(6)
Net finance costs	5(a)	**(365)**	(295)
Share of profits less losses of associates		**14**	6
Profit before taxation	5	**5,416**	2,828
Income tax	6	**(828)**	(409)
Profit for the year		**4,588**	2,419
Other comprehensive income for the year (after tax)			
Change in fair value of available-for-sale equity securities		**(2)**	3
Others		**11**	—
Exchange differences on translation of financial statements of subsidiaries outside PRC		**(74)**	44
Total other comprehensive income for the year		**(65)**	47
Total comprehensive income for the year		**4,523**	2,466

The notes on pages 128 to 208 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010
(Expressed in RMB)

	Note	2010 RMB millions	2009 RMB millions
Profit attributable to:			
Equity shareholders of the Company	9	**4,666**	2,447
Non-controlling interests		**(78)**	(28)
Profit for the year		**4,588**	2,419
Total comprehensive income attributable to:			
Equity shareholders of the Company		**4,580**	2,497
Non-controlling interests		**(57)**	(31)
Total comprehensive income for the year		**4,523**	2,466
Basic and diluted earnings per share (RMB)	10	**0.96**	0.59

The notes on pages 128 to 208 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2010

(Expressed in RMB)

	Note	2010 RMB millions	2009 RMB millions
Non-current assets			
Property, plant and equipment	12	**4,135**	3,683
Lease prepayments		**1,119**	907
Intangible assets	13	**1,256**	1,432
Goodwill	14	**1,907**	2,082
Interests in associates	15	**86**	71
Other financial assets		**50**	15
Trade and other receivables	17	**585**	229
Receivables under finance lease	18	**9,775**	5,060
Pledged bank deposits	19	**185**	234
Deferred tax assets	23(b)	**274**	148
Total non-current assets		**19,372**	13,861
Current assets			
Inventories	16	**8,678**	6,272
Trade and other receivables	17	**8,260**	6,265
Receivables under finance lease	18	**6,397**	3,283
Pledged bank deposits	19	**1,577**	755
Cash and cash equivalents	20	**18,758**	3,439
Total current assets		**43,670**	20,014
Total assets		**63,042**	33,875
Current liabilities			
Loans and borrowings	21(a)	**8,107**	8,553
Trade and other payables	22	**17,203**	10,632
Income tax payable	23(a)	**757**	283
Total current liabilities		**26,067**	19,468
Net current assets		**17,603**	546
Total assets less current liabilities		**36,975**	14,407

The notes on pages 128 to 208 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2010

(Expressed in RMB)

	Note	2010 RMB millions	2009 RMB millions
Non-current liabilities			
Loans and borrowings	21(b)	**7,690**	5,621
Other non-current liabilities	25	**1,379**	684
Deferred tax liabilities	23(b)	**471**	550
Total non-current liabilities		**9,540**	6,855
NET ASSETS		**27,435**	7,552
CAPITAL AND RESERVES			
Share capital	26(a)	**5,797**	1,673
Reserves	26(b)	**21,579**	5,755
Total equity attributable to equity shareholders of the Company		**27,376**	7,428
Non-controlling interests		**59**	124
TOTAL EQUITY		**27,435**	7,552

Approved and authorised for issue by the board of directors on 28 March 2011.

Zhan Chunxin
Chairman and Chief Executive Officer

Hong Xiaoming
Vice president and the person in charge of financial affairs

The notes on pages 128 to 208 form part of these financial statements.

Company Balance Sheet

As at 31 December 2010

(Expressed in RMB)

	Note	2010 RMB millions	2009 RMB millions
Non-current assets			
Property, plant and equipment	12	**2,819**	2,397
Lease prepayments		**615**	448
Intangible assets	13	**58**	59
Investments in subsidiaries	33	**3,364**	1,882
Interests in associates	15	**60**	52
Other financial assets		**47**	11
Trade and other receivables	17	**525**	215
Pledged bank deposits	19	**145**	147
Deferred tax assets	23(b)	**96**	62
Total non-current assets		**7,729**	5,273
Current assets			
Inventories	16	**6,920**	4,209
Trade and other receivables	17	**16,824**	8,242
Pledged bank deposits	19	**1,470**	631
Cash and cash equivalents	20	**16,638**	2,292
Total current assets		**41,852**	15,374
Total assets		**49,581**	20,647
Current liabilities			
Loans and borrowings	21(a)	**3,867**	1,644
Trade and other payables	22	**15,393**	9,792
Income tax payable	23(a)	**712**	270
Total current liabilities		**19,972**	11,706
Net current assets		**21,880**	3,668
Total assets less current liabilities		**29,609**	8,941

The notes on pages 128 to 208 form part of these financial statements.

Company Balance Sheet

As at 31 December 2010

(Expressed in RMB)

	Note	2010 RMB millions	2009 RMB millions
Non-current liabilities			
Loans and borrowings	21(b)	**2,346**	1,575
Other non-current liabilities		**99**	—
Deferred tax liabilities	23(b)	**—**	5
Total non-current liabilities		**2,445**	1,580
NET ASSETS		**27,164**	7,361
CAPITAL AND RESERVES			
Share capital	26(a)	**5,797**	1,673
Reserves	26(b)	**21,367**	5,688
TOTAL EQUITY		**27,164**	7,361

Approved and authorised for issue by the board of directors on 28 March 2011.

Zhan Chunxin
Chairman and Chief Executive Officer

Hong Xiaoming
Vice president and
the person in charge of financial affairs

The notes on pages 128 to 208 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

(Expressed in RMB)

	Attributable to equity shareholders of the Company								
	Share capital (Note 26(a)) RMB millions	Capital reserve (Note 26(b)(i)) RMB millions	Statutory surplus reserve (Note 26(b)(ii)) RMB millions	Exchange reserve (Note 26(b)(iii)) RMB millions	Fair value reserve (Note 26(b)(iv)) RMB millions	Retained earnings RMB millions	Total RMB millions	Non-controlling interests RMB millions	Total equity RMB millions
Balance at 1 January 2009	1,521	12	529	(18)	(2)	3,029	5,071	140	5,211
Appropriation (Note 26(b)(ii))	–	–	240	–	–	(240)	–	–	–
Cash dividends (Note 26(c)(i))	–	–	–	–	–	(152)	(152)	–	(152)
Bonus shares (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	–	2	–	–	–	–	2	29	31
Total comprehensive income for the year	–	–	–	47	3	2,447	2,497	(31)	2,466
Balance at 31 December 2009	**1,673**	**24**	**769**	**29**	**1**	**4,932**	**7,428**	**124**	**7,552**
Appropriation (Note 26(b)(ii))	**–**	**–**	**443**	**–**	**–**	**(443)**	**–**	**–**	**–**
Issuance of A Shares in Non-public Offering (Note 26(a))	**298**	**5,181**	**–**	**–**	**–**	**–**	**5,479**	**–**	**5,479**
Cash dividends (Note 26(c)(i))	**–**	**–**	**–**	**–**	**–**	**(827)**	**(827)**	**–**	**(827)**
Bonus shares (Note 26(c)(ii))	**2,957**	**–**	**–**	**–**	**–**	**(2,957)**	**–**	**–**	**–**
Acquisition of non-controlling interest	**–**	**(2)**	**–**	**–**	**–**	**–**	**(2)**	**2**	**–**
Dividends paid by subsidiaries to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(10)**	**(10)**
Issuance of H Shares in Global Offering (Note 26(a))	**869**	**9,849**	**–**	**–**	**–**	**–**	**10,718**	**–**	**10,718**
Total comprehensive income for the year	**–**	**11**	**–**	**(95)**	**(2)**	**4,666**	**4,580**	**(57)**	**4,523**
Balance at 31 December 2010	**5,797**	**15,063**	**1,212**	**(66)**	**(1)**	**5,371**	**27,376**	**59**	**27,435**

The notes on pages 128 to 208 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010

(Expressed in RMB)

	Note	2010 RMB millions	2009 RMB millions
Operating activities			
Profit before taxation		**5,416**	2,828
Adjustments for:			
Depreciation of property, plant and equipment		**327**	245
Amortisation of lease prepayments		**24**	21
Amortisation of intangible assets		**64**	63
Share of profits less losses of associates		**(14)**	(6)
Interest income		**(96)**	(34)
Interest expense		**740**	438
Loss on disposal of property, plant and equipment		**37**	10
Loss on disposal of associates		**—**	6
Impairment loss on property, plant and equipment		**5**	5
		6,503	3,576
Increase in inventories		**(2,416)**	(1,093)
Increase in trade and other receivables		**(2,371)**	(1,703)
Increase in receivables under finance lease		**(7,829)**	(6,096)
Increase in trade and other payables		**7,083**	4,206
Cash generated from/(used in) operations		**970**	(1,110)
Income tax paid		**(519)**	(256)
Net cash generated from/(used in) operating activities carried forward		**451**	(1,366)

