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

2012 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 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.*

ZOOMLION

Contents

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, Securities Daily
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

Company Profile

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 ("Baker Tilly China")
Room 208, Block B, Huatong Building,
B 19 Chegongzhuang West Road, Haidian District, Beijing, PRC

International auditors: KPMG
8/F, Prince's Building, 10 Chater Road, Central, Hong Kong

XI. 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: 26 September 2012
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

Zoomlion has recorded average annual growth rate of over 62.57% since its establishment. It has 13 product series with intellectual property rights and over 900 leading products. The number of product types of Zoomlion exceeds that of internationally-renowned enterprises in the same industry.

Dear Shareholders,

2012 was a fruitful year and was the 20th anniversary of Zoomlion. With your support, we have overcome many difficulties and challenges. Despite market fluctuations, we experienced breakthroughs and exciting achievements through our endeavour and dedication. It is with our commitment and strength that we tackled tough challenges in the market. On behalf of the board of directors of Zoomlion, I am pleased to present the operating results and annual report of the Company for the year ended 31 December 2012 and express my heartfelt gratitude to our shareholders for their support and care.

Chairman
Zhan Chunxin

Market trend and changes in 2012

During the year, the Company was inevitably affected by the changing market. The global economy remained stagnant due to the prolonged effects of the global debt crisis. The recovery had lost its momentum. With the slowdown of China's economic growth and fierce competition in the market, the growth of the domestic construction machinery industry declined in general due to excessive production capacity.

In a changing market, we insisted our business philosophy to provide excellent products and services. Even in face of the severest difficulties, Zoomlion strengthened its management, focused on business development and gained reputation and better results.

Change and improvement

We realized that we have to change to cope with the changing and challenging market conditions. In pursuit of its two major goals of management reform and globalization, Zoomlion has maintained its good operation by optimizing business processes, strengthening its internal control, managing risks, reducing costs and improving efficiency. The successful implementation of its project-based and three-dimensional matrix management, the issue of two batches of US dollar-denominated bonds, a number of new products entering into the Guinness World Records, the acquisition of equity interests in CIFA and the establishment of joint ventures in India and Brazil reflected the increasingly mature management, leading technology innovation and the optimistic prospects of global expansion of the Company.

Chairman's Statement

During the reporting period, our revenue totalled RMB48,071 million, representing an increase of 3.77% as compared to last year. Net profit attributable to equity shareholders of the parent company amounted to RMB7,330 million, representing a decrease of 9.12% over last year. The Company recorded net cash flow from operating activities of RMB2,611 million, representing an increase of 38.88% as compared to last year.

Compliance and flexibility

The global construction industry is undergoing a special stage of development. Affected by the sluggish global economy, the economy of China will see a moderate slowdown as compared with the rapid growth in previous years. The growth in demand of construction machinery market will slow down to a moderate level. With excessive production capacity, the competition in the industry will intensify which in turn will be more favorable to major competitors. In face of intensifying competition, Zoomlion have to improve its quality, capacity and management. Zoomlion will further improve its management, product quality, business strategy, resources allocation, specialization, commercialization of technology development, internal control, risk management, production and brand building.

The sluggish industry brought strategic opportunities to us. Zoomlion has its competitive edge due to its forward-looking strategy. No matter under what circumstances we are operating, we persist in compliance which is our basic principle of operation. We operated legally and honestly in pursuit of open, just and fair corporate governance. We committed to protecting the harmonious industrial environment by complying with laws and regulations. Besides, by leveraging on our flexible strategies, advanced technologies and efficient management, we recorded outstanding results by providing quality products and services.

In 2013, by adhering to its business philosophy and capturing the strategic opportunities, Zoomlion will realize an encouraging growth through comprehensive innovation and prudent strategies. The three-dimensional matrix management will be improved with focuses on markets, technology and talents to deepen the management reform. The Company will emphasize the spirit of diligence, flexibility and efficiency to pursue better development.

One should have a vision of the future to prepare for a comprehensive development. Zoomlion is always prepared for the worse so that we can survive the hard time when market conditions are unfavorable. We perceive the difficulties are the chances to grow stronger and we will evolve as a world class enterprise through these experiences.

At last, I would like to extend my gratitude to all shareholders, our partners and customers for their contribution and support for the development of the Company.

Zhan Chunxin
Chairman

29 March 2013

Principal Financial Data and Indicators

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

(1) Major financial data and indicators

Unit: RMB million

	2012	2011	Change (%)	2010
Operating income	**48,071.17**	46,322.58	3.77%	32,192.67
Net profit attributable to shareholders of the Company	**7,330.05**	8,065.64	-9.12%	4,665.59
Net profit attributable to equity shareholders of the Company after extraordinary items	**7,139.79**	7,987.82	-10.62%	4,633.37
Net cash flow from operating activities	**2,960.29**	2,093.23	41.42%	545.18
Basic earnings per share (RMB)	**0.95**	1.05	-9.52%	0.75
Diluted earnings per share (RMB)	**0.95**	1.05	-9.52%	0.75
Return on net assets (%)	**19.07%**	25.16%	-6.09%	33.41%

	End of 2012	End of 2011	Change (%)	End of 2010
Total assets	**88,974.46**	71,581.77	24.30%	63,081.56
Net assets attributable to shareholders of the Company (shareholders' equity attributable to equity shareholders of the Company)	**40,802.14**	35,446.45	15.11%	27,415.21

Principal Financial Data and Indicators

(2) Extraordinary items and amounts

Unit: RMB million

Items	2012	2011	2010
Loss on disposal of non-current assets (including written off of provision for impairment of assets)	**-19.22**	-4.91	-37.26
Government grants recorded in current profit and loss, except government grants of fixed amount or quantity closely related to business operations of the Company and entitled pursuant to government unified policy	**212.06**	86.88	70.35
(Loss)/gain from debt restructuring	**-5.61**	-17.42	8.68
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	**-17.78**	18.82	—
Non-operating income and expenses other than those set out above	**60.37**	23.55	0.46
Tax effect	**-39.09**	-20.35	-10.14
Less: minority interests after tax	**-0.47**	-8.75	0.13
Total	**190.26**	77.82	32.22

Principal Financial Data and Indicators

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

Unit: RMB million

Turnover and profits	2012	2011	2010	2009	2008
Turnover	**48,071**	46,323	32,193	20,762	13,548
Profit before taxation	**8,858**	9,602	5,416	2,828	1,744
Income tax	**(1,329)**	(1,429)	(828)	(409)	(191)
Profit for the year	**7,529**	8,173	4,588	2,419	1,553
Profit for the year attributable to:					
Equity shareholders of the Company	**7,330**	8,066	4,666	2,447	1,544
Non-controlling shareholders	**199**	107	(78)	(28)	9
Basic and diluted earnings per share (RMB)	**0.95**	1.05	0.74	0.45	0.28

