ZOOMLION

中聯重科股份有限公司

# ZOOMLION HEAVY INDUSTRY SCIENCE AND TECHNOLOGY 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

# 2011 ANNUAL REPORT

* 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 misrepresentation, 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 Zoomlion Heavy Industry Science and Technology Co., Ltd.*

# Contents


| | |
|---|---|
| Company Profile | 2 |
| Chairman's Statement | 4 |
| Principal Financial Data and Indicators | 7 |
| Changes in Share Capital and Shareholders | 12 |
| Directors, Supervisors, Senior Management and Employees | 23 |
| Corporate Governance and Corporate Governance Report | 40 |
| Summary of Shareholders' Meetings | 62 |
| Report of the Board of Directors | 63 |
| Management Discussion and Analysis | 85 |
| Report of the Supervisory Board | 101 |
| Significant Events | 103 |
| Report of the International Auditor | 113 |
| Financial Statements prepared in accordance with International Financial Reporting Standards and Notes | 115 |

# Company Profile

I. Company name (in Chinese): 中聯重科股份有限公司
Chinese abbreviation: 中聯重科
Company name (in English): Zoomlion Heavy Industry Science And Technology 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
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,
Wan Chai, 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

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

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: 14 September 2011
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 65% since its establishment. It has 13 product series with intellectual property rights and over 640 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 2011, and to express our sincere thanks for your continuing support and care.

In 2011, the first year of the Twelfth Five-Year Plan, China's economy remained stable in general and the inflation pressure was slightly relieved. However, the economic growth began to slowdown and the focus of macro-economic control shifted from anti-inflation to maintaining stable economic growth. Facing the complicated and changing overseas political and economic environment, the recovery of major economies of the world slowed down, and the development of emerging markets experienced pressures. In response of such complex environment, the Company seized opportunities and made breakthroughs in its production and operation. I would like to report our results of operations to the shareholders from the following aspects:

## Results of Operations

With China's economic slowdown, austerity measures on currency and the dampened global economic recovery in 2011, the Company was facing challenges in its production and operation. However, under the guidance of the Board, the Company timely adjusted its business directions by implementing differentiated product development strategies. By focusing on its competitive edges, the Company strived to ensure the continuous breakthroughs for its core products including concrete machinery and cranes, which laid a solid foundation for the steady growth of the operating results of the Company. In addition, the Company further enhanced its management and processes with its technological improvement leading the peer. The integration of resources and overseas sales continued to make significant achievements.

In 2011, our revenue totalled RMB46,323 million, representing an increase of 43.9% as compared to last year. Net profit attributable to equity shareholders of the parent company amounted to RMB8,066 million, representing an increase of 72.9% over last year. The basic earnings per share was RMB1.0486.

## Corporate Governance

In 2011, 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 regulate the corporate governance and improve the internal control. With a view to preventing insider trading, the Company urged all directors, supervisors, senior management of the Company to sign the letter of commitment for prevention of insider trading and report the particulars of insiders. The procedures of shareholders' meeting, board meeting and supervisory board meeting were standardised to maintain operation efficiency and safeguard the interests of all shareholders.

# Chairman's Statement

## Corporate Social Responsibility

Apart from achieving continuous rapid development, the Company is also committed to undertaking its corporate social obligations in modern society by regularly participating in charitable events and performing its social responsibilities. The Company adheres to its people-oriented principles in respects of its business activities such as reforms, mergers and acquisitions, technological innovations, low-carbon emission and recycling measures in line with economic development, management of customer relations and supply chain management. As such, it has become a model enterprise of practical scientific development.

## Dividend Distribution

Based on the total share capital of 7,705,954,050 shares, the Board proposed to distribute dividends to all shareholders as follows:

Cash dividends of RMB2.5 (tax inclusive) for every 10 shares.

## Prospects

2012 will be a year of opportunities and challenges. In relation to the domestic market, the rapid urbanization of China and its emphasis on projects in progress and extension projects will continue to boost the market demand for construction machineries. The overall scale of the market will further expand, but the growth will be slowed down. The global market is under the influence of the European debt crisis and the dampened global economic recovery. The global economy will continue to grow at a slower pace and the demand for construction machinery is not likely to be recovered in short-term.

Under such circumstances, the global construction machinery industry will face fierce competition, and the market layout will undergo significant changes. The Company will seize the opportunities and continue to develop amid the changes of the market layout. In light of that, the operation focus of the Company for 2012 is to carry out management reform with the market and customers as its targets by capitalizing on talents and technologies. The Company will adopt a three-dimensional matrix management model in which project management and large-scale marketing reforms will be carried out in line with market development.

2012 will be full of challenges, opportunities and expectations. Looking forward in the coming year, Zoomlion will devote to reform and expand its businesses across the world. Bearing responsibilities and facing challenges, it will be a fruitful year, with milestones and breakthroughs waiting ahead.

**Zhan Chunxin**
*Chairman*

15 March 2012

# Principal Financial Data and Indicators

## I. Major Financial Data prepared in accordance with China Accounting Standards ("PRC GAAP")

### (1) Major financial data

*Unit: RMB*

| | **2011** | 2010 | Change (%) | 2009 |
|---|---|---|---|---|
| Operating Income | **46,322,580,713.20** | 32,192,673,210.38 | 43.89% | 20,762,163,099.20 |
| Gross profit | **9,514,369,773.66** | 5,373,872,292.61 | 77.05% | 2,729,845,805.19 |
| Total profit | **9,602,473,912.41** | 5,416,105,284.48 | 77.29% | 2,827,394,127.04 |
| Net profit attributable to shareholders of the Company | **8,065,640,596.14** | 4,665,589,677.74 | 72.87% | 2,446,404,303.36 |
| Net profit attributable to equity shareholders of the Company after extraordinary items | **7,987,824,892.10** | 4,633,371,902.38 | 72.40% | 2,370,596,441.65 |
| Net cash flow from operating activities | **2,093,234,777.59** | 545,177,864.66 | 283.95% | -1,297,365,040.32 |

| | **End of 2011** | End of 2010 | Change (%) | End of 2009 |
|---|---|---|---|---|
| Total assets | **71,581,771,679.19** | 63,081,564,271.45 | 13.47% | 33,914,557,915.31 |
| Total liabilities | **35,947,011,758.44** | 35,607,117,456.09 | 0.95% | 26,322,801,060.68 |
| Shareholders' equity attributable to equity shareholders of the Company | **35,446,450,136.43** | 27,415,214,655.29 | 29.29% | 7,467,601,306.71 |
| Share capital (shares) | **7,705,954,050.00** | 5,797,219,562.00 | 32.92% | 1,673,100,000.00 |

# Principal Financial Data and Indicators

(2) Major financial indicators

*Unit: RMB*

| | **2011** | 2010 | Change (%) | 2009 |
|---|---|---|---|---|
| Basic earnings per share | **1.05** | 0.75 | 40.00% | 0.58 |
| Diluted earnings per share | **1.05** | 0.75 | 40.00% | 0.58 |
| Basic earnings per share after extraordinary items | **1.04** | 0.74 | 40.54% | 0.57 |
| Weighted average return on net assets (%) | **25.16%** | 33.41% | -8.25% | 38.82% |
| Weighted average return on net assets after extraordinary items (%) | **24.95%** | 33.22% | -8.27% | 37.84% |
| Net cash flow from operating activities per share | **0.27** | 0.09 | 200.00% | -0.78 |

| | **End of 2011** | End of 2010 | Change (%) | End of 2009 |
|---|---|---|---|---|
| Net assets per share attributable to shareholders of the Company | **4.5999** | 4.7290 | -2.73% | 4.4633 |
| Gear ratio (%) | **50.22%** | 56.45% | -6.23% | 77.62% |

# Principal Financial Data and Indicators

## (3) Extraordinary items

*Unit: RMB*

| Extraordinary items | 2011 | Notes | 2010 | 2009 |
|---|---|---|---|---|
| Loss on disposal of non-current assets | **-4,913,327.31** | loss on disposal of non-current assets | -37,263,563.00 | -16,264,672.70 |
| 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 | **86,879,411.04** | financial subsidies, tax refund and special allowances | 70,352,283.40 | 73,605,829.63 |
| (Loss)/gain from debt restructuring | **-17,415,970.53** | Net gain/loss from debt restructuring recorded in non-operating income and expenses | 8,678,711.16 | 23,762,355.21 |
| Change in fair value of financial assets and liabilities held for trading and gain from disposal of financial assets and liabilities held for trading and financial assets held for sale other than financial assets and liabilities held under hedging arrangement in relation to normal business | **18,816,657.97** | change in fair value of financial assets and liabilities held for trading | 0.00 | 4,970,460.71 |
| Non-operating income and expenses other than those set out above | **23,554,025.55** | penalties, donations and others | 465,560.31 | 10,059,723.07 |
| Tax effect | **-20,349,741.57** | | -10,144,712.55 | -2,126,363.74 |
| Less: minority interests | **-8,755,351.11** | | 129,496.04 | -18,199,470.47 |
| Total | **77,815,704.04** | | 32,217,775.36 | 75,807,861.71 |

# Principal Financial Data and Indicators

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

*Unit: RMB million*

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| **Turnover and profits** | **2011** | 2010 | 2009 | 2008 | 2007 |
| Turnover | **46,323** | 32,193 | 20,762 | 13,548 | 8,973 |
| Profit before taxation | **9,602** | 5,416 | 2,828 | 1,744 | 1,471 |
| Income tax | **(1,429)** | (828) | (409) | (191) | (34) |
| Profit for the year | **8,173** | 4,588 | 2,419 | 1,553 | 1,437 |
| Profit for the year attributable to: | | | | | |
| Equity shareholder of the Company | **8,066** | 4,666 | 2,447 | 1,544 | 1,439 |
| Non-controlling shareholders | **107** | (78) | (28) | 9 | (2) |
| Basic and diluted earnings per share (RMB) (Note) | **1.05** | 0.74 | 0.45 | 0.28 | 0.26 |

Note: The basic and diluted earnings per share for 2007, 2008, 2009 and 2010 have been adjusted retrospectively to reflect the stock split in the form of bonus shares issued in the subsequent years.

*Unit: RMB million*

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| **Assets and liabilities** | **2011** | 2010 | 2009 | 2008 | 2007 |
| Non-current assets | **23,701** | 19,372 | 13,861 | 9,185 | 2,361 |
| Current assets | **47,842** | 43,670 | 20,014 | 14,037 | 6,172 |
| Current liabilities | **26,652** | 26,067 | 19,468 | 13,224 | 4,445 |
| Net current assets | **21,190** | 17,603 | 546 | 813 | 1,727 |
| Total assets less current liabilities | **44,891** | 36,975 | 14,407 | 9,998 | 4,088 |
| Non-current liabilities | **9,296** | 9,540 | 6,855 | 4,787 | 337 |
| Net assets | **35,595** | 27,435 | 7,552 | 5,211 | 3,751 |
| Total equity attributable to the equity shareholders of the Company | **35,407** | 27,376 | 7,428 | 5,071 | 3,629 |
| Non-controlling interests | **188** | 59 | 124 | 140 | 122 |

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

*Unit: RMB*

| | Net profit attributable to equity shareholders of the Company | | Total equity attributable to equity shareholders of the Company | |
|---|---|---|---|---|
| | Current year | Last year | Carried forward | Brought forward |
| Under IFRSs | 8,065,640,596.14 | 4,665,589,677.74 | 35,406,450,136.43 | 27,375,214,655.29 |
| Under PRC GAAP | 8,065,640,596.14 | 4,665,589,677.74 | 35,446,450,136.43 | 27,415,214,655.29 |
| Adjustment for IFRSs | | | | |
| Acquisition-related costs incurred on prior year business combination | 0.00 | 0.00 | -40,000,000.00 | -40,000,000.00 |
| Difference between PRC GAAP and IFRSs | 0.00 | 0.00 | -40,000,000.00 | -40,000,000.00 |

Note: Acquisition-related costs of RMB40 million was recognized as cost of investment for 2008 under PRC GAAP but was charged to income statement of the year under IFRSs.

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 2011)

### (I) Change in shares

*Unit: Share*

| | Before this change | | Increase(+)/Decrease(-) in this change | | | | After this change | |
|---|---|---|---|---|---|---|---|---|
| | Number | Percentage | New shares | Bonus shares from capital reserve | Others | Sub-total | Number | Percentage |
| I. Shares subject to sales restriction | 746,550,014 | 12.88% | 0 | 430,187 | -745,116,057 | -744,685,870 | 1,864,144 | 0.02% |
| 1. State-owned shares | 0 | 0.00% | 0 | 0 | 0 | 0 | 0 | 0% |
| 2. Shares held by state-owned legal persons | 365,750,000 | 6.31% | 0 | 0 | -365,750,000 | -365,750,000 | 0 | 0% |
| 3. Other domestic shares | 250,931,450 | 4.33% | 0 | 0 | -250,931,450 | -250,931,450 | 0 | 0% |
| Including: shares held by domestic non-state-owned legal persons | 250,931,450 | 4.33% | 0 | 0 | -250,931,450 | -250,931,450 | 0 | 0% |
| shares held by domestic natural persons | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0% |
| 4. Foreign invested shares | 0 | 0.00% | 0 | 0 | 0 | 0 | 0 | 0% |
| Including: shares held by overseas legal persons | 0 | 0.00% | 0 | 0 | 0 | 0 | 0 | 0% |
| shares held by overseas natural persons | 0 | 0.00% | 0 | 0 | 0 | 0 | 0 | 0% |
| 5. Shares held by senior management | 1,663,252 | 0.03% | 0 | 430,187 | -229,295 | 200,892 | 1,864,144 | 0.02% |
| 6. Others | 128,205,312 | 2.21% | 0 | 0 | -128,205,312 | -128,205,312 | 0 | 0% |
| II. Shares not subject to sales restriction | 5,050,669,548 | 87.12% | 130,437,400 | 1,777,866,901 | 745,116,057 | 2,653,420,358 | 7,704,089,906 | 99.98% |
| 1. Ordinary shares denominated in RMB (A Shares) | 4,094,128,468 | 70.62% | 0 | 1,447,860,235 | 732,072,317 | 2,179,932,552 | 6,274,061,020 | 81.42% |
| 2. Domestically listed foreign invested shares | 0 | 0.00% | 0 | 0 | 0 | 0 | 0 | 0.00% |
| 3. Overseas listed foreign invested shares | 956,541,080 | 16.50% | 130,437,400 | 330,006,666 | 13,043,740 | 473,487,806 | 1,430,028,886 | 18.56% |
| 4. Others | 0 | 0.00% | 0 | 0 | 0 | 0 | 0 | 0% |
| III. Total number of shares | 5,797,219,562 | 100.00% | 130,437,400 | 1,778,297,088 | 0 | 1,908,734,488 | 7,705,954,050 | 100% |

## (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 |
|---|---|---|---|---|---|---|
| Hony Capital Fund I (Tianjin), L.P. | 131,575,000 | 131,575,000 | 0 | 0 | | |
| China Jianyin Investment Co., Ltd. | 127,500,000 | 127,500,000 | 0 | 0 | | |
| Xiangjiang Industrial Investment Co., Ltd. | 87,500,000 | 87,500,000 | 0 | 0 | | |
| Guangdong Hengjian Investment Holding Co., Ltd. | 77,500,000 | 77,500,000 | 0 | 0 | | |
| Youngor Group Co., Ltd. | 75,000,000 | 75,000,000 | 0 | 0 | Non-public offering | 14 February 2011 |
| Anhui Province Investment Group Co., Ltd. | 73,250,000 | 73,250,000 | 0 | 0 | | |
| Zhonghai Fund Management Co., Ltd. | 64,102,750 | 64,102,750 | 0 | 0 | | |
| PICC Asset Management Company Limited | 64,102,562 | 64,102,562 | 0 | 0 | | |
| Bainian Cosmetics and Personal Care Co., Ltd. | 44,356,450 | 44,356,450 | 0 | 0 | | |
| Shares held by senior management | 1,663,252 | 229,295 | 430,187 | 1,864,144 | Increase of shareholding | Nil |
| Total | 746,550,014 | 745,116,057 | 430,187 | 1,864,144 | | |

## (III) Issuance and listing of securities

1. As approved by the China Securities Regulatory Commission (Zheng Jian Xu Ke [2010] No. 97), the Company issued 297,954,705 ordinary shares denominated in RMB (A Shares) to nine selected investors at an issue price of RMB18.70 per share in 28 January 2010. Upon the listing of the shares issued under such non public offering on the Shenzhen Stock Exchange in 12 February 2010, the total capital of the Company was changed into 1,971,054,705 shares.

2. As approved by the China Securities Regulatory Commission (Zheng Jian Xu Ke [2010] No. 1654) and SEHK, after the 869,582,800 H Shares 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.

# Changes in Share Capital and Shareholders

3. The Company implemented the "Proposal for Distribution of Profits in 2010" on 15 July 2011, pursuant to which the Company distributed RMB2.6 in cash (tax included) per 10 shares and issued 3 bonus shares for every 10 existing shares by capitalisation of the capital reserve to all shareholders based on the total share capital of the Company of 5,927,656,962 shares. Total share capital of the Company was changed into 7,705,954,050 shares after the distribution of profits.

4. Interests of the corporate bonds were paid by the Company on 21 April 2011. 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).

5. 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 2011, 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 2011)

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

*Unit: Share*

| Total number of shareholders as at the end of the reporting period | | | | | 485,756 |
|---|---|---|---|---|---|
| **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 | 16.19% | 1,247,379,996 | 0 | 0 |
| HKSCC NOMINEES LIMITED (Note) | H shares | 18.53% | 1,427,806,025 | 0 | 0 |
| GOOD EXCEL GROUP LIMITED | Overseas legal person | 5.18% | 398,841,605 | 0 | 0 |
| Changsha Hesheng Science and Technology Investment Co., Ltd. | Domestic ordinary legal person | 5.04% | 388,059,949 | 0 | 0 |
| Changsha Yifang Science and Technology Investment Co., Ltd. | Domestic ordinary legal person | 3.09% | 238,236,771 | 0 | 0 |
| Real Smart International Limited | Overseas legal person | 2.36% | 182,099,602 | 0 | 0 |
| Hony Capital Fund I (Tianjin), L.P. | Domestic ordinary legal person | 2.22% | 171,047,500 | 0 | 0 |
| China Jianyin Investment Co., Ltd. | State-owned legal person | 2.15% | 165,370,000 | 0 | 0 |
| Guangdong Hengjian Investment Holding Co., Ltd. | State-owned legal person | 1.07% | 82,696,250 | 0 | 0 |
| Xiangjiang Industrial Investment Co., Ltd. | State-owned legal person | 0.96% | 74,125,726 | 0 | 0 |

# Changes in Share Capital and Shareholders

| Top ten holders of shares not subject to sales restriction<br>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 | 1,247,379,996 | Ordinary shares denominated in RMB |
| HKSCC NOMINEES LIMITED | 1,427,806,025 | H shares |
| GOOD EXCEL GROUP LIMITED | 398,841,605 | Ordinary shares denominated in RMB |
| Changsha Hesheng Science and Technology Investment Co., Ltd. | 388,059,949 | Ordinary shares denominated in RMB |
| Changsha Yifang Science and Technology Investment Co., Ltd. | 238,236,771 | Ordinary shares denominated in RMB |
| Real Smart International Limited | 182,099,602 | Ordinary shares denominated in RMB |
| Hony Capital Fund I (Tianjin), L.P. | 171,047,500 | Ordinary shares denominated in RMB |
| China Jianyin Investment Co., Ltd. | 165,370,000 | Ordinary shares denominated in RMB |
| Guangdong Hengjian Investment Holding Co., Ltd. | 82,696,250 | Ordinary shares denominated in RMB |
| Xiangjiang Industrial Investment Co., Ltd. | 74,125,726 | 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. | |

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

# Changes in Share Capital and Shareholders

## 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 | 621, 387 | 1,242,757 | 7,704,089,906 | Release from sales restriction for part of the shares held by the existing senior management under the laws |

## 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 Number of shares held subject to sales restriction | Listing date | Number of additional shares to be listed and traded | Terms of sales restriction |
|---|---|---|---|---|
| Zhan Chunxin | 197,340 | 4 January 2012 | 0 | 25% of the shares of the Company held by directors, supervisors and senior management will be released from lock-up restrictions each year according to laws. |
| Liu Quan | 141,836 | | 0 | |
| Zhang Jianguo | 139,831 | | 0 | |
| Guo Xuehong | 134,062 | | 0 | |
| Yin Zhengfu | 134,062 | | 0 | |
| He Jianming | 123,338 | | 0 | |
| Sun Changjun | 120,657 | | 0 | |
| Fang Minghua | 118,781 | | 0 | |
| Wang Chunyang | 118,511 | | 0 | |
| Li Jiangtao | 114,757 | | 0 | |

# Changes in Share Capital and Shareholders

(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: Wu Zhixiong
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. **Substantial Shareholders' interests in the shares and underlying shares of the Company**

As at 31 December 2011, 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 Divisions 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 (%) |
|---|---|---|---|---|---|
| State-owned Assets Supervision and Administration Commission of Hunan Provincial People's Government | Beneficial | A share | 1,247,379,996 | 19.88 | 16.19 |
| Good Excel Group Limited(1) (2) | Beneficial | A shares | 398,841,605 | 6.36 | 5.18 |
| Rise Honour Investments Limited(1) (2) | Interests of controlled corporation | A shares | 580,941,207 | 9.26 | 7.54 |
| Hony Capital II L.P. (1) (2) | Interests of controlled corporation | A shares | 580,941,207 | 9.26 | 7.54 |
| Hony Capital GP Ltd. (1) (2) | Interests of controlled corporation | A shares | 580,941,207 | 9.26 | 7.54 |
| Right Lane Limited(1) (2) | Interests of controlled corporation | A shares | 580,941,207 | 9.26 | 7.54 |

# Changes in Share Capital and Shareholders

| Name | Nature of interest | Class of shares | Number of shares | Percentage of class of shares issued (%) | Percentage of total shares issued (%) |
|---|---|---|---|---|---|
| Legend Holdings Limited[(1) (2) (3)] | Interests of controlled corporation | A shares | 751,988,707 | 11.98 | 9.76 |
| Chinese Academy of Sciences Holdings Co, Ltd. [(1) (3) (4)] | Interests of controlled corporation | A shares | 751,988,707 | 11.98 | 9.76 |
| Chinese Academy of Sciences[(1) (3) (4)] | Interests of controlled corporation | A shares | 751,988,707 | 11.98 | 9.76 |
| Changsha Hesheng Science and Technology Investment Co., Ltd.[(5)] | Beneficial | A share | 388,059,949 | 6.18 | 5.04 |
| Blackrock, Inc.[(1), (6)] | Interests of controlled corporation | H share | 99,793,517(L) | 6.98 | 1.30 |
| | | | 13,453,086(S) | 0.94 | 0.17 |
| Morgan Stanley[(1), (7)] | Interests of controlled corporation | H share | 122,186,235(L)<br>100,131,058(S) | 8.54<br>7.00 | 1.59<br>1.30 |
| National Council for Social Security Fund[(1)] | Beneficial | H share | 76,714,420(L) | 5.36 | 1.00 |
| JP Morgan Chase & Co.[(1), (8)] | Beneficial, interests of controlled corporation and custodian corporation/ approved lending agent | H share | 114,689,748(L)<br>11,863,779(S) | 8.02<br>0.83 | 1.49<br>0.15 |
| | | | 85,624,960(P) | 5.99 | 1.11 |
| Artio Global Management LLC[(1)] | Beneficial and investment manager | H share | 100,008,904(L) | 6.99 | 1.30 |
| UBS AG[(1), (9)] | Beneficial, having a security interest in shares and interests of controlled corporation | H share | 199,283,633(L)<br>8,924,546(S) | 13.94<br>0.62 | 2.59<br>0.12 |
| TIAA-CREF Investment Management, LLC[(1)] | Beneficial and investment manager | H Share | 108,655,398(L) | 7.60 | 1.41 |
| FIL Limited[(1)] | Beneficial and investment manager | H Share | 72,797,340(L) | 5.09 | 0.94 |
| Templeton Asset Management Ltd.[(1)] | Beneficial and investment manager | H Share | 71,776,520(L) | 5.02 | 0.93 |

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

# Changes in Share Capital and Shareholders

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

(2) Good Excel Group Limited and Real Smart International Limited are beneficially interested in 398,841,605 and 182,099,602 A shares respectively. Good Excel Group Limited and Real Smart International Limited are interested in an aggregate of 580,941,207 A shares. Each of Good Excel Group Limited and Real Smart International Limited is a 86.99% and 67.71% owned subsidiary of Rise Honour Investments Limited, respectively. 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 171,047,500 A shares held by Hony Capital Fund I (Tianjin), L.P.. Legend Holdings Limited is deemed to be interested in 751,988,707 A shares.