The notes on pages 128 to 208 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010

(Expressed in RMB)

	Note	2010 RMB millions	2009 RMB millions
Net cash generated from/(used in) operating activities brought forward		**451**	(1,366)
Investing activities			
Payment for the purchase of property, plant and equipment		**(910)**	(829)
Lease prepayments		**(236)**	(3)
Payment for purchase of intangible assets		**(27)**	(70)
Dividends received from associates		**6**	—
Payment for acquisition of investments in associates and equity investments		**(44)**	(15)
Proceeds from disposal of investments in associates		**—**	7
Proceeds from disposal of property, plant and equipment and intangible assets		**55**	79
Payment for acquisitions of subsidiaries, net of cash acquired		**—**	(28)
Interest received	36	**96**	34
Increase in pledged bank deposits		**(773)**	(535)
Net cash used in investing activities		**(1,833)**	(1,360)
Financing activities			
Proceeds from loans and borrowings		**10,840**	11,581
Repayments of loans and borrowings		**(8,906)**	(7,712)
Interest paid	36	**(743)**	(498)
Dividends paid		**(711)**	(152)
Contribution from non-controlling shareholders		**—**	31
Net proceeds from issuance of A Shares in Non-public Offering		**5,479**	—
Net proceeds received from issuance of H Shares in Global Offering		**10,796**	—
Net cash generated from financing activities		**16,755**	3,250
Net increase in cash and cash equivalents		**15,373**	524
Cash and cash equivalents at beginning of year		**3,439**	2,913
Effect of foreign exchange rate changes		**(54)**	2
Cash and cash equivalents at end of year	20	**18,758**	3,439

The notes on pages 128 to 208 form part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1 Principal activities of reporting entity, organisation 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"), and manufacturing and sale of concrete machinery in Italy.

(b) Organisation

The Company was incorporated in the PRC on 31 August 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 12 October 2000, the Company completed an initial public offering of 50 million newly issued A Shares with a par value of RMB1 per share to public shareholders in the Shenzhen Stock Exchange of China ("SZSE"). 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 RMB150 million to RMB507 million, which remained unchanged up to March 2007 when another stock split in the form of bonus shares took place.

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 A 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%.

1 Principal activities of reporting entity, organisation and basis of preparation (continued)

(b) Organisation (continued)

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 25.0% 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.

In February 2010, the Company completed a Non-public Offering of 297,954,705 A Shares to nine institutional investors. In August 2010, the Company further conducted a stock split in the form of bonus shares. Following the stock split, the Company's share capital was increased to approximately RMB4,928 million comprising 4,927,636,762 A Shares, among which Hunan SASAC held 21.4% equity interest.

On 23 December 2010, the Company completed a Global Offering of 869,582,800 newly issued H Shares with a par value of RMB1 per share to institutional and public shareholders in The Stock Exchange of Hong Kong Limited ("SEHK"). In this connection, Hunan SASAC and Hunan Development Group, the Company's state-owned shareholders, transferred a total of 86,958,280 A Shares to the National Council for Social Security Fund of the PRC ("NSSF"), which were converted into H Shares on a one-for-one basis. Upon the completion of the Global Offering, the share capital of the Company was increased to approximately RMB5,797 million, comprising 4,840,678,482 A Shares and 956,541,080 H Shares. After the Global Offering, Hunan SASAC held 16.77% equity interest in the Company.

(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.

As set out in Note 34, the IASB has issued certain new and revised IFRSs that are not yet effective for the year ended 31 December 2010. The Group has not early adopted these IFRSs in preparing the financial statements for the year then ended.

1 Principal activities of reporting entity, organisation and basis of preparation (continued)

(c) Basis of preparation (continued)

(ii) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the re-measurement of available-for-sale equity securities and derivative financial instruments (Note 2(h)) to fair value.

(iii) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

Judgements 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

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the acquirer. 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 Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus

- the recognised amount of any non-controlling interest in the acquiree; plus

2 Significant accounting policies (continued)

(a) Business combinations (continued)

- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

(b) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account.

An investment in a subsidiary is 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 unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

2 Significant accounting policies (continued)

(b) Subsidiaries and non-controlling interests (continued)

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, 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. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interest 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 interest and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented financial liabilities in the consolidated balance sheet depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interest, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(h)) or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (Note 2(c)).

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment losses (Note 2(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

The details of the Group's principal subsidiaries are set out in Note 33.

2 Significant accounting policies (continued)

(c) Associates

An associate is an entity in which the Group or 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 classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (Note 2(d) and (i)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees, any impairment losses for the year and the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is 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 investee. For this purpose, the Group's interest is 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 investment in the associate.

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

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(h)).

In the Company's balance sheet, investments in associates are stated at cost less impairment losses (Note 2(i)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

2 Significant accounting policies (continued)

(d) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (Note 2(i)).

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

(e) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (Note 2(f)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (Note 2(i)). Other development expenditure is recognised 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 amortisation (where the estimated useful life is finite) and impairment losses (Note 2(i)).

2 Significant accounting policies (continued)

(e) Intangible assets (continued)

Amortisation 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 amortised 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
— capitalised development costs	5 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised 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 amortisation 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.

(f) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost, less accumulated depreciation and impairment losses (Note 2(i)). 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 recognised 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 recognised 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(i)). 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.

2 Significant accounting policies (continued)

(f) Property, plant and equipment (continued)

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 recognised 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.

(g) 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(i)). 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.

(h) 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 recognised initially at fair value plus, for instruments not classified as at fair value through profit or loss, any directly attributable transaction costs.

2 Significant accounting policies (continued)

(h) Financial instruments (continued)

(i) Non-derivative financial instruments (continued)

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised 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 derecognised 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 realise 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 recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. When these investments are derecognised 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 recognised in the balance sheet at cost less impairment losses (Note 2(i)).

Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (Note 2(i)), 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(i)).

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.

2 Significant accounting policies (continued)

(h) Financial instruments (continued)

(i) Non-derivative financial instruments (continued)

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised 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 recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(ii) Derivative financial instruments

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

(i) Impairment of assets

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

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised 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;

2 Significant accounting policies (continued)

(i) Impairment of assets (continued)

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

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— 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 recognised as follows:

— For investments in subsidiaries and associates (including those recognised using the equity method (Note 2(c))), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 2(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 2(i)(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 amortised 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 amortised 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.

2 Significant accounting policies (continued)

(i) Impairment of assets (continued)

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

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 recognised, 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 recognised in prior years.

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

Impairment losses recognised 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 recognised in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised 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 recognised 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 recognised no longer exists or may have decreased:

— property, plant and equipment;
— lease prepayments;
— intangible assets; and
— goodwill.

2 Significant accounting policies (continued)

(i) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

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 recognised 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 recognised 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 favourable 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 recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2 Significant accounting policies (continued)

(j) Inventories

Inventories are carried at the lower of cost and net realisable 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 realisable 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 recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) 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 recognised 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.

(l) 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 recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised 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.

2 Significant accounting policies (continued)

(l) Income tax (continued)

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 and unused tax credits.

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 utilised, are recognised. 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 utilised.

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 recognised is measured based on the expected manner of realisation 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 utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2 Significant accounting policies (continued)

(l) Income tax (continued)

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 realise 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 realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(m) 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 recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised 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 recognised in profit or loss on initial recognition of any deferred income.

2 Significant accounting policies (continued)

(m) Financial guarantees issued, provisions and contingent liabilities (continued)

(i) Financial guarantees issued (continued)

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 2(m)(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 recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised 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.

(n) 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 recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2 Significant accounting policies (continued)

(n) Revenue recognition (continued)

(ii) Finance income under finance lease

Where the Group provides finance leasing of its machinery products to customers, the Group recognises 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 recognised 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 contract is included in the carrying value of the assets and amortised to the profit or loss over the expected life of the lease as an adjustment to finance income.

(iii) Government grants

Government grants are recognised 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 recognised 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 recognised in profit or loss on a systematic basis over the useful life of the asset.

(o) 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 recognised 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.

2 Significant accounting policies (continued)

(o) Translation of foreign currencies (continued)

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 recognised 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 recognised.

(p) 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 recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised 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(n)(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 recognised in profit or loss using the effective interest method.

Capitalisation 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. Capitalisation 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.

2 Significant accounting policies (continued)

(q) 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(n)(ii). Impairment losses of receivables under finance lease are accounted for in accordance with the accounting policy as set out in Note 2(i).

Receivables under finance lease are derecognised 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 instalments over the accounting periods covered by the lease term.

(r) Dividends

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

2 Significant accounting policies (continued)

(s) 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.