Unit: RMB million

Assets and liabilities	2012	2011	2010	2009	2008
Non-current assets	**25,691**	23,701	19,372	13,861	9,185
Current assets	**63,243**	47,842	43,670	20,014	14,037
Current liabilities	**34,109**	26,652	26,067	19,468	13,224
Net current assets	**29,134**	21,190	17,603	546	813
Total assets less current liabilities	**54,825**	44,891	36,975	14,407	9,998
Non-current liabilities	**13,676**	9,296	9,540	6,855	4,787
Net assets	**41,149**	35,595	27,435	7,552	5,211
Total equity attributable to equity shareholders of the Company	**40,762**	35,407	27,376	7,428	5,071
Non-controlling interests	**387**	188	59	124	140

III. Reconciliation of Financial Data under PRC GAAP and IFRSs

Unit: RMB million

	Net profit attributable to equity shareholders of the Company		Net assets attributable to equity shareholders of the Company	
	Current year	**Last year**	**Carried forward**	**Brought forward**
Under PRC GAAP	7,330	8,066	40,802	35,447
Acquisition related costs incurred on prior year business combination			-40	-40
Under IFRSs	7,330	8,066	40,762	35,407

Other than the differences in the presentations and classifications of certain financial statement captions, 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 2012)

(I) Changes in shares

	Before this change		Increase (+)/Decrease (-) in this change					After this change	
	Number	Percentage (%)	New shares	Bonus issue	Bonus shares from capital reserve	Others	Sub-total	Number	Percentage (%)
I. Shares subject to sales restriction	1,864,143	0.02%	0	0	0	0	0	1,864,143	0.02%
1. State-owned shares	0	0%	0	0	0	0	0	0	0%
2. Shares held by state-owned legal persons	0	0%	0	0	0	0	0	0	0%
3. Other domestic shares	0	0%	0	0	0	0	0	0	0%
Including: shares held by domestic non-state-owned	0	0%	0	0	0	0	0	0	0%
shares held by domestic natural persons	0	0%	0	0	0	0	0	0	0%
4. Foreign invested shares	0	0%	0	0	0	0	0	0	0%
Including: shares held by overseas	0	0%	0	0	0	0	0	0	0%
shares held by overseas natural persons	0	0%	0	0	0	0	0	0	0%
5. Shares held by senior management	1,864,143	0.02%	0	0	0	0	0	1,864,143	0.02%
II. Shares not subject to sales restriction	7,704,089,907	99.98%	0	0	0	0	0	7,704,089,907	99.98%
1. Ordinary shares denominated in RMB (A Shares)	6,274,061,021	81.42%	0	0	0	0	0	6,274,061,021	81.42%
2. Domestically listed foreign invested shares	0	0%	0	0	0	0	0	0	0%
3. Overseas listed foreign invested shares	1,430,028,886	18.56%	0	0	0	0	0	1,430,028,886	18.56%
4. Others	0	0%	0	0	0	0	0	0	0%
III. Total number of shares	7,705,954,050	100%	0	0	0	0	0	7,705,954,050	100%

Changes in Share Capital and Shareholders

(II) Issuance and listing of securities

1. Issuance of securities in three years immediately prior to the end of the reporting year

Name of shares and its derivative	Issue date	Issue price (or interest rate)	Number of securities issued	Listing date	Number of securities approved for listing and trading	Closing date of trading
Shares						
Non-public offering of A Shares	28 January 2010	RMB18.7	297,954,705	12 February 2010	297,954,705	
IPO of H Shares	16 December 2010	HK$14.98	869,582,800	23 December 2010	869,582,800	
Over-allotment of H Shares	5 January 2011	HK$14.98	130,437,400	13 January 2011	130,437,400	

Issuance of securities in the past three years

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 on 28 January 2010. Total proceeds from such issue amounted to RMB5,571,752,983.50. Upon the listing of the shares issued under such non public offering on the Shenzhen Stock Exchange on 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 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 Main Board of 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.

(III) Purchase, sale or redemption of shares by the Company and its subsidiaries

For the year ended 31 December 2012, 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”).

Changes in Share Capital and Shareholders

II. Particulars of Shareholders (As at 31 December 2012)

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

Total number of shareholders as at the end of the reporting period: 389,156

Unit: Share

Shareholding of the top ten shareholders						
Name of shareholder	Nature of shareholder	Percentage of shareholding (%)	Total number of share held as at the end of the reporting period	Changes during the reporting period	Number of shares subject to sales restriction	Number of shares not subject to sales restriction
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	1,247,379,996
HKSCC NOMINEES LIMITED	H Shares	18.53%	1,427,757,105	+48,920	0	1,427,757,105
Changsha Hesheng Science and Technology Investment Co., Ltd.	Domestic non-state-owned legal person	5.02%	386,517,443	-1,542,506	0	386,517,443
GOOD EXCEL GROUP LIMITED	Overseas legal person	4.72%	363,936,856	-34,904,749	0	363,936,856
Real Smart International Limited	Overseas legal person	2.19%	168,635,602	-13,464,000	0	168,635,602
Changsha Yifang Science and Technology Investment Co., Ltd.	Domestic non-state-owned legal person	2.12%	163,314,942	-74,921,829	0	163,314,942
Hony Capital Fund I (Tianjin), L.P.	Domestic non-state-owned legal person	2.07%	159,428,548	-11,618,952	0	159,428,548
China Jianyin Investment Co., Ltd.	State-owned legal person	1.96%	151,164,554	-14,205,446	0	151,164,554
Bank of China — Efunds Shenzhen Stock Exchange 100 index Open-ended Securities Investment Fund	Domestic non-state-owned legal person	0.86%	66,457,250	+2,174,667	0	66,457,250
Anhui Investment Group Holdings Co., Ltd.	State-owned legal person	0.73%	56,180,563	-4,607,502	0	56,180,563

The Company has complied with the minimum public float requirement under Rule 8.08 of the Listing Rules of Hong Kong.

Changes in Share Capital and Shareholders

Top ten holders of shares not subject to sales restriction		
Name of shareholder	**Number of shares held not subject to sales restriction**	**Class of shares**
State-owned Assets Supervision and Administration Commission of Hunan Provincial People's Government	1,247,379,996	Ordinary shares denominated in RMB
HKSCC NOMINEES LIMITED	1,427,757,105	H Shares
Changsha Hesheng Science and Technology Investment Co., Ltd.	386,517,443	Ordinary shares denominated in RMB
GOOD EXCEL GROUP LIMITED	363,936,856	Ordinary shares denominated in RMB
Real Smart International Limited	168,635,602	Ordinary shares denominated in RMB
Changsha Yifang Science and Technology Investment Co., Ltd.	163,314,942	Ordinary shares denominated in RMB
Hony Capital Fund I (Tianjin), L.P.	159,428,548	Ordinary shares denominated in RMB
China Jianyin Investment Co., Ltd.	151,164,554	Ordinary shares denominated in RMB
Bank of China — Efunds Shenzhen Stock Exchange 100 index Open-ended Securities Investment Fund	66,457,250	Ordinary shares denominated in RMB
Anhui Investment Group Holdings Co., Ltd.	56,180,563	Ordinary shares denominated in RMB
Description of the connected relationships between top ten holders of shares not subject to sales restriction, and between top ten holders of shares not subject to sales restriction and top ten 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.