(4) Chinese Academy of Sciences Holdings Co, Ltd. Hold 36% interests of Legend Holdings Limited, while Chinese Academy of Sciences Holdings Co, Ltd. is wholly owned by Chinese Academy of Sciences.

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

(6) BlackRock, Inc. is deemed or considered to be interested in 99,793,517 H shares of the Company through the companies directly or indirectly owned by it, namely Trident Merger, LLC, BlackRock Investment Management, LLC., BlackRock Holdco 2 Inc., BlackRock Financial Management, Inc., BlackRock Holdco 4 LLC, BlackRock Holdco 6 LLC, BlackRock Delaware Holdings, Inc., BlackRock Institutional Trust Company, N.A., BlackRock Fund Advisors, BlackRock Advisors Holdings Inc., BlackRock Capital Holdings, Inc., BlackRock Advisors, LLC., BlackRock International Holdings Inc., BR Jersey International LP, BLK Isle of Man Holdings Limited, BlackRock (Isle of Man) Holdings Limited, BlackRock Cayco Ltd., BlackRock Trident Holding Company Limited, BlackRock Japan Holdings GK, BlackRock Asset Management Japan Limited, BlackRock (Institutional) Canada Ltd, BlackRock Holdings Canada Limited, BlackRock Asset Management Canada Limited, BlackRock Australia Holdco Pty Ltd, BlackRock Asset Management Australia Limited, BlackRock HK Holdco Limited, BlackRock Asset Management North Asia Limited, BlackRock Group Limited, Blackrock Advisors (UK) Limited, BlackRock (Netherlands) B.V., BlackRock Luxembourg Holdco S.a.r.l., BlackRock (Luxembourg) S.A., BlackRock Investment Management Ireland Holdings Ltd, BlackRock Asset Management Ireland Limited, BlackRock Investment Management (UK) Limited, BlackRock Fund Managers Limited, BlackRock International Limited and BlackRock Pensions Limited. BlackRock Inc. holds 13,453,086 H shares in short position.

(7) Morgan Stanley is deemed or considered to be interested in 122,186,235 H shares of the Company through the 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 Limited, Morgan Stanley Group (Europe), Morgan Stanley UK Group, Morgan Stanley & Co. International plc., Morgan Stanley & Co, LLC, MSDW Offshore Equity Services Inc., MSDW Equity Finance Services 1 (Cayman) Limited and Morgan Stanley Capital Services Inc.. Morgan Stanley holds 100,131,058 H shares in short position.

(8) JP Morgan Chase & Co. is deemed or considered to be interested in 114,689,748 H shares of the Company through the companies directly or indirectly owned by it, namely JPMorgan Chase Bank, N.A., J.P. Morgan Whitefriars Inc., J.P. Morgan Overseas Capital Corporation, J.P. Morgan International Finance Limited, Bank One International Holdings Corporation, J.P. Morgan International Inc., JPMorgan Chase Bank, N.A., J.P. Morgan Securities Ltd., J.P. Morgan Chase International Holdings, J.P. Morgan Chase (UK) Holdings Limited, J.P. Morgan Capital Holdings Limited, JF Asset Management Limited, JPMorgan Asset Management (Asia) Inc. and JPMorgan Asset Management Holdings Inc.. JP Morgan Chase & Co. holds 11,863,779 H shares in short position.

(9) UBS AG is deemed or considered to be interested in 199,283,633 H shares of the Company through the companies directly or indirectly owned by it, namely UBS Fund Management (Switzerland) AG, UBS Fund Services (Luxembourg) S.A., UBS Global Asset Management (Canada) Inc., UBS Global Asset Management (Americas) Inc., UBS Global Asset Management (Singapore) Ltd, UBS Global Asset Management (UK) Ltd, UBS Securities LLC, UBS Global Asset Management (Japan) Ltd and UBS Global Asset Management Trust Company. UBS AG holds 8,924,546 H shares in short position.

Save as disclosed above, to the best knowledge of the Directors, Supervisors and chief executives, as at 31 December 2011, 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.

**3. Public float**

As at the Latest Practicable Date prior to the printing of this annual report, 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 of Hong Kong.

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

As at 31 December 2011, 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 (as at 31 December 2011)

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 2011, the Company paid the interests accrued during the period from 21 April 2010 to 20 April 2011.

**Top ten holders of the corporate bonds of the Company:**

| Name of holder of the corporate bonds | Number of bonds held | Percentage |
|---|---|---|
| CITIC Securities Co., Ltd. | 1,300,001 | 11.82% |
| Haitong — BOC — Fortis Bank | 1,251,037 | 11.37% |
| ICBC Credit Suisse Asset Management — ICBC — Specific clients asset | 1,047,927 | 9.53% |

# Changes in Share Capital and Shareholders

| Name of holder of the corporate bonds | Number of bonds held | Percentage |
|---|---|---|
| China Construction Bank — ICBCCS Credit Value-added Debt Securities Investment Fund | 699,323 | 6.36% |
| Industrial and Commercial Bank of China — Fuguo Tianli Bond Investment Growth Fund | 544,890 | 4.95% |
| National Social Insurance Fund 206 Package | 540,097 | 4.91% |
| National Social Insurance Fund 203 Package | 536,850 | 4.88% |
| CITIC Securities — CITIC — CITIC Securitized Profits Portfolio Management Plan (中信證券穩健回報集合資產管理計畫) | 506,100 | 4.60% |
| National Social Insurance Fund 803 Package | 400,000 | 3.64% |
| Industrial and Commercial Bank of China — China AMC Hope Bonds Investment Fund | 345,340 | 3.14% |
| Description of the connected relationships between the above holders of bonds | Both ICBC Credit Suisse Asset Management — ICBC — Specific clients asset and ICBCCS Credit Value-added Debt Securities Investment Fund were managed by ICBC Credit Suisse Asset Management Co., Ltd.. Both CITIC Securities Co., Ltd. and CITIC Securitized Profits 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 National Social Insurance Fund 206 Package, National Social Insurance Fund 203 Package and National Social Insurance Fund 803 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 | 56 | 22 July 2010 | 22 July 2013 | 202,400 | 263,120 | Bonus Shares | 195 | No |
| Liu Quan | Executive Director | Male | 48 | 22 July 2010 | 22 July 2013 | 145,475 | 189,117 | Bonus Shares | 130 | No |
| Qiu Zhongwei | Non-executive director | Male | 43 | 22 July 2010 | 22 July 2013 | 0 | 0 | – | 0 | Yes |
| Liu Changkun | Independent non-executive director | Male | 68 | 22 July 2010 | 22 July 2013 | 0 | 0 | – | 0 | No |
| Qian Shizeng | Independent non-executive director | Male | 59 | 22 July 2010 | 22 July 2013 | 0 | 0 | – | 12 | No |
| Wang Zhile | Independent non-executive director | Male | 63 | 22 July 2010 | 22 July 2013 | 0 | 0 | – | 12 | No |
| Lian Weizeng | Independent non-executive director | Male | 65 | 22 July 2010 | 22 July 2013 | 0 | 0 | – | 12 | No |
| Cao Yonggang | Chairman of Supervisory Board | Male | 39 | 22 July 2010 | 22 July 2013 | 0 | 0 | – | 0 | Yes |
| Liu Chi | Supervisor | Male | 54 | 22 July 2010 | 22 July 2013 | 106,700 | 138,711 | Bonus Shares | 101 | No |
| Luo Anping | Employee Supervisor | Male | 50 | 22 July 2010 | 22 July 2013 | 106,427 | 138,355 | Bonus Shares | 81 | No |
| Zhang Jianguo | Senior president | Male | 52 | 22 July 2010 | 22 July 2013 | 143,417 | 186,443 | Bonus Shares | 130 | No |
| Yin Zhengfu | Senior president | Male | 55 | 22 July 2010 | 22 July 2013 | 137,500 | 178,750 | Bonus Shares | 120 | No |
| He Jianming | Senior president | Male | 48 | 22 July 2010 | 22 July 2013 | 126,500 | 164,451 | Bonus Shares | 110 | No |
| Du Youqi | Senior president | Female | 53 | 22 July 2010 | 22 July 2013 | 7,700 | 10,011 | Bonus Shares | 110 | No |
| Fang Minghua | Senior president | Male | 54 | 22 July 2010 | 22 July 2013 | 121,828 | 158,376 | Bonus Shares | 110 | No |
| Wang Chunyang | Senior president | Male | 56 | 22 July 2010 | 22 July 2013 | 121,549 | 158,014 | Bonus Shares | 110 | No |
| Xu Wuquan | Senior president | Male | 54 | 22 July 2010 | 22 July 2013 | 96,251 | 125,126 | Bonus Shares | 96 | No |
| Xiong Yanming | Vice president | Male | 47 | 22 July 2010 | 22 July 2013 | 74,250 | 96,525 | Bonus Shares | 130 | No |
| Su Yongzhuan | Vice president | Male | 39 | 22 July 2010 | 22 July 2013 | 88,000 | 114,400 | Bonus Shares | 115 | No |
| Guo Xuehong | Vice president | Male | 49 | 22 July 2010 | 22 July 2013 | 137,500 | 178,750 | Bonus Shares | 120 | No |
| Sun Changjun | Vice president | Male | 49 | 22 July 2010 | 22 July 2013 | 123,751 | 160,876 | Bonus Shares | 115 | No |
| Li Jiangtao | Vice president | Male | 48 | 22 July 2010 | 22 July 2013 | 117,700 | 153,010 | Bonus Shares | 110 | No |
| Hong Xiaoming | Vice president and the person in charge of financial affairs | Female | 48 | 22 July 2010 | 22 July 2013 | 0 | 0 | – | 135 | No |
| He Wenjin | Vice president | Male | 41 | 22 July 2010 | 22 July 2013 | 0 | 0 | – | 110 | No |
| Wan Jun | Vice president | Male | 39 | 22 July 2010 | 22 July 2013 | 0 | 0 | – | 110 | No |
| Chen Xiaofei | Vice president | Male | 48 | 22 July 2010 | 22 July 2013 | 0 | 0 | – | 110 | No |
| Chen Peiliang | Vice president | Male | 39 | 22 July 2010 | 22 July 2013 | 55,000 | 71,500 | Bonus Shares | 96 | No |
| Wang Yukun | Chief Information Officer | Male | 45 | 22 July 2010 | 22 July 2013 | 0 | 0 | – | 95 | No |
| Shen Ke | Secretary to the Board of Directors | Male | 40 | 22 July 2010 | 22 July 2013 | 0 | 0 | – | 85 | No |
| Total | | | | | | 1,911,948 | 2,485,535 | | 2660 | |

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.

# Directors, Supervisors, Senior Management and Employees

(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 16th National Congress of the Communist Party of China in 2002, the 10th National People's Congress in 2003, the 17th National Congress of the Communist Party of China in 2007 and the 10th National Congress of the Communist Party of China in Hunan Province as well as a member of the 10th session of CPC Hunan Provincial Committee. 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 Young and Middle-Aged Experts in Science Technology and Management with Outstanding Contribution to the Ministry of Construction in 1995, 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 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, the 2010 Leonardo Award in Italy awarded in January 2011, and the 2011 CCTV Chinese Economic Annual Figure awarded in December 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.

# Directors, Supervisors, Senior Management and Employees

**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 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. He has been acting as the chairman of the China Association of Chief Financial Officers since December 2007. Mr. Liu graduated from the branch of Beijing Normal College in 1965, and studied a master's degree in comparative studies on Chinese and foreign cultures from Renmin University of China through the correspondence course from 1986 to 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 has been an associate professor at Fudan University specialized in accounting since 1995. 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 had previously served senior management positions in various listed 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, 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 managing director and 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.

# Directors, Supervisors, Senior Management and Employees

**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 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 recognized 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 lecturer of the Hunan Institute of Electric Power (湖南電力學院), 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 in 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, 2002, 2003 and

2011 respectively, 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. 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 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 chairman of the Criminal Law Research Association of Hunan Province, a member of the expert advisory panel of the People's Procuratorate of

Hunan Province, a standing director of China Securities Law Research Association (中國證券法學研究會) 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, Outstanding Research Paper (Grade I) of Hunan State-owned Assets Forum in 2010, Innovative Results (Grade I) Prize in Modern Enterprise Management of Hunan Province (湖南省企業管理現代化創新成果一等獎) in 2009, Innovative Results (Grade III) Prize in Modern Enterprise Management of Hunan Province (湖南省企業管理現代化創新成果三等獎) in 2010 and the Annual Outstanding Legal Counsel in China for 2011 (2011中國律政年度精英律師) in December 2011. 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, product 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 secondhand 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 also the deputy general manager of the concrete machinery branch 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 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 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.

# Directors, Supervisors, Senior Management and Employees

(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 expenses 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

According to a resolution reviewed in the first meeting of the 4th session of the Board of Directors of the Company convened on 22 July 2010, Mr. Shen Ke was designated to perform the duties of Secretary to the Board of Directors. According to a resolution reviewed in the first extraordinary meeting of the 4th session of the Board of Directors of 2011 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 2011)

*Unit: headcount*

| **Number of employees** | | **28,833** | **% of total number of employees** |
|---|---|---|---|
| By educational level | Postgraduate or above | 1389 | 4.82% |
| | Bachelor's Degree | 8197 | 28.43% |
| | Tertiary Education | 7409 | 25.70% |
| | Others | 11838 | 41.05% |
| By function | Production | 14017 | 48.62% |
| | Sales | 3388 | 11.75% |
| | Technical | 6676 | 23.15% |
| | Financial | 707 | 2.45% |
| | Management | 4045 | 14.03% |

# Corporate Governance and Corporate Governance Report

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 procedure. 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 the Pilot Implementation Internal Control Standards by Listing Companies in Hunan" (No. 4XZJGSZ [2011]) of the Hunan Securities Regulatory Bureau, the Board of Directors (the "Board") of the Company submitted a "Interim Report on the Implementation Progress of Internal Control" and a "Report on the Implementation of Internal Control in 2011" to Hunan Securities Regulatory Bureau on 15 July 2011 and 10 January 2012 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.

Mr. Zhan Chunxin acted as the Chairman and Chief Executive Officer of the Company in 2011. The Board considers that Mr. 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 and our effective checks-and-balances, such arrangement will not create conflict between the Board and the Company in business operation and will not jeopardise 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 2011.

## 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. Lawyers are 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 are 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 the 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.

## III. Directors and Board

All Directors have attended 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 and rational decisions of the Board. 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 and are accountable to shareholders.

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.

# Corporate Governance and Corporate Governance Report

## (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 cash flow of the Company. In preparing the financial statements for the year ended 31 December 2011, 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 reappointed 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. 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 2011, the Board had held 8 meetings, details of which are set out in the section headed "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 all directors at the board meetings in 2011 was as follows:

| | Name of Directors | Number of meetings held | Attended in person | Attended by proxy | Absent |
|---|---|---|---|---|---|
| Chairman | Mr. Zhan Chunxin | 8 | 8 | 0 | 0 |
| Executive Director | Mr. Liu Quan | 8 | 8 | 0 | 0 |
| Non-executive Director | Mr. Qiu Zhongwei | 8 | 8 | 0 | 0 |
| Independent Non-executive Director | Mr. Liu Changkun | 8 | 8 | 0 | 0 |
| | Mr. Qian Shizheng | 8 | 8 | 0 | 0 |
| | Mr. Lian Weizeng | 8 | 8 | 0 | 0 |
| | Me. Wang Zhile | 8 | 8 | 0 | 0 |

2. The Company convened its board meeting by giving 14 days' notice in advance for regular meetings and 5 days' notice in advance for ad-hoc meetings in accordance with the principles and code provisions of the Code on Corporate Governance contained in Appendix 14 to the Listing Rules of Hong Kong. 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 no less than 3 days before the date of the meeting.

   For ad-hoc board meeting convened upon requests of management of the Company through means of communication, 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 the Directors and take necessary action to ensure that the board meeting is conducted in accordance with the relevant provisions of the Company Law, the Articles of Association and the Listing Rules of Hong Kong.

3. Minutes of each board meeting shall be endorsed by all attending Directors and recorder and shall be kept for at least 10 years. The minutes shall be available for inspection upon request by any Director.

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 decisions 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 him/her to understand the requirement of the Listing Rules of Shenzhen and Hong Kong 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. Ongoing 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 the Independent Non-executive Directors to perform their duties.

   During the reporting period, in accordance with the major requirement of listing companies issued by the Hunan Securities Regulatory Bureau in 2011, the Company has strengthened internal trainings for Directors, Supervisors and senior management, which covered the laws and regulations of capital markets, policies and principles, regulatory requirements and case studies. The Company has submitted the "Report of Internal Training of the Company in 2011" to the Hunan Securities Regulatory Bureau on 8 December 2011.

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 updated information to the Board and its committees to enable them to make informed decisions. Management shall also provide further information upon request by the Directors.

## IV. Committees of the Board

The Board has established four committees, namely the Audit Committee, Remuneration and Appraisal 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 and Appraisal 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 and Appraisal Committee

**1. Role and responsibilities of the Remuneration and Appraisal Committee**

The Remuneration and Appraisal 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 supervise and procure the implementation of resolutions in relation to remuneration or performance appraisal of directors and senior management. 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 the Remuneration and Appraisal Committee**

The Remuneration and Appraisal Committee has three members, including two Independent Non-executive Directors and a Non-executive Director. The chairman of the Remuneration and Appraisal Committee is Mr Lian Weizeng, Independent Non-executive Director, and other members include Mr Wang Zhile and Mr Qiu Zhongwei.

In 2011, the Remuneration and Appraisal Committee had convened one meeting and the attendance of the meeting was as follow:

| | Members of Remuneration and Appraisal Committee | Number of meetings held | Attended in person | Attended by proxy | Absent |
|---|---|---|---|---|---|
| Non-executive Director | Mr. Qiu Zongwei | 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 and Appraisal Committee based on their individual responsibilities and the remuneration level of other comparable listed companies for approval by the Board according to the Assessment Method for Senior Management of the Company. The remuneration of Directors shall be approved at the shareholders' general meeting.

   The Remuneration and Appraisal 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 Remuneration and Appraisal Committee during the year under review**

   In 2011, the Remuneration and Appraisal Committee held one meeting to review the performance of Directors, Supervisors, senior management in 2010 and determine their respective remuneration according to the performance appraisal criteria and remuneration policy and proposal.

(II) Nomination Committee

1. **Role and responsibilities of the Nomination Committee**

   The Nomination Committee is responsible for the establishment of the criteria and procedures for the election of Directors and senior management. The committee shall consider and discuss 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 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 Mr. 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 of the Audit Committee**

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 and disclosure of the Company, including the financial statements, annual report and accounts, interim report and quarterly report. The committee shall review the material opinions regarding the financial reporting of the Company as set out in the statements and reports. 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 Mr. Qian Shizheng, an Independent Non-executive Director, and other members include Mr. Liu Changkun, an Independent Non-executive Director, and Mr. Qiu Zhongwei, a Non-executive Director. The composition of the Audit Committee complies with Rule 3.21 of the Listing Rules of Hong Kong.

In 2011, the Audit committee held four meetings and the attendance of the meetings was as follows:

| | Members of Audit Committee | Number of meetings held | Attended in person | Attended by proxy | Absent |
|---|---|---|---|---|---|
| Independent Non-executive Director | Mr. 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 2010 and the interim results for 2011 of the Company. The Audit committee has reviewed the audited annual results of the Company for the year ended 31 December 2011. The committee has also reviewed the accounting principles and practices adopted by the Company for the preparation of financial statements and discussed on issues regarding the internal control and financial reporting.

(IV) Strategy and Investment Decision-making Committee

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

The committee is mainly responsible for the formulation 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 Mr. Zhan Chunxin, an Executive Director, and other members include 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 and 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 legal compliance of financial reporting and due diligence 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. The chairman of the Supervisory Board is Mr. Cao Yonggang, and other members include Mr. Liu Chi and Mr. Luo Anping.

In 2011, the Supervisory Board had held five meetings and the attendance was as follows:

| | **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 |

(II) Meetings and activities of the Supervisory Board in 2011 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 headed "Summary of Directors, Supervisors and Senior Management" in this report.

Further details regarding the remuneration of the directors and supervisors during 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 2011.

**(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 2011 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 2011, 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 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") were as follows:

| Name of Directors/ Supervisors | Nature of interest | Class of share | Number of share | Percentage of the total share capital of the same class |
|---|---|---|---|---|
| Zhan Chunxin | Beneficiary owner | A Share | 263,120 (L) | 0.0042 |
| Liu Quan | Beneficiary owner | A Share | 189,117 (L) | 0.0030 |
| Liu Chi | Beneficiary owner | A Share | 138,711 (L) | 0.0022 |
| Luo Anping | Beneficiary owner | A Share | 138,355 (L) | 0.0022 |

Note: L represents long position.

As at 31 December 2011, 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 Model Code set out in the Listing Rules of Hong Kong.

As at 31 December 2011, 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 2011. The Company was not aware of any non-compliance of Model Code for Securities Transactions by the Directors or Supervisors during the reporting period.

## VII. Auditors

Baker Tilly China Certified Public Accountants Co., Ltd. and KPMG, respectively, were the domestic and international auditors of the Company for 2011.

These two CPA firms provide audit services for the Company on its financial statements. The aggregate audit fee paid was RMB12.28 million. During the year, no non-audit service was provided by these two CPA firms.

The responsibility statements of Baker Tilly China Certified Public Accountants Co., Ltd. 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) Effectiveness of the internal control system

In 2011, the Company continued to improve the internal control system regarding its coverage, importance, balance of powers, adaptability and cost efficiency in order to maintain a sound operation in accordance with Corporate Internal Control Regulation (企業內部控制基本規範) and the Articles of Association.

1. The internal control committee was established. In order to improve the internal control of the Company in 2011, the Company has established the internal control committee under the leadership of the Chairman of the Board and the internal control team led by the vice president. Designated employees from various divisions and departments were appointed to form the procedural evaluation team. The Company has also engaged Shenzhen Dib Risk Management Co., Ltd. (深圳市迪博企業風險管理技術有限公司) to provide professional consultation services and assist in implementing internal control evaluation. The Company also engaged Baker Tilly China Certified Public Accountants Co., Ltd. to conduct independent audit on the effectiveness of the Company's internal control and issued the internal control audit report.

2. The Implementation Proposal of Internal Control Measures for 2011 (2011年內部控制規範實施工作方案) of the Company was established. In order to implement the internal control of the Company in 2011 in an orderly manner, the Company set up the Implementation Proposal of Internal Control Measures for 2011, which were adopted by the Board on 28 March 2011 and provided specified measures for the implementation of internal control for the Company in 2011, including the rules and schedule for the establishment, self-evaluation and audit of internal control of the Company in 2011.

3. Identification and evaluation of risks were conducted and the relevant procedures were refined and examined. The Company has addressed and evaluated the risks of three levels by conducting questionnaires and interviews, and reformed the internal control procedures regarding the three levels of risks by streamlining, specifying and clarifying the internal control process and system. Tests were carried out on the internal control of critical risks, significant risks and general risks in order to justify the effectiveness of the design and exercise of internal control. The internal control policy of the Company was supplemented and optimised in accordance with the procedural test results.

(II) Self-evaluation of internal control

In order to ensure the smooth operation of internal control, the internal control evaluation team has set up detailed measures for the implementation of internal control evaluation, which include the followings:

**1) Establishment of internal control evaluation measures**

The objectives of internal control evaluation of the Company are to ensure compliance, prevent risks and enhance management. The evaluation team analysed aspects with high risks during the course of operation and management and major businesses, and set up rational and reasonable measures for evaluation in accordance with the actual situation and management requirements of the Company. The measures covered the scope and time frame of evaluation, composition of the evaluation team, as well as the relevant regulations, procedures and methods of evaluation, requirements for forms filling, sampling, recognition standards of flaws, the rights and obligations and disciplinary requirements of evaluation staff and focus of evaluation. The measures were implemented upon approval from the internal control evaluation committee. The Company has conducted a comprehensive evaluation which covered the refined internal control procedures, models and policy in 2011 and focused on aspects with high risk and major businesses.