(t) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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 recognised in turnover are as follows:

	2010 RMB millions	2009 RMB millions
Sales of:		
Concrete machinery	**14,085**	7,157
Crane machinery	**11,077**	8,298
Environmental and sanitation machinery	**1,874**	1,230
Road construction and pile foundation machinery	**1,246**	787
Earth working machinery	**772**	445
Material handling machinery and systems	**422**	873
Other machinery products	**1,674**	1,575
Finance income under finance lease	**1,043**	397
	32,193	20,762

4 Other revenues and net income

	2010 RMB millions	2009 RMB millions
Government grants (Note)	**70**	74
Loss on disposal of property, plant and equipment	**(37)**	(10)
Others	**21**	41
	54	105

Note:

Government grants mainly represent operating subsidies and other grants. 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:

	2010 RMB millions	2009 RMB millions
Finance income:		
Interest income on bank deposits	**(96)**	(34)
Finance costs:		
Interest on loans and borrowings (Note)	**403**	372
Less: Interest expense capitalised*	**–**	(35)
Net interest expense	**403**	337
Net exchange losses/(gains)	**58**	(8)
	461	329
	365	295
*Interest rates per annum at which borrowing costs have been capitalised for construction in progress	**–**	1.0% to 7.2%

Note:
Interest expense on factoring the Group's receivables under finance lease amounted to RMB337 million for the year ended 31 December 2010 (2009: RMB122 million), and was included in cost of sales and services.

(b) Staff costs:

	2010 RMB millions	2009 RMB millions
Salaries, wages and other benefits	**2,127**	1,279
Contributions to defined contribution retirement schemes (Note 24)	**122**	104
	2,249	1,383

5 Profit before taxation (continued)

(c) Other items:

	2010 RMB millions	2009 RMB millions
Cost of inventories	**22,070**	15,307
Depreciation of property, plant and equipment (Note 12)	**327**	245
Amortisation of lease prepayments	**24**	21
Amortisation of intangible assets (Note 13)	**64**	63
Operating lease charges	**74**	58
Auditors' remuneration — audit services	**12**	6
Product warranty costs (Note 22(b))	**135**	87
Impairment losses:		
— trade receivables (Note 17(b))	**258**	87
— property, plant and equipment (Note 12)	**5**	5

6 Income tax

Income tax in the consolidated statements of comprehensive income represents:

	2010 RMB millions	2009 RMB millions
Current tax — PRC income tax		
Provision for the year	**988**	459
Current tax — Income tax in other tax jurisdictions		
Provision for the year	**5**	9
Deferred taxation (Note 23(b))		
Origination and reversal of temporary differences	**(165)**	(41)
Effect on deferred tax balances resulting from a change in tax rate/tax status	**—**	(18)
	828	409

6 Income tax (continued)

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

	2010 RMB millions	2009 RMB millions
Profit before taxation	**5,416**	2,828
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned (Note (a))	**1,354**	705
Tax effect of non-deductible expenses	**33**	52
Tax effect of non-taxable income	**(20)**	(5)
Tax effect of tax concessions (Note (b))	**(472)**	(251)
Additional deduction for qualified research and development expenses (Note (c))	**(67)**	(73)
Effect of change in tax rate/tax status (Note (b))	**–**	(18)
Tax credit for PRC equipment purchased	**–**	(1)
Actual income tax expense	**828**	409

Notes:

(a) The PRC statutory income tax rate is 25% (2009: 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% (2009: 27.5% to 31.4%).

The Company's subsidiaries in the HKSAR are subject to Hong Kong Profits Tax at 16.5% (2009:16.5%). No income tax provision was made for certain Hong Kong subsidiaries, as these subsidiaries either derived no income subject to Hong Kong Profits Tax or sustained tax losses for Hong Kong Profits Tax purposes.

(b) According to the income tax law and its relevant regulations, entities that qualified as high-technology enterprises under the tax law are entitled to a preferential income tax rate of 15%. In 2008, the Company and certain of its subsidiaries were recognised as high-technology enterprises and accordingly were subject to income tax at 15% for the years from 2008 to 2010. In 2009, another subsidiary of the Company was recognised as a high-technology enterprise for 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 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 RMB thousands	Salaries, allowances and other benefits RMB thousands	Discretionary bonuses RMB thousands	Retirement scheme contributions RMB thousands	Total RMB thousands
For the year ended 31 December 2010					
Executive directors					
ZHAN Chunxin	–	964	964	16	1,944
LIU Quan	–	592	592	16	1,200
Non-executive director					
QIU Zhongwei	–	–	–	–	–
Independent non-executive directors					
QIAN Shizheng	100	–	–	–	100
LIAN Weizeng	100	–	–	–	100
WANG Zhile	100	–	–	–	100
Supervisors					
CAO Yonggang*	–	–	–	–	–
LUO Anping	–	394	393	16	803
LIU Chi	–	395	395	16	806
LONG Guojian^	–	372	372	9	753
Total	300	2,717	2,716	73	5,806

7 Directors' and supervisors' remuneration (continued)

	Directors'/ supervisors' fee RMB thousands	Salaries, allowances and other benefits RMB thousands	Discretionary bonuses RMB thousands	Retirement scheme contributions RMB thousands	Total RMB thousands
For the year ended 31 December 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
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

* Mr. Cao Yonggang was appointed as a supervisor of the Company on 22 July 2010.

^ Mr. Long Guojian retired as supervisor of the Company on 22 July 2010.

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

None of these directors and supervisors received any inducements or compensation for loss of office, or waived any emoluments during the year (2009: Nil).

8 Individuals with highest emoluments

Of the five highest paid individuals of the Group, two (2009: three) individuals were directors or supervisors of the Company, whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the remaining three (2009: two) individuals are as follows:

	2010 RMB thousands	2009 RMB thousands
Salaries, allowances and other benefits in kind	**3,664**	3,058
Retirement scheme contributions	**48**	14
	3,712	3,072

The emoluments of the non-director/supervisor employees among the five highest paid individuals are within the following bands:

	2010 Number	2009 Number
RMB1,000,001 — RMB1,500,000	**3**	1
RMB1,500,001 — RMB2,000,000	**—**	1
	3	2

None of these employees received any inducements or compensation for loss of office, or waived any emoluments during the year (2009: Nil).

9 Profit attributable to equity holders of the Company

The consolidated profit attributable to equity shareholders of the Company included a profit of RMB4,424 million (2009: RMB2,394 million) recorded in the stand-alone financial statements of the Company.

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 May 2009 and July 2010 (see Note 26(c)) as if it had occurred at the beginning of the earliest period presented and such shares had been outstanding for all years.

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB4,666 million (2009: RMB2,447 million), and a weighted average of 4,878 million shares (2009: 4,183 million shares after adjusting for capitalisation issue in 2009 and 2010) in issue during the year.

There were no dilutive potential ordinary shares in issue as at 31 December 2010 (2009: Nil).

11 Segment reporting

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

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

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

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

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

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

11 Segment reporting (continued)

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

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

Other operating segments of the Group include research, development, manufacturing and sale of other machinery products, including specialised vehicles and vehicle axles. None of these segments met any of the quantitative thresholds for determining reportable segments for the year ended 31 December 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.

11 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2010 is set out below:

	2010 RMB millions	2009 RMB millions
Reportable segment revenue:		
Concrete machinery	**14,085**	7,157
Crane machinery	**11,077**	8,298
Environmental and sanitation machinery	**1,874**	1,230
Road construction and pile foundation machinery	**1,246**	787
Earth working machinery	**772**	445
Material handling machinery and systems	**422**	873
Finance lease services	**1,043**	397
Total reportable segment revenue	**30,519**	19,187
Revenue from all other segments	**1,674**	1,575
Total	**32,193**	20,762
Reportable segment profit:		
Concrete machinery	**4,510**	2,042
Crane machinery	**3,082**	1,963
Environmental and sanitation equipment	**592**	406
Road construction and pile foundation machinery	**481**	260
Earth working machinery	**165**	72
Material handling machinery and systems	**32**	86
Finance lease services	**689**	232
Total reportable segment profit	**9,551**	5,061
Profit from all other segments	**218**	279
Total	**9,769**	5,340

11 Segment reporting (continued)

(b) Reconciliation of segment profit

	2010 RMB millions	2009 RMB millions
Total segment profit	**9,769**	5,340
Other revenues and net income	**54**	105
Sales and marketing expenses	**(2,146)**	(1,250)
General and administrative expenses	**(1,645)**	(878)
Research and development expenses	**(265)**	(194)
Loss on disposal of associates	**—**	(6)
Net finance costs	**(365)**	(295)
Share of profits less losses of associates	**14**	6
Consolidated profit before taxation	**5,416**	2,828

(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.