(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 2012, 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 shares	1,247,379,996	19.88	16.19
Good Excel Group Limited[(1) (2)]	Beneficial	A shares	363,936,856	5.80	4.72
Rise Honour Investments Limited[(1) (2)]	Interests of controlled corporation	A shares	532,572,458	8.49	6.91
Hony Capital II L.P. [(1) (2)]	Interests of controlled corporation	A shares	532,572,458	8.49	6.91
Hony Capital GP Ltd. [(1) (2)]	Interests of controlled corporation	A shares	532,572,458	8.49	6.91
Right Lane Limited[(1) (2)]	Interests of controlled corporation	A shares	532,572,458	8.49	6.91

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	692,001,006	11.03	8.98
Chinese Academy of Sciences Holdings Co, Ltd. [(1) (3) (4)]	Interests of controlled corporation	A shares	692,001,006	11.03	8.98
Chinese Academy of Sciences[(1) (3) (4)]	Interests of controlled corporation	A shares	692,001,006	11.03	8.98
Changsha Hesheng Science and Technology Investment Co., Ltd.[(5)]	Beneficial	A shares	386,517,443	6.16	5.02
Blackrock, Inc.[(1)(6)]	Interests of controlled corporation	H shares	118,766,657(L) 26,603,822(S)	8.31 1.86	1.54 0.35
Morgan Stanley[(1)(7)]	Interests of controlled corporation	H shares	142,017,688(L) 123,614,347(S)	9.93 8.64	1.84 1.60
National Council for Social Security Fund[(1)]	Beneficial	H shares	76,714,420(L)	5.36	1.00
JP Morgan Chase & Co.[(1)(8)]	Beneficial, investment manager and custodian corporation/approved lending agent	H shares	102,972,988(L) 7,343,370(S) 74,233,340(P)	7.20 0.51 5.19	1.34 0.10 0.96
Citigroup Inc.[(1)(9)]	Secured interests in shares, interests of controlled corporation and custodian corporation/approved lending agent	H shares	95,956,096(L) 89,832,238(S) 19,483,635(P)	6.71 6.28 1.36	1.25 1.17 0.25

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

(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 363,936,856 and 168,635,602 A shares respectively. Good Excel Group Limited and Real Smart International Limited are interested in an aggregate of 532,572,458 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 GP Ltd. is wholly owned by Right Lane Limited, which is a wholly owned company of Legend Holdings Limited.

Changes in Share Capital and Shareholders

(3) Legend Holdings Limited is deemed to be interested in 159,428,548 A shares held by Hony Capital Fund I (Tianjin), L.P.. Legend Holdings Limited is deemed to be interested in 692,001,006 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 118,766,657 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, BlackRock Cayco Ltd., BlackRock Trident Holding Company Limited, BlackRock Japan Holdings GK, BlackRock Japan Co. Ltd., 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 Life Limited. BlackRock Inc. holds 26,603,822 H shares in short position.

(7) Morgan Stanley is deemed or considered to be interested in 142,017,688 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, Morgan Stanley Capital Services Inc., MSDW Offshore Equity Services Inc., MSDW Equity Finance Services I (Cayman) Limited, Morgan Stanley International Holdings Inc., Morgan Stanley Asia Pacific (Holdings) Limited, MSDW-JL Holdings I Limited, Morgan Stanley (Hong Kong) Holdings Limited, Morgan Stanley Asia Regional (Holdings) III LLC, Morgan Stanley (Singapore) Holdings Pte Ltd., Morgan Stanley Asia Regional (Holdings) IV Limited, Morgan Stanley Japan (Holdings) Ltd., MSDW-JL Holdings II Limited, MSJL Holdings 4682 Limited, MSJL Holdings Limited, MS CYM Preferred Ltd., MSJS Preferred YK, Morgan Stanley Japan Holdings Co., Ltd and Mitsubishi UFJ Morgan Stanley Securities. Morgan Stanley holds 123,614,347 H shares in short position.

(8) JPMorgan Chase & Co. is deemed or considered to be interested in 102,972,988 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., J.P. Morgan Securities plc, 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., JPMorgan Asset Management Holdings Inc., JF International Management Inc., J.P. Morgan Investment Management Inc., JPMorgan Asset Management (UK) Limited, JPMorgan Asset Management Holdings (UK) Limited, JPMorgan Asset Management International Limited, J.P. Morgan Whitefriars (UK) and JPMorgan Asset Management (Taiwan) Limited. JPMorgan Chase & Co. holds 7,343,370 H shares in short position and has a lending pool of 74, 233,340 H shares.

Changes in Share Capital and Shareholders

(9) Citigroup Inc. is deemed or considered to be interested in 95,956,096 H shares of the Company through the companies directly or indirectly owned by it, namely Umbrella Asset Services Hong Kong Limited, Citigroup Global Markets Limited, Citigroup Global Markets Inc., Morgan Stanley Smith Barney Holdings LLC, Citigroup Global Markets Europe Limited, Citigroup Global Markets (International) Finance AG, Citigroup Global Markets International LLC, Citigroup Financial Products Inc., Citigroup Global Markets Holdings Inc., Citibank N.A., Citicorp Holdings Inc., Citigroup Alternative Investments LLC, Citigroup Investments Inc., Automated Trading Desk Financial Services, LLC, Automated Trading Desk, LLC, Automated Trading Desk Holdings, Inc., Citigroup Acquisition LLC, Citigroup Trust-Delaware, National Association, Citicorp Trust, National Association, Citicorp Trust South Dakota, Citigroup Global Markets Asia Limited, Citigroup Global Markets Hong Kong Holdings Limited, Citigroup Global Markets Overseas Finance Limited, Citigroup Global Markets Switzerland Holding GmbH, Cititrust (Bahamas) Limited, Citigroup Participation Luxembourg Limited, Citigroup International Luxembourg Limited, Citigroup Overseas Investments Bahamas Inc., Citibank Overseas Investment Corporation, Cititrust (Switzerland) Limited, Citigroup Global Markets Deutschland AG, Citigroup Global Markets Finance Corporation & Co. beschrankt haftende KG and Citigroup Derivatives Markets Inc. Citigroup Inc. holds 89,832,238 H shares in short position and has a lending pool of 19,483,635 H shares.

Save as disclosed above, to the best knowledge of the Directors, Supervisors and chief executives, as at 31 December 2012, 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 publishing 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 2012, 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 2012)

1. 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%.