**2) Set up of internal control evaluation department**

In accordance with the above-mentioned scope and measures of evaluation, a special internal control evaluation team was set up for the evaluation of each of the business procedures, consisting of members of the risk management department, employees assigned from various departments and consultants from Dib (迪博諮詢) . The members of the internal control evaluation team had not participated in the evaluation of their respective departments.

3) **Implementation of self-evaluation**

a) The Company has undergone comprehensive risk evaluation at the corporate level by conducting interviews with the management and risk surveys, risk evaluation of the industry, analysis of competitors and discussions with the audit department and risk management department. We have organized interviews with senior employees as well as questionnaire surveys for staff of medium level and frontline employees to ensure the risk identification and evaluation covered all management levels and major aspects. Professional consultant is engaged to review and analyse those interviews and surveys to ensure the completeness of the scope of risk identification and the reliability and truthiness of the evaluation results.

b) According to the risk evaluation results of the Company, the Company has confirmed the evaluation scopes of business procedures, which include 16 business processes, namely strategic management, marketing and brand management, credit sales management (including sales by finance leasing and mortgage), purchasing and outsourcing management, financing activities and guarantee management, asset management, construction project management, financial report and taxation management, human resources, investment management, research and development management, production and cost management, quality and safety management, budget management, contract management and information system management.

c) The effectiveness of the risk and internal control systems of business processes will be evaluated. Major business processes of the Company are streamlined based on the interviews with key officials. Internal control objectives for each business process are specified and associated risks which may hinder the achievement of such objectives are addressed. Effectiveness of the internal control design is assessed based on the comparison with existing control measures and by conducting walk through tests.

d) Effectiveness of the implementation of internal control is evaluated by conducting investigations, on-site visit, inspection, re-implementation and other tests on the key control, major control and general control points of each business process.

4) **Conclusion of evaluation team**

The leader of the internal control evaluation team is responsible for compiling the evaluation results, reviewing, sorting and preparing the report of internal control deficiencies preliminary identified by on-site inspection, and conducting qualitative and quantitative analysis on the reasons, forms and risk levels of such deficiencies. The deficiencies are categorized into different levels in accordance with their impacts on the control objectives and self-evaluation result will be prepared according to the overall effects of the deficiencies. The evaluation team has proposed recommendations and suggestions for improvement in respect of the recognised internal control deficiencies and instructed the respective departments to carry out rectification measures timely. It also kept track of the progress of improvement Liabilities will be claimed against relevant persons responsible for any damage or negative effects caused.

5) **Preparation of internal control self-evaluation report**
The internal control evaluation team is responsible for the preparation of internal control evaluation report in an objective, fair and complete manner for the internal control of the Company based on evaluation results and recognised internal control deficiencies.

6) **Consideration and adoption of the internal control self-evaluation report**
The internal control self-evaluation report will be submitted to the management, the Board and the Supervisory Board for consideration and approval. The report will be disclosed or used for other purposes effectively upon final approval by the Board.

(III) Conclusion of the effectiveness of internal control

The Company has carried out self-evaluation in respect of the effectiveness of the design and operation of internal control as at 31 December 2011 in accordance with the standards, evaluation guidelines and other relevant requirements of laws and regulations.

During the period under review, the Company has established and effectively implemented internal control for businesses and issues within the scope of evaluation. The objectives of internal control were achieved and there was no material deficiency.

During the period from the date of reference to the date of issuance of the internal control evaluation report, the Company has not experienced any material change in internal control which would have affected the evaluation conclusion.

(IV) The working plan of internal control of the Company in 2012 will be as follows:

1) **To promote and optimize the internal control on pilot business units through the update and maintenance of overall risk assessment and internal control**
Based on the risk assessment in 2011, the Company will conduct a general risk assessment on all business units in 2012 according to the changes in operation model, business, organizational structure and management.

Based on the risk assessment, the internal control documents of the previous year will be maintained and updated according to the changes in operation model, business, organizational structure and management.

2) **To promote the internal control for non-pilot business units in 2011: the promotion of establishment of internal control**

The internal control in 2011 will be implemented in other major business units of the Company, covering marketing and brand management, purchasing and outsourcing management, capital activities and guarantee, assets management, production and cost management, financial reporting and taxation management, construction project management and information system management.

3) **To conduct comprehensive self-evaluation for internal control**

a. *Self-evaluation for internal control:* Self-evaluation for internal control will be conducted semi-annually. According to the internal risk assessment and the maintenance and update of documents for internal control system in 2011, as well as the results from the establishment of internal control in 2012, assessment scopes and assessment plans will be identified with regard to the comprehensiveness and importance of aspects in high risks. In addition, internal control tests will be conducted through interviews, observations, examination and re-exercise for all business units and relevant departments. Drafts for internal control tests and consolidated list of deficiencies will be reported to the internal assessment department.

b. *Independent assessment for internal control:* Assessment for internal control will be conducted semi-annually. According to the results of self-evaluation for internal control of all business units and relevant departments, the internal assessment department will integrate problems identified during the special audits. Independent assessment will be implemented for the independence and significance of internal control and the responsible departments will be monitored to solve problems identified. An internal control evaluation report will be prepared according to the internal control assessment result.

(V) The opinions of the Supervisory Board on the evaluation of internal control system

The "Report on Evaluation of Internal Control System in 2011" gives a true view of the internal control of the Company and sets out major activities, tasks and results of the improvement and optimization of the internal control, which were in line with the prevailing situation of the Company. It is suggested that the internal control of the Company should be further improved and optimized to enhance the corporate governance to ensure the healthy and sustainable development of the Company.

(VI) The independent opinions of the Independent Directors on the evaluation of internal control system

In 2011, the Company has established a comprehensive internal control system in accordance with the relevant laws and regulations of the PRC and Hong Kong as well as the actual needs of the Company. The system has been implemented in the operating activities and is generally in compliance with the relevant laws and securities regulatory requirements of the PRC and Hong Kong. The "Report on Evaluation of Internal Control System in 2011" gives a true view of the internal control of the Company which is in line with the prevailing situation of the Company. It is suggested that the internal control system should be further improved to enhance the risk management to ensure the healthy and sustainable development of the Company.

## 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 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 2011 are set out in "XI. Researches and Visits to the Company" in "Significant Events".

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 "VI. Material Related Party Transactions and 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) .

# Corporate Governance and Corporate Governance Report

## 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 Organization 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 organize various activities to promote corporate governance, including internal inspection, improvement plan, public assessment, onsite 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 and internal control promotion campaign. According to the requirements of Notice of Inspection on Insider Trading of Listed Companies (關於對上市公司防控內幕交易工作進行檢查的通知) (XZJGSZ [2011] No. 54) issued by Hunan Securities Regulatory Bureau, relevant systems of the Company and their implementation were assessed and reformed. All the Directors, supervisors and senior management of the Company have signed the Undertaking of Anti-insider Trading Agreement (《防範內幕交易承諾函》) and the details of information insiders were recorded. On 11 July 2011, the Self-inspection Report on Insider Trading (《防控內幕交易自查總結報告》) was submitted to Hunan Securities Regulatory Bureau.

## XVI. "Five Independence" of Staff, Assets, Finance, Business and Organization 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 assumes its corresponding responsibilities and risks.

(V) Organizational independence

The establishment and functions of our organizations are independent from the controlling shareholder. The Board of Directors and Board of Supervisors are operating independently.

## XVII. Corporate Social Responsibility Report

Details of the Social Responsibility Report in 2011 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 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 09:30 on 3 June 2011. The meeting has been conducted through onsite meeting. Notice of the meeting and resolutions passed at such meeting were disclosed in China Securities Journal, Shanghai Securities News, Securities Times, www.cninfo.com.cn and the websites of the Hong Kong Stock Exchange and the Company on 18 April 2011 and 4 June 2011, respectively.

## II. The First Extraordinary General Meeting of Shareholders in 2011

The First Extraordinary General Meeting of Shareholders in 2011 of the Company was convened at Multi-function Conference Room, 2/F of the Company at 09:30 on 11 October 2011. The meeting has been conducted through onsite meeting. Notice of the meeting and resolutions passed at such meeting were disclosed in China Securities Journal, Shanghai Securities News, Securities Times, www.cninfo.com.cn and the websites of the Hong Kong Stock Exchange and the Company on 26 August 2011, 24 September 2011 and 12 October 2011, respectively.

# Report of the Board of Directors

The Board of Directors (the "Board") of the Company is pleased to announce the Report of the Board of Directors for the year ended 31 December 2011 together with the audited financial statements of the Company and the Group.

## I. Business Review of the Company

### (I) Overall operation conditions

In 2011, in the face of unfavourable factors such as slowdown of domestic economic growth, tightening monetary policies and the sluggish international market, the Board of the Company strived to achieve the operation targets set at the beginning of the year by consolidating the corporate strengths, grasping opportunities, implementing differentiated product development strategies and improving risk prevention and control. As a result, the Company achieved breakthrough progresses in its results of operation and management, facilitating the steady growth of the Company.

**1. Further growth in operating results**

In 2011, the Company recorded a turnover of approximately RMB46,323 million, a year-on-year growth of 43.9%, and a gross profit of approximately RMB15,007 million, a year-on-year increase of 53.6%. Net profit attributable to equity holders of the Company was RMB8,066 million, a year-on-year growth of 72.9%. As at 31 December 2011, the total assets of the Company was approximately RMB71,543 million and the net assets was approximately RMB35,595 million.

**2. Successful strategies**

- *Human resources:* The human resources of the Company were further strengthened by the joining of overseas professional and mid and high level management and technical staff;

- *Research and development:* The Company has introduced a number of new high technology products to the international market, including 3,200 tons track cranes and truck-mounted concrete pumps with 80 meter carbon fibre arms;

- *Business structure:* Hanshou Industrial Park and Weinan Industrial Park were put into production and the establishment of Jiangyin, Deshan and Xiangyin Industrial Parks will speed up. The supply of major parts and components was further secured and the tower crane production bases in China were further improved.

3. **Significant progress in development of overseas markets**

- Overseas sales increased by 46.24% when compared with last year due to the synergy effect from the cooperation with CIFA, which has strong presence in the international market. The growth rate of overseas sales exceeded that of the major businesses of the Company;

- The sales of major products (tower cranes and track cranes) in key markets (Southern Asia, Middle East and CIS Region) exceeded the industry average;

- The Company received a bulk order from a developed country: Zoomlion entered into an export sale contract with a customer in Japan in September 2011 for the sale of 30 mobile pumps. It was the first mass sale of construction machinery from China to Japan;

- Further expansion of overseas sales network: Our sales and service network covers 40 countries in six continents which are the major overseas market of construction machinery of China;

- The Company acquired the exclusive rights of the technology of flat top tower crane from JOST of German which uplift the technology of tower crane of the Company to the international standards.

4. **Breakthrough in research and development**

In 2011, the Company was recognized as a Model Enterprise of Technology Innovation in 2011 (2011年國家技術創新示範企業) by the Ministry of Industry and Information Technology and the Ministry of Finance of the PRC. The Company actively developed new technology to enhance the competitiveness of its products and had the following major breakthroughs:

*(1) Introduction of major products of advanced international standards*

- Based on the latest technology of CIFA, the Company had developed the truck-mounted pumps with 80 meter carbon fibre arms, which is the longest 7-fold arms and 6-axles truck-mounted pumps in the world. The product has entered into the Guinness World Records, marking the leading position of Zoomlion in the international market of truck-mounted pumps.

- The Company introduced ZCC3200NP, a track crane with the highest lifting power ever made in China. The Company is the first manufacturer of super capacity track crane in China.

- The Company successfully developed the largest uplifting, revolving and self-propelling tower crane (D5200-240) in the world. The product is recognized as a major breakthrough of construction equipment technology in China and a milestone for the development of tower crane technology in the world.

- Based on the light weight technology of CIFA, the Company has developed a dual-brand 63-meter truck-mounted carbon fibre pumps, the longest truck-mounted crane arm with 5-axles chassis in the world. The Company also introduced a 50-meter truck-mounted carbon fibre pumps, the longest truck-mounted crane arm with 3-axles chassis.

*(2) Successful development of technology for general application*

- The electric-magnetic technology and cold bending formation of ultra-strength steel arms technology of the Company were selected as the China National Basic Research Program (國家重點基礎研究發展計劃) (973) for 2 consecutive years. The Company is commissioned by the government to conduct five research and development projects.

- The results of the research on the fatigue of high-strength steel welding joints and moment regulator are being applied by the Company in production.

*(3) Successful patent applications*

In 2011, the Company has applied for 1,600 patents, including 230 international patents and about 800 patents for invention. The number of applications for patents of the Company for the year ranked first in Hunan Province and was among the top ten in China. The Company has won the National Outstanding Patent Award.

**5. Further enhancement of internal management**

- The Company streamlined the working procedures of major departments to improve efficiency and standardization;

- In order to improve risk management, the Company reorganized its internal control system to identify major risks in its operation and defects in its internal control and implement remedial measures. In particular, the Company had completed a review on the creditability of customers to further enhance the risk management of sales channels.

- The Company strengthen its budget control through cash flow control by using information system. Preventive measures were taken to have better control of the budget rather to take remedial measures to make good shortfalls;

- The Company revised its appraisal system to take into account the implementation of business strategies and medium to long term competiveness of the Company so as to encourage the performance of staff of all business segments;

- The Company improved its management system by upgrading its information system. The management of research and development, sales and services is centralized in an information system. Our overseas business is also supported by an international information platform.

6. **Improvement in brand image**

The "inclusive, sharing and responsible" image of Zoomlion received positive comments from the community, resulting a stronger brand image.

In 2011, the rankings and major achievements of the Company are as follows:

The Company ranked the eighth of the Top 50 Construction Machinery Manufacturers of the World in 2011 published by "China Mechanical Engineering", an advancement from the tenth in last year;

The Company ranked 115 of the Fortune China 500 in 2011. Last year, the Company ranked 126;

According to The 500 most valuable brand of China in 2011 published by World Brand Lab, the Company ranked 79 with a brand value of RMB12,369 million;

According to The Most Competitive Chinese Companies in the World in 2011 jointly organized by Roland Berger Strategy Consultants and Global Entrepreneur magazine, the Company ranked eighth and was the only construction machinery company in China in the ranking;

The Company was named the "Best Enterprise in After sale-service in China (全國售後服務功勳企業獎)" in the 5th Election of After-service in China (第五屆全國售後服務評價活動) jointly organized by the China General Chamber of Commerce and China Foundation of Consumer Protection, and was the only enterprise in the engineering machinery industry to receive this title;

The Board was selected as the Most Outstanding Board of Directors during the seventh Golden Roundtable Award campaign for the fourth time, more than any other listed companies in Shenzhen and Shanghai;

"The acquisition of CIFA of Italy by Zoomlion, Hony Capital and others" was selected as Top 5 Overseas Acquisition by China Enterprises (首屆中國海外投資五大經典案例), We were the only equipment manufacturer to receive this honour;

Dr. Zhan Chunxin, the Chairman and Chief Executive Officer of the Company, was awarded the 2011 CCTV Chinese Economic Annual Figure for his leadership in leading the Company to achieve remarkable results in international acquisitions.

(II) Major scope of business and operation of the company

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

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

Analysis of the Company's revenue by product line 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 RMB5,060,505,200, accounting for 17.92% of the aggregate annual purchase of the Company and total purchases by the Company from the largest supplier accounted for 6.3% 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 RMB1,652,396,500, accounting for 3.57% of the aggregate annual sales of the Company and the total sales to the largest customer of the Company accounted for 0.99% 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.

(III) Financial position

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

(IV) Operation and Results of Principal Subsidiaries and Associates of the Company

| Name | Nature of business | Major products or services | Registered capital (in RMB ten thousand) unless otherwise stated | Share of investment | Total assets (RMB) | Net profit (RMB) |
|---|---|---|---|---|---|---|
| Guangdong Zoomlion South Construction Machinery Co., Ltd. | Business | Sales of construction and engineering machinery and components; sales and leasing services | 1,000 | 100.00% | 184,558,003.91 | 23,010,371.77 |
| Zoomlion Financing and Leasing (Beijing) Co., Ltd. | Business | Leasing and sales of construction machinery and equipment | 150,200 | 100.00% | 142,211,183,044.43 | 125,110,074.61 |
| Hunan Teli Hydraulic Co., Ltd. | Manufacturing | Production and sales of hydraulic cylinder and hydraulic valve | 16,574.94 | 79% | 1,346,013,030.16 | 182,797,608.46 |
| Hunan Zoomlion Special Vehicle Co., Ltd. | Manufacturing | Manufacturing of specialized vehicles | 6,870 | 100.00% | 166,209,468.68 | -24,482,246.32 |
| Hunan Zoomlion Axle Co., Ltd. | Manufacturing | Production and sales of machinery, electromechanical products and complete equipment | 28,908.06 | 88.86% | 1,229,535,051.72 | 30,079,697.79 |
| Zoomlion Material Handling Equipment Co., Ltd. | Manufacturing | Production and sales of special machinery equipment and equipment for handling large materials | 10,000.00 | 82%* | 922,734,397.80 | -21,981,836.75 |
| Shaanxi Zoomlion Earth Working Machinery Co., Ltd. | Manufacturing | Production and sales of earth working machinery | 47,394 | 100% | 432,672,170.04 | 174,144.64 |
| Zoomlion H.K. Holding Co., Limited | Investment vehicle | Investment holding | HK$6,451,905,100 | 100% | 19,641,956,339.99 | 263,689,800.64 |
| Hunan Zoomlion Hardware Co., Ltd. | Manufacturing | Design, manufacturing and sales of thin plate for cab and operating cabinet | 10,000 | 75.60% | 186,277,354.47 | -1,004,821.67 |

* On 20 February 2012, the Company has completed the registration with the local Administration of Industry and Commerce and increased the equity holding in this subsidiary to 97%.

| Name | Nature of business | Major products or services | Registered capital (in RMB ten thousand, unless otherwise stated) | Share of investment | Total assets (RMB) | Net profit (RMB) |
|---|---|---|---|---|---|---|
| Bichamp Cutting Technology (Hunan) Co., Ltd. | Manufacturing | Manufacturing and sales of machine tools and components | 10,000 | 32% | 444,959,943.24 | 66,748,023.89 |
| Changde Zoomlion Hydraulic Pressure Co., Ltd. | Manufacturing | Production and sales of hydraulic products | 2,163 | 83.13% | 246,527,531.40 | 72,086,150.82 |
| Changsha Zoomlion Fire Control Machinery Co., Ltd. | Manufacturing | Manufacture and sales of fire fighting vehicles and equipment | 4,492.71 | 65% | 292,032,944.22 | 25,079,404.56 |
| Hunan Zhonghan Macromolecular Materials Science and Technology Co., Ltd. | Manufacturing | Production of coating materials for construction machinery | 2,000.00 | 30% | 69,678,545.66 | 4,123,913.62 |
| Hunan Zoomlion Crawling Crane Co., Ltd. | Manufacturing | Production and sales of crawling crane | 36,000 | 100% | 794,623,466.34 | 60,113,613.79 |
| Changsha Zoomlion Engineering Machinery Remanufacturing Co., Ltd. | Manufacturing | Remanufacturing of construction machinery | 1,000 | 100% | 18,884,544.29 | -520,426.03 |
| Changsha Zoomlion Used Equipment Sales Co., Ltd. | Manufacturing | Distribution of used equipment | 1,000 | 100% | 405,284,075.37 | -77,112,363.40 |

The contribution of investment income from associates to the Company's net profit was less than 10%.

## II. Business Outlook for Future Development

### (I) Industry development and market outlook

#### 1. International market

In the midst of European debt crisis, the major economies of the world are losing recovery momentum and the emerging markets are facing inflation pressures. Despite the enormous real and potential market demands in the developing countries including South America, CIS Region, South-east Asia, Middle East and Africa, the export of engineering machinery remains highly uncertain. The global engineering machinery industry will see changes where the market shares of core products will be redistributed. Engineering machinery manufacturers from developing countries will attract more international customers for their higher price-performance ratio and fast and excellent services.

**2. Domestic market**

The PRC government has placed emphasis on projects under construction and extension projects to ensure smooth implementation of approved projects on water resources, electricity, railway and infrastructures, which will boost the demands in engineering machinery market. Besides, the rapid urbanization progress and the implementation of affordable housing policy have provided new opportunities to the real estate industry. The overall engineering machinery market will continue to expand but at a slower pace. Certain segments of the engineering machinery market will encounter problems such as excessive production capacities, intensifying competitions, rising production costs and inadequate short-term domestic demands. Market opportunities will be available for well-prepared enterprises.

## (II) Major business objectives and action initiatives in 2012

Management reform and global expansion are the two major goals of the Company in 2012. Targeting at the market and capitalizing on its talents and technologies, the Company will implement the three-dimensional matrix management model and push forward the management reform in line with the changes in market. The Company will also reorganize its business structure and management model to facilitate the development of international market.

**1. Reform of management**

The Company will adopt the market-oriented approach to conduct an overhaul of our business structure and management system. A three-dimensional matrix management model will be adopted. On the other hand, the Company will streamline its business processes and establish an efficient operating system to facilitate the rapid development of the Company.

**2. Reform of research and development system**

Firstly, the Company will reform the research and development system and adopt IPD project management system to change the accountability of the project team from “the results of R&D” to “the successful commercialization of R&D”.

Secondly, the Company will modify its incentive system for R&D teams to align their remuneration package with the sales of products.

Thirdly, the Company will formulate a long term technology development plan to determine the development objectives of the Company and formulate a roadmap for product technology development to eliminate weaknesses and leverage on advantages so as to enhance the overall capability in research and development.

Fourthly, the Company will establish a technology development platform for all business segments through innovative R&D system, improvement in R&D capability, resources integration and utilization as well as breakthroughs in key technologies.

**3. Marketing reform**

The Company will promote mass sales and establish a more customer-oriented marketing system. A marketing company will be establish to centralize the management of sales and closely monitor the development of markets. It will also create an unique brand image and improve the after-sale services.

**4. Brand building in international markets**

The Company will strengthen the implementation of its brand strategy and adopt innovative promotion methods to boost the brand image in international markets. It is intended that brand image will be a driver of the global expansion of the Company.

**5. Speed up global expansion**

The Company will accelerate the expansion of its global sales network and optimize its distribution channels and product offerings to overseas markets. The Company will facilitate market expansion by brand communication and establishment of overseas offices. The Company focuses on the development of emerging markets such as Africa, Asia and South America by setting up local offices. It will speed up the establishment of overseas manufacturing bases in Brazil and India. Research and development bases will be established in Europe and North America where R&D talents are readily available.

**6. The overall objective for 2012**

The Company aimed to achieve revenue of RMB62.5 billion in 2012.