	2010 RMB millions	2009 RMB millions
Revenue from external customers		
— Mainland PRC	**30,663**	18,993
— Outside PRC, primarily from Italy	**1,530**	1,769
Total	**32,193**	20,762

11 Segment reporting (continued)

(c) Geographic information (continued)

	2010 RMB millions	2009 RMB millions
Specified non-current assets		
— Mainland PRC	**5,014**	4,287
— Outside PRC, primarily in Italy	**240**	303
Total	**5,254**	4,590

12 Property, plant and equipment

The Group

	Buildings RMB millions	Machinery, plant and equipment RMB millions	Motor vehicles and office equipment RMB millions	Construction in progress RMB millions	Total RMB millions
Cost:					
Balance at 1 January 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 31 December 2009	1,834	1,526	421	540	4,321
Balance at 1 January 2010	**1,834**	**1,526**	**421**	**540**	**4,321**
Additions	**96**	**134**	**88**	**585**	**903**
Transferred from construction in progress	**419**	**198**	**23**	**(640)**	**—**
Disposals	**(10)**	**(55)**	**(86)**	**(8)**	**(159)**
Reclassification	**—**	**(38)**	**38**	**—**	**—**
Effect of exchange rate difference	**(7)**	**(23)**	**(6)**	**—**	**(36)**
Balance at 31 December 2010	**2,332**	**1,742**	**478**	**477**	**5,029**

12 Property, plant and equipment (continued)

The Group (continued)

	Buildings RMB millions	Machinery, plant and equipment RMB millions	Motor vehicles and office equipment RMB millions	Construction in progress RMB millions	Total RMB millions
Accumulated depreciation and impairment:					
Balance at 1 January 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 31 December 2009	(200)	(313)	(125)	—	(638)
Balance at 1 January 2010	**(200)**	**(313)**	**(125)**	**—**	**(638)**
Depreciation charge for the year	**(84)**	**(175)**	**(68)**	**—**	**(327)**
Impairment charge for the year	**(3)**	**(1)**	**(1)**	**—**	**(5)**
Written back on disposals	**3**	**28**	**36**	**—**	**67**
Reclassification	**—**	**4**	**(4)**	**—**	**—**
Effect of exchange rate difference	**2**	**5**	**2**	**—**	**9**
Balance at 31 December 2010	**(282)**	**(452)**	**(160)**	**—**	**(894)**
Net book value:					
Balance at 31 December 2010	**2,050**	**1,290**	**318**	**477**	**4,135**
Balance at 31 December 2009	1,634	1,213	296	540	3,683

12 Property, plant and equipment (continued)

The Company

	Buildings RMB millions	Machinery, plant and equipment RMB millions	Motor vehicles and office equipment RMB millions	Construction in progress RMB millions	Total RMB millions
Cost:					
Balance at 1 January 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 31 December 2009	1,144	886	319	508	2,857
Balance at 1 January 2010	**1,144**	**886**	**319**	**508**	**2,857**
Additions	**69**	**79**	**63**	**493**	**704**
Transferred from construction in progress	**412**	**161**	**18**	**(591)**	**—**
Disposals	**(4)**	**(24)**	**(76)**	**(7)**	**(111)**
Transferred to subsidiaries	**—**	**(30)**	**(8)**	**(2)**	**(40)**
Reclassification	**—**	**(37)**	**37**	**—**	**—**
Balance at 31 December 2010	**1,621**	**1,035**	**353**	**401**	**3,410**

12 Property, plant and equipment (continued)

The Company (continued)

	Buildings RMB millions	Machinery, plant and equipment RMB millions	Motor vehicles and office equipment RMB millions	Construction in progress RMB millions	Total RMB millions
Accumulated depreciation and impairment:					
Balance at 1 January 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 31 December 2009	(150)	(207)	(103)	—	(460)
Balance at 1 January 2010	**(150)**	**(207)**	**(103)**	**—**	**(460)**
Depreciation charge for the year	**(47)**	**(86)**	**(47)**	**—**	**(180)**
Written back on disposals	**1**	**12**	**28**	**—**	**41**
Transferred to subsidiaries	**—**	**5**	**3**	**—**	**8**
Reclassification	**—**	**4**	**(4)**	**—**	**—**
Balance at 31 December 2010	**(196)**	**(272)**	**(123)**	**—**	**(591)**
Net book value:					
Balance at 31 December 2010	**1,425**	**763**	**230**	**401**	**2,819**
Balance at 31 December 2009	994	679	216	508	2,397

13 Intangible assets

The Group

	Trademarks RMB millions	Technical know how RMB millions	Software, patents and similar rights RMB millions	Customer relationships RMB millions	Capitalised development costs RMB millions	Total RMB millions
Cost:						
Balance at 1 January 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 31 December 2009	906	97	97	420	33	1,553
Balance at 1 January 2010	**906**	**97**	**97**	**420**	**33**	**1,553**
Additions	**—**	**—**	**14**	**—**	**13**	**27**
Effect of exchange rate difference	**(87)**	**(10)**	**(3)**	**(43)**	**(4)**	**(147)**
Balance at 31 December 2010	**819**	**87**	**108**	**377**	**42**	**1,433**

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13 Intangible assets (continued)

The Group (continued)

	Trademarks RMB millions	Technical know how RMB millions	Software, patents and similar rights RMB millions	Customer relationships RMB millions	Capitalised development costs RMB millions	Total RMB millions
Accumulated amortisation and impairment:						
Balance at 1 January 2009	(37)	(2)	(8)	(8)	(2)	(57)
Amortisation for the year	—	(7)	(14)	(34)	(8)	(63)
Effect of exchange rate difference	—	—	—	(1)	—	(1)
Balance at 31 December 2009	(37)	(9)	(22)	(43)	(10)	(121)
Balance at 1 January 2010	**(37)**	**(9)**	**(22)**	**(43)**	**(10)**	**(121)**
Amortisation for the year	**—**	**(7)**	**(14)**	**(32)**	**(11)**	**(64)**
Effect of exchange rate difference	**—**	**1**	**1**	**5**	**1**	**8**
Balance at 31 December 2010	**(37)**	**(15)**	**(35)**	**(70)**	**(20)**	**(177)**
Net book value:						
Balance at 31 December 2010	**782**	**72**	**73**	**307**	**22**	**1,256**
Balance at 31 December 2009	869	88	75	377	23	1,432

13 Intangible assets (continued)

The Company

	Trademarks RMB millions	Technical know how RMB millions	Software, patents and similar rights RMB millions	Total RMB millions
Cost:				
Balance at 1 January 2009	36	2	21	59
Additions	—	—	45	45
Balance at 31 December 2009	36	2	66	104
Balance at 1 January 2010	**36**	**2**	**66**	**104**
Additions	**—**	**—**	**7**	**7**
Balance at 31 December 2010	**36**	**2**	**73**	**111**
Accumulated amortisation and impairment:				
Balance at 1 January 2009	(36)	(1)	(5)	(42)
Amortisation for the year	—	—	(3)	(3)
Balance at 31 December 2009	(36)	(1)	(8)	(45)
Balance at 1 January 2010	**(36)**	**(1)**	**(8)**	**(45)**
Amortisation for the year	**—**	**—**	**(8)**	**(8)**
Balance at 31 December 2010	**(36)**	**(1)**	**(16)**	**(53)**
Net book value:				
Balance at 31 December 2010	**—**	**1**	**57**	**58**
Balance at 31 December 2009	—	1	58	59

14 Goodwill

	2010 RMB millions	2009 RMB millions
Balance at 1 January	**2,082**	2,029
Effect of exchange rate difference	**(175)**	53
Balance at 31 December	**1,907**	2,082

The goodwill arose from the acquisition of the following entities:

		Carrying amount	
Name of entity	**Date of acquisition**	**2010 RMB millions**	2009 RMB millions
Compagnia Italiana Forme Acciaio S.p.A ("CIFA")	September 2008	**1,693**	1,868
Shaanxi Zoomlion Earth Working Machinery Co., Ltd (formerly known as "Shaanxi Xinhuanggong Machinery Co., Ltd.")	June 2008	**135**	135
Hunan Zoomlion Axle Co., Ltd	June 2008	**12**	12
Zoomlion Material Handling Equipment Co., Ltd. (formerly known as "Huatai Machinery Manufacturing Co., Ltd.")	July 2008	**67**	67
		1,907	2.082

Goodwill impairment test

In accordance with the Group's accounting policies, management has assessed the recoverable amount of goodwill and determined that the goodwill had not been impaired. The recoverable amount of the respective cash-generating units has been determined by a value-in-use calculation, which used cash flow projections based on financial budgets approved by management. The cash flow projections covered a period of five years and adopted pre-tax discount rates ranging from approximately 12.4% to 20.0%. The discount rates were determined based on the applicable weighted average cost of capital of the acquirees, which reflects 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 are extrapolated using estimated growth rate of 3%, which does 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	
	2010 RMB millions	2009 RMB millions	**2010 RMB millions**	2009 RMB millions
Unlisted share, at cost	**—**	—	**60**	52
Share of net assets	**86**	71	**—**	—
	86	71	**60**	52

The following list contains particulars of the principal associates of the Group as at 31 December 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 Co., Ltd.	RMB11	49%	Manufacture of fire fighting vehicles and equipment
Bichamp Cutting Technology (Hunan) Co., Ltd.	RMB100	32%	Manufacture of metallic products and materials

None of the above associates was individually and in aggregate material to the Group's and the Company's financial condition or results of operations for the reporting year.