As at 31 December 2012, shareholdings of top ten holders of the corporate bonds of the Company were as follows:

Name of holder of the corporate bonds	Number of bonds held	Percentage
Haitong — BOC — Fortis Bank	2,163,855	19.67%
ICBC Credit Suisse Asset Management — ICBC — Specific clients asset	857,927	7.80%
Annuity Scheme of China Petrochemical Corporation — Industrial and Commercial Bank of China	678,113	6.16%
China Construction Bank — ICBCCS Credit Value-added Debt Securities Investment Fund	641,323	5.83%
National Social Insurance Fund 206 Package	540,097	4.91%
Annuity Scheme of China National Petroleum Corporation — Industrial and Commercial Bank of China	289,410	2.63%
GF Securities Co., Ltd.	259,864	2.36%
Industrial and Commercial Bank of China — China Universal Growth Bond Securities Investment Fund	225,461	2.05%
China Universal Asset Management (Hong Kong) Company Limited — China Universal Renminbi-denominated Bond Fund	205,560	1.87%
National Social Insurance Fund 803 Package	200,000	1.82%
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. Industrial and Commercial Bank of China — China Universal Growth Bond Securities Investment Fund and China Universal Asset Management (Hong Kong) Company Limited — China Universal Renminbi-denominated Bond Fund were managed by China Universal Asset Management Co., Ltd. National Social Insurance Fund 206 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.	

2. On 5 April 2012, the Company issued 5-year US dollar denominated bonds of US$400,000,000 through an overseas subsidiary. The US dollar denominated bonds are listed on the SGX-ST and will mature on 5 April 2017. The bonds bear interest at the rate of 6.875% per annum, payable semi-annually in arrears on 5 April and 5 October of each year, beginning from 5 October 2012.

3. On 20 December 2012, the Company issued 10-year US dollar denominated bonds of US$600,000,000 through an overseas subsidiary. The US dollar denominated bonds are listed on the SGX-ST and will be mature on 20 December 2022. The bonds bear interest at the rate of 6.125% per annum, payable semi-annually in arrears on 20 June and 20 December of each year, beginning from 20 June 2013.

Directors, Supervisors, Senior Management and Employees

I. Directors, Supervisors and Senior Management

(I) Summary of directors, supervisors and senior management

Name	Position	Status	Sex	Age	Date of term of office commenced	Date of term of office ended	Number of Shares held at the beginning of the Reporting Period (share)	Number of Shares increased during the Reporting Period (share)	Number of Shares decreased during the Reporting Period (share)	Number of Shares held at the end of the Reporting Period (share)	Total remuneration received from the Company (in RMB ten thousand)
Zhan Chunxin	Chairman and Chief Executive Officer	Incumbent	Male	57	22 July 2010	22 July 2013	263,120	0	0	263,120	270.00
Liu Quan	Executive Director	Incumbent	Male	49	22 July 2010	22 July 2013	189,117	0	0	189,117	160.00
Qiu Zhongwei	Non-executive Director	Incumbent	Male	44	22 July 2010	22 July 2013	0	0	0	0	0.00
Liu Changkun	Independent Non-executive Director	Incumbent	Male	69	22 July 2010	22 July 2013	0	0	0	0	0.00
Qian Shizheng	Independent Non-executive Director	Incumbent	Male	60	22 July 2010	22 July 2013	0	0	0	0	12.00
Wang Zhile	Independent Non-executive Director	Incumbent	Male	64	22 July 2010	22 July 2013	0	0	0	0	12.00
Lian Weizeng	Independent Non-executive Director	Incumbent	Male	66	22 July 2010	22 July 2013	0	0	0	0	12.00
Cao Yongang	Chairman of Supervisory Board	Incumbent	Male	40	22 July 2010	22 July 2013	0	0	0	0	0.00
Liu Chi	Supervisor	Incumbent	Male	55	22 July 2010	22 July 2013	138,711	0	0	138,711	130.00
Luo Anping	Employee Supervisor	Incumbent	Male	51	22 July 2010	22 July 2013	138,355	0	0	138,355	110.00
Zhang Jianguo	Senior President	Incumbent	Male	53	22 July 2010	22 July 2013	186,443	0	0	186,443	180.00
Yin Zhengfu	Senior President	Incumbent	Male	56	22 July 2010	22 July 2013	178,750	0	0	178,750	160.00
He Jianming	Senior President	Incumbent	Male	49	22 July 2010	22 July 2013	164,451	0	41,113	123,338	150.00
Du Youqi	Senior President	Incumbent	Female	54	22 July 2010	22 July 2013	10,011	0	0	10,011	150.00
Fang Minghua	Senior President	Incumbent	Male	55	22 July 2010	22 July 2013	158,376	0	0	158,376	150.00
Wang Chunyang	Senior President	Incumbent	Male	57	22 July 2010	22 July 2013	158,014	0	0	158,014	150.00
Xu Wuquan	Senior President	Incumbent	Male	55	22 July 2010	22 July 2013	125,126	0	0	125,126	130.00
Xiong Yanming	Vice President	Incumbent	Male	48	22 July 2010	22 July 2013	96,525	0	0	96,525	180.00
Su Yongzhuan	Vice President	Incumbent	Male	40	22 July 2010	22 July 2013	114,400	0	0	114,400	160.00
Guo Xuehong	Vice President	Incumbent	Male	50	22 July 2010	22 July 2013	178,750	0	0	178,750	160.00
Sun Changjun	Vice President	Incumbent	Male	50	22 July 2010	22 July 2013	160,876	0	0	160,876	160.00
Li Jiangtao	Vice President	Incumbent	Male	49	22 July 2010	22 July 2013	153,010	0	0	153,010	150.00
Hong Xiaoming	Vice President and the person in charge of financial affairs	Incumbent	Female	49	22 July 2010	22 July 2013	0	0	0	0	150.00
He Wenjin	Vice President	Incumbent	Male	42	22 July 2010	22 July 2013	0	0	0	0	150.00
Chen Xiaofei	Vice President	Incumbent	Male	49	22 July 2010	22 July 2013	0	0	0	0	160.00
Chen Peiliang	Vice President	Incumbent	Male	40	22 July 2010	22 July 2013	71,500	0	0	71,500	130.00
Ajilore Akinola Odunayo	Vice President	Incumbent	Male	51	26 April 2012	22 July 2013	0	0	0	0	103
Wang Yukun	Chief Information Officer	Incumbent	Male	46	22 July 2010	22 July 2013	0	0	0	0	120.00
Shen Ke	Secretary to the Board of Directors	Incumbent	Male	41	22 July 2010	22 July 2013	0	0	0	0	105.00
Wan Jun	Vice President	Resigned	Male	40	22 July 2010	29 October 2012	0	0	0	0	39.50
Total	–	–	–	–	–	–	2,485,535	0	41,113	2,444,422	3,543.5

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

(II) Biography of directors, supervisors and senior management

1. Directors

Dr. Zhan Chunxin (詹純新), male, born in 1955, is the Chairman and Chief Executive Officer of our Company. Dr. Zhan has been appointed as a director of our Company since the establishment of our Company in 1999, and as the Chairman since 2001. Currently, Dr. Zhan also serves as the chairman of various subsidiaries of our Company, including Zoomlion Powermole Limited, Hunan Teli Hydraulic Co., Ltd. and Hunan Zhongchen Rolled Steel Manufacturing Engineering Co., Ltd., and is a director of Zoomlion H.K. Holding Co., Ltd., Zoomlion International Trading (H.K.) Co., Limited, and Zoomlion Capital (H.K.) Co., Limited. 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, a member of the 10th session of CPC Hunan Provincial Committee in 2011 and a representative at the 12th National People's Congress in 2013. 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, the 2011 CCTV Chinese Economic Annual Figure awarded in December 2011 and the Most Outstanding Person Award awarded in January 2013. 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"). 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 and attended the EMBA program of Business School of Hunan University from 2005 to 2008.