## III. Capital Expenditure of the Company during the Reporting Period

Major capital expenditure during the reporting period

### (I) Investment projects not using proceeds from the issuance of Shares

*Unit: RMB ten thousand*

| Name of Project | Amount | Progress | Benefit |
|---|---|---|---|
| Construction of concrete-mixing plant in Hanshou Industrial Park | **18,000.00** | 100% | 18,033.55 |
| Total | **18,000.00** | – | 18,033.55 |

### (II) Investment projects using the proceeds from the issuance 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** | 114,229.39 |
| **Amount of proceeds with usages changed during the reporting period** | 51,211.68 | | |
| **Accumulated proceeds with usages changed** | 51,211.68 | **Accumulated proceeds used** | 445,310.42 |
| **Proportion of accumulated proceeds with usages changed** | 9.19% | | |

| Investment project committed and use of proceeds from over-allotment | Whether the project changed (including partly changed) | Total committed investment by using the 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 benefit during the year | Whether The expected benefit 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 | 6,323.63 | 139,523.63 | 92.88% | 31 December 2011 | 48,932.86 | Yes | No |
| Industrialization of heavy cranes | No | 80,060.77 | 80,060.77 | 1,499.29 | 67,290.30 | 84.05% | 31 December 2013 | 151,204.07 | Yes | No |
| Upgrade of medium and large scale excavators | No | 60,680.00 | 60,680.00 | 6,993.90 | 32,224.29 | 53.11% | 31 December 2011 | 3739.95 | No | No |
| Industrialization of key equipments of social emergency rescue system | No | 55,000.00 | 55,000.00 | 9,245.98 | 28,371.25 | 51.58% | 31 December 2012 | 0.00 | No | No |
| Industrialization of underground construction equipment | No | 20,000.00 | 20,000.00 | 0.00 | 18,121.70 | 90.61% | 31 December 2011 | 32,808.75 | Yes | No |
| Establishment of a new platform for digital research and development, manufacturing and innovation | No | 30,001.45 | 30,001.45 | 8,932.09 | 15,125.64 | 50.42% | 31 December 2012 | 0.00 | No | No |
| Upgrade of key hydraulic products for construction machinery | No | 30,000.00 | 30,000.00 | 26,000.00 | 29,419.11 | 98.06% | 31 December 2011 | 5,812.55 | No | No |
| Replenishment of working capital | No | 50,000.00 | 50,000.00 | 51,274.50 | 101,214.50 | – | 28 April 2010 | 0.00 | No | No |
| Research and development and technical innovation of complete set of bulk material conveying machinery | Yes | 51,211.68 | 0.00 | 0.00 | 0.00 | 0.00% | 30 June 2011 | 0.00 | No | Yes |

| Investment project committed and use of proceeds from over-allotment | Whether the project changed (including partly changed) | Total committed investment by using the 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 benefit during the year | Whether The expected benefit was attained | Whether the feasibility of the project had material changes |
|---|---|---|---|---|---|---|---|---|---|---|
| Construction of the station of specialized vehicles for crane machinery | No | 10,000.00 | 10,000.00 | 0.00 | 10,000.00 | 100.00% | 31 December 2011 | 913.45 | No | No |
| Industrialization of complete set of environmental-friendly asphalt concrete re-producing equipment | No | 20,000.00 | 20,000.00 | 3,960.00 | 3,960.00 | 19.80% | 31 August 2013 | 0.00 | No | No |
| Sub-total of committed investment projects | – | 557,175.30 | 557,175.30 | 114,229.39 | 445,310.42 | – | – | 243,411.63 | – | – |
| Use of proceeds from over-allotment | | | | | | | | | | |
| Repayment of bank borrowings (if any) | – | | | | | | – | – | – | – |
| Replenishment of working capital (if any) | – | | | | | | – | – | – | – |
| Subtotal of proceeds from over-allotment | – | 0.00 | 0.00 | 0.00 | 0.00 | – | – | 0.00 | – | – |
| Total | – | 557,175.30 | 557,175.30 | 114,229.39 | 445,310.42 | – | – | 243,411.63 | – | – |

| | |
|---|---|
| Conditions and reasons for not achieving the planned progress or expected profits (by project) | 1. The establishment of global finance leasing system has completed while the construction machinery renovation centre is under construction.<br>2. Production of heavy cranes has achieved expected profits.<br>3. As the upgrade of medium and large scale excavators is still in progress, whether expected profits are achieved will be confirmed upon completion.<br>4. As the production of key equipments of social emergency and rescuing system is still in progress, whether expected profits are achieved will be confirmed upon its completion.<br>5. Production of underground construction equipment Has achieved expected profits.<br>6. As the new platform for digital research and development, manufacturing and innovation is under construction, whether expected profits are achieved will be confirmed upon its completion in 2010.<br>7. As the upgrade of hydraulic parts and components Industry is still in progress, whether expected profits are achieved will be confirmed upon its completion.<br>8. Replenishment of working capital.<br>9. Research, development and technical innovation of complete set of bulk material conveying machinery. has terminated, and the proceeds was used for replenishment of working capital.<br>10. As the construction of the station of specialized vehicles for crane machinery is in progress, whether expected profits are achieved will be confirmed upon its completion.<br>11. As the production of complete set of environmental-friendly asphalt concrete re-producing equipment is still in progress, whether expected profits are achieved will be confirmed upon its completion. |
| Description on material change to project feasibility | Since 2010, the bulk material conveying machinery market has undergone significant changes with declining demands, and overseas markets were seriously hampered, resulting in the decrease of operating results of such products. In order to improve operation quality, the Company adjusted the development direction for bulk material conveying machinery by changing the original integrated operation model covering design, manufacturing and sales, consolidating external and internal resources, forming strategic alliance with enterprises with strong production capacity in coastal areas and outsourcing manufacture process., The Company shifted its focus to the technology advancement of products and improvement of its marketing service to provide quality products and services to customers and to enhance operating efficiency as well as profitability, In view of the above reasons, the Company terminated the "Research and development and technical innovation of complete set of bulk material conveying machinery" and used the proceeds for replenishing its working capital.<br>The termination of investment project concerned was considered and approved at the fourth extraordinary meeting of the 4th session of the Board in 2011, the second extraordinary meeting of the 4th session of the Board in 2011 and the first extraordinary general meeting of the Company in 2011. |
| Amount, usage and utilizing status of proceeds from over-allotment | N/A |

<table>
<tr><th>Investment project committed and use of proceeds from over-allotment</th><th>Whether the project changed (including partly changed)</th><th>Total committed investment by using the 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 benefit during the year</th><th>Whether The expected benefit was attained</th><th>Whether the feasibility of the project had material changes</th></tr>
<tr><td>Relocation of investment projects financed by the proceeds</td><td colspan="10">Applicable<br>Taking into account of the business strategies and development plans, the Company relocated 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.<br>Taking into account of the business strategies and development plans and in order to integrate the resources of the road construction machinery business segment, the Companyrelocated the "Industrialization of complete set of environmental-friendly asphalt concrete re-producing equipment (環保型瀝青混凝土再生成套設備產業化項目)" from Changsha Ligu Industrial Park to Changsha Wangcheng Economic Development Zone. The aforesaid change did not involve changes in construction company, method and details of the project. The above relocation was considered and approved at the fourth meeting of the 4th session of the Board of the Company in 2011.</td></tr>
<tr><td>Change to implementation of investment projects financed by proceeds</td><td colspan="10">Applicable<br>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 from over-allotment could be utilized. Also, 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 order to achieve synergy and maintain management efficiency, the project was mainly implemented by Teli Hydraulic and Zoomlion Hydraulic instead of the Company. Zoomlion utilized a total of RMB300 million from the proceeds to increase its investments in Teli Hydraulic and Zoomlion Hydraulic by RMB240 million and RMB60 million respectively.<br>The Changsha Crawler Crane Park Project (長沙履帶吊園區項目) under the project of "production 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 in the construction of large-capacity crawler crane for such project on its owned land before the proceeds could 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 production project was mainly implemented by the Crawler Crane Company instead of the Company. The Company invested RMB260.3418 million from the proceeds of over allotment 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 our of the proceeds.</td></tr>
<tr><td>Injection and replacement of the internal fund used in investment projects</td><td colspan="10">Applicable<br>On 28 April 2010, the eleventh meeting of the 3rd session of the Board of the Company considered and approved the "Resolution on replacing the internal fund used in investment projects with the proceeds of 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:<br>Units: RMB ten thousand<table><tr><th>Name of Project</th><th>Investment amount</th><th>Amount of the proceed for replacing the internal fund used</th></tr><tr><td>Production 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>I Production 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 from over-allotment | Whether the project changed (including partly changed) | Total committed investment by using the 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 benefit during the year | Whether The expected benefit was attained | Whether the feasibility of the project had material changes |
|---|---|---|---|---|---|---|---|---|---|---|
| | Applicable | | | | | | | | | |
| Temporary replenishment of working capital with unused proceeds | 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 allocated the unused proceeds up to RMB300 million to the production of key equipment of social emergency rescue system and unused proceeds up to 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 for a period of 6 months. The Company made a one-off settlement of the above amounts to the designate accounts on 27 April 2011 when due. | | | | | | | | | |
| 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 | N/A | | | | | | | | | |

2. **Use of proceeds from the issue of H Shares**

On 23 December 2010 and 13 January 2011, the Company launched the initial public offering of a total of 1,000,020,000 H Shares and the proceed from such offering amounted to HK$14,980,302,596 (approximately RMB12,273,540,000). As at 31 December 2011, the use of proceeds by the Company was as follows:

(1) Approximately RMB3,436,600,000 for the establishment of overseas sales network and development of leasing business overseas;

(2) Approximately RMB1,423,730,000 for the establishment of R&D and installation center in Europe;

(3) Approximately RMB1,374,640,000 for repayment of bank loans;

(4) Approximately RMB1,227,350,000 for financing overseas business operation.

## IV. The Annual Financial Statements for the Year Ended 31 December 2011 prepared by the Group 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 Policies nor any Corrections on Material Accounting Errors. Changes in the Accounting Estimates were as follows:

1. Reasons for the changes: As the sales volume of the Company has increased, the sales policies may vary. The year-on-year growth of sale revenue from financing leases has resulted in changes of the current structure of receivables and the estimated inflow and obligations of economic benefits of the Company. To truly and completely reflect the financial position and operating results of the Company, in view of the prevailing operating environment and market condition as well as the collectability of receivables and financial leases of the Company, the Company has adjusted the accounting estimates for "provisions for bad debts based on aging analysis by credit risk profile" and "provisions for bad debts of financial lease receivables" under receivables (including account receivables and other receivables) in accordance with the Accounting Standards for Enterprise with effective from October 2011.

2. Provisions for bad debts under receivables before and after the change based on aging analysis by credit risk profile:

| Age | Provisions before the change | Provisions after the change |
|---|---|---|
| Within 1 year (1 year included) | 5% | 1% |
| 1 to 2 years | 10% | 6% |
| 2 to 3 years | 15% | 15% |
| 3 to 4 years | 35% | 40% |
| 4 to 5 years | 50% | 70% |
| Over 5 years | 100% | 100% |

3. Provisions for bad debts under financial lease receivables before and after the change:

| Base of provisions | Provisions before the change | Provisions after the change |
|---|---|---|
| Balance of financial lease receivables | 0% | 0.7% |

4. Effects of such change in accounting estimates on the Company

    (1) The change in accounting estimates has been adopted in October 2011, and would not affect the profits of the Company for the period from January to September 2011. According to relevant provisions under the Accounting Standards for Enterprise No. 28: Accounting Policies, Changes in Accounting Estimates and Correction on Errors, the change in the above accounting estimates shall be applied prospectively, and no retrospective adjustments to the disclosed financial reports shall be required. Such change would not affect the Company's financial position and operating results of the previous years.

    (2) The change in the accounting estimates has resulted in an increase in the net profit attributable to equity shareholders of the Company by RMB162.75 million, accounting for 2.02% of the net profit attributable to the equity shareholders of the Company in 2011.

5. The change in accounting estimates has been applied prospectively with effective from 1 October 2011.

## VI. Daily Operation of the Board

### (I) Meetings of the Board during the reporting period

1. The first extraordinary meeting of the fourth session of the Board of the Company in 2011 was convened on 18 February 2011 by way of telecommunication. Resolutions of the meeting were disclosed on China Securities Journal, Shanghai Securities News, Securities Times, www.cninfo.com.cn (巨潮資訊網) and the websites of the Hong Kong Stock Exchange and the Company dated 21 February 2011.

2. The second meeting of the fourth session of the Board of the Company was convened on 28 March 2011 in Changsha. Resolutions of the meeting were disclosed on China Securities Journal, Shanghai Securities News, Securities Times, www.cninfo.com.cn (巨潮資訊網) and the websites of the Hong Kong Stock Exchange and the Company dated 29 March 2011.

3. The second extraordinary meeting of the fourth session of the Board of the Company in 2011 was convened on 29 April 2011 by way of telecommunication. The First Quarterly Report for 2011 of the Company was reviewed and approved at the meeting.

4. The third extraordinary meeting of the fourth session of the Board of the Company in 2011 was convened on 3 June 2011 in Changsha. Resolutions of the meeting were disclosed on China Securities Journal, Shanghai Securities News, Securities Times, www.cninfo.com.cn (巨潮資訊網) and the websites of the Hong Kong Stock Exchange and the Company dated 4 June 2011.

# Report of the Board of Directors

5. The fourth extraordinary general meeting of the fourth session of the Board of the Company in 2011 was convened on 25 August 2011 in Changsha. Resolutions of the meeting were disclosed on China Securities Journal, Shanghai Securities News, Securities Times, www.cninfo.com.cn (巨潮資訊網) and the websites of the Hong Kong Stock Exchange and the Company dated 26 August 2011.

6. The third meeting of the fourth session of the Board of the Company was convened on 30 August 2011 in Changsha. Resolutions of the meeting were disclosed on China Securities Journal, Shanghai Securities News, Securities Times, www.cninfo.com.cn (巨潮資訊網) and the websites of the Hong Kong Stock Exchange and the Company dated 31 August 2011.

7. The fifth extraordinary general meeting of the fourth session of the Board of the Company in 2011 was convened on 23 September 2011 by way of telecommunication. Resolutions of the meeting were disclosed on China Securities Journal, Shanghai Securities News, Securities Times, www.cninfo.com.cn (巨潮資訊網) and the websites of the Hong Kong Stock Exchange and the Company dated 24 September 2011.

8. The sixth extraordinary meeting of the fourth session of the Board of the Company in 2011 was convened on 28 October 2011 by way of telecommunication. The Third Quarterly Report for 2011 of the Company was reviewed and approved at the meeting.

## (II) Implementation of resolutions of the general meetings of the Board

In accordance with the laws, regulations and regulatory requirements including 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: Profit Distribution for 2010.

The Profit Distribution Plan for 2010 (2010年度利潤分配方案) was approved at the 2010 annual general meeting convened on 3 June 2011, pursuant to which the Company distributed RMB2.6 (tax included) for every 10 shares in cash to all shareholders and allotted 3 additional shares for every 10 shares with its capital reserve based on the total registered share capital of the Company of 6,927,656,962 shares as of 28 March 2011.

The shares under the Profit Distribution Plan for 2010 were registered on 14 July 2011. The ex-rights and ex-dividend date was 15 July 2011, and the date of distribution of cash dividend was 5 July 2011. The distribution of profits for 2010 was completed on 5 July 2011 by the Company.

(III) Duties of the audit committee of the Board

**1. Operation of the audit committee of the Board**

In 2011, the audit committee of the Board convened four meetings to review the annual results for 2010 and the interim results for 2011.

According to the requirements of the China Securities Regulatory Commission and the SZSE in relation to the Preparation of 2011 Annual Report by Listed Companies and Relevant Tasks (有關做好上市公司2011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) Prior to the fieldwork of the registered auditors, the audit committee had carefully reviewed the audit plan and relevant information for 2011. It determined the schedule of audit work for 2011 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 supervised, 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.

(3) The audit committee reviewed the 2011 financial statements again as well as the situation of internal control and provided written comments after the communication of preliminary audit results by the auditors of the Company.

(4) The audit committee held a meeting following the issuance of Auditors' Reports for the year 2011 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 2011 and the appointment of auditors for 2012 and the resolutions were passed at the meeting.

2. **Resolutions of the 2011 annual meeting of the audit committee of the Board**

The 2011 annual meeting of the audit committee of the Board of Zoomlion Heavy Industry and Technology Co., Ltd was held on 15 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 2012 by the Audit Committee of the Board (董事會審計委員會關於聘請2012年度財務決算審計機構的議案)"

(2) "2011 Domestic Auditor's Report and International Auditor's Report of the Company (公司2011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 in Accounting Estimates of Audit Committee of the Board (董事會審計委員會關於公司會計估計變更的議案)"

(5) "The Annual Working Report of Audit Committee of the Board of 2011 (董事會審計委員會2011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 reporting period, 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 2011, 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 2011 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 2011, 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

As audited, in 2011, Zoomlion Heavy Industry Science and Technology Co., Ltd. (parent company) recorded a net profit of RMB7,504,367,301.41 and undistributed profits for the beginning of the period of RMB5,134,472,409.26 under PRC GAAP. After deducting statutory surplus reserve of RMB750,436,730.14 and cash dividend for profit distribution in 2010 of RMB1,541,190,810.10, profit distributable to the equity shareholders of the Company was RMB10,347,212,170.43. Based on the total share capital of 7,705,954,050 shares, the Company proposed the following profit distribution plan for the shareholders: cash dividend of RMB2.5 (tax inclusive) for every 10 shares.

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 shareholders of the Company in the consolidated financial statements under PRC GAAP | Percentage of net profit attributable to shareholders of the Company in the consolidated financial statements under PRC GAAP |
|---|---|---|---|
| 2010 | 1,876,270,109.92 | 4,665,589,677.74 | 40.22% |
| 2009 | 492,763,676.25 | 2,446,404,303.36 | 20.14% |
| 2008 | 152,100,000 | 1,585,773,999.81 | 9.59% |

## VIII. Statement of Baker Tilly China on the Use of Funds of the Company by Controlling Shareholders and Other Related Parties in 2011

*Tian Zhi Xiang SJ [2012] No.210-2*

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

We were engaged to audit the consolidated balance sheet and balance sheet as at 31 December 2011, 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 2011 and the notes to financial statements ("Financial Statements") of Zoomlion Heavy Industry Science and Technology Co., Ltd. ("Zoomlion") according to the Auditing Standards for CPAs in China, and issued the auditor's report with unqualified opinion on 15 March 2012.

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 in 2011 (2011年度控股股東及其他關聯方資金佔用情況匯總表) (the "Summary").

The management of Zoomlion is responsible for preparing and disclosing the Summary and ensuring its truthfulness, legitimacy and completeness. We reviewed the information set out in the attached Summary and relevant contents in accounting information of the 2011 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 2011, 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 2011, 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: Zeng Haiyuan

Beijing, the PRC
15 March 2012

## 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 Issue No. 2 of the Content and Format of Disclosure of Information of the Listed Companies — The Contents and Formats of Annual Report (Amended in 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 CSRC, we, as the independent directors of the Company, have examined and supervised the guarantees provided by the Company to third parties during the reporting period, and formulated 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 third parties in 2010 as follows:

1. During the reporting period, neither controlling shareholders nor other related parties used the funds of the Company.

2. During the reporting period, additional guarantee and accumulated total guarantees provided to third parties amounted to nil. All of the guarantees were provided to the Company's subsidiaries. Guarantees given to the subsidiaries were used to meet the reasonable operation and capital needs of the Company and had no adverse effect on the interest of the Company and the shareholders, particularly that of minority shareholders. The total guarantees provided to third parties by the Company accounted for 0% 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 reporting period, no improper guarantees were provided to third parties by the Company. Guarantees provided to third parties by the Company and relevant issues were in compliance with the requirements 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 RMB6.18 million in aggregate.

## XIII. Human Resources

As at 31 December 2011, the Company had employed a total of approximately 28,833 employees. Details of the Company's staff costs and employee benefit plans are disclosed in note 5(b) and 24 of the financial statements prepared under IFRSs respectively.

## XIV. Charge on Assets

Details of the Company's charge on assets are set out in note 21 of the financial statements prepared under IFRSs.

## XV. Material investments and capital assets

The Company did not have any material investments or capital assets, or material acquisitions and disposals of subsidiaries and associated companies for the year ended 31 December 2011.

# Management Discussion and Analysis

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

## Overview

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

# Management Discussion and Analysis

## Results of Operations

The following table sets forth a summary, for the periods indicated, of our consolidated results of operations. Each item has also been expressed as a percentage of our consolidated turnover.

| | Year Ended 31 December | | | |
|---|---|---|---|---|
| | **2011** | | 2010 | |
| | **RMB** | **%** | RMB | % |
| | (in millions, except for percentages) | | | |
| **Turnover** | **46,323** | **100.0** | 32,193 | 100.0 |
| Cost of sales and services | **(31,316)** | **(67.6)** | (22,424) | (69.7) |
| **Gross profit** | **15,007** | **32.4** | 9,769 | 30.3 |
| Other revenues and net income | **14** | **—** | 54 | 0.1 |
| Sales and marketing expenses | **(3,160)** | **(6.8)** | (2,146) | (6.6) |
| General and administrative expenses | **(1,861)** | **(4.0)** | (1,645) | (5.1) |
| Research and development expenses | **(398)** | **(0.9)** | (265) | (0.8) |
| **Profit from operations** | **9,602** | **20.7** | 5,767 | 17.9 |
| Gain on disposal of an associate | **12** | **—** | — | — |
| Net finance costs | **(36)** | **—** | (365) | (1.1) |
| Share of profits less losses of associates | **24** | **—** | 14 | — |
| **Profit before taxation** | **9,602** | **20.7** | 5,416 | 16.8 |
| Income tax | **(1,429)** | **(3.1)** | (828) | (2.5) |
| **Profit for the year** | **8,173** | **17.6** | 4,588 | 14.3 |
| Attributable to: | | | | |
| — Equity shareholders of the Company | **8,066** | | 4,666 | |
| — Non-controlling interests | **107** | | (78) | |
| | **8,173** | | 4,588 | |

## Turnover

We generate turnover primarily from the following operating segments:

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

The following table sets forth the breakdown of our consolidated turnover by our operating segments, and each expressed as a percentage of our consolidated turnover, for 2011:

| | Year Ended 31 December | | | |
|---|---|---|---|---|
| | **2011** | | 2010 | |
| | **RMB** | **%** | RMB | % |
| | (in millions, except for percentages) | | | |
| Concrete machinery | **21,212** | **45.8** | 14,085 | 43.8 |
| Crane machinery | **15,618** | **33.7** | 11,077 | 34.4 |
| Environmental and sanitation machinery | **2,978** | **6.4** | 1,874 | 5.8 |
| Road construction and pile foundation machinery | **1,737** | **3.7** | 1,246 | 3.9 |
| Earth working machinery | **1,048** | **2.3** | 772 | 2.4 |
| Material handling machinery and systems | **504** | **1.1** | 422 | 1.3 |
| Finance lease services | **1,583** | **3.5** | 1,043 | 3.2 |
| Total of reportable segments | **44,680** | **96.5** | 30,519 | 94.8 |
| All other segments | **1,643** | **3.5** | 1,674 | 5.2 |
| Total | **46,323** | **100.0** | 32,193 | 100.0 |

# Management Discussion and Analysis

Our turnover increased by 43.9% from RMB32,193 million for the year ended 31 December 2010 to RMB46,323 million for the year ended 31 December 2011. The increase was primarily driven by strong market demand, particularly in the second and third-tier cities in China, for construction machinery and sales from our new products. In particular, turnover from sales of concrete machinery increased by 50.6%, from RMB14,085 million in 2010 to RMB21,212 million in 2011. This was mainly due to a significant increase in the sales volume of our advanced truck-mounted concrete pumps with longer concrete placing boom in 2011. Turnover from sales of crane machinery increased by 41.0% from RMB11,077 million in 2010 to RMB15,618 million in 2011. In particular, sales of crawler cranes and small-capacity tower cranes increased significantly as the number of infrastructure projects increased.

The following table sets forth the breakdown of our turnover by geographic sales location, and each expressed as a percentage of our consolidated turnover, for 2011:

| | Year Ended 31 December | | | |
|---|---|---|---|---|
| | **2011** | | 2010 | |
| | **RMB** | **%** | RMB | % |
| | (in millions, except for percentages) | | | |
| PRC | **44,085** | **95.2** | 30,663 | 95.2 |
| Outside PRC | **2,238** | **4.8** | 1,530 | 4.8 |
| Total | **46,323** | **100.0** | 32,193 | 100.0 |

The following table sets forth the breakdown of our turnover by the end-users' geographic location, and each expressed as a percentage of our consolidated turnover, for 2011:

| | Year Ended 31 December | | | |
|---|---|---|---|---|
| | **2011** | | 2010 | |
| | **RMB** | **%** | RMB | % |
| | (in millions, except for percentages) | | | |
| China | **43,755** | **94.5** | 30,350 | 94.3 |
| Overseas | **2,568** | **5.5** | 1,843 | 5.7 |
| Total | **46,323** | **100.0** | 32,193 | 100.0 |

### Cost of sales and services

Our cost of sales and services primarily consists of:

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

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

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

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

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

# Management Discussion and Analysis

The following table sets forth the major components of our cost of sales and services both in absolute terms and as a percentage of our consolidated turnover for 2011:

| | Year Ended 31 December | | | |
|---|---|---|---|---|
| | **2011** | | 2010 | |
| | **RMB** | **%** | RMB | % |
| | (in millions, except for percentages) | | | |
| Raw materials | **29,463** | **63.7** | 20,740 | 64.5 |
| Staff costs | **1,047** | **2.3** | 842 | 2.6 |
| Depreciation and amortization | **253** | **0.5** | 239 | 0.7 |
| Costs of finance lease services | **207** | **0.4** | 354 | 1.1 |
| Others | **346** | **0.7** | 249 | 0.8 |
| Total cost of sales and services | **31,316** | **67.6** | 22,424 | 69.7 |

Costs of raw materials, parts and components account for the majority of our cost of sales and services.