16 Inventories

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	**2010 RMB millions**	2009 RMB millions
Raw materials	**3,706**	3,055	**2,688**	1,768
Work in progress	**2,122**	1,620	**1,518**	1,194
Finished goods	**2,850**	1,597	**2,714**	1,247
	8,678	6,272	**6,920**	4,209

17 Trade and other receivables

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB millions	RMB millions	**RMB millions**	RMB millions
Trade receivables	**7,504**	5,401	**6,195**	3,826
Less: allowance for doubtful debts (Note (b))	**(557)**	(340)	**(418)**	(249)
	6,947	5,061	**5,777**	3,577
Less: trade receivables due after one year	**(585)**	(229)	**(525)**	(215)
	6,362	4,832	**5,252**	3,362
Bills receivable (Note (c))	**627**	491	**368**	171
	6,989	5,323	**5,620**	3,533
Amounts due from related parties (Note 31(b))	**27**	29	**15**	25
Amounts due from subsidiaries	**—**	—	**10,561**	4,405
Prepayments for purchase of raw materials	**388**	394	**298**	128
Prepaid expenses	**178**	113	**74**	24
VAT recoverable	**179**	81	**48**	55
Others	**499**	325	**208**	72
	8,260	6,265	**16,824**	8,242

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

The Group allows certain customers with appropriate credit standing to make payments in equal monthly instalments over a maximum period of 24 months ("instalment payment method"). Instalment payments with terms more than one year are discounted at a rate which approximates the debtor's borrowing rate in transactions with an independent lender under comparable terms and conditions. For the year ended 31 December 2010, the weighted average discount rate was approximately 5.85% (2009: 5.3%) per annum. As at 31 December 2010, trade receivables due after one year of RMB585 million (2009: RMB229 million) were presented net of unearned interest of RMB38 million (2009: RMB14 million).

17 Trade and other receivables (continued)

(a) Ageing analysis of trade receivables

Ageing analysis of trade receivables (net of allowance for doubtful debts) as of the end of the reporting year is as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB millions	RMB millions	**RMB millions**	RMB millions
Within 1 month	**2,642**	2,133	**1,796**	1,252
Over 1 month but less than 3 months	**921**	382	**911**	259
Over 3 months but less than 1 year	**2,403**	1,427	**2,277**	1,074
Over 1 year but less than 2 years	**772**	931	**600**	834
Over 2 years but less than 3 years	**174**	161	**167**	143
Over 3 years but less than 5 years	**35**	27	**26**	15
	6,947	5,061	**5,777**	3,577

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% 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(i)).

17 Trade and other receivables (continued)

(b) Impairment of trade receivables (continued)

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

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB	RMB	**RMB**	RMB
	millions	millions	**millions**	millions
Balance at 1 January	**(340)**	(255)	**(249)**	(182)
Impairment losses recognised	**(258)**	(87)	**(189)**	(68)
Uncollectible amounts written off	**41**	2	**20**	1
Balance at 31 December	**(557)**	(340)	**(418)**	(249)

(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	
	2010	2009
	RMB	RMB
	millions	millions
Gross investment	**17,841**	9,190
Unearned finance income	**(1,669)**	(847)
	16,172	8,343
Less: Amounts due after one year	**(9,775)**	(5,060)
Amounts due within one year	**6,397**	3,283

18 Receivables under finance lease (continued)

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 recognised in accordance with the accounting policies as set out in Note 2(n)(ii). The minimum lease payments receivable as of the end of the year are as follows:

	The Group	
	2010	2009
	RMB	RMB
	millions	millions
Present value of the minimum lease payments		
Within 1 year	**6,397**	3,283
Over 1 year but less than 2 years	**5,655**	2,665
Over 2 years but less than 3 years	**3,154**	1,865
Over 3 years	**966**	530
	16,172	8,343
Unearned finance income		
Within 1 year	**941**	478
Over 1 year but less than 2 years	**513**	252
Over 2 years but less than 3 years	**177**	96
Over 3 years	**38**	21
	1,669	847
Gross investment		
Within 1 year	**7,338**	3,761
Over 1 year but less than 2 years	**6,168**	2,917
Over 2 years but less than 3 years	**3,331**	1,961
Over 3 years	**1,004**	551
	17,841	9,190

18 Receivables under finance lease (continued)

As at 31 December 2010, receivables under finance lease of RMB4,125 million (2009: RMB4,671 million) were factored to banks with recourse. During the year ended 31 December 2010, receivables under finance lease of RMB714 million (2009: Nil) were factored to banks without recourse, and were therefore derecognised.

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 to banks with recourse. 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	
	2010	2009	**2010**	2009
	RMB	RMB	**RMB**	RMB
	millions	millions	**millions**	millions
Cash at bank and on hand				
— RMB denominated	**12,601**	2,965	**11,114**	2,270
— HKD denominated	**5,362**	—	**5,352**	—
— USD denominated	**511**	344	**135**	7
— EUR denominated	**237**	112	**10**	1
— Other currencies	**47**	18	**27**	14
	18,758	3,439	**16,638**	2,292

21 Loans and borrowings

(a) Short-term loans and borrowings:

		The Group		The Company	
		2010	2009	**2010**	2009
		RMB	RMB	**RMB**	RMB
	Note	**millions**	millions	**millions**	millions
Secured short-term bank loans					
— RMB denominated	(i)	**20**	55	**—**	—
— EUR denominated		**3**	2,475	**—**	—
Unsecured short-term bank loans					
— RMB denominated		**31**	1,012	**—**	470
— JPY denominated	(ii)	**777**	568	**753**	133
— EUR denominated	(ii)	**330**	144	**293**	—
— USD denominated	(ii)	**3,013**	2,002	**2,433**	1,041
— HKD denominated		**60**	—	**—**	—
Current portion of long-term bank loans		**3,873**	2,297	**388**	—
		8,107	8,553	**3,867**	1,644

Notes:

(i) The RMB denominated secured short-term bank loans as at 31 December 2010 were secured by certain properties with an aggregate carrying value of RMB28 million (2009: RMB85 million).

(i) As at 31 December 2010, JPY, EUR and USD denominated unsecured short-term loans of RMB214 million, RMB44 million and RMB1,192 million, respectively, bore interest at LIBOR plus 2% to 3.5% per annum. Such loans are subject to the fulfilment of certain financial covenants of the Group. As at 31 December 2010, the Group was in compliance with these financial covenants

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21 Loans and borrowings (continued)

(b) Long-term loans and borrowings:

		The Group		The Company	
		2010	2009	**2010**	2009
		RMB	RMB	**RMB**	RMB
	Note	**millions**	millions	**millions**	millions
Secured long-term bank loans					
— RMB denominated	(i)	**3,949**	4,515	**—**	—
— EUR denominated	(ii)	**1,585**	—	**—**	—
Unsecured long-term bank loans					
— RMB denominated	(iii)	**849**	486	**848**	485
— EUR denominated	(iv)	**883**	12	**—**	—
— USD denominated	(v)	**3,206**	1,815	**795**	—
Unsecured bond	(vi)	**1,091**	1,090	**1,091**	1,090
		11,563	7,918	**2,734**	1,575
Less: Current portion of long-term bank loans		**(3,873)**	(2,297)	**(388)**	—
		7,690	5,621	**2,346**	1,575

Notes:

(i) The RMB denominated secured long-term bank loans as at 31 December 2010 were secured by certain receivables under finance lease with a carrying value of RMB4,125 million (2009: RMB4,671 million) and had maturities ranging from 1 to 3 years from the balance sheet date.

(ii) The EUR denominated secured long-term bank loans of RMB1,583 million as at 31 December 2010 were secured by 100% equity interest of certain Company's subsidiaries in Italy. Such loans bore interest at EURIBOR plus 2.2% per annum and would be repayable in full in June 2013.

(iii) The RMB denominated unsecured long-term bank loans as at 31 December 2010 had maturities ranging from 4 to 33 months from the balance sheet date. RMB230 million of such long-term loan is subject to the fulfilment of certain annual financial covenants of the Group. As at 31 December 2010, the Group was in compliance with these financial covenants.

21 Loans and borrowings (continued)

(b) Long-term loans and borrowings: (continued)

Notes: (continued)

(iv) The EUR denominated unsecured long-term bank loan of RMB877 million as at 31 December 2010 bore interest at EURIBOR plus 2.0% per annum and would be repayable in full in June 2013.