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 Holdings 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 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 (Holdings) Co., Ltd. in January 1998 and has served as its vice president since January 2002. Since January 2002, Dr. Qian has been appointed as an 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 an executive director of Shanghai Industrial Urban Development Group Limited (stock code: 563), a company listed on SEHK, since July 2010 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 Bureau of the State Planning Commission from May 1991 to March 1994, deputy head and head of Personnel Bureau of the State Economic and Trade Commission from March 1994 to March 2003,

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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 January 1988 and received a bachelor's degree in economics and management from Party School of the Central Committee of CPC 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 a 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.

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 Zhongwang Industrial Co., Ltd. in Changsha High-tech Development Area 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 in economics from Party School of the Central Committee of CPC 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 a senior engineer as recognised by the Ministry of Construction in December 1992. Mr. Liu was the head of science research management division of the Science and Technology Department of the Ministry of Construction from 1992 to 2002. Mr. Liu was a member of the 2nd session of the Board of Directors and head of executive office of our Company from October 2002 to September 2004. Mr. Liu was the executive deputy general manager of environmental and sanitation machinery branch of our Company from 2004 to 2008. Mr. Liu was our employee Supervisor from July 2006 to July 2010. Mr. Liu was previously a senior visiting scholar at the University of Queensland, Australia from 1989 to 1992. Mr. Liu received the National Science and Technology Advancement (Grade III) Award in November 1992, and was awarded as the National Advanced Management Officer of Technology Innovation under the National 8th Five-year Plan in March 1997. Mr. Liu graduated from Hunan Agricultural College (currently known as Hunan Agricultural University) with a bachelor's degree in agricultural machinery in July 1982, and received his master's degree in architectural and civil engineering from Chongqing Architecture University (currently known as Chongqing University) in January 2000.

3. Senior Management

Dr. Zhang Jianguo (張建國), male, born in 1959, is a senior president of our Company. He is also the general manager of the overseas branch of the Company and 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

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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 in engineering from Shanghai University of Technology in Shanghai, the PRC 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 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 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. and Hunan Zoomlion Hardware Co., Ltd., and the 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 a deputy general manager of our Company from February 2000 to April 2001, the 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 Hunan Association of Chief Accountants 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) from February 1982 to November 1984, a senior engineer of Changsha Construction Machinery Research Institute under the Ministry of Construction 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 Zoomlion from August 1999 to January 2000, head of the human resources department of Zoomlion from February 2000 to November 2003, deputy general manager of the No. 2 manufacturing factory of Zoomlion from November 2003 to May 2004, head of price center of Zoomlion from June 2004 to December 2004, head of the corporate operation department of Zoomlion from January 2005 to February 2006, head

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of the department for on-going improvement of Zoomlion from March 2006 to October 2007. Ms. Du was appointed as the assistant to the Chairman of Zoomlion 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 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 an expert entitled to government special subsidy granted by the State Council since 1994 and a researcher specialized in construction machinery as recognised by the Ministry of Construction since 1996. He was previously the head 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 head 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 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 Enterprise 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, executive deputy manager, the person in charge of financial affairs and deputy general manager of Hunan Province Puyuan Group Co., Ltd. from September 1998 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

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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 is also a vice chairman of Hunan Youth Federation and Hunan Young Entrepreneurs Association. 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 Wuhan University of Technology and China University of 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 an executive director of Guangdong Zoomlion South Construction Machinery Co., Ltd. and a 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 in technology and equipment of machinery manufacturing from Hunan Radio and TV University 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, is a vice president of our Company. 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), vice-chairman of the Association for Studies of Conditions in Hunan Province and a representative at the 4th People's Congress of Yuelu District, Changsha. 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 Hunan 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 Corporate Counsel in China for 2011 (2011中國律政年度精英公司律師) 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.

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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. From November 2009 to November 2012, she was 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. 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. Chen Xiaofei (陳曉非), male, born in 1963, is a vice president of our Company. Currently, Mr. Chen is also the 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 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. Ajilore Akinola Odunayo, male, born in 1961, is a vice president of our Company. Mr. Ajilore Akinola Odunayo had been the Business Development Director of Global Mining, the Business Director of the Crawler Bulldozer Department, the head of quality control of the U.S. Operation Department and the director of supply chain management of the Production Center of Catepillar Inc. in the United States from 2003 to 2011 and became a vice president of our Company since April 2012. Mr. Ajilore Akinola Odunayo obtained his bachelor's degree in mechanical engineering and master's degree in mathematics from Southern University in the United States.

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 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) from 1994 to 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.

(III) Remunerations of directors, supervisors and senior management

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 fulfillment of major financial indicators and operating targets in 2012, scope of work and major responsibilities of directors, supervisors and senior management, and fulfillment of targets in the relevant performance assessment system. The performance assessment was submitted to the Board of the Company for review.

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 2012, 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.

(IV) Changes of Directors, Supervisors and Senior Management

According to a resolution reviewed in the second interim meeting of the 4th session of the Board of Directors of the Company for 2012 convened on 26 April 2012, Mr. Ajilore Akinola Odunayo was appointed as a vice president of the Company.

Mr. Wan Jun resigned as a vice president of the Company for personal reasons on 29 October 2012.

(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 2012)

Unit: headcount

Number of employees		**31,707**	**% of total number of employees**
By educational level	Postgraduate or above	1,858	5.86%
	Bachelor's Degree	9,903	31.23%
	Tertiary Education	8,253	26.03%
	Others	11,693	36.88%
By function	Production	14,785	46.63%
	Sales	3,875	12.22%
	Technical	8,133	25.65%
	Financial	764	2.41%
	Management	4,150	13.09%

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. In addition, the Company has a well-established training system for employees which offers various forms of training including mentorship program, lecture training and self-learning in order to promote the improvement and development of employees.