The following table sets forth the breakdown of our cost of sales and services by our operating segments, and each expressed as a percentage of our segment turnover, for 2011:

| | Year Ended 31 December | | | |
|---|---|---|---|---|
| | **2011** | | 2010 | |
| | **RMB** | **%** | RMB | % |
| | (in millions, except for percentages) | | | |
| Concrete machinery | **13,668** | **64.4** | 9,575 | 68.0 |
| Crane machinery | **11,595** | **74.2** | 7,995 | 72.2 |
| Environmental and sanitation machinery | **2,061** | **69.2** | 1,282 | 68.4 |
| Road construction and pile foundation machinery | **1,072** | **61.7** | 765 | 61.4 |
| Earth working machinery | **834** | **79.6** | 607 | 78.6 |
| Material handling machinery and systems | **453** | **89.9** | 390 | 92.4 |
| Finance lease services | **207** | **13.1** | 354 | 33.9 |
| **Total cost of sales and services of reportable segments** | **29,890** | **66.9** | 20,968 | 68.7 |
| Other segments | **1,426** | **86.8** | 1,456 | 87.0 |
| **Total cost of sales and services** | **31,316** | **67.6** | 22,424 | 69.7 |

## Cost of sales and services

Our cost of sales and services increased by 39.7% from RMB22,424 million for the year ended 31 December 2010 to RMB31,316 million for the year ended 31 December 2011 as a result of our continued growth and expansion, which was in line with the increase in our sales and production volume.

# Management Discussion and Analysis

## Gross profit

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

| | Year Ended 31 December | | | |
|---|---|---|---|---|
| | **2011** | | 2010 | |
| | **RMB** | **%** | RMB | % |
| | (in millions, except for percentages) | | | |
| Concrete machinery | **7,544** | **35.6** | 4,510 | 32.0 |
| Crane machinery | **4,023** | **25.8** | 3,082 | 27.8 |
| Environmental and sanitation machinery | **917** | **30.8** | 592 | 31.6 |
| Road construction and pile foundation machinery | **665** | **38.3** | 481 | 38.6 |
| Earth working machinery | **214** | **20.4** | 165 | 21.4 |
| Material handling machinery and systems | **51** | **10.1** | 32 | 7.6 |
| Finance lease services | **1,376** | **86.9** | 689 | 66.1 |
| **Total gross profits of reportable segments** | **14,790** | **33.1** | 9,551 | 31.3 |
| Other non-reportable segments | **217** | **13.2** | 218 | 13.0 |
| **Total gross profits** | **15,007** | **32.4** | 9,769 | 30.3 |

As a result of the foregoing, our gross profit increased by 53.6% from RMB9,769 million for the year ended 31 December 2010 to RMB15,007 million for the year ended 31 December 2011, and our gross margin increased from 30.3% for the year ended 31 December 2010 to 32.4% for the year ended 31 December 2011 as a result of the change in our product mix and improvement in our manufacturing efficiency. In particular, the gross margin for concrete machinery, which represented 45.8% of our consolidated turnover in 2011, increased to 35.6% from 32.0% in 2010, primarily due to the sales of our advanced truck-mounted concrete pumps with longer concrete placing boom, which carries a higher selling price and higher profit margins, increased as a percentage of our total sales of concrete machinery.

## Other revenues and net income

Our other revenues and net income decreased significantly from RMB54 million for the year ended 31 December 2010 to RMB14 million for the year ended 31 December 2011.

### Sales and marketing expenses

Our sales and marketing expenses increased by 47.3% from RMB2,146 million for the year ended 31 December 2010 to RMB3,160 million for the year ended 31 December 2011. This increase was primarily due to the fact that we expanded our distribution network and strengthened our sales and marketing efforts, which resulted in increases in salaries and benefits to our sales and marketing personnel and expenses related to advertisement and promotion. Sales and marketing expenses as a percentage of our consolidated turnover increased from 6.6% for the year ended 31 December 2010 to 6.8% for the year ended 31 December 2011.

### General and administrative expenses

Our general and administrative expenses increased by 13.1% from RMB1,645 million for the year ended 31 December 2010 to RMB1,861 million for the year ended 31 December 2011, as we continued to expand our business, which in turn resulted in increases in salaries and benefits to staff and associated office expenses. General and administrative expenses as a percentage of our consolidated turnover decreased from 5.1% for the year ended 31 December 2010 to 4.0% for the year ended 31 December 2011.

### Research and development expenses

Our research and development expenses increased by 50.2% from RMB265 million for the year ended 31 December 2010 to RMB398 million for the year ended 31 December 2011. This increase was primarily due to our continued efforts in strengthening our research and development capability, which resulted in an increase in salaries and related expenses for our research and development personnel and an increase in design and testing expenses of our products.

### Profit from operations

As a result of the foregoing, profit from operations increased by 66.5% from RMB5,767 million for the year ended 31 December 2010 to RMB9,602 million for the year ended 31 December 2011. Our operating margin increased from 17.9% for the year ended 31 December 2010 to 20.7% for the year ended 31 December 2011.

### Net finance costs

Net finance costs decreased significantly from RMB365 million for the year ended 31 December 2010 to RMB36 million for the year ended 31 December 2011 primarily due to an increase in interest income from the unutilized portion of the proceeds from our non-public offering of A Shares and the global offering of our H Shares and the exchange gains resulting from the appreciation of the Renminbi, partially offset by an increase in interests on our loans and borrowings.

### Income tax expenses

Our income tax expenses increased by 72.6% from RMB828 million for the year ended 31 December 2010 to RMB1,429 million for the year ended 31 December 2011 primarily as a result of the increase in our taxable income. Our effective income tax rate decreased from 15.3% for the year ended 31 December 2010 to 14.9% for the year ended 31 December 2011.

### Profit for the year

As a result of the above factors, our profit for the year increased by 78.1% from RMB4,588 million for the year ended 31 December 2010 to RMB8,173 million for the year ended 31 December 2011. Our net margin increased from 14.3% for the year ended 31 December 2010 to 17.6% for the year ended 31 December 2011.

### 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 72.9% from RMB4,666 million in 2010 to RMB8,066 million in 2011.

## Cash Flow and Capital Expenditure

During 2011, we financed our operations primarily through cash proceeds from our operations, proceeds from loans and borrowings, including bank borrowings and factoring of our receivables, proceeds from the non-public offering of our A Shares in the PRC and the global offering of our H Shares. As of 31 December 2011, we had RMB16,002 million in cash and cash equivalents, most of which were denominated in Renminbi. Our cash and cash equivalents primarily consist of cash and demand deposits.

The following table sets forth a summary of our consolidated cash flows for 2011:

| | **Year Ended 31 December** | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB** | RMB |
| | (in millions) | |
| Net cash generated from operating activities | **1,880** | 451 |
| Net cash used in investing activities | **(1,287)** | (1,833) |
| Net cash generated (used in)/from financing activities | **(3,275)** | 16,755 |
| Net (decrease)/increase in cash and cash equivalents | **(2,682)** | 15,373 |
| Effect of foreign exchange rate changes | **(74)** | (54) |
| Cash and cash equivalents at the beginning of the period | **18,758** | 3,439 |
| Cash and cash equivalents at the end of the period | **16,002** | 18,758 |

### Operating activities

Net cash generated from operating activities in 2011 was RMB1,880 million, derived primarily by deducting from the profit before taxation of RMB9,602 million, adjusted to reflect the interest expense of RMB695 million and depreciation and amortization of RMB456 million, the following items: (i) an increase in trade and other receivables of RMB5,670 million; (ii) an increase in inventories of RMB965 million; (iii) an increase in receivables under finance lease of RMB3,697 million; and (iv) income tax payment of RMB975 million and then adding back an increase in trade and other payables of RMB2,689 million.

### Investing activities

Net cash used in investing activities in 2011 was RMB1,287 million, consisting primarily of payments for the purchase of property, plant and equipment of RMB1,210 million and lease prepayments for land of RMB260 million, offset by interest on bank deposits of RMB214 million. Payments for the purchase of property, plant and equipment and lease prepayments were related to our industrial parks construction and manufacturing facility upgrades and renovation projects in 2011.

### Financing activities

Net cash used in financing activities in 2011 was RMB3,275 million, consisting primarily of repayments of loans and borrowings of RMB11,847 million and dividends paid to our shareholders of RMB1,657 million, partially offset by proceeds from loans and borrowings of RMB9,454 million and net proceeds from the over-allotment of our H Shares of RMB1,507 million.

### Capital Expenditures

We incurred capital expenditures of RMB1,542 million in the year ended 31 December 2011, for purchase of property, plant and equipment, intangible assets and lease prepayments.

## Commitments and Contingent Liabilities

As of 31 December 2011, our commitments consisted of capital commitments that have been authorized and contracted for in the amount of RMB616 million and capital commitments that have been authorized but not contracted for in the amount of RMB2,183 million, and operating lease commitments of RMB189 million, of which RMB95 million was payable within one year.

As of 31 December 2011, we had contingent liabilities of RMB9,092 million in connection with our financial guarantees provided for bank loans that certain of our customers used to finance their purchases of our products. Under the guarantee arrangements, the products purchased by our customers are held as collateral, and we are entitled to repossess the collateral in the event of customer default. In the years ended 31 December 2010 and 2011, we made payments of RMB102 million and RMB190 million, respectively, to banks under the guarantee arrangements. When called upon to fulfill our guarantee obligations, we have historically been able to sell the repossessed machinery at a price not significantly different from the guarantee payments we made to the banks.

# Management Discussion and Analysis

Starting from October 2010, certain of our 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, we provide guarantees to the third-party leasing company that in the event of customer default, we are required make payment to the leasing company for its share of the outstanding lease payments due from the customer. As of 31 December 2011, the maximum exposure to such guarantees was RMB1,634 million. For the year ended 31 December 2011, there was no customer default which required us to make guarantee payments to the leasing company.

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

## Working Capital and Indebtedness

The table below sets forth the details of our current assets and liabilities as of 31 December 2011:

| | As of 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB** | RMB |
| | (in millions) | |
| **Current Assets** | | |
| Inventories | **9,656** | 8,678 |
| Trade and other receivables | **13,614** | 8,260 |
| Receivables under finance lease | **7,089** | 6,397 |
| Pledged bank deposits | **1,481** | 1,577 |
| Cash and cash equivalents | **16,002** | 18,758 |
| **Total current assets** | **47,842** | 43,670 |
| **Current Liabilities** | | |
| Trade and other payables | **19,314** | 17,203 |
| Loans and borrowings | **6,049** | 8,107 |
| Income tax payable | **1,289** | 757 |
| **Total current liabilities** | **26,652** | 26,067 |
| **Net current assets** | **21,190** | 17,603 |

Our net current assets increased from RMB17,603 million as of 31 December 2010 to RMB21,190 million as of 31 December 2011, primarily due to an increase in our trade and other receivables, inventories and receivables under finance lease. Our trade and other receivables, receivables under finance lease and trade and other payables continued to increase as we continued to expand our operations and our business continued to grow.

As of December 31, 2011, our outstanding short-term loans and borrowings, including the current portion of long-term loans and borrowings, amounted to RMB6,049 million. The following table is a summary of our short-term and long-term loans and borrowings as of 31 December 2011:

| | As of 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB** | RMB |
| | (in millions) | |
| **Current** | | |
| Secured short-term bank loans | **309** | 23 |
| Unsecured short-term bank loans | **4,490** | 4,211 |
| Current portion of long-term bank loans | **1,250** | 3,873 |
| **Total** | **6,049** | 8,107 |
| **Non-current** | | |
| Secured long-term bank loans | **2,036** | 5,534 |
| Unsecured long-term bank loans | **5,210** | 4,938 |
| Unsecured bond | **1,093** | 1,091 |
| Less: Current portion of long-term bank loans | **(1,250)** | (3,873) |
| **Total** | **7,089** | 7,690 |

As of 31 December 2011, our RMB and US dollar denominated unsecured long-term loan with an aggregate outstanding principal amount of RMB230 million and RMB964 million, respectively, subject us to certain financial covenants. As of 31 December 2011, we were in compliance with those financial covenants.

The Company 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. The Company monitors its capital structure on the basis of adjusted debt-to-equity ratio. As of 31 December 2011, our adjusted debt-to-equity ratio was 28% (2010: 29%). Please refer to note 27 of the financial statements prepared under IFRSs for the calculation basis of such ratio.

In 2011, our available credit line from various financial institutions amounted to RMB116.1 billion. As of 31 December 2011, approximately RMB68,030 million of our credit lines from 28 domestic and foreign financial institutions remained unused. In addition, six domestic financial institutions have granted us an aggregate of RMB11,266 million of credit lines under the non-recourse factoring arrangements.

## 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 2011, 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 2011) and the earliest date the Company would be required to repay:

| | As of 31 December 2011 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | **13,138** | **13,989** | **6,487** | **5,226** | **2,276** | **–** |
| Trade and other payables | **19,314** | **19,314** | **19,314** | **–** | **–** | **–** |
| Other non-current liabilities | **1,789** | **1,829** | **–** | **710** | **1,119** | **–** |
| | **34,241** | **35,132** | **25,801** | **5,936** | **3,395** | **–** |
| Financial guarantee issued | | | | | | |
| Maximum amount guarantee | | **10,726** | **10,726** | **–** | **–** | **–** |

| | 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 | — | — | — |

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. 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, 18 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.

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.

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 2011, 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 second meeting of the fourth session of the Supervisory Board was convened on 28 March 2011 in Conference Room No. 11 of the Company, at which the Report of the Supervisory Board of the Company for 2010, Resolution on the Appointment of Auditors for the Financial Statements of 2011, Domestic Auditor's Report and International Auditor's Report of the Company for 2010, Final Financial Statements of the Company for 2010, Financial Budget of the Company for 2011, Profit Distribution Plan of the Company for 2010, Annual Report and Summary for A Shares of the Company for 2010, Annual Report for H Shares of the Company for 2010, Report for the Preliminary Results of H Shares of the Company for 2010, Report on Social Responsibility of the Company for 2010, Report on Internal Control and Self-evaluation of the Company for 2010 and Implementation Plan of Internal Control Measures of the Company in 2011, Resolution on Providing Guarantees for Subsidiaries, Resolution on Changes of the Accounting Policies, Resolution on Amending the Rules of Procedures of the Supervisory Board of the Company and Resolution on the use of proceeds of the previous subscription were considered and approved.

2. The first extraordinary meeting of the fourth session of the Supervisory Board of 2011 was convened on 29 April 2011 by way of written resolution, at which the First Quarterly Report of the Company for 2011 was considered and approved.

3. The second extraordinary meeting of the fourth session of the Supervisory Board of 2011 was convened on 25 August 2011 in Conference Room No. 11 of the Company, at which Resolution on the Termination of Certain Investment Plans and Resolution on Transferring Part of the Investments into Working Capital were considered and approved.

4. The third meeting of the fourth session of the Supervisory Board was convened on 30 August 2011 in Conference Room No. 9 of the Company, at which Interim Report and Summary of the Company for 2011, Resolution on the use of proceeds of the previous subscription and Resolution on Amending the Rules of Procedures of the Supervisory Board of the Company were considered and approved.

5. The third extraordinary meeting of the fourth session of the Supervisory Board of 2011 was convened on 28 October 2011 by electronic means of communication, at which the Third Quarterly Report of the Company for 2011 was considered and approved.

# Report of the Supervisory Board

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

1. In 2011, 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 2011 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 Certified Public Accountants Co., Ltd. and KPMG had audited the financial statements of the Company in 2011, 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 2011.

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

During the reporting period, litigations of the Company included the following dispute on consideration for equity transfer with Skyworth Mobile:

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 then 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 above-mentioned 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.

## 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 |
|---|---|---|---|---|---|---|---|---|
| 600820 | Tunnel shares (隧道股份) | 68,000.00 | 0.00% | 438,484.92 | 33,429.60 | 211,219.35 | Available-for-sale financial assets | Acquisition of assets |
| 601328 | BoCom | 5,291,736.00 | 0.00% | 3,796,119.04 | 15,406.32 | 361,430.74 | Available-for-sale financial assets | Acquisition of assets |
| Total | | 5,359,736.00 | | 4,234,603.96 | 48,835.92 | -150,211.39 | | – |

## IV. Acquisition and Disposal of Assets and Amalgamation

(1) There is no major 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. Material Related Party Transactions and Connected Transactions of the Company during the Year

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

(II) Under the Listing Rules of Hong Kong, the continuing connected transactions of the Company during 2011 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 Company 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 Company from time to time. In 2011, total sales of the Company to Dongfeng Group amounted to approximately RMB691 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 Company 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 Company from time to time. In 2011, total sales of the Company to Nanjun Automobile amounted to approximately RMB194 million (excluding value-added tax).

The independent non-executive directors unanimously confirmed that the connected transactions of the Company for the year 2011 were:

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

(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.

The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules of Hong Kong.

## 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. 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. 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.

   On 5 September 2011, Zoomlion Overseas Investment Management (H.K.) Co., Limited, being a subsidiary of the Company, settled the above-mentioned loans, and the counter-guarantee liability amounted to US$200 million of the Company to Export-Import Bank of China according to the above-mentioned irrevocable letter of counter-guarantee was released.

## VIII. No Undertakings of the Company or Shareholders holding 5% or More Interests in the Company were Publicly-disclosed.

## IX. Appointment of the Auditors during the Reporting Period

(I) Appointment of the auditors

According to a resolution passed at the second meeting of the fourth session of the Board held on 28 March 2011 and the 2010 annual general meeting of the Shareholders held on 3 June 2011, it was approved that Baker Tilly China Certified Public Accountants Co., Ltd. was appointed as the domestic auditors of the Company for 2011, and KPMG was appointed as the international auditors of the Company for 2011.

The term of appointment of Baker Tilly China Certified Public Accountants Co., Ltd. and KPMG as the auditors of the Company was one year. They were 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 the two meetings mentioned above were disclosed in China Securities Journal, Shanghai Securities News, Securities Times, Cninfo (巨潮資訊網) and the websites of the Hong Kong Stock Exchange and the Company on 29 March 2011 and 4 June 2011 respectively.

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

## 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 the 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 |
|---|---|---|---|---|
| 9 October 2011 | Changsha | Meeting | Templeton | A. Main content<br>1. The development of the industry in the fourth quarter of 2011, as well as the prospect of the industry;<br>2. The development history, corporate culture, historical operation condition and strategic plans of the Company;<br>3. The competition and comparison of advantages of various product segments in the industry;<br>4. Explanations to other enquiries.<br>B. Information<br>1. Periodic reports and ad hoc announcements of the Company.<br>2. Brochures of products. |
| 10 October 2011 | | Meeting | Credit Suisse Asset Management fund holdings | |
| 12 October 2011 | | Meeting | UOB Kay Hian | |
| 31 October 2011 | | Conference call | The Bosera Asset Management | |
| 1 November 2011 | | Meeting | Joint Investigation of the Bank of America and Merrill Lynch | |
| 3 November 2011 | | Meeting | CLSA | |
| 7 November 2011 | | Meeting | CICC, Wellington | |
| 8 November 2011 | | Meeting | Joint Investigation of Morgan Stanley | |
| 9 November 2011 | Hong Kong | Strategic meeting (策略會) | Daiwa Securities | |
| 14 November 2011 | | Strategic meeting (策略會) | Macquarie Securities | |
| 15 November 2011 | Changsha | Meeting | Joint Investigation of CLSA | |
| 16 November 2011 | Singapore | Strategic meeting (策略會) | Morgan Stanley | |
| 17 November 2011 | Changsha | Meeting | Joint Investigation of Credit Suisse | |
| 17 November 2011 | | Meeting | Galaxy Securities | |
| 22 November 2011 | | Meeting | Joint Investigation of CLSA | |
| 23 November 2011 | | Meeting | Joint Investigation of Morgan Stanley | |
| 1 December 2011 | Shanghai | Strategic meeting (策略會) | Sinolink Securities | |
| 1 December 2011 | Changsha | Meeting | Joint Investigation of Shenyin Wanguo | |
| 2 December 2011 | Hainan | Strategic meeting (策略會) | Galaxy Securities | |
| 10 December 2011 | Xiamen | Strategic meeting (策略會) | Everbright Securities | |
| 13 December 2011 | Changsha | Conference call | CICC | |
| 15 December 2011 | Shenzhen | Strategic meeting (策略會) | Essence Securities | |
| 22 December 2011 | Shanghai | Strategic meeting (策略會) | Haitong Securities | |
| 23 December 2011 | Changsha | Meeting | KGI Securities | |
| 27 December 2011 | | Meeting | China Asset Management | |
| 30 December 2011 | | Meeting | Citibank | |

Notes: 1. For details of the list of researches, interviews and other activities between January and September 2011, please refer to 2011 first quarterly report, 2011 interim report and 2011 third quarterly report of the Company.

2. The Group responded to research enquiries from approximately 226 staff from 45 institutions between October and 31 December 2011.

## XII. Other Significant Events

(I) On 5 January 2011, the Company fully exercised the over-allotment option and issued an additional of 130,437,400 H shares, which were issued and listed on the Main Board of the SEHK on 13 January 2011.

(II) On 14 February 2011, 744,886,762 restricted shares of the Company, which represented 12.57% of its total capital, were released from lock-up restrictions and become outstanding.

(III) On 18 February 2011, a resolution regarding the establishment of a local legal person insurance company in Hunan Province with an investment of RMB100 million was passed at the first extraordinary meeting of 2011 of the fourth session of Board of Directors. On 22 July 2011, the application of the establishment of a local legal person insurance company in Hunan Province, Lucky life insurance Co., LTD (吉祥人壽保險股份有限公司) , was approved by China Insurance Regulatory Commission (Bao Jian Fa Gai [2011] No. 1164).

(IV) On 3 June 2011, a resolution regarding the establishment of Zoomline Eastern Industrial Park (中聯重科東部工業園) in Lingang economic development zone, Jiangyin was passed on the third extraordinary meeting of 2011 of the fourth session of Board of Directors. The planned investment for the first phase of such development amounted to RMB2.6 billion with a term of three years and will be used for the construction of production base for cranes and excavators.

(V) On 25 August 2011, a resolution regarding the issue of bonds with a term of not exceeding 10 years and total amount of not exceeding US$1.5 billion, which are proposed to be listed on the Singapore Exchange Limited, was approved at on the fourth extraordinary meeting of 2011 of the fourth session of Board of Directors. Such resolution was passed on the first extraordinary meeting of the shareholders of 2011 on 11 October 2011.

(VI) In October 2011, the Chinese and English name of the Company were changed from "長沙中聯重工科技發展股份有限公司" to "中聯重科股份有限公司" and "Changsha Zoomlion Heavy Industry Science and Technology Development Co., Ltd." to "Zoomlion Heavy Industry Science and Technology Co., Ltd." respectively upon the approval of Hunan Provincial Administration for Industry and Commerce and the Registrar of Companies in Hong Kong.

(VII) On 27 February 2012, the Company received the letter from the largest shareholder, the State-owned Assets Supervision and Administration Commission of Hunan Provincial People's Government (Xiang Guo Zi Han [2012] No. 27), pursuant to which the Company will be defined by the State-owned Assets Supervision and Administration Commission of Hunan Provincial People's Government as a state-participated company.

(VIII) The Company pledged part of the receivables under finance leases and bills receivable due from the customers to secure factoring borrowings from banks. As at 31 December 2011, the total factoring borrowings from banks secured by the Company's receivables amounted to RMB843,209,300.

(IX) In February 2012, the Company established a wholly-owned subsidiary, Changsha Zoomlion Environmental and Sanitation Machinery Co., Ltd., with the registered capital of RMB2.1 billion, to which the Company transferred assets of environmental and sanitation machinery business at the consideration of RMB1.943 billion. On 15 March 2012, the Company passed a Board resolution to sell 80% in the equity interests of Changsha Zoomlion Environmental and Sanitation Machinery Co., Ltd. by way of public tender on the Hunan United Assets and Equity Exchange, the completion of which shall be subject to certain conditions. After the completion of the transaction, Changsha Zoomlion Environmental and Sanitation Machinery Co., Ltd. shall cease to be a subsidiary of the Company while the Company will retain 20% of the equity interest in Changsha Zoomlion Environmental and Sanitation Machinery Co., Ltd.