The remaining EUR denominated unsecured long-term bank loans of RMB6 million as at 31 December 2010 (2009: RMB12 million) would be repayable in quarterly instalments through 2014.

(v) The USD denominated unsecured long-term bank loans of RMB1,319 million as at 31 December 2010 (2009: RMB1,351 million) bore interest at LIBOR plus 0.9% per annum and would be repayable in full in September 2011. This long-term bank loan is subject to the fulfilment of certain semi-annual and annual financial covenants of the Group. As at 31 December 2010, the Group was in compliance with these financial covenants.

The remaining USD denominated unsecured long-term bank loans of RMB1,887 million as at 31 December 2010 (2009: RMB464 million) bore interest at LIBOR plus 1.2% to 2.2% per annum and had maturities ranging from 14 months to 35 months from the 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), 21(b)(iii) 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	
	2010	2009	**2010**	2009
	RMB	RMB	**RMB**	RMB
	millions	millions	**millions**	millions
Trade creditors	**6,841**	4,369	**5,989**	2,108
Bills payable	**5,441**	3,843	**5,307**	3,499
Trade creditors and bills payable (Note (a))	**12,282**	8,212	**11,296**	5,607
Amounts due to related parties (Note (31(b))	**12**	—	**—**	—
Amounts due to subsidiaries	**—**	—	**1,046**	2,659
Receipts in advance	**1,021**	446	**676**	331
Payable for acquisition of property, plant and equipment	**375**	386	**339**	358
Accrued staff costs	**642**	402	**446**	224
VAT payable	**722**	265	**602**	163
Security deposits (Note 25)	**608**	270	**194**	217
Product warranty provision (Note (b))	**113**	87	**58**	36
Sundry taxes payable	**325**	63	**286**	20
Dividend payable	**116**	—	**116**	—
Other accrued expenses	**987**	501	**334**	177
	17,203	10,632	**15,393**	9,792

22 Trade and other payables (continued)

Notes:

(a) Ageing analysis of trade creditors and bills payable as of the end of the year is as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB	RMB	**RMB**	RMB
	millions	millions	**millions**	millions
Due within 1 month or on demand	**4,640**	1,901	**4,598**	1,788
Due after 1 month but within 3 months	**3,567**	2,105	**3,509**	1,761
Due after 3 months but within 6 months	**3,067**	2,238	**2,701**	1,968
Due after 6 months but less than 12 months	**1,008**	1,968	**488**	90
	12,282	8,212	**11,296**	5,607

(b) **Product warranty provision**

	The Group	The Company
	RMB	**RMB**
	millions	**millions**
Balance at 1 January 2009	127	44
Provision for the year	87	85
Utilisation during the year	(127)	(93)
Balance at 31 December 2009	87	36
Balance at 1 January 2010	**87**	**36**
Provision for the year	**135**	**115**
Utilisation during the year	**(109)**	**(93)**
Balance at 31 December 2010	**113**	**58**

A provision for warranties is recognised 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	
	2010	2009	**2010**	2009
	RMB	RMB	**RMB**	RMB
	millions	millions	**millions**	millions
Provision for PRC income tax	**756**	281	**712**	270
Provision for income tax in other tax jurisdictions	**1**	2	**—**	—
	757	283	**712**	270

(b) Deferred tax assets and liabilities recognised:

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

The Group

Year ended 31 December 2010

	Balance at 1 January 2010 RMB millions	Credited/ (charged) to profit or loss RMB millions	Effect of exchange rate RMB millions	Balance at 31 December 2010 RMB millions
Deferred tax assets arising from:				
Trade and other receivables	49	34	(1)	82
Inventories	28	14	(2)	40
Accrued expenses	46	8	(2)	52
Available-for-sale equity securities	1	(1)	—	—
Tax losses	17	55	(5)	67
Others	7	26	—	33
Total	148	136	(10)	274
Deferred tax liabilities arising from:				
Property, plant and equipment	(12)	2	1	(9)
Intangible assets	(460)	21	46	(393)
Lease prepayments	(49)	1	—	(48)
Others	(29)	5	3	(21)
Total	(550)	29	50	(471)

23 Income tax in the balance sheets (continued)

(b) Deferred tax assets and liabilities recognised: (continued)

Year ended 31 December 2009

	Balance at 1 January 2009 RMB millions	Credited/ (charged) to profit or loss RMB millions	Acquired through business combinations RMB millions	Effect of exchange rate RMB millions	Balance at 31 December 2009 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)

23 Income tax in the balance sheets (continued)

(b) Deferred tax assets and liabilities recognised: (continued)

The Company

Year ended 31 December 2010

	Balance at 1 January 2010 RMB millions	Credited/ (charged) to profit or loss RMB millions	Balance at 31 December 2010 RMB millions
Deferred tax assets arising from:			
Trade and other receivables	38	26	64
Accrued expenses	23	6	29
Available-for-sale equity securities	1	(1)	—
Others	—	3	3
Total	62	34	96
Deferred tax liabilities arising from:			
Others	(5)	5	—

Year ended 31 December 2009

	Balance at 1 January 2009 RMB millions	Credited/ (charged) to profit or loss RMB millions	Balance at 31 December 2009 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)

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 organised 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 (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	
	2010	2009
	RMB	RMB
	millions	millions
Registered capital		
4,840,678,482 A Shares of RMB1.00 each		
956,541,080 H Shares of RMB1.00 each		
(2009: 1,673,100,000 A Shares of RMB1.00 each)	**5,797**	1,673
Ordinary shares issued and fully paid:		
At 1 January	**1,673**	1,521
Issuance of A Shares in Non-public Offering	**298**	—
Bonus shares issued (Note 26(c)(ii))	**2,957**	152
Issuance of H Shares in Global Offering	**869**	—
At 31 December	**5,797**	1,673

On 5 February 2010, the Company completed a Non-public Offering of 297,954,705 A Shares to nine institutional investors at RMB18.70 per share, which 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 recorded in the capital reserve.

On 23 December 2010, the Company completed a Global Offering of 869,582,800 H Shares with a par value of RMB1 per share to institutional and public investors at a price of HKD14.98 per share, which raised gross proceeds of approximately HKD13,026 million (RMB equivalent 11,131 million). Direct transaction costs of RMB413 million have been offset against the gross proceeds, giving rise to net proceeds of RMB10,718 million. The amount of net proceeds in excess of the par value of the new shares issued was RMB9,849 million and recorded in the capital reserve.

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

26 Capital and reserves (continued)

(b) Reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated reserves is set out in the consolidated statement of change in equity. Details of the changes in the Company's individual component of reserves between the beginning and the end of the year are as follows:

	The Company	
	2010	2009
	RMB	RMB
	millions	millions
Capital reserve		
Balance at 1 January	**9**	9
Share premium of Non-public Offering (Note 26(a))	**5,181**	—
Share premium of Global Offering (Note 26(a))	**9,849**	—
Other comprehensive income	**11**	—
Balance at 31 December	**15,050**	9
Statutory reserve		
Balance at 1 January	**768**	528
Appropriation (Note 26(b)(ii))	**443**	240
Balance at 31 December	**1,211**	768
Fair value reserve		
Balance at 1 January	**1**	(2)
Other comprehensive income	**(2)**	3
Balance at 31 December	**(1)**	1

26 Capital and reserves (continued)

(b) Reserves (continued)

	The Company	
	2010	2009
	RMB	RMB
	millions	millions
Retained earnings		
Balance at 1 January	**4,910**	3,060
Appropriation (Note 26(b)(ii))	**(443)**	(240)
Cash dividends (Note 26(c)(i))	**(827)**	(152)
Bonus shares (Note 26(c)(ii))	**(2,957)**	(152)
Profit for the year	**4,424**	2,394
Balance at 31 December	**5,107**	4,910
Total		
Balance at 1 January	**5,688**	3,595
Balance at 31 December	**21,367**	5,688

(i) Capital reserve

Under PRC rules and regulations, capital reserve is non-distributable other than in liquidation and may be utilised 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 year ended 31 December 2010, the Company transferred RMB443 million (2009: RMB240 million), being 10% of the current year's net profit as determined in accordance with PRC accounting rules and regulations, to this reserve.

26 Capital and reserves (continued)

(b) Reserves (continued)

(ii) Statutory surplus reserve (continued)

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 utilised 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(o).

(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(h)(i) and 2(i)(i).

(c) Profit appropriations

(i) Cash dividends

Pursuant to the shareholders' approval at the Annual General Meeting held on 25 May 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 31 December 2009 was declared, and was paid on 18 June 2010.