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 code provisions of the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) 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. Pursuant to the requirements of the regulatory authorities, the Board of the Company reviewed and refined the structure and implementation of the corporate governance, insider information and external information user management systems, and guided the Directors, Supervisors and senior management of the Company to complete the "Survey on the Prevention and Control of Insider Trading" (打擊與防控內幕交易調查問卷) complied by the Hunan Securities Regulatory Bureau. It also prepared a report on the insider information and external information users. The Company submitted the final report of the "Strict Measures for Early Prevention of Insider Trading" (從源頭嚴防內幕交易) to Hunan Securities Regulatory Bureau on 10 August 2012.

Dr. Zhan Chunxin acted as the Chairman and Chief Executive Officer of the Company in 2012. The Board considers that Dr. Zhan Chunxin acting as Chairman and Chief Executive Officer can be more efficient in the planning and implementation of the corporate strategies. Under the supervision of the Board and Independent Non-executive Directors 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 Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 to the Listing Rules of Hong Kong throughout the year of 2012.

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 "Changes in share capital and shareholders" in this annual 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 2012, 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, Supervisors, Senior Management and Employees" in this annual 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 three 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 six 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 "Directors, Supervisors, Senior Management and Employees" in this annual report.

(IV) Board meetings and general meetings

1. According to the Articles of Association, the Board shall hold at least four meetings a year. In 2012, the Board had held eight meetings. 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 reporting period, 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 reporting period, 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 and general meetings in 2012 was as follows:

	Name of Directors	Number of Board meetings held	Attendance	Number of general meetings held	Attendance
Chairman	Mr. Zhan Chunxin	8	8	2	2
Executive Director	Mr. Liu Quan	8	8	2	2
Non-executive Director	Mr. Qiu Zhongwei	8	8	2	2
Independent Non-executive Director	Mr. Liu Changkun	8	8	2	2
	Mr. Qian Shizheng	8	8	2	2
	Mr. Lian Weizeng	8	8	2	2
	Me. Wang Zhile	8	8	2	2

2. The Company convened its board meeting by giving 14 days' notice in advance for regular meetings and five days' notice in advance for ad-hoc meetings in accordance with the code provisions of the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) 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 three days before the date of the meeting.

Corporate Governance and Corporate Governance Report

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 reporting period, 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 reporting period, 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.

2. In formulating their opinion on guarantee for third party, appropriation of funds and connected transactions, directors may seek independent advice from independent auditor 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.

(VIII) Trainings for Directors

The training records of each incumbent Directors in 2012 are summarized as follows:

Directors	Type of training
Mr. Zhan Chunxin	A, B, C, D
Mr. Liu Quan	B, D
Mr. Qiu Zhongwei	B, D
Mr. Liu Changkun	B, D
Mr. Qian Shizheng	A, B, D
Mr. Lian Weizeng	B, D
Mr. Wang Zhile	A, B, C, D

A Attending seminars or forums
B Reading documents relating to general business, development and investment and duties and responsibilities of directors etc.
C Making speeches at external seminars or forums
D Participating in corporate activities or visits

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. The committees have their terms of reference which set out their respective compositions, duties and authority, decision-making procedures and rules of meeting.

Corporate Governance and Corporate Governance Report

(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 2012, the Remuneration and Appraisal Committee had held two meetings and all members attended the meetings in person. During the meetings, the committee: (1) reviewed the performance of the Directors, Supervisors and senior management of the Company in 2011 and conducted annual performance appraisal based on the appraisal criteria and remuneration policy; (2) reviewed the proposed equity incentive plan of the Company.

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.

(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. In 2012, the committee held one meeting mainly to review the qualifications of Mr. Ajilore Akinola Odunayo proposed as the Vice President of the Company and all members attended the meeting in person.

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 shall be nominated by the Board for approval by shareholders at general meeting. The appointment of senior management shall be reviewed by the Nomination Committee and approved by the Board.

The nomination, appointment and re-appointment of Directors and senior management 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 2012, the Audit committee held four meetings mainly to review the results for 2011 and the interim results for 2012 of the Company and all members attended the meetings in person. The Audit Committee also reviewed the audited annual results of the Company for the year ended 31 December 2012. It 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 held one meeting mainly to consider matters in respect of purchasing equity of CIFA and all members attended the meeting in person.

V. 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 annual 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

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).

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 2012.

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 2012 are set out in Section "Summary of directors, supervisors and senior management" in this annual report.

Directors, Supervisors and senior management's interests or short positions in securities of the Company or its associated corporations under Hong Kong laws and regulations

As at 31 December 2012, 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 shares	Number of shares	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

Corporate Governance and Corporate Governance Report

As at 31 December 2012, 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 2012, 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.

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 2012. The Company was not aware of any non-compliance of Model Code for Securities Transactions by the Directors or Supervisors during the reporting period.

VI. Auditors

Baker Tilly China Certified Public Accountants and KPMG, respectively, were the domestic and international auditors of the Company for 2012.

These two CPA firms provide audit services for the Company on its financial statements. The aggregate audit fee paid was RMB13.23 million. During the year, the aggregate non-audit service fee paid was RMB1.33 million.

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

VII. Trainings for Company Secretary

Shen Ke, the Company Secretary, confirmed that he has received no less than 15 hours of relevant professional trainings in 2012.

VIII.Establishment of Internal Control System of the Company

(I) Establishment of Internal Control System

In 2012, the Company continued to improve the risk prevention and internal control system in terms of the coverage, importance, balance of powers, adaptability and cost efficiency in accordance with legal requirements including the Corporate Internal Control Regulation (企業內部控制基本規範), the Articles of Association and internal management system of the Company. The Company streamlined and refined the internal control procedures and formulated standards including the Provisional Manual for Internal Control Management (內部控制管理手冊(試行)) and Provisional Manual for Assessment of Internal Control (內部控制評價手冊(試行)) in order to formulate a systematic and standardised internal control management system. Under the guidance of the leading team of internal control, the internal control department was established to streamline and optimise the internal control system of the Company. It promoted the internal control manuals, conducted annual internal control assessment, improved the relevant management systems and established comprehensive internal control system of the Company, further enhancing the internal control system of the Company. The Company was ranked the 26th among the Top 100 Listed Companies of Internal Control in China of 2012 (2012年中國上市公司內部控制百强企業) by the China Internal Control Research Center. An internal control assessment team comprising staff from branches and subsidiaries (collectively the "operating units") and various departments of the Company with extensive knowledge of the Company and outstanding capability was formed to conduct internal control assessment. The Company also appointed Baker Tilly China Certified Public Accountants to conduct independent auditing on the effectiveness of the internal control relating to the Company's financial reporting.

(II) Statement of the Board Regarding the Internal Control Responsibility

The Board and all Directors of the Company warrant that there are no misrepresentations, 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.

It is the responsibility of the Board to establish and implement sound and effective internal control of the Company. The Supervisory Board is responsible for monitoring the establishment and implementation of internal control by the Board, while the management is responsible for organising the daily operation of internal control of the Company.