## XIII. Index to Significant Announcements in 2011

| Date | Announcement | Newspaper publishing the information |
|---|---|---|
| 6 January 2011 | Announcement on the full exercise of over-allotment option of overseas listed foreign shares | Page D005 of Securities Times |
| 8 January 2011 | Announcement on the exercise of over-allotment option and the decrease of holding of state-owned shares | Page B012 of Securities Times |
| 13 January 2011 | Announcement on the execution of the Regulatory Agreement of Financing from Third Party | Page D009 of Securities Times |
| 17 January 2011 | Announcement on the stabilizing actions and end of stabilization period of H shares | Page D004 of Securities Times |
| 9 February 2011 | Reminder announcement on the listing and trading of non-public shares subject to sales restriction | Page C005 of Securities Times |
| 21 February 2011 | Announcement on the resolutions of the first extraordinary meeting of 2011 of the fourth session of Board of Directors | Page D003 of Securities Times |
| | Reminder announcement on the proposed overseas investments | |

| Date | Announcement | Newspaper publishing the information |
|---|---|---|
| 29 March 2011 | Announcement on the resolutions of the second extraordinary meeting of 2011 of the fourth session of Board of Directors<br>Announcement on the resolutions of the second extraordinary meeting of 2011 of the fourth session of Supervisory Board<br>Announcement on the Change of Company Name and Corresponding Amendments to the Articles of Association of the Company<br>Announcement on providing guarantees for its holding companies<br>Announcement on general mandate for issue of new shares of the Company<br>Announcement on engaging the auditors for the final accounts of 2011<br>Announcement on changes of the accounting policies<br>Summary of 2010 Annual Report | Page D097, D098 of Securities Times |
| 7 April 2011 | Results forecast announcement | Page D008 of Securities Times |
| 15 April 2011 | Announcement on payment of interests on 2008 bonds of the Company in 2011 | Page D029 of Securities Times |
| 18 April 2011 | Notice on convening the 2010 Annual General Meeting and A Share Class Meeting | Page D004 of Securities Times |
| 27 April 2011 | Announcement on the execution of the Regulatory Agreement of Financing from Third Party | Page D025 of Securities Times |
| 29 April 2011 | Announcement on the repayment of the working capital with part of the proceeds of subscription not being used | Page D009 of Securities Times |
| 30 April 2011 | 2011 First Quarterly Report | Page B036 of Securities Times |
| 4 June 2011 | Announcement on the resolutions of the Annual General Meeting, A Share Class Meeting and H Share Class Meeting<br>Announcement on the resolutions of the third extraordinary meeting of 2011 of the fourth session of Board of Directors | Page B001 of Securities Times |
| 8 July 2011 | Announcement on the distribution of A share profits of 2010 | Page B008 of Securities Times |
| 15 July 2011 | Results forecast announcement | Page D028 of Securities Times |
| 20 August 2011 | Shareholders' decrease in shareholding of the Company | Page B005 of Securities Times |
| 26 August 2011 | Notice on convening the first extraordinary meeting of 2011<br>Announcement on resolutions of the fourth extraordinary meeting of the fourth session of the Board of Directors in 2011 | Page D008 of Securities Times |

# Significant Events

| Date | Announcement | Newspaper publishing the information |
|---|---|---|
| | Announcement on resolutions of the second extraordinary meeting of the fourth session of Supervisory Board in 2011 | |
| | Announcement on the change of the places of certain investment projects | |
| | Announcement on the termination of certain investment projects and the replenishment of working capital with the balances | |
| 31 August 2011 | Major financial indicators and distribution plan for the first half of 2011 | Page D061 of Securities Times |
| | Announcement on resolutions of the third meeting of the fourth session of Supervisory Board | |
| | Announcement on resolutions of the third meeting of the fourth session of Board of the Directors | |
| 24 September 2011 | Announcement on resolutions of the fifth extraordinary meeting of the fourth session of Board of the Directors in 2011 | Page B009 of Securities Times |
| | Announcement on additional proposals on the first extraordinary meeting in 2011 | |
| 12 October 2011 | Results forecast announcement | Page D008 of Securities Times |
| | Announcement on the resolutions of the first extraordinary meeting of shareholders in 2011 | |
| 26 October 2011 | Announcement on the change of the name of the Company | Page D009 of Securities Times |
| 31 October 2011 | 2011 Third Quarterly Report | Page D025 of Securities Times |

Announcements of the Company were also disclosed in www.cninfo.com.cn (巨潮資訊網) and the website of the Hong Kong Stock Exchange.

# Report of the International Auditor

KPMG

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

We have audited the consolidated financial statements of Zoomlion Heavy Industry Science and Technology Co., Ltd. (formerly "Changsha Zoomlion Heavy Industry Science and Technology Development Co., Ltd.") (the "Company") and its subsidiaries (together the "Group") set out on pages 115 to 212, which comprise the consolidated and company balance sheets as at 31 December 2011, 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

# Report of the International Auditor

audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion 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 2011, 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

15 March 2012

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

(Expressed in RMB)

| | Note | 2011 RMB millions | 2010 RMB millions |
|---|---|---|---|
| **Turnover** | 3 | **46,323** | 32,193 |
| Cost of sales and services | | **(31,316)** | (22,424) |
| **Gross profit** | | **15,007** | 9,769 |
| Other revenues and net income | 4 | **14** | 54 |
| Sales and marketing expenses | | **(3,160)** | (2,146) |
| General and administrative expenses | | **(1,861)** | (1,645) |
| Research and development expenses | | **(398)** | (265) |
| **Profit from operations** | | **9,602** | 5,767 |
| Gain on disposal of an associate | | **12** | — |
| Net finance costs | 5(a) | **(36)** | (365) |
| Share of profits less losses of associates | | **24** | 14 |
| **Profit before taxation** | 5 | **9,602** | 5,416 |
| Income tax | 6 | **(1,429)** | (828) |
| **Profit for the year** | | **8,173** | 4,588 |
| **Other comprehensive income for the year (after tax)** | | | |
| Change in fair value of available-for-sale equity securities | | **(1)** | (2) |
| Others | | **—** | 11 |
| Exchange differences on translation of financial statements of subsidiaries outside PRC | | **(2)** | (74) |
| **Total other comprehensive income for the year** | | **(3)** | (65) |
| **Total comprehensive income for the year** | | **8,170** | 4,523 |

The notes on pages 124 to 212 form part of these financial statements.

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

(Expressed in RMB)

| | Note | 2011 RMB millions | 2010 RMB millions |
|---|---|---|---|
| **Profit attributable to:** | | | |
| Equity shareholders of the Company | 9 | **8,066** | 4,666 |
| Non-controlling interests | | **107** | (78) |
| **Profit for the year** | | **8,173** | 4,588 |
| **Total comprehensive income attributable to:** | | | |
| Equity shareholders of the Company | | **8,050** | 4,580 |
| Non-controlling interests | | **120** | (57) |
| **Total comprehensive income for the year** | | **8,170** | 4,523 |
| **Basic and diluted earnings per share (RMB)** | 10 | **1.05** | 0.74 |

The notes on pages 124 to 212 form part of these financial statements.

# Consolidated Balance Sheet

As at 31 December 2011

(Expressed in RMB)

| | Note | 2011 RMB millions | 2010 RMB millions |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **4,886** | 4,135 |
| Lease prepayments | | **1,390** | 1,119 |
| Intangible assets | 13 | **1,216** | 1,256 |
| Goodwill | 14 | **1,793** | 1,907 |
| Interests in associates | 15 | **103** | 86 |
| Other financial assets | | **43** | 50 |
| Trade and other receivables | 17 | **912** | 585 |
| Receivables under finance lease | 18 | **12,780** | 9,775 |
| Pledged bank deposits | 19 | **261** | 185 |
| Deferred tax assets | 23(b) | **317** | 274 |
| **Total non-current assets** | | **23,701** | 19,372 |
| **Current assets** | | | |
| Inventories | 16 | **9,656** | 8,678 |
| Trade and other receivables | 17 | **13,614** | 8,260 |
| Receivables under finance lease | 18 | **7,089** | 6,397 |
| Pledged bank deposits | 19 | **1,481** | 1,577 |
| Cash and cash equivalents | 20 | **16,002** | 18,758 |
| **Total current assets** | | **47,842** | 43,670 |
| **Total assets** | | **71,543** | 63,042 |
| **Current liabilities** | | | |
| Loans and borrowings | 21(a) | **6,049** | 8,107 |
| Trade and other payables | 22 | **19,314** | 17,203 |
| Income tax payable | 23(a) | **1,289** | 757 |
| **Total current liabilities** | | **26,652** | 26,067 |
| **Net current assets** | | **21,190** | 17,603 |
| **Total assets less current liabilities** | | **44,891** | 36,975 |

The notes on pages 124 to 212 form part of these financial statements.

# Consolidated Balance Sheet

As at 31 December 2011

(Expressed in RMB)

| | Note | 2011 RMB millions | 2010 RMB millions |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Loans and borrowings | 21(b) | **7,089** | 7,690 |
| Other non-current liabilities | 25 | **1,789** | 1,379 |
| Deferred tax liabilities | 23(b) | **418** | 471 |
| **Total non-current liabilities** | | **9,296** | 9,540 |
| **NET ASSETS** | | **35,595** | 27,435 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 26(a) | **7,706** | 5,797 |
| Reserves | 26(b) | **27,701** | 21,579 |
| **Total equity attributable to equity shareholders of the Company** | | **35,407** | 27,376 |
| **Non-controlling interests** | | **188** | 59 |
| **TOTAL EQUITY** | | **35,595** | 27,435 |

Approved and authorised for issue by the board of directors on 15 March 2012.

**Zhan Chunxin**
*Chairman and Chief Executive Officer*

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

The notes on pages 124 to 212 form part of these financial statements.

# Company Balance Sheet

As at 31 December 2011

(Expressed in RMB)

| | Note | 2011 RMB millions | 2010 RMB millions |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **3,586** | 2,819 |
| Lease prepayments | | **861** | 615 |
| Intangible assets | 13 | **135** | 58 |
| Investments in subsidiaries | 33 | **8,570** | 3,364 |
| Interests in associates | 15 | **57** | 60 |
| Other financial assets | | **40** | 47 |
| Trade and other receivables | 17 | **887** | 525 |
| Pledged bank deposits | 19 | **261** | 145 |
| Deferred tax assets | 23(b) | **107** | 96 |
| **Total non-current assets** | | **14,504** | 7,729 |
| **Current assets** | | | |
| Inventories | 16 | **7,694** | 6,920 |
| Trade and other receivables | 17 | **28,839** | 16,824 |
| Pledged bank deposits | 19 | **1,406** | 1,470 |
| Cash and cash equivalents | 20 | **8,095** | 16,638 |
| **Total current assets** | | **46,034** | 41,852 |
| **Total assets** | | **60,538** | 49,581 |
| **Current liabilities** | | | |
| Loans and borrowings | 21(a) | **4,095** | 3,867 |
| Trade and other payables | 22 | **16,388** | 15,393 |
| Income tax payable | 23(a) | **1,177** | 712 |
| **Total current liabilities** | | **21,660** | 19,972 |
| **Net current assets** | | **24,374** | 21,880 |
| **Total assets less current liabilities** | | **38,878** | 29,609 |

The notes on pages 124 to 212 form part of these financial statements.

# Company Balance Sheet

As at 31 December 2011

(Expressed in RMB)

| | Note | 2011 RMB millions | 2010 RMB millions |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Loans and borrowings | 21(b) | **4,152** | 2,346 |
| Other non-current liabilities | | **112** | 99 |
| Deferred tax liabilities | 23(b) | **—** | — |
| **Total non-current liabilities** | | **4,264** | 2,445 |
| **NET ASSETS** | | **34,614** | 27,164 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 26(a) | **7,706** | 5,797 |
| Reserves | 26(b) | **26,908** | 21,367 |
| **TOTAL EQUITY** | | **34,614** | 27,164 |

Approved and authorised for issue by the board of directors on 15 March 2012.

**Zhan Chunxin**

*Chairman and Chief Executive Officer*

**Hong Xiaoming**

*Vice president and the person in-charge of financial affairs*

The notes on pages 124 to 212 form part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

(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 2010** | 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 interests | – | (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 |
| Appropriation (Note 26(b)(ii)) | **–** | **–** | **751** | **–** | **–** | **(751)** | **–** | **–** | **–** |
| Over-allotment of H Shares in Global Offering(Note 26(a)) | **131** | **1,376** | **–** | **–** | **–** | **–** | **1,507** | **–** | **1,507** |
| Cash dividends (Note 26(c)(i)) | **–** | **–** | **–** | **–** | **–** | **(1,541)** | **(1,541)** | **–** | **(1,541)** |
| Bonus shares (Note 26(c)(ii)) | **1,778** | **(1,778)** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Acquisition of a subsidiary | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **34** | **34** |
| Contributions from non-controlling interests | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **2** | **2** |
| Acquisition of non-controlling interests | **–** | **15** | **–** | **–** | **–** | **–** | **15** | **(15)** | **–** |
| Dividends paid by subsidiaries to non-controlling interests | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(12)** | **(12)** |
| Total comprehensive income for the year | **–** | **–** | **–** | **(15)** | **(1)** | **8,066** | **8,050** | **120** | **8,170** |
| **Balance at 31 December 2011** | **7,706** | **14,676** | **1,963** | **(81)** | **(2)** | **11,145** | **35,407** | **188** | **35,595** |

The notes on pages 124 to 212 form part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2011

(Expressed in RMB)

| | Note | 2011 RMB millions | 2010 RMB millions |
|---|---|---|---|
| **Operating activities** | | | |
| **Profit before taxation** | | **9,602** | 5,416 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | **369** | 327 |
| Amortisation of lease prepayments | | **27** | 24 |
| Amortisation of intangible assets | | **60** | 64 |
| Share of profits less losses of associates | | **(24)** | (14) |
| Interest income | | **(214)** | (96) |
| Interest expense | | **695** | 740 |
| Loss on disposal of property, plant and equipment, and intangible assets | | **6** | 37 |
| Gain on disposal of an associate | | **(12)** | — |
| Gain on remeasurement of derivate financial instruments at fair value | | **(19)** | — |
| Impairment loss on property, plant and equipment | | **8** | 5 |
| | | **10,498** | 6,503 |
| Increase in inventories | | **(965)** | (2,416) |
| Increase in trade and other receivables | | **(5,670)** | (2,371) |
| Increase in receivables under finance lease | | **(3,697)** | (7,829) |
| Increase in trade and other payables | | **2,689** | 7,083 |
| **Cash generated from operations** | | **2,855** | 970 |
| Income tax paid | | **(975)** | (519) |
| **Net cash generated from operating activities carried forward** | | **1,880** | 451 |

The notes on pages 124 to 212 form part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2011

(Expressed in RMB)

| | Note | 2011 RMB millions | 2010 RMB millions |
|---|---|---|---|
| **Net cash generated from operating activities brought forward** | | **1,880** | 451 |
| **Investing activities** | | | |
| Payment for the purchase of property, plant and equipment | | **(1,210)** | (910) |
| Lease prepayments | | **(260)** | (236) |
| Payment for purchase of intangible assets | | **(112)** | (27) |
| Dividends received from associates | | **—** | 6 |
| Payment for acquisition of investments in associates and equity investments | | **(7)** | (44) |
| Proceeds from disposal of property, plant and equipment and intangible assets | | **37** | 55 |
| Cash acquired in step acquisition | 14 | **31** | — |
| Interest received | | **214** | 96 |
| Decrease/(increase) in pledged bank deposits | | **20** | (773) |
| **Net cash used in investing activities** | | **(1,287)** | (1,833) |
| **Financing activities** | | | |
| Proceeds from loans and borrowings | | **9,454** | 10,840 |
| Repayments of loans and borrowings | | **(11,847)** | (8,906) |
| Interest paid | | **(695)** | (743) |
| Dividends paid to equity shareholders | | **(1,657)** | (711) |
| Dividends paid by subsidiaries to non-controlling interests | | **(12)** | — |
| Contribution from non-controlling interests | | **2** | — |
| Prepayment for acquisition of non-controlling interests | | **(27)** | — |
| Net proceeds from issuance of A Shares in Non-public Offering | | **—** | 5,479 |
| Net proceeds from issuance of H Shares in Global offering | | **—** | 10,796 |
| Net proceeds from over-allotment of H Shares in Global Offering | | **1,507** | — |
| **Net cash (used in)/generated from financing activities** | | **(3,275)** | 16,755 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(2,682)** | 15,373 |
| **Cash and cash equivalents at beginning of year** | | **18,758** | 3,439 |
| **Effect of foreign exchange rate changes** | | **(74)** | (54) |
| **Cash and cash equivalents at end of year** | 20 | **16,002** | 18,758 |

The notes on pages 124 to 212 form part of these financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 1 Principal activities of reporting entity, organisation and basis of preparation

### (a) Principal activities of reporting entity

Zoomlion Heavy Industry Science and Technology Co., Ltd. (formerly "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.

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 additionally issued by the Company. 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 RMB5,928 million, comprising 4,827,634,742 A Shares and 1,100,022,220 H Shares.

On 3 June 2011, 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 RMB7,706 million, comprising 6,275,925,164 A Shares and 1,430,028,886 H Shares, among which Hunan SASAC held 16.19% equity interest.

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

### (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.

The IASB has issued a number of new and revised IFRSs that are first effective for the current accounting year of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IAS 24 (revised 2009), "Related party disclosures"
- Improvements to IFRSs (2010)
- IFRIC 19, "Extinguishing financial liabilities with equity instruments"

The adoption of these new and revised IFRSs has had no significant effect on the consolidated financial statements.

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 2011. The Group has not early adopted these IFRSs in preparing the financial statements for the year then ended.

#### (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.

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

### (c) Basis of preparation (continued)

#### (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 interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less

## 2 Significant accounting policies (continued)

### (a) Business combinations (continued)

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

Receivables 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.

## 2 Significant accounting policies (continued)

### (h) Financial instruments (continued)

#### (i) **Non-derivative financial instruments** (continued)

*Cash and cash equivalents*

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

*Interest-bearing borrowings*

Interest-bearing borrowings are 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.

## 2 Significant accounting policies (continued)

### (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;

— 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.

## 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)

— 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 an 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.

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.

## 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)

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.

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).

## 2 Significant accounting policies (continued)

### (i) Impairment of assets (continued)

#### (ii) **Impairment of other assets** (continued)

— 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.

### (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.

## 2 Significant accounting policies (continued)

### (j) Inventories (continued)

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.

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.

## 2 Significant accounting policies (continued)

### (l) Income tax (continued)

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.

## 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 deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss on a systematic basis over the useful life of the asset by way of reduced depreciation expense.

### (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.

### (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.

## 2 Significant accounting policies (continued)

### (q) Lease (continued)

**(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).

**(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.

### (s) Related parties

For the purposes of these financial statements, a related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group.

## 2 Significant accounting policies (continued)

### (s) Related parties (continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) both entities are joint ventures of the same third party.

(iv) one entity is a joint venture of a third party and the other entity is an associate of the same third party.

(v) the entity is a post-employment benefit plan for the benefit of employees of the Group or an entity related to the Group.

(vi) the entity controlled or jointly controlled by a person identified in (a).

(vii) the person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person 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.

## 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:

| | **2011 RMB millions** | 2010 RMB millions |
|---|---|---|
| Sales of: | | |
| Concrete machinery | **21,212** | 14,085 |
| Crane machinery | **15,618** | 11,077 |
| Environmental and sanitation machinery | **2,978** | 1,874 |
| Road construction and pile foundation machinery | **1,737** | 1,246 |
| Earth working machinery | **1,048** | 772 |
| Material handling machinery and systems | **504** | 422 |
| Other machinery products | **1,643** | 1,674 |
| Finance income under finance lease | **1,583** | 1,043 |
| | **46,323** | 32,193 |

## 4 Other revenues and net income

| | **2011 RMB millions** | 2010 RMB millions |
|---|---|---|
| Government grants (Note) | **87** | 70 |
| Loss on disposal of property, plant and equipment, and intangible assets | **(6)** | (37) |
| Others | **(67)** | 21 |
| | **14** | 54 |

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:

| | 2011 RMB millions | 2010 RMB millions |
|---|---|---|
| Finance income: | | |
| Interest income on bank deposits | **(214)** | (96) |
| Gain on remeasurement of derivative financial instruments at fair value | **(19)** | — |
| | **(233)** | (96) |
| Finance costs: | | |
| Interest on loans and borrowings (Note) | **513** | 403 |
| Net exchange (gains)/losses | **(244)** | 58 |
| | **269** | 461 |
| | **36** | 365 |

Note:

Interest expense on factoring the Group's receivables under finance lease with recourse amounted to RMB182 million for the year ended 31 December 2011 (2010: RMB337 million), and was included in cost of sales and services.

### (b) Staff costs:

| | 2011 RMB millions | 2010 RMB millions |
|---|---|---|
| Salaries, wages and other benefits | **2,898** | 2,127 |
| Contributions to retirement schemes (Note 24) | **178** | 122 |
| | **3,076** | 2,249 |

## 5 Profit before taxation (continued)

(c) Other items:

| | 2011 RMB millions | 2010 RMB millions |
|---|---|---|
| Cost of inventories | **31,109** | 22,070 |
| Depreciation of property, plant and equipment (Note 12) | **369** | 327 |
| Amortisation of lease prepayments | **27** | 24 |
| Amortisation of intangible assets (Note 13) | **60** | 64 |
| Operating lease charges | **128** | 74 |
| Auditors' remuneration — audit services | **11** | 12 |
| Product warranty costs (Note 22(b)) | **154** | 135 |
| Impairment losses: | | |
| — trade receivables (Note 17(b)) | **(3)** | 258 |
| — receivables under finance lease (Note 18(c)) | **140** | — |
| — inventories | **81** | 24 |
| — property, plant and equipment (Note 12) | **8** | 5 |

## 6 Income tax

Income tax in the consolidated statements of comprehensive income represents:

| | 2011 RMB millions | 2010 RMB millions |
|---|---|---|
| **Current tax — PRC income tax** | | |
| Provision for the year | **1,504** | 988 |
| **Current tax — Income tax in other tax jurisdictions** | | |
| Provision for the year | **2** | 5 |
| **Deferred taxation (Note 23(b))** | | |
| Origination and reversal of temporary differences | **(77)** | (165) |
| | **1,429** | 828 |

## 6 Income tax (continued)

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

| | 2011 RMB millions | 2010 RMB millions |
|---|---|---|
| Profit before taxation | **9,602** | 5,416 |
| Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned (Note (a)) | **2,401** | 1,354 |
| Tax effect of non-deductible expenses | **36** | 33 |
| Tax effect of non-taxable income | **(35)** | (20) |
| Tax effect of tax concessions (Note (b)) | **(862)** | (472) |
| Additional deduction for qualified research and development expenses (Note (c)) | **(111)** | (67) |
| Actual income tax expense | **1,429** | 828 |

Notes:

(a) The PRC statutory income tax rate is 25% (2010: 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% (2010: 27.5% to 31.4%).

The Company's subsidiaries in the HKSAR are subject to Hong Kong Profits Tax at 16.5% (2010: 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%. The Company and certain of its subsidiaries obtained the renewal approval of high-technology enterprises in 2011 and accordingly were subject to income tax at 15% for the years from 2011 to 2013. In 2009, a subsidiary of the Company was recognised as a high-technology enterprise for 2009 to 2011.

(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 2011** | | | | | |
| **Executive directors** | | | | | |
| ZHAN Chunxin | – | 967 | 967 | 16 | 1,950 |
| LIU Quan | – | 642 | 642 | 16 | 1,300 |
| **Non-executive director** | | | | | |
| QIU Zhongwei | – | – | – | – | – |
| **Independent non-executive directors** | | | | | |
| QIAN Shizheng | 120 | – | – | – | 120 |
| LIAN Weizeng | 120 | – | – | – | 120 |
| WANG Zhile | 120 | – | – | – | 120 |
| LIU Changkun | – | – | – | – | – |
| **Supervisors** | | | | | |
| CAO Yonggang* | – | – | – | – | – |
| LUO Anping | – | 397 | 397 | 16 | 810 |
| LIU Chi | – | 497 | 497 | 16 | 1,010 |
| **Total** | 360 | 2,503 | 2,503 | 64 | 5,430 |

## 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 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 |
| LIU Changkun | – | – | – | – | – |
| **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 |

* 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.

None of these directors and supervisors received any inducements or compensation for loss of office, or waived any emoluments during the year (2010: Nil).

## 8 Individuals with highest emoluments

Of the five highest paid individuals of the Group, two (2010: two) 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 (2010: three) individuals are as follows:

| | **2011 RMB thousands** | 2010 RMB thousands |
|---|---|---|
| Salaries, allowances and other benefits in kind | **3,902** | 3,664 |
| Retirement scheme contributions | **48** | 48 |
| | **3,950** | **3,712** |

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

| | **2011 Number** | 2010 Number |
|---|---|---|
| RMB1,000,001 — RMB1,500,000 | **3** | 3 |

None of these employees received any inducements or compensation for loss of office, or waived any emoluments during the year (2010: Nil).