Pursuant to the shareholders' approval at the Extraordinary General Meeting held on 22 July 2010, a cash dividend of RMB0.17 per share based on 1,971 million ordinary shares totalling RMB335 million was declared, and among which RMB234 million was paid in the second half of the year 2010, and the remaining balance is expected to be paid in 2011.

Pursuant to the shareholders' approval at the Annual General Meeting held on 21 May 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 31 December 2008 was declared, and was paid on 10 July 2009.

26 Capital and reserves (continued)

(c) Profit appropriations (continued)

(ii) Bonus shares

On 22 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 A Shares issued was 2,956,582,057. The par value of the ordinary shares issued of RMB2,957 million was charged against retained earnings in accordance with the Board of Directors' resolution as approved by the shareholders at the Extraordinary 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 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 factoring of finance lease receivables with recourse does not satisfy the derecognition criteria as set out in Note 2(q)(ii), 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.

27 Capital management (continued)

During 2010, the Group's strategy, which was unchanged from 2009, was to maintain the adjusted debt-to-equity ratio at less than 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.

As at 31 December 2010, the Group's adjusted debt-to-equity ratio was as follows:

	2010 RMB millions	2009 RMB millions
Short-term loans and borrowings	**8,107**	8,553
Long-term loans and borrowings	**7,690**	5,621
	15,797	14,174
Less:		
Loans arising from factoring of receivables under finance lease with recourse	**(3,954)**	(4,515)
Loans obtained to finance business combinations	**(3,779)**	(3,826)
Adjusted debt	**8,064**	5,833
Total equity attributable to equity shareholders	**27,376**	7,428
Adjusted debt-to-equity ratio	**29%**	79%

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.

28 Financial risk management and fair values (continued)

(a) Credit risk (continued)

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 instalment payment method that has a maximum instalment 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 instalment 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 31 December 2010, 1.6% (2009: 1.9%) of the total trade and bills receivables was due from the Group's largest customer and 2.0% (2009: 7.3%) of the total trade and bills receivables was due from the Group's five largest customers respectively.

28 Financial risk management and fair values (continued)

(a) Credit risk (continued)

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 date 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 balance sheet date) and the earliest date the Group and the Company would be required to repay.

28 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

The Group

	As at 31 December 2010					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions
Loans and borrowings	15,797	16,878	8,650	2,520	4,590	1,118
Trade and other payables	17,203	17,203	17,203	—	—	—
Other non-current liabilities	1,379	1,379	—	387	992	—
	34,379	35,460	25,853	2,907	5,582	1,118
Financial guarantees issued						
Maximum amount guaranteed		7,284	7,284	—	—	—

	As at 31 December 2009					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years 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	—	—	—

28 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

The Company

	As at 31 December 2010					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions
Loans and borrowings	**6,213**	**6,767**	**4,051**	**474**	**1,124**	**1,118**
Trade and other payables	**15,393**	**15,393**	**15,393**	**—**	**—**	**—**
Other non-current liabilities	**99**	**99**	**—**	**99**	**—**	**—**
	21,705	**22,259**	**19,444**	**573**	**1,124**	**1,118**
Financial guarantees issued						
Maximum amount guaranteed		**7,284**	**7,284**	**—**	**—**	**—**

	As at 31 December 2009					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years 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	—	—	—

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.

28 Financial risk management and fair values (continued)

(c) Interest rate risk

The Group'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 as at 31 December 2010.

	The Group			
	2010		2009	
	Weighted average interest rate	**Amount**	Weighted average interest rate	Amount
		RMB		RMB
	%	**millions**	%	millions
Fixed rate financial instruments:				
Short-term loans and borrowings	**3.3%**	**(1,234)**	3.8%	(4,280)
Long-term loans and borrowings	**6.7%**	**(1,091)**	5.7%	(3,320)
		(2,325)		(7,600)
Variable rate financial instruments:				
Pledged bank deposits	**0.4%**	**1,762**	0.4%	989
Bank deposits	**0.3%**	**18,756**	0.4%	3,439
Receivables under finance lease	**7.8%**	**16,172**	8.0%	8,343
Short-term loans and borrowings	**3.4%**	**(6,873)**	3.5%	(4,273)
Long-term loans and borrowings	**3.6%**	**(6,599)**	4.8%	(2,301)
		23,218		6,197
Net amount		**20,893**		(1,403)

28 Financial risk management and fair values (continued)

(c) Interest rate risk (continued)

	The Company			
	2010		2009	
	Weighted average interest rate	**Amount**	Weighted average interest rate	Amount
	%	**RMB millions**	%	RMB millions
Fixed rate financial instruments:				
Short-term loans and borrowings	**3.2%**	**(1,159)**	2.2%	(470)
Long-term loans and borrowings	**6.7%**	**(1,091)**	6.7%	(1,090)
		(2,250)		(1,560)
Variable rate financial instruments:				
Pledged bank deposits	**0.4%**	**1,615**	0.4%	778
Bank deposits	**0.3%**	**16,637**	0.4%	2,292
Short-term loans and borrowings	**2.9%**	**(2,708)**	1.4%	(1,174)
Long-term loans and borrowings	**3.5%**	**(1,255)**	4.2%	(485)
		14,289		1,411
Net amount		**12,039**		(149)

As at 31 December 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 and retained earnings by approximately RMB195 million (2009: RMB44 million).

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 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 year until the next balance sheet date. The analysis is performed on the same basis for 2009.

28 Financial risk management and fair values (continued)

(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, HK 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 recognised 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 equivalent RMB millions)							
	2010				2009			
	USD	EUR	Yen	HKD	USD	EUR	Yen	HKD
Trade debtors	397	9	–	–	298	4	–	–
Cash and cash equivalents	243	56	30	5,362	99	19	23	–
Trade creditors	(268)	(429)	(700)	(3)	(360)	(151)	(120)	–
Short-term loans and borrowings	(2,433)	(318)	(777)	(60)	(1,404)	(118)	(568)	–
Net exposure arising from recognised assets and liabilities	(2,061)	(682)	(1,447)	5,299	(1,367)	(246)	(665)	–

The Company

	Exposure to foreign currencies (expressed in equivalent RMB millions)							
	2010				2009			
	USD	EUR	Yen	HKD	USD	EUR	Yen	HKD
Trade debtors	374	9	–	–	263	2	–	–
Cash and cash equivalents	135	10	27	5,352	7	1	14	–
Trade creditors	(246)	(367)	(592)	–	(9)	(1)	–	–
Short-term loans and borrowings	(2,433)	(293)	(753)	–	(1,041)	–	(133)	–
Net exposure arising from recognised assets and liabilities	(2,170)	(641)	(1,318)	5,352	(780)	2	(119)	–

28 Financial risk management and fair values (continued)

(d) Currency risk (continued)

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 Group			
	2010		2009	
	Increase/ decrease in foreign exchange rates	**Effect on profit after taxation and retained profits RMB millions**	Increase/ decrease in foreign exchange rates	Effect on profit after taxation and retained profits RMB millions
USD	**5%**	**(88)**	5%	(58)
	-5%	**88**	-5%	58
EUR	**5%**	**(29)**	5%	(10)
	-5%	**29**	-5%	10
Yen	**5%**	**(61)**	5%	(28)
	-5%	**61**	-5%	28
HKD	**5%**	**225**	—	—
	-5%	**(225)**	—	—

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 31 December 2009 and 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 RMB5 million as at 31 December 2010 (2009: RMB9 million).

28 Financial risk management and fair values (continued)

(e) Fair values (continued)

(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 judgement 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 realise 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 5.4% to 6.2% for 2010 (2009: 5.3% to 6.8%). 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 and the Company's long-term loans and borrowings as at 31 December 2010:

The Group

	2010 RMB millions		2009 RMB millions	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Long-term bank loans	**10,472**	**10,455**	6,828	6,712
Bond	**1,091**	**1,139**	1,090	1,125

The Company

	2010 RMB millions		2009 RMB millions	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Long-term bank loans	**1,643**	**1,634**	485	482
Bond	**1,091**	**1,139**	1,090	1,125

29 Commitments

(a) Capital commitments

As at 31 December 2010, the Group and the Company had capital commitments as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB millions	RMB millions	**RMB millions**	RMB millions
Authorised and contracted for				
— property, plant and equipment	**164**	115	**132**	102
— equity investments	**—**	8	**—**	—
— intangible assets	**10**	—	**10**	—
	174	123	**142**	102
Authorised but not contracted for				
— property, plant and equipment	**388**	12	**311**	—

(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 31 December 2010, the future minimum lease payments under operating lease are as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB millions	RMB millions	**RMB millions**	RMB millions
Within 1 year	**73**	38	**38**	29
After 1 but within 2 years	**32**	24	**16**	20
After 2 but within 3 years	**15**	19	**15**	17
After 3 but within 4 years	**9**	14	**9**	14
After 4 but within 5 years	**8**	9	**8**	9
Thereafter	**19**	26	**18**	25
	156	130	**104**	114

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, and the Group provides guarantees to the banks for the amount drawn by customers. Under the guarantee arrangement, in the event of customer default, the Group is required to repossess the machinery collateralising the bank loans, and is entitled to sell the machinery and retain any net proceeds in excess of the guarantee payments made to the banks. As at 31 December 2010, the Group's maximum exposure to such guarantees was RMB5,950 million (2009: RMB3,369 million). The terms of these guarantees coincide with the tenure of bank loans which generally range from 2 to 4 years. The Group, when called upon by the banks to fulfil 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 31 December 2010, the Group made payments of RMB102 million (2009: RMB117 million) to the banks under the guarantee arrangement as a result of customer default.