The control objectives of the Company are to ensure the operation in compliance with laws and regulations, the security of assets and the truthfulness and completeness of financial reports and relevant information, to enhance the efficiency and effectiveness of operation and to facilitate the implementation of development strategies. Due to the inherent limitation of internal control, the Company can only provide reasonable guarantee for the achievement of these objectives.

Corporate Governance and Corporate Governance Report

(III) Basis of the Internal Control for Financial Reporting

Pursuant to the Corporate Internal Control Regulation (企業內部控制基本規範) (the "Regulation"), the Implementation Guidelines for Corporate Internal Control (企業內部控制應用指引) (the "Implementation Guidelines") and the Assessment Guidelines for Corporate Internal Control (企業內部控制評價指引) (the "Assessment Guidelines") jointly issued by five ministries including the Ministry of Finance of the PRC, the Guidelines for Internal Control of Listed Companies of SZSE (深交所上市公司內部控制指引) (the "SZSE Guidelines") issued by SZSE, Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Internal Control and Risk Management — A Basic Framework issued by the HKICPA, and according to the internal control system and assessment measures of the Company, the Company conducted assessment on the effectiveness of the design and implementation of internal control of the Company as at 31 December 2012 in addition to the daily and specific supervision for internal control.

(IV) Formulation and Implementation of Accountability System for Material Errors of Annual Report

The Company has formulated the Accountability System for Material Errors of Annual Report (年度報告重大差錯責任追究制度). Through establishing an accountability system for material errors in regard to information disclosure of annual report, the accountability for the responsible persons of information disclosure of annual report was strengthened, which has further improved the quality and transparency of information disclosure in the annual report. In 2012, there was no material error in the annual report of the Company for 2011.

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. Relationship with Shareholders and Investors

(I) Shareholders

The annual general meeting is considered as an important annual event of the Company. The Directors, Supervisors and senior management have attended the meetings and answered enquires from shareholders to maintain direct communication with shareholders.

Shareholders' right to convene an extraordinary general meeting and a meeting of shareholders of a particular class

According to the Articles of Association of the Company, shareholders individually or in aggregate holding 10% or more of the shares of the Company shall have the right to make a written request to the Board to convene an extraordinary general meeting or class meeting. The Board shall reply in writing on whether agree or not to convene an extraordinary general meeting or class meeting within 10 days after receiving the request in accordance with laws, administrative regulations and the Articles of Association.

Where the Board agrees to convene an extraordinary general meeting or class meeting, a notice convening such meeting shall be issued within five days after the resolution made by the Board. Any change to the original proposal in the notice is subject to the approval by relevant shareholders. Once the notice is issued, the Board may not propose new motions or change or postpone the date of such meeting without obtaining approval from the proposing shareholders.

Where the Board does not agree to convene an extraordinary general meeting or class meeting or fails to give response within 10 days after receiving the request, shareholders individually or in aggregate holding 10% or more of the shares of the Company are entitled to make a written request to the Supervisory Board to convene an extraordinary general meeting or class meeting.

Where the Supervisory Board agrees to convene an extraordinary general meeting or class meeting, a notice convening such meeting shall be issued within five days after receiving the request. Any change to the original proposal in the notice is subject to the approval by the relevant shareholders.

Where the Supervisory Board fails to issue a notice convening such meeting within the prescribed period, the Supervisory Board is deemed not to convene or preside over the general meeting and shareholders individually or in aggregate holding 10% or more of the shares of the Company for over 90 consecutive days may convene and preside over the general meeting.

Where the proposing shareholders convene and hold a meeting because the Board and the Supervisory Board fail to convene such meeting pursuant to a request as mentioned above, the reasonable expenses incurred by such shareholders shall be borne by the Company and shall be deducted from the sums owed by the Company to the negligent directors.

Shareholders' right to propose resolutions at general meetings

According to the Articles of Association of the Company, any shareholders who hold, individually or in aggregate, 3% or more of shares of the Company shall have the right to propose a new resolution. The matters within the scope of authority of the general meeting in the proposal shall be included in the agenda.

Any shareholders who hold, individually or in aggregate, 3% or more of the shares of the Company shall have the right to propose and submit interim proposals in writing to the convener 10 days prior to the convening of a general meeting. The convener shall issue a supplementary notice of general meeting containing the details of the interim proposals within 2 days after receiving the proposal.

Please refer to the Articles of Association of the Company for details of the rights of shareholders.

Shareholders may send their enquiries or suggestions in writing by post to the Board or the Company Secretary at the registered addresses of the Company or by email to the Company. In addition, if the shareholders have any enquiry regarding their shares or dividends, they may contact Computershare Hong Kong Investor Services Limited, the H Share registrar of the Company. The contact information is set out in the "Company Profile" in this annual report.

(II) Investors

The Company maintains close relationship with its investors through telephone hotline, email and direct contact.

Details of the investor relationship activities of the Company in 2012 are set out in "Reception of Research Investigations, Communications and Interviews during the Reporting Period" in "Significant Events" of this report.

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 "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 cautious 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 implemented the Management System for Information Insider and External Information User (內幕信息知情人和外部信息使用人管理制度).

XV. 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.

XVI. Amendments to the Articles of Association of the Company

A resolution regarding the amendments to the Articles of Association of the Company was passed at an extraordinary general meeting on 30 August 2012. Please refer to the notice and circular of the extraordinary general meeting of the Company both dated 14 July 2012 for details of the amendments.

Summary of Shareholders' Meetings

I. Annual General Meeting of Shareholders for the Reporting Period

Session of meeting	Date of meeting	Name of resolution	Results of resolution	Date of disclosure	Index of disclosure
Annual General Meeting of Shareholders for 2011	29 June 2012	16 resolutions including the full text and summary of the annual report for 2011	All resolutions were approved	30 June 2012	Announcement on Results of Resolutions of Annual General Meeting of Shareholders for 2011 (No.: 2012-028) at www.cninfo.com.cn

II. The Extraordinary General Meeting of Shareholders for the Reporting Period

Session of meeting	Date of meeting	Name of resolution	Results of resolution	Date of disclosure	Index of disclosure
The First Extraordinary General Meeting of Shareholders in 2012	30 August 2012	Resolution relating to the amendments to the Articles of Association	Approved	31 August 2012	Announcement on Results of Resolution of the First Extraordinary General Meeting of Shareholders for 2012 (No.: 2012-033) at www.cninfo.com.cn

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 2012 together with the audited financial statements of the Company and the Group.

I. Business Review of the Company

(I) Overall operation conditions

In 2012, in view of the sluggish international market, the economic growth in China slowed down with overcapacity in domestic construction machinery industry, competitions in the market were intensified and the growth of sales dropped significantly. According to the China Machinery Industry Federation, as at the end of 2012, gross industrial output value of the construction machinery industry in China amounted to RMB601,834 million, representing a cumulative year-on-year growth of 0.59%. Sales value amounted to RMB591,571 million, representing a cumulative year-on-year growth of 1.85%. In respect of major products of construction machinery, except the slight increase in sales of concrete machinery products, the sales of other products such as truck cranes and excavators decreased significantly. According to the China Construction Machinery Association, during January to December 2012, the sales of truck cranes and excavators in China were 23,000 units and 115,600 units, representing a year-on-year decrease of 35.10% and 35.20%, respectively.