## 9 Profit attributable to equity holders of the Company

The consolidated profit attributable to equity shareholders of the Company included a profit of RMB7,485 million (2010: RMB4,424 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 for 2010, 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 July 2011(see Note 26(c)) as if it had occurred at the beginning of the earliest period presented and such shares had been outstanding for the year.

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB8,066 million (2010: RMB4,666 million), and the weighted average number of shares of 7,700 million in issue during the year (2010: 6,341 million shares after adjusting for the stock split mentioned in the above paragraph).

There were no dilutive potential ordinary shares in issue as at 31 December 2011 (31 December 2010: 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.

(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 years ended 31 December 2011 and 2010.

## 11 Segment reporting (continued)

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

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

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2011 is set out below:

| | **2011 RMB millions** | 2010 RMB millions |
|---|---|---|
| Reportable segment revenue: | | |
| Concrete machinery | **21,212** | 14,085 |
| Crane machinery | **15,618** | 11,077 |
| Environmental and sanitation machinery | **2,978** | 1,874 |
| Road construction and pile foundation machinery | **1,737** | 1,246 |
| Earth working machinery | **1,048** | 772 |
| Material handling machinery and systems | **504** | 422 |
| Finance lease services | **1,583** | 1,043 |
| Total reportable segment revenue | **44,680** | 30,519 |
| Revenue from all other segments | **1,643** | 1,674 |
| Total | **46,323** | 32,193 |
| Reportable segment profit: | | |
| Concrete machinery | **7,544** | 4,510 |
| Crane machinery | **4,023** | 3,082 |
| Environmental and sanitation machinery | **917** | 592 |
| Road construction and pile foundation machinery | **665** | 481 |
| Earth working machinery | **214** | 165 |
| Material handling machinery and systems | **51** | 32 |
| Finance lease services | **1,376** | 689 |
| Total reportable segment profit | **14,790** | 9,551 |
| Profit from all other segments | **217** | 218 |
| Total | **15,007** | 9,769 |

## 11 Segment reporting (continued)

### (b) Reconciliation of segment profit

| | 2011 RMB millions | 2010 RMB millions |
|---|---|---|
| Total segment profit | **15,007** | 9,769 |
| Other revenues and net income | **14** | 54 |
| Sales and marketing expenses | **(3,160)** | (2,146) |
| General and administrative expenses | **(1,861)** | (1,645) |
| Research and development expenses | **(398)** | (265) |
| Gain on disposal of an associate | **12** | — |
| Net finance costs | **(36)** | (365) |
| Share of profits less losses of associates | **24** | 14 |
| Consolidated profit before taxation | **9,602** | 5,416 |

### (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.

| | 2011 RMB millions | 2010 RMB millions |
|---|---|---|
| Revenue from external customers | | |
| — Mainland PRC | **44,085** | 30,663 |
| — Outside PRC | **2,238** | 1,530 |
| Total | **46,323** | 32,193 |

## 11 Segment reporting (continued)

### (c) Geographic information (continued)

| | 2011 RMB millions | 2010 RMB millions |
|---|---|---|
| Specified non-current assets | | |
| — Mainland PRC | **6,088** | 5,014 |
| — Outside PRC, primarily in Italy | **188** | 240 |
| Total | **6,276** | 5,254 |

## 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 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 |
| Balance at 1 January 2011 | **2,332** | **1,742** | **478** | **477** | **5,029** |
| Acquisition from business combination | **—** | **1** | **1** | **4** | **6** |
| Additions | **59** | **220** | **170** | **721** | **1,170** |
| Transferred from construction in progress | **300** | **96** | **22** | **(418)** | **—** |
| Disposals | **(21)** | **(63)** | **(31)** | **—** | **(115)** |
| Reclassification | **—** | **(18)** | **18** | **—** | **—** |
| Effect of exchange rate difference | **(5)** | **(13)** | **(5)** | **—** | **(23)** |
| Balance at 31 December 2011 | **2,665** | **1,965** | **653** | **784** | **6,067** |

## 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 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) |
| Balance at 1 January 2011 | **(282)** | **(452)** | **(160)** | **–** | **(894)** |
| Depreciation charge for the year | **(104)** | **(193)** | **(72)** | **–** | **(369)** |
| Impairment charge for the year | **(1)** | **(1)** | **(6)** | **–** | **(8)** |
| Written back on disposals | **15** | **44** | **20** | **–** | **79** |
| Reclassification | **–** | **7** | **(7)** | **–** | **–** |
| Effect of exchange rate difference | **3** | **5** | **3** | **–** | **11** |
| Balance at 31 December 2011 | **(369)** | **(590)** | **(222)** | **–** | **(1,181)** |
| **Net book value:** | | | | | |
| Balance at 31 December 2011 | **2,296** | **1,375** | **431** | **784** | **4,886** |
| Balance at 31 December 2010 | 2,050 | 1,290 | 318 | 477 | 4,135 |

## 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 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 |
| Balance at 1 January 2011 | **1,621** | **1,035** | **353** | **401** | **3,410** |
| Additions | **46** | **138** | **141** | **654** | **979** |
| Transferred from construction in progress | **276** | **88** | **18** | **(382)** | **—** |
| Transferred from subsidiaries | **—** | **29** | **3** | **—** | **32** |
| Disposals | **(4)** | **(3)** | **(15)** | **—** | **(22)** |
| Transferred to subsidiaries | **—** | **(1)** | **—** | **(2)** | **(3)** |
| Reclassification | **1** | **(9)** | **8** | **—** | **—** |
| Balance at 31 December 2011 | **1,940** | **1,277** | **508** | **671** | **4,396** |

## 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 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) |
| Balance at 1 January 2011 | **(196)** | **(272)** | **(123)** | **—** | **(591)** |
| Depreciation charge for the year | **(61)** | **(105)** | **(49)** | **—** | **(215)** |
| Transferred from subsidiaries | **—** | **(6)** | **(2)** | **—** | **(8)** |
| Written back on disposals | **—** | **1** | **3** | **—** | **4** |
| Transferred to subsidiaries | **—** | **—** | **—** | **—** | **—** |
| Reclassification | **(1)** | **2** | **(1)** | **—** | **—** |
| Balance at 31 December 2011 | **(258)** | **(380)** | **(172)** | **—** | **(810)** |
| **Net book value:** | | | | | |
| Balance at 31 December 2011 | **1,682** | **897** | **336** | **671** | **3,586** |
| Balance at 31 December 2010 | 1,425 | 763 | 230 | 401 | 2,819 |

## 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 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 |
| Balance at 1 January 2011 | **819** | **87** | **108** | **377** | **42** | **1,433** |
| Additions | **–** | **32** | **69** | **–** | **11** | **112** |
| Disposal | **–** | **–** | **(7)** | **–** | **–** | **(7)** |
| Effect of exchange rate difference | **(57)** | **(6)** | **(3)** | **(27)** | **(4)** | **(97)** |
| Balance at 31 December 2011 | **762** | **113** | **167** | **350** | **49** | **1,441** |
| **Accumulated amortisation and impairment:** | | | | | | |
| 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) |
| Balance at 1 January 2011 | **(37)** | **(15)** | **(35)** | **(70)** | **(20)** | **(177)** |
| Amortisation for the year | **–** | **(6)** | **(12)** | **(31)** | **(11)** | **(60)** |
| Effect of exchange rate difference | **–** | **1** | **2** | **7** | **2** | **12** |
| Balance at 31 December 2011 | **(37)** | **(20)** | **(45)** | **(94)** | **(29)** | **(225)** |
| **Net book value:** | | | | | | |
| Balance at 31 December 2011 | **725** | **93** | **122** | **256** | **20** | **1,216** |
| Balance at 31 December 2010 | 782 | 72 | 73 | 307 | 22 | 1,256 |

## 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 2010 | 36 | 2 | 66 | 104 |
| Additions | — | — | 7 | 7 |
| Balance at 31 December 2010 | 36 | 2 | 73 | 111 |
| Balance at 1 January 2011 | **36** | **2** | **73** | **111** |
| Additions | **—** | **32** | **58** | **90** |
| Disposal | **—** | **—** | **(5)** | **(5)** |
| Balance at 31 December 2011 | **36** | **34** | **126** | **196** |
| **Accumulated amortisation and impairment:** | | | | |
| Balance at 1 January 2010 | (36) | (1) | (8) | (45) |
| Amortisation for the year | — | — | (8) | (8) |
| Balance at 31 December 2010 | (36) | (1) | (16) | (53) |
| Balance at 1 January 2011 | **(36)** | **(1)** | **(16)** | **(53)** |
| Amortisation for the year | **—** | **—** | **(8)** | **(8)** |
| Balance at 31 December 2011 | **(36)** | **(1)** | **(24)** | **(61)** |
| **Net book value:** | | | | |
| Balance at 31 December 2011 | **—** | **33** | **102** | **135** |
| Balance at 31 December 2010 | — | 1 | 57 | 58 |

## 14 Goodwill and business combination

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB** | RMB |
| | **millions** | millions |
| Balance at 1 January | **1,907** | 2,082 |
| Effect of exchange rate difference | **(114)** | (175) |
| Balance at 31 December | **1,793** | 1,907 |

The goodwill arose from the acquisition of the following entities:

| | | Carrying amount | |
|---|---|---|---|
| | | **2011** | 2010 |
| | **Date of** | **RMB** | RMB |
| **Name of entity** | **acquisition** | **millions** | millions |
| Compagnia Italiana Forme Acciaio S.p.A ("CIFA") | September 2008 | **1,579** | 1,693 |
| Shaanxi Zoomlion Earth Working Machinery Co., Ltd. (formerly "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 "Huatai Machinery Manufacturing Co., Ltd.") | July 2008 | **67** | 67 |
| | | **1,793** | 1,907 |

### Step acquisition of Changsha Zoomlion Fire Control Machinery Co., Ltd. ("Fire Control"):

In April 2011, the Company increased its equity interest in Fire Control from 49% to 65% with a cash consideration of RMB37 million through additional capital injection into Fire Control.

The step acquisition was accounted for under the acquisition method. The Company allocated the purchase price to identifiable assets acquired and liabilities assumed based on their estimated fair values. Management determined the fair values of the identifiable assets acquired and liabilities assumed based on valuation performed by an independent appraiser. The purpose of the business combination was to broaden the Group's product line.

## 14 Goodwill and business combination (continued)

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

No goodwill was resulted from this step acquisition.

| | RMB millions |
|---|---|
| Property, plant and equipment | 6 |
| Lease prepayments | 38 |
| Inventories | 50 |
| Trade and other receivables | 72 |
| Cash and cash equivalents | 31 |
| **Total assets acquired** | **197** |
| Loans and borrowings | (40) |
| Trade and other payables | (62) |
| Income tax payable | (1) |
| **Total liabilities assumed** | **(103)** |
| Non-controlling interests | (34) |
| **Net identifiable assets acquired** | **60** |
| Cash consideration (paid in the year 2010) | (37) |
| Fair value of previously-held equity interest | (23) |
| **Total cost of acquisition** | **(60)** |
| Cash acquired | 31 |
| **Net cash outflow** | **(6)** |

## 14 Goodwill and business combination (continued)

### 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 13.0% to 20.9% (2010: 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% (2010: 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** | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB** | RMB | **RMB** | RMB |
| | **millions** | millions | **millions** | millions |
| Unlisted share, at cost | **—** | — | **57** | 60 |
| Share of net assets | **103** | 86 | **—** | — |
| | **103** | 86 | **57** | 60 |

## 15 Interests in associates (continued)

The following list contains particulars of the principal associates of the Group as at 31 December 2011:

| Name of company | Particulars of issued and paid up capital (millions) | The Group's effective interest in the company | Principal activities |
|---|---|---|---|
| Bichamp Cutting Technology (Hunan) Co., Ltd. | RMB100 | 32% | Manufacture of metallic products and materials |
| Hubei Zoomlion Crane Machinery Co., Ltd. | RMB10 | 35% | Sales of crane machinery |

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 | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB millions** | RMB millions | **RMB millions** | RMB millions |
| Raw materials | **4,762** | 3,706 | **3,670** | 2,688 |
| Work in progress | **1,691** | 2,122 | **1,222** | 1,518 |
| Finished goods | **3,203** | 2,850 | **2,802** | 2,714 |
| | **9,656** | 8,678 | **7,694** | 6,920 |

## 17 Trade and other receivables

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB** | RMB | **RMB** | RMB |
| | **millions** | millions | **millions** | millions |
| Trade receivables | **12,096** | 7,504 | **10,272** | 6,195 |
| Less: provision for impairment (Note (b)) | **(533)** | (557) | **(353)** | (418) |
| | **11,563** | 6,947 | **9,919** | 5,777 |
| Less: trade receivables due after one year | **(912)** | (585) | **(887)** | (525) |
| | **10,651** | 6,362 | **9,032** | 5,252 |
| Bills receivable (Note (c)) | **1,138** | 627 | **677** | 368 |
| | **11,789** | 6,989 | **9,709** | 5,620 |
| Amounts due from related parties (Note 31(b)) | **99** | 27 | **99** | 15 |
| Amounts due from subsidiaries | **—** | — | **18,163** | 10,561 |
| Prepayments for purchase of raw materials | **508** | 388 | **263** | 298 |
| Prepaid expenses | **310** | 178 | **193** | 74 |
| VAT recoverable | **247** | 179 | **162** | 48 |
| Others | **661** | 499 | **250** | 208 |
| | **13,614** | 8,260 | **28,839** | 16,824 |

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.

## 17 Trade and other receivables (continued)

The Group allows certain customers with appropriate credit standing to make payments in equal monthly instalments over a maximum period of 36 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 2011, the weighted average discount rate was approximately 6.65% (2010: 5.85%) per annum. As at 31 December 2011, trade receivables due after one year of RMB912 million (31 December 2010: RMB585 million) were presented net of unearned interest of RMB80 million (31 December 2010: RMB38 million).

During the year ended 31 December 2011, trade receivables of RMB1,000 million (2010: Nil) were factored to banks without recourse, and were therefore derecognised.

### (a) Ageing analysis of trade receivables

Ageing analysis of trade receivables (net of provision for impairment) as of the end of the year is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB** | RMB | **RMB** | RMB |
| | **millions** | millions | **millions** | millions |
| Within 1 month | **4,547** | 2,642 | **3,932** | 1,796 |
| Over 1 month but less than 3 months | **2,362** | 921 | **2,102** | 911 |
| Over 3 months but less than 1 year | **3,401** | 2,403 | **2,855** | 2,277 |
| Over 1 year but less than 2 years | **932** | 772 | **802** | 600 |
| Over 2 years but less than 3 years | **249** | 174 | **179** | 167 |
| Over 3 years but less than 5 years | **72** | 35 | **49** | 26 |
| | **11,563** | 6,947 | **9,919** | 5,777 |

## 17 Trade and other receivables (continued)

### (a) Ageing analysis of trade receivables (continued)

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)).

The movement in the provision for impairment during the year, including both specific and collective loss components, is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB** | RMB | **RMB** | RMB |
| | **millions** | millions | **millions** | millions |
| Balance at 1 January | **(557)** | (340) | **(418)** | (249) |
| Impairment losses recognised | **3** | (258) | **61** | (189) |
| Uncollectible amounts written off | **21** | 41 | **4** | 20 |
| Balance at 31 December | **(533)** | (557) | **(353)** | (418) |

(c) 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 | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB** | RMB |
| | **millions** | millions |
| Gross investment | **22,135** | 17,841 |
| Unearned finance income | **(2,126)** | (1,669) |
| | **20,009** | 16,172 |
| Less: provision for impairment (Note (c)) | **(140)** | — |
| | **19,869** | 16,172 |
| Less: receivables under finance lease due after one year | **(12,780)** | (9,775) |
| Receivables under finance lease due within one year | **7,089** | 6,397 |

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 non-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.

As at 31 December 2011, receivables under finance lease of RMB586 million (31 December 2010: RMB4,125 million) were factored to banks with recourse.

During the year ended 31 December 2011, receivables under finance lease of RMB12,258 million (2010: RMB714 million) were factored to banks without recourse, and were therefore derecognised.

## 18 Receivables under finance lease (continued)

### (a) Ageing analysis of receivables under finance lease

The minimum lease payments receivable as of the end of the year are as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB** | RMB |
| | **millions** | millions |
| **Present value of the minimum lease payments** | | |
| Within 1 year | **7,139** | 6,397 |
| Over 1 year but less than 2 years | **6,300** | 5,655 |
| Over 2 years but less than 3 years | **4,178** | 3,154 |
| Over 3 years | **2,392** | 966 |
| | **20,009** | 16,172 |
| **Unearned finance income** | | |
| Within 1 year | **1,024** | 941 |
| Over 1 year but less than 2 years | **671** | 513 |
| Over 2 years but less than 3 years | **318** | 177 |
| Over 3 years | **113** | 38 |
| | **2,126** | 1,669 |
| **Gross investment** | | |
| Within 1 year | **8,163** | 7,338 |
| Over 1 year but less than 2 years | **6,971** | 6,168 |
| Over 2 years but less than 3 years | **4,496** | 3,331 |
| Over 3 years | **2,505** | 1,004 |
| | **22,135** | 17,841 |

## 18 Receivables under finance lease (continued)

### (b) Overdue analysis

Overdue analysis of receivables under finance lease as of the end of the year is as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB** | RMB |
| | **millions** | millions |
| Not yet due | **21,671** | 17,419 |
| Less than 1 month past due | **39** | 54 |
| 1 to 3 months past due | **74** | 122 |
| 3 to 12 months past due | **219** | 219 |
| More than 12 months past due | **132** | 27 |
| Total past due | **464** | 422 |
| Gross investment | **22,135** | 17,841 |

Past due receivables refer to the amount remains unpaid after the relevant payment due date, including those receivables that are overdue for only one day.

### (c) Impairment of receivables under finance lease

Impairment losses in respect of receivables under finance lease 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 the receivables directly (Note 2(i)).

The movement in the provision for impairment during the year, is as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB** | RMB |
| | **millions** | millions |
| Balance at 1 January | **—** | — |
| Impairment losses recognised | **140** | — |
| Balance at 31 December | **140** | — |

## 18 Receivables under finance lease (continued)

(d) 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).

## 19 Pledged bank deposits

The pledged bank deposits primarily 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** | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB millions** | RMB millions | **RMB millions** | RMB millions |
| Cash at bank and on hand | | | | |
| — RMB denominated | **15,351** | 12,601 | **7,995** | 11,114 |
| — HKD denominated | **29** | 5,362 | **—** | 5,352 |
| — USD denominated | **345** | 511 | **80** | 135 |
| — EUR denominated | **202** | 237 | **6** | 10 |
| — Other currencies | **75** | 47 | **14** | 27 |
| | **16,002** | 18,758 | **8,095** | 16,638 |

## 21 Loans and borrowings

### (a) Short-term loans and borrowings:

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | **2011** | 2010 | **2011** | 2010 |
| | | **RMB** | RMB | **RMB** | RMB |
| | Note | **millions** | millions | **millions** | millions |
| Secured short-term bank loans | | | | | |
| — RMB denominated | (i) | **304** | 20 | **—** | — |
| — EUR denominated | | **5** | 3 | **—** | — |
| Unsecured short-term bank loans | | | | | |
| — RMB denominated | | **265** | 31 | **240** | — |
| — JPY denominated | | **50** | 777 | **50** | 753 |
| — EUR denominated | | **132** | 330 | **127** | 293 |
| — USD denominated | (ii) | **3,986** | 3,013 | **3,385** | 2,433 |
| — HKD denominated | | **57** | 60 | **—** | — |
| Current portion of long-term bank loans | | **1,250** | 3,873 | **293** | 388 |
| | | **6,049** | 8,107 | **4,095** | 3,867 |

Notes:

(i) The RMB denominated secured short-term bank loans as at 31 December 2011 were secured by fixed assets and receivables with an aggregate carrying value of RMB339 million (31 December 2010: RMB28 million).

(ii) As at 31 December 2011, USD denominated unsecured short-term loans of RMB1,197 million (31 December 2010: RMB1,192 million), bore interest at LIBOR plus 2% to 4.7% per annum. Such loans were subject to the fulfilment of certain financial covenants of the Group. As at 31 December 2011, the Group was in compliance with these financial covenants.

## 21 Loans and borrowings (continued)

(b) Long-term loans and borrowings:

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | **2011** | 2010 | **2011** | 2010 |
| | | **RMB** | RMB | **RMB** | RMB |
| | Note | **millions** | millions | **millions** | millions |
| Secured long-term bank loans | | | | | |
| — RMB denominated | (i) | **560** | 3,949 | **—** | — |
| — EUR denominated | (ii) | **1,476** | 1,585 | **—** | — |
| Unsecured long-term bank loans | | | | | |
| — RMB denominated | (iii) | **460** | 849 | **460** | 848 |
| — EUR denominated | (iv) | **819** | 883 | **—** | — |
| — USD denominated | (v) | **3,931** | 3,206 | **2,892** | 795 |
| Unsecured bond | (vi) | **1,093** | 1,091 | **1,093** | 1,091 |
| | | **8,339** | 11,563 | **4,445** | 2,734 |
| Less: Current portion of long-term bank loans | | **(1,250)** | (3,873) | **(293)** | (388) |
| | | **7,089** | 7,690 | **4,152** | 2,346 |

## 21 Loans and borrowings (continued)

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

Notes:

(i) The RMB denominated secured long-term bank loans as at 31 December 2011 were secured by certain receivables under finance lease with a carrying value of RMB586 million (31 December 2010: RMB4,125 million) and had maturities ranging from 1 to 3 years from the balance sheet date.

(ii) As at 31 December 2011, the EUR denominated secured long-term bank loans of RMB1,468 million (31 December 2010: RMB1,583 million) 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 was repayable in full in June 2013.

(iii) The RMB denominated unsecured long-term bank loans as at 31 December 2011 had maturities ranging from 9 months to 21 months from the balance sheet date. As at 31 December 2011, RMB230 million (31 December 2010: RMB230 million) of such long-term loan was subject to the fulfilment of certain annual financial covenants of the Group. As at 31 December 2011, the Group was in compliance with these financial covenants.

(iv) As at 31 December 2011, the EUR denominated unsecured long-term bank loan of RMB814 million (31 December 2010: RMB877 million) bore interest at EURIBOR plus 2.0% per annum and was repayable in full in June 2013. The remaining unsecured long-term bank loans of RMB5 million (31 December 2010: RMB6 million) were repayable in quarterly instalments through 2014.

(v) As at 31 December 2011, the USD denominated unsecured long-term bank loan of RMB964 million (31 December 2010: Nil) bore interest at LIBOR plus 4.5% per annum and had maturity of 33 months from the balance sheet date. Such loan was subject to the fulfilment of certain financial covenants of the Group. As at 31 December 2011, the Group was in compliance with these financial covenants.

As at 31 December 2011, the USD denominated unsecured long-term bank loans of RMB2,746 million (31 December 2010: RMB1,887 million) bore interest at LIBOR plus 1.2% to 5% per annum and had maturities ranging from 2 months to 2 years from the balance sheet date.

The remaining USD denominated unsecured long-term bank loans of RMB221 million (31 December 2010: Nil) bore interest at 3.9% to 4.2% per annum and had maturities of 17 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 | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB** | RMB | **RMB** | RMB |
| | **millions** | millions | **millions** | millions |
| Trade creditors | **7,136** | 6,841 | **6,429** | 5,989 |
| Bills payable | **4,967** | 5,441 | **4,771** | 5,307 |
| Trade creditors and bills payable (Note (a)) | **12,103** | 12,282 | **11,200** | 11,296 |
| Amounts due to related parties (Note 31(b)) | **13** | 12 | **—** | — |
| Amounts due to subsidiaries | **—** | — | **626** | 1,046 |
| Receipts in advance | **1,166** | 1,021 | **733** | 676 |
| Payable for acquisition of property, plant and equipment | **403** | 375 | **372** | 339 |
| Accrued staff costs | **940** | 642 | **646** | 446 |
| VAT payable | **1,224** | 722 | **1,096** | 602 |
| Security deposits (Note 25) | **864** | 608 | **172** | 194 |
| Product warranty provision (Note (b)) | **131** | 113 | **68** | 58 |
| Sundry taxes payable | **546** | 325 | **423** | 286 |
| Dividend payable | **—** | 116 | **—** | 116 |
| Payables for factoring discount (Note (c)) | **687** | 53 | **74** | — |
| Others | **1,237** | 934 | **978** | 334 |
| | **19,314** | 17,203 | **16,388** | 15,393 |

## 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 | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB** | RMB | **RMB** | RMB |
| | **millions** | millions | **millions** | millions |
| Due within 1 month or on demand | **4,974** | 4,640 | **4,933** | 4,598 |
| Due after 1 month but within 3 months | **3,938** | 3,567 | **3,666** | 3,509 |
| Due after 3 months but within 6 months | **2,496** | 3,067 | **2,091** | 2,701 |
| Due after 6 months but less than 12 months | **695** | 1,008 | **510** | 488 |
| | **12,103** | 12,282 | **11,200** | 11,296 |

(b) Product warranty provision

| | The Group | The Company |
|---|---|---|
| | RMB | RMB |
| | millions | millions |
| 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 |
| Balance at 1 January 2011 | **113** | **58** |
| Provision for the year | **154** | **128** |
| Utilisation during the year | **(136)** | **(118)** |
| Balance at 31 December 2011 | **131** | **68** |

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.