Starting from October 2010, certain of the Group's finance lease contracts with end-user customers are jointly provided by the Group's leasing subsidiaries and a third-party leasing company. Under the joint leasing arrangement, the Group provides guarantee to the third-party leasing company that in the event of customer default, the Group is required make payment to the leasing company for its share of the outstanding lease payments due from the customer. At the same time, the Group is entitled to repossess and sell the leased machinery, and retain any net proceeds in excess of the guarantee payments made to the leasing company. As of 31 December 2010, the Group's maximum exposure to such guarantees was RMB1,334 million (2009: Nil). The terms of these guarantees coincide with the tenure of the lease contracts which generally range from 2 to 4 years. For the year ended 31 December 2010, there was no customer default which required the Group to make guarantee payments to the leasing company.

(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 and have sought for additional taxes of approximately EUR 10.7 million before interest and penalties, if any. In January 2011, the court ruled in favour of Cifa Mixers S.r.l. at the first degree of judgement and dismissed the claim for additional taxes from the tax authorities. However, the tax authorities may appeal to the second degree of judgement. Based on tax consultant's advice, the Group considers that it is more likely than not that the subsidiary'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 provided by the former shareholders of Cifa Mixer S.r.l. and CIFA S.p.A.. Accordingly, no provision is made for the contingency as at 31 December 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 unfavourable 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

	2010 RMB millions	2009 RMB millions
Transactions with associates:		
Sales of products	**(4)**	(4)
Lease of properties and equipment	**–**	(3)
Purchase of raw materials	**39**	10

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.

(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:

	2010 RMB thousands	2009 RMB thousands
Short-term employee benefits	**24,363**	19,830
Retirement scheme contributions	**375**	274
	24,738	20,104

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 judgements

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 judgements 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 judgements 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(j), the Group writes down the cost of inventories to net realisable value when the net realisable value of inventories is lower than the cost. The Group estimates the net realisable value of inventories by taking into account the recent selling prices and forecasted market demand. However, the actual realised value of the inventories may be significantly different from the estimated amount at the balance sheet date.

32 Accounting estimates and judgements (continued)

(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 recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 2(i)(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 recognised 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 judgement 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 amortisation

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.

Amortisation of intangible assets is recognised 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 amortisation 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 amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

33 Investments in subsidiaries

	The Company	
	2010	2009
	RMB	RMB
	millions	millions
Unlisted shares, at cost	**3,364**	1,882

The following list contains particulars of subsidiaries as at 31 December 2010 which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

		Proportion of ownership interest			
Name of company	**Particulars of issued and paid up capital (millions)**	**Group's effective interest**	**held by the Company**	**held by subsidiary**	**Principal activities**
Compagnia Italiana Forme Acciaio S.p.A. (CIFA)	EUR 15	59.32%	—	59.32%	Manufacture of concrete machinery
Shaanxi Zoomlion Earth Working Machinery Co., Ltd.	RMB474	100%	100%	—	Manufacture of earth working machinery
Hunan Zoomlion Axle Co., Ltd.	RMB289	88.86%	88.86%	—	Manufacture of motor vehicle components
Zoomlion Material Handling Equipment Co., Ltd.	RMB100	82%	82%	—	Manufacture of material handling machinery
Zoomlion Finance and Leasing (Beijing) Co., Ltd.	RMB1,502	100%	100%	—	Leasing of construction equipment and machinery

33 Investments in subsidiaries (continued)

Name of company	Particulars of issued and paid up capital (millions)	Proportion of ownership interest: Group's effective interest	held by the Company	held by subsidiary	Principal activities
Hunan Zoomlion International Trade Co., Ltd.	RMB5	100%	100%	—	Trading of equipment and machinery
Hunan Teli Hydraulic Co., Ltd.	RMB105	66.75%	66.75%	—	Manufacture of hydraulic products
Hunan Zoomlion Special Vehicles Co., Ltd.	RMB69	100%	100%	—	Manufacture of specialized vehicles
Zoomlion Finance and Leasing (China) Co., Ltd.	USD80	100%	—	100%	Leasing of equipment and machinery
Hunan Zoomlion Crawling Crane Ltd.	RMB72	100%	100%	—	Manufacture of crawling cranes
Hunan Zoomlion Hardware Co., Ltd.	RMB100	75.6%	75.6%	—	Manufacture of crane components
Shanghai Zoomlion Pile Foundation Machinery Co., Ltd.	RMB50	100%	100%	—	Manufacture of pile foundation machinery

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.

34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 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 year ended 31 December 2010.

	Effective for accounting period beginning on or after
Amendment to IAS 32, "Financial instruments: Presentation — Classification of rights issues"	1 February 2010
IFRIC 19, "Extinguishing financial liabilities with equity instruments"	1 July 2010
Amendments to IFRS 1, "First-time adoption of International Financial Reporting Standards-Limited exemption from comparative IFRS 7 disclosures for first-time adopters"	1 July 2010
Improvements to IFRSs 2010	1 July 2010 or 1 January 2011
IAS 24 (revised), "Related party disclosures"	1 January 2011
Amendments to IFRIC 14, IAS 19 "The limit on a defined benefit asset, minimum funding requirements and their interaction Prepayments of a minimum funding requirement"	1 January 2011
Amendments to IFRS 1, "First-time adoption of International Financial Reporting Standards — Severe hyperinflation and removal of fixed dates for first-time adopters"	1 July 2011
Amendments to IFRS 7, "Financial Instruments: Disclosures — Transfers of financial assets"	1 July 2011
Amendments to IAS 12, "Income taxes — Deferred tax: Recovery of underlying assets"	1 January 2012
IFRS 9, "Financial instruments"	1 January 2013

The Company has not early 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.

35 Reconciliation of financial information prepared under PRC GAAP to IFRSs

(a) Reconciliation of total equity of the Group

	2010 RMB millions	2009 RMB millions
Total equity reported under PRC GAAP	**27,475**	7,592
—Acquisition-related costs incurred on prior year business combination	**(40)**	(40)
Total equity reported under IFRSs	**27,435**	7,552

(b) There is no material difference between total comprehensive income and consolidated cash flow of the Group reported under PRC GAAP to IFRSs.

36 Comparative figures

In the consolidated cash flow statement for the year ended 31 December 2010, interest paid and interest received by the Group was presented as financing cash flows and investing cash flows respectively, representing costs of obtaining financial resources or returns on investments. As a result, related comparative figures in the consolidated cash flow statement have been reclassified to conform with the current year's presentation.

37 Post balance sheet events

(a) On 5 January 2011, the underwriters of the Global Offering exercised the over-allotment option in full. As a result, 130,437,400 H Shares with a par value of RMB1 per share were issued at a price of HKD14.98 per share, which raised gross proceeds of approximately HKD1,954 million (RMB equivalent 1,659 million) and net proceeds of RMB1,507 million. In this connection, Hunan SASAC and Hunan Development Group transferred a total of additional 13,043,740 A Shares to the NSSF, which were converted into H Shares on a one-for-one basis. Upon completion of the issuance of new H Shares and conversion of A Shares into H Shares, the share capital of the Company was increased to approximately RMB5,927 million, comprising 4,827,634,742 A Shares and 1,100,022,220 H Shares.

37 Post balance sheet events (continued)

(b) On 18 February 2011, the Company's Board of Directors approved an investment of RMB100 million to jointly establish a Hunan-based insurance company with other third-party investors. The registered capital of the insurance company will be RMB1,150 million.

(c) Pursuant to a resolution passed at the directors' meeting on 28 March 2011, a final dividend in respect of the year ended 31 December 2010 of RMB0.26 (2009: RMB0.25) per share totaling RMB1,541 million (2009: RMB492 million) was proposed for shareholders' approval at the Annual General Meeting. In addition, a stock split in the form of bonus shares on the basis of 0.3 share for every outstanding ordinary share as at 28 March 2011 was proposed for shareholders' approval. The total number of shares to be issued is 1,778 million. The par value of new ordinary shares to be issued of RMB1,778 million will be charged to capital reserve in accordance with the Board of Directors' resolution. The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

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