(c) According to the arrangement with banks, the discount on factoring of the Group's trade receivables and receivables under finance lease without recourse (see Notes 17 and 18) will be paid to the banks by instalments over a period of 1 to 5 years. The amounts expected to be paid after one year are recorded under the caption "Other non-current liabilities".

## 23 Income tax in the balance sheets

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB millions** | RMB millions | **RMB millions** | RMB millions |
| Provision for PRC income tax | **1,286** | 756 | **1,177** | 712 |
| Provision for income tax in other tax jurisdictions | **3** | 1 | **—** | — |
| | **1,289** | 757 | **1,177** | 712 |

(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 2011**

| | Balance at 1 January 2011 RMB millions | Credited/ (charged) to profit or loss RMB millions | Effect of exchange rate RMB millions | Balance at 31 December 2011 RMB millions |
|---|---|---|---|---|
| **Deferred tax assets arising from:** | | | | |
| Receivables | **82** | **28** | **(1)** | **109** |
| Inventories | **40** | **(4)** | **(1)** | **35** |
| Accrued expenses | **52** | **8** | **(2)** | **58** |
| Tax losses | **67** | **11** | **(5)** | **73** |
| Others | **33** | **11** | **(2)** | **42** |
| Total | **274** | **54** | **(11)** | **317** |
| **Deferred tax liabilities arising from:** | | | | |
| Property, plant and equipment | **(9)** | **—** | **—** | **(9)** |
| Intangible assets | **(393)** | **15** | **29** | **(349)** |
| Lease prepayments | **(48)** | **2** | **—** | **(46)** |
| Others | **(21)** | **6** | **1** | **(14)** |
| Total | **(471)** | **23** | **30** | **(418)** |

## 23 Income tax in the balance sheets (continued)

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

**The Group** (continued)

**Year ended 31 December 2010**

| | Balance at 1 January 2010 RMB millions | Credited to profit or loss RMB millions | Effect of exchange rate RMB millions | Balance at 31 December 2010 RMB millions |
|---|---|---|---|---|
| **Deferred tax assets arising from:** | | | | |
| Receivables | 49 | 34 | (1) | 82 |
| Inventories | 28 | 14 | (2) | 40 |
| Accrued expenses | 46 | 8 | (2) | 52 |
| Tax losses | 17 | 55 | (5) | 67 |
| Others | 8 | 25 | — | 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)

**The Company**

**Year ended 31 December 2011**

| | Balance at 1 January 2011 RMB millions | Credited/ (charged) to profit or loss RMB millions | Balance at 31 December 2011 RMB millions |
|---|---|---|---|
| **Deferred tax assets arising from:** | | | |
| Receivables | 64 | (7) | 57 |
| Accrued expenses | 29 | 12 | 41 |
| Others | 3 | 6 | 9 |
| Total | 96 | 11 | 107 |
| **Deferred tax liabilities arising from:** | | | |
| Others | — | — | — |

**Year ended 31 December 2010**

| | Balance at 1 January 2010 RMB millions | Credited to profit or loss RMB millions | Balance at 31 December 2010 RMB millions |
|---|---|---|---|
| **Deferred tax assets arising from:** | | | |
| Receivables | 38 | 26 | 64 |
| Accrued expenses | 23 | 6 | 29 |
| Others | 1 | 2 | 3 |
| Total | 62 | 34 | 96 |
| **Deferred tax liabilities arising from:** | | | |
| Others | (5) | 5 | — |

## 24 Employee benefits plans

As stipulated by the regulations of the PRC, the Company and its subsidiaries in the PRC participate in various defined contribution retirement plans 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)), and non-recourse factoring discounts payable to banks (Note 22(c)). 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 | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB** | RMB |
| | **millions** | millions |
| **Registered capital** | | |
| 6,275,925,164 A Shares of RMB1.00 each | | |
| 1,430,028,886 H Shares of RMB1.00 each | | |
| (2010: 4,840,678,482 A Shares of RMB1.00 each | | |
| 956,541,080 H Shares of RMB1.00 each) | **7,706** | 5,797 |
| **Ordinary shares issued and fully paid:** | | |
| At 1 January | **5,797** | 1,673 |
| Over-allotment of H Shares in Global Offering | **131** | — |
| Issuance of A Shares in Non-public Offering | **—** | 298 |
| Bonus shares issued (Note 26(c)(ii)) | **1,778** | 2,957 |
| Issuance of H Shares in Global Offering | **—** | 869 |
| At 31 December | **7,706** | 5,797 |

## 26 Capital and reserves (continued)

### (a) Share capital (continued)

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 were 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 were 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.

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 additionally issued by the Company at a price of HKD14.98 per share, which raised gross proceeds of approximately HKD1,954 million (RMB equivalent 1,659 million). Direct transaction costs of RMB152 million were offset against the gross proceeds, giving rise to net proceeds of RMB1,507 million. The amount of net proceeds in excess of the par value of the new shares issued was RMB1,376 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 | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB millions** | RMB millions |
| **Capital reserve** | | |
| Balance at 1 January | **15,050** | 9 |
| Share premium of Non-public Offering (Note 26(a)) | **—** | 5,181 |
| Share premium of Global Offering (Note 26(a)) | **—** | 9,849 |
| Share premium of Over-allotment of H Shares in Global Offering (Note 26(a)) | **1,376** | — |
| Bonus shares (Note 26(c)(ii)) | **(1,778)** | — |
| Other comprehensive income | **—** | 11 |
| Balance at 31 December | **14,648** | 15,050 |
| **Statutory reserve** | | |
| Balance at 1 January | **1,211** | 768 |
| Appropriation (Note 26(b)(ii)) | **751** | 443 |
| Balance at 31 December | **1,962** | 1,211 |
| **Fair value reserve** | | |
| Balance at 1 January | **(1)** | 1 |
| Other comprehensive income | **(1)** | (2) |
| Balance at 31 December | **(2)** | (1) |

## 26 Capital and reserves (continued)

### (b) Reserves (continued)

| | The Company | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB** | RMB |
| | **millions** | millions |
| **Retained earnings** | | |
| Balance at 1 January | **5,107** | 4,910 |
| Appropriation (Note 26(b)(ii)) | **(751)** | (443) |
| Cash dividends (Note 26(c)(i)) | **(1,541)** | (827) |
| Bonus shares (Note 26(c)(ii)) | **—** | (2,957) |
| Profit for the year | **7,485** | 4,424 |
| Balance at 31 December | **10,300** | 5,107 |
| **Total** | | |
| Balance at 1 January | **21,367** | 5,688 |
| Balance at 31 December | **26,908** | 21,367 |

**(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.

## 26 Capital and reserves (continued)

### (b) Reserves (continued)

**(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 2011, the Company transferred RMB751 million (2010: RMB443 million), being 10% of the current year's net profit as determined in accordance with PRC accounting rules and regulations, to this reserve.

The statutory surplus reserve is non-distributable other than in liquidation and can be used to make good previous years' losses, if any, and may be 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 3 June 2011, a final cash dividend of RMB0.26 per share based on 5,928 million ordinary shares totalling RMB1,541 million in respect of the year ended 31 December 2010 was declared, and was fully paid by the end of 2011.

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 in 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, of which RMB234 million was paid in the second half of 2010, and the remaining balance was paid in 2011.

## 26 Capital and reserves (continued)

### (c) Profit appropriations (continued)

**(ii) Bonus shares**

Pursuant to the shareholders' approval at the Annual General Meeting held on 3 June 2011, the Company executed a stock split in the form of bonus shares on the basis of 0.3 share for every outstanding ordinary share on 15 July 2011. The total number of shares issued was 1,778 million. The par value of the ordinary shares issued of RMB1,778 million was charged to capital reserve in accordance with the Board of Directors' resolution as approved by the shareholders.

Pursuant to the shareholders' approval at the Extraordinary General Meeting held on 22 July 2010, the Company executed a stock split in the form of bonus shares on the basis of 1.5 shares for every outstanding ordinary share on 27 August 2010. The total number of shares issued was 2,957 million. 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.

## 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 with recourse and loans obtained to finance business combinations. Management considers that although factoring of receivables with recourse does not satisfy the derecognition criteria as set out in Note 2(h)(i), 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 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 2011, the Group's strategy, which was unchanged from 2010, 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 2011, the Group's adjusted debt-to-equity ratio was as follows:

| | **2011 RMB millions** | 2010 RMB millions |
|---|---|---|
| Short-term loans and borrowings | **6,049** | 8,107 |
| Long-term loans and borrowings | **7,089** | 7,690 |
| | **13,138** | 15,797 |
| Less: | | |
| Loans arising from factoring of receivables with recourse | **(843)** | (3,954) |
| Loans obtained to finance business combinations | **(2,282)** | (3,779) |
| Adjusted debt | **10,013** | 8,064 |
| Total equity attributable to equity shareholders | **35,407** | 27,376 |
| Adjusted debt-to-equity ratio | **28%** | 29% |

## 28 Financial risk management and fair values

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

### (a) Credit risk

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

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

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's background and financial strengths, past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as the economic environment in which the customer operates. Trade receivables under credit sales arrangement are normally due within 1 to 3 months from the date of billing, and an upfront payment ranging from 10% to 30% of the product price is normally required from the customer. For sales under instalment payment method that has a maximum instalment payment period of 36 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. Debtors overdue by 3 months or more are handled by risk management department which is responsible for recovering debts through legal and other actions.

## 28 Financial risk management and fair values (continued)

### (a) Credit risk (continued)

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. As at 31 December 2011, 1.9% (31 December 2010: 1.6%) of the total trade and bills receivables was due from the Group's largest customer and 5.7% (31 December 2010: 2.0%) of the total trade and bills receivables was due from the Group's five largest customers respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 17. Overdue analysis of the Group's receivables under finance lease is set out in Note 18.

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).

## 28 Financial risk management and fair values (continued)

### (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.

**The Group**

| | As at 31 December 2011 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 13,138 | 13,989 | 6,487 | 5,226 | 2,276 | – |
| Trade and other payables | 19,314 | 19,314 | 19,314 | – | – | – |
| Other non-current liabilities | 1,789 | 1,829 | – | 710 | 1,119 | – |
| | 34,241 | 35,132 | 25,801 | 5,936 | 3,395 | – |
| Financial guarantees issued | | | | | | |
| Maximum amount guaranteed | | 10,726 | 10,726 | – | – | – |

## 28 Financial risk management and fair values (continued)

### (b) Liquidity risk (continued)

**The Group** (continued)

| | 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 | – | – | – |

**The Company**

| | **As at 31 December 2011** | | | | | |
|---|---|---|---|---|---|---|
| | **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 | **8,247** | **8,925** | **4,403** | **3,261** | **1,261** | **–** |
| Trade and other payables | **16,388** | **16,388** | **16,388** | **–** | **–** | **–** |
| Other non-current liabilities | **112** | **112** | **–** | **8** | **104** | **–** |
| | **24,747** | **25,425** | **20,791** | **3,269** | **1,365** | **–** |
| Financial guarantees issued | | | | | | |
| Maximum amount guaranteed | | **10,726** | **10,726** | **–** | **–** | **–** |

## 28 Financial risk management and fair values (continued)

### (b) Liquidity risk (continued)

**The Company** (continued)

| | 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 | – | – | – |

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 2011.

| | The Group | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| | Weighted average interest rate | Amount | Weighted average interest rate | Amount |
| | | RMB | | RMB |
| | % | millions | % | millions |
| **Fixed rate financial instruments:** | | | | |
| Short-term loans and borrowings | **4.8%** | **(1,090)** | 3.3% | (1,234) |
| Long-term loans and borrowings | **6.1%** | **(1,314)** | 6.7% | (1,091) |
| | | **(2,404)** | | (2,325) |
| **Variable rate financial instruments:** | | | | |
| Pledged bank deposits | **0.5%** | **1,742** | 0.4% | 1,762 |
| Bank deposits | **1.0%** | **16,000** | 0.3% | 18,756 |
| Receivables under finance lease | **8.0%** | **19,869** | 7.8% | 16,172 |
| Short-term loans and borrowings | **4.2%** | **(4,959)** | 3.4% | (6,873) |
| Long-term loans and borrowings | **3.9%** | **(5,776)** | 3.6% | (6,599) |
| | | **26,876** | | 23,218 |
| Net amount | | **24,472** | | 20,893 |

## 28 Financial risk management and fair values (continued)

### (c) Interest rate risk (continued)

| | The Company | | | |
|---|---|---|---|---|
| | **2011** | | 2010 | |
| | **Weighted average interest rate** | **Amount RMB** | Weighted average interest rate | Amount RMB |
| | **%** | **millions** | % | millions |
| **Fixed rate financial instruments:** | | | | |
| Short-term loans and borrowings | **4.3%** | **(764)** | 3.2% | (1,159) |
| Long-term loans and borrowings | **6.1%** | **(1,314)** | 6.7% | (1,091) |
| | | **(2,078)** | | (2,250) |
| **Variable rate financial instruments:** | | | | |
| Pledged bank deposits | **0.5%** | **1,667** | 0.4% | 1,615 |
| Bank deposits | **1.3%** | **8,094** | 0.3% | 16,637 |
| Short-term loans and borrowings | **4.4%** | **(3,331)** | 2.9% | (2,708) |
| Long-term loans and borrowings | **4.9%** | **(2,839)** | 3.5% | (1,255) |
| | | **3,591** | | 14,289 |
| Net amount | | **1,513** | | 12,039 |

As at 31 December 2011, 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 RMB215 million (2010: RMB195 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 2010.

## 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 risk (expressed in equivalent RMB millions) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | 2010 | | | |
| | USD | EUR | Yen | HKD | USD | EUR | Yen | HKD |
| Trade debtors | 304 | 211 | 126 | – | 397 | 9 | – | – |
| Cash and cash equivalents | 115 | 52 | 37 | 29 | 243 | 56 | 30 | 5,362 |
| Trade creditors | (113) | (399) | (272) | (1) | (268) | (429) | (700) | (3) |
| Loans and borrowings | (6,289) | (127) | (50) | (56) | (2,433) | (318) | (777) | (60) |
| Net exposure arising from recognised assets and liabilities | (5,983) | (263) | (159) | (28) | (2,061) | (682) | (1,447) | 5,299 |

## 28 Financial risk management and fair values (continued)

### (d) Currency risk (continued)

**The Company**

| | Exposure to foreign currencies risk (expressed in equivalent RMB millions) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2011** | | | | 2010 | | | |
| | **USD** | **EUR** | **Yen** | **HKD** | USD | EUR | Yen | HKD |
| Trade debtors | **234** | **168** | **79** | **–** | 374 | 9 | – | – |
| Cash and cash equivalents | **79** | **6** | **14** | **–** | 135 | 10 | 27 | 5,352 |
| Trade creditors | **(94)** | **(382)** | **(238)** | **–** | (246) | (367) | (592) | – |
| Loans and borrowings | **(6,277)** | **(127)** | **(50)** | **–** | (2,433) | (293) | (753) | – |
| Net exposure arising from recognised assets and liabilities | **(6,058)** | **(335)** | **(195)** | **–** | (2,170) | (641) | (1,318) | 5,352 |

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 | | | |
|---|---|---|---|---|
| | **2011** | | 2010 | |
| | **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%** | **(254)** | 5% | (88) |
| | **-5%** | **254** | -5% | 88 |
| EUR | **5%** | **(11)** | 5% | (29) |
| | **-5%** | **11** | -5% | 29 |
| Yen | **5%** | **(7)** | 5% | (61) |
| | **-5%** | **7** | -5% | 61 |
| HKD | **5%** | **(1)** | 5% | 225 |
| | **-5%** | **1** | -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.

## 28 Financial risk management and fair values (continued)

### (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 2011 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 RMB4 million as at 31 December 2011 (31 December 2010: RMB5 million).

#### (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 6.1% to 7.1% for 2011 (2010: 5.4% to 6.2%). 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 2011:

## 28 Financial risk management and fair values (continued)

### (e) Fair values (continued)

**The Group**

| | 2011 RMB millions | | 2010 RMB millions | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
| Long-term bank loans | **7,246** | **7,244** | 10,472 | 10,455 |
| Bond | **1,093** | **1,111** | 1,091 | 1,139 |

**The Company**

| | 2011 RMB millions | | 2010 RMB millions | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
| Long-term bank loans | **3,352** | **3,354** | 1,643 | 1,634 |
| Bond | **1,093** | **1,111** | 1,091 | 1,139 |

## 29 Commitments

### (a) Capital commitments

As at 31 December 2011, the Group and the Company had capital commitments as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB** | RMB | **RMB** | RMB |
| | **millions** | millions | **millions** | millions |
| Authorised and contracted for | | | | |
| — property, plant and equipment | **434** | 164 | **279** | 132 |
| — equity investments | **100** | — | **100** | — |
| — intangible assets | **51** | 10 | **51** | 10 |
| — lease prepayments | **31** | — | **31** | — |
| | **616** | 174 | **461** | 142 |
| Authorised but not contracted for | | | | |
| — property, plant and equipment | **303** | 388 | **142** | 311 |
| — lease prepayments | **1,880** | — | **1,880** | — |
| | **2,183** | 388 | **2,022** | 311 |

## 29 Commitments (continued)

### (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 2011, the future minimum lease payments under operating lease are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB millions** | RMB millions | **RMB millions** | RMB millions |
| Within 1 year | **95** | 73 | **60** | 38 |
| After 1 but within 2 years | **43** | 32 | **39** | 16 |
| After 2 but within 3 years | **27** | 15 | **25** | 15 |
| After 3 but within 4 years | **15** | 9 | **15** | 9 |
| After 4 but within 5 years | **5** | 8 | **4** | 8 |
| Thereafter | **4** | 19 | **3** | 18 |
| | **189** | 156 | **146** | 104 |

## 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 2011, the Group's maximum exposure to such guarantees was RMB9,092 million (31 December 2010: RMB5,950 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 2011, the Group made payments of RMB190 million (2010: RMB102 million) to the banks under the guarantee arrangement as a result of customer default.

## 30 Contingent liabilities (continued)

### (a) Financial guarantee issued (continued)

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 at 31 December 2011, the Group's maximum exposure to such guarantees was RMB1,634 million (31 December 2010: RMB1,334 million). The terms of these guarantees coincide with the tenure of the lease contracts which generally range from 2 to 4 years. For the years ended 31 December 2011 and 2010, there was no material default of payments from end-user customers which required the Group to make guarantee payments to the third-party 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 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 judgement and dismissed the claim for additional taxes from the tax authorities. No appeal against the court ruling was made by the tax authority during the statute of limitations, therefore the case is deemed to be closed.

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 any 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.

## 31 Related party transactions

### (a) Transactions with related parties

| | 2011 RMB millions | 2010 RMB millions |
|---|---|---|
| **Transactions with associates:** | | |
| Sales of products | **(157)** | (4) |
| Purchase of raw materials | **148** | 39 |

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:

| | 2011 RMB thousands | 2010 RMB thousands |
|---|---|---|
| Short-term employee benefits | **26,225** | 24,363 |
| Retirement scheme contributions | **375** | 375 |
| | **26,600** | 24,738 |

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

## 31 Related party transactions (continued)

### (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.

Management reviews estimations and underlying assumptions ongoing basis. Revisions to accounting estimations are recognised in the period in which the estimations are revised and in any future periods affected.

Other key sources of estimation uncertainty are as follows:

### (a) Impairment of trade receivables and receivables under finance lease

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.

## 32 Accounting estimates and judgements (continued)

### (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.

### (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.

## 32 Accounting estimates and judgements (continued)

### (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 | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB** | RMB |
| | **millions** | millions |
| Unlisted shares, at cost | **8,570** | 3,364 |

## 33 Investments in subsidiaries (continued)

The following list contains particulars of subsidiaries as at 31 December 2011 which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

| Name of company | Particulars of issued and paid up capital (millions) | Proportion of ownership interest 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 |
| Hunan Zoomlion International Trade Co., Ltd. | RMB5 | 100% | 100% | – | Trading of equipment and machinery |
| Hunan Teli Hydraulic Co., Ltd. | RMB166 | 79% | 79% | – | Manufacture of hydraulic products |
| Hunan ZoomlionSpecial Vehicles Co., Ltd. | RMB69 | 100% | 100% | – | Manufacture of specialized vehicles |
| Zoomlion Finance and Leasing (China) Co., Ltd. | USD280 | 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 |

## 33 Investments in subsidiaries (continued)

| | | 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 |
| Shanghai Zoomlion Pile Foundation Machinery Co., Ltd. | RMB50 | 100% | 100% | – | Manufacture of pile foundation machinery |
| Changsha Zoomlion Fire Control Machinery Co., Ltd. | RMB45 | 65% | 65% | – | Manufacture of fire fighting vehicles and equipment |

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 2011

Up to the date of issue of these financial statements, the IASB has issued of the following amendments, new standards and interpretations which are not yet effective for the annual accounting year ended 31 December 2011:

| | Effective for accounting period beginning on or after |
|---|---|
| Amendment 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 |

## 34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2011 (continued)

| | Effective for accounting period beginning on or after |
|---|---|
| Amendments to IAS 1, "Presentation of financial statements-Presentation of items of other comprehensive income" | 1 July 2012 |
| IFRS 10, "Consolidated financial statements" | 1 January 2013 |
| IFRS 11, "Joint arrangements" | 1 January 2013 |
| IFRS 12, "Disclosure of interests in other entities" | 1 January 2013 |
| IFRS 13, "Fair value measurement" | 1 January 2013 |
| IAS 27, "Separate financial statements (2011)" | 1 January 2013 |
| IAS 28, "Investments in associates and joint ventures (2011)" | 1 January 2013 |
| Revised IAS 19, "Employee benefits" | 1 January 2013 |
| Amendments to IFRS 7 "Financial instruments: Disclosures-Offsetting financial assets and financial liabilities" | 1 January 2013 |
| Amendments to IAS 32 "Financial instruments: Presentation-Offsetting financial assets and financial liabilities" | 1 January 2014 |
| IFRS 9, "Financial instruments" | 1 January 2015 |
| Amendments to IFRS 9, "Financial instruments" and IFRS 7, "Financial instruments: Disclosures-Mandatory effective date and transition disclosures" | 1 January 2015 |

The Company has not early adopted the above amendments, new standards and interpretations. Company management is still 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 is not yet in a position to determine whether or not the adoption of these amendments, new standards and interpretations will 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

| | **2011 RMB millions** | 2010 RMB millions |
|---|---|---|
| Total equity reported under PRC GAAP | **35,635** | 27,475 |
| — Acquisition-related costs incurred on prior year business combination | **(40)** | (40) |
| Total equity reported under IFRSs | **35,595** | 27,435 |

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

## 36 Post balance sheet events

(a) Pursuant to a board of directors resolution passed on 15 March 2012, a final dividend in respect of the year ended 31 December 2011 of RMB0.25 per share totalling RMB1,927 million was proposed for shareholders' approval at the Annual General Meeting. The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) In February 2012, the Company established a wholly-owned subsidiary, Changsha Zoomlion Environmental and Sanitation Machinery Co., Ltd. ("ESM Company") with a registered capital of RMB2,100 million, and transferred to ESM Company the Company's environmental and sanitation business and related assets at a consideration of RMB1,943 million. On 15 March 2012, the Company passed a board of directors resolution approving the disposal of 80% equity interest in ESM Company by way of a public tender on Hunan Province United Assets and Equity Exchange, the completion of which is subject to various conditions. Upon completion, ESM Company will cease to be a subsidiary of the Group and the Company will retain 20% equity interest in ESM Company.