Against the backdrop of the challenging global operating environment, the Company focused on the management reform and overseas expansion by facilitating sales with product research and development, strengthening internal control and monitoring risk stringently. The management of the Company became sophisticated and the quality of operation was enhanced steadily.

1. **Steady growth in turnover and further expansion of market share of products**

During the reporting period, the Company recorded a turnover of approximately RMB48,071 million, representing a year-on-year growth of 3.77%. Net profit attributable to equity holders of the parent company was approximately RMB7,330 million, representing a year-on-year decrease of 9.12%. Net cash generated from operating activities was RMB2,611 million, representing a year-on-year growth of 38.88%.

In 2012, the market share of the major products of the Company continued to increase. As for concrete machinery, the market share of truck-mounted pumps of the Company increased significantly over 2011, currently securing a leading position in the market. The market share of its three major products, namely mixing trucks, truck-mounted line pumps and mixing plants, ranked top in the PRC. As for the crane machinery, the market share of its tower cranes in the PRC continued to rank top in the industry and the sales of its crawler cranes ranked top in the domestic market. As for the earth working machinery, its bulldozers ranked second in the industry in terms of its market share in the PRC.

Report of the Board of Directors

2. **Leading technology R&D in the industry with outstanding innovation results**

(1) The Company launched a series of world-class products with the most advanced technology:

- On 28 September 2012, the Company launched the truck-mounted pumps with 101.18-meter arms (the longest in the world) and D1250-80, a tower crane with the largest available working range in the world, both of which were entered into the Guinness World Records;

- The Company successfully developed world-class products, such as ZACB01, a wheeled crane with the highest lifting power in the world, and LTU165, a paver with the largest paving range;

- The Company independently developed ZLJ5163TCXJE4, the first domestic manufactured high-pressure cold-blast snow removal truck with international advanced technologies, and launched ZE3000ELS, a super hydraulic-pressure excavator with the largest tonnage among domestic manufactured excavators, thereby breaking the technical monopoly of international companies and filling the gap in the industry;

(2) As the first secretariat of the International Organization for Standardization/Technical Committee on Cranes (ISO/TC96) in machinery manufacturing industry of the PRC, the Company is independently responsible for the secretariat work of the ISO, reflecting its leading position in the global crane industry;

(3) The Company has exclusively undertaken two projects under 973 Program and one project under natural science foundation program with an aim to promote the steady development of technology. In particular, the "Research on the Key Technology of Electromagnetic Compatibility in Engineering Mechanical and Electrical System" under 973 Program has formed the first national standards of electromagnetic compatibility in the industry. The "Research on Numerical Modelling and Application of the Folding Process of Super-Strength Steel Arms" has achieved a breakthrough in the high-precision numerical modelling of the folding process of super-strength steel arms of cranes, reaching an international advanced standard.

(4) In June 2012, according to the State Intellectual Property Office, the Company was ranked 5th in the PRC in terms of the number of patent applications made in 2011. In 2012, the Company applied for 1,738 patents, maintaining a leading position in the industry in terms of number of applications. The invention of "Power Unit and Its Control Method" was awarded the Best Invention in the PRC, and the design patent of crane was awarded the Golden Prize for Appearance Design in the PRC. It was the first time for a company in the industry to receive two golden prizes for patents within a year.

3. **Accelerated expansion into international markets for further improvement of overseas strategic landscape**

During the reporting period, by fully utilizing the international capital platform, the Company was the first to successfully issue bonds of US$1 billion in two batches in 2012 after taking the lead in the listing of A shares and H shares in 2010, thereby further expanding its financing channels and optimizing the debt structure to provide sufficient capital for the rapid expansion into the international markets. The Company increased overseas investments through strategic cooperation and joint ventures, and made a great progress in two major overseas production bases in India and Brazil. At the end of 2012, the Board of the Company approved the acquisition of the equity interests in CIFA from other shareholders, which will further enhance the results of CIFA acquisition and improve the integrated operation efficiency, management and control.

During the reporting period, the overseas sales of the Company increased rapidly by 23.81% over the corresponding period last year.

- For its concrete machinery, the Company's truck-mounted concrete pumps entered the German market successfully. It is the first brand of self-owned truck-mounted concrete pumps in the PRC that has penetrated the German market. The Company obtained the biggest single overseas order of mixer from Thailand, and sold products to countries such as Columbia, Sri Lanka, Iraq and Algeria for the first time.

- For its crane machinery, the export of the Company's 800-ton crawler cranes to Iran set the record of the largest tonnage crawler crane exported from the PRC. Since its advanced technological cooperation with JOST of Germany in 2011, the Company's major technical performance indicators of its tower cranes have satisfied the Standards of the European Federation of Materials Handling ("FEM") and reached international advanced levels. The Company's tower cranes continued to rank top among all tower crane products of the same model in the world in terms of overall performance. The newly-developed flat top tower crane, T320-16, was permitted to enter into Singaporean market.

- For its earth working machinery, the Company exported over 400 units of excavators with a total value of RMB300 million to Middle East, representing a record high of sales volume in a single transaction in the region.

4. **Implementation of management reform and further streamlining of business processes**

During the reporting period, with a focus on markets and customers, the Company adopted the "three-dimensional matrix management" model to establish a market-oriented corporate structure, streamline the business processes and improve the efficiency of decision enforcement. The Company reformed its management by carrying out project-based management and accelerated the reform of IPD R&D to improve the adaptability to changes of the market and develop technologies according to market demands. The value-creating segments of design, manufacturing and marketing were integrated and the R&D quality and application of science and technological achievements were improved. The Company also reformed its marketing by establishing a large marketing system, promoting the establishment of the national marketing platform and the planning of 7S stores. Based on such platform and a mixed coordination strategy, the Company strengthened the expansion of specific markets for various products and improved the coordination of services. Backed by the information system, the Company improved its management through applying ERP, PLM (production lifecycle management) and three-dimensional technologies in the core business division.

5. **Consolidation of comprehensive risk management system with strict control of operational risks**

(1) The Company further consolidated the comprehensive risk management system by implementing the three-level risk control measures covering "all staff, procedures and business flows" and improving the risk indicator alert system for the purpose of quantitative management of risk control.

(2) The Company strengthened the management of receivables and established the collection mechanism with "centralized management by the headquarters and reinforced cooperation between the headquarters and divisions to bring their respective advantages of supervision and administration into full play".

(3) The Company enhanced the risk management in three respects, namely risk prevention, control and post-improvement. The credit review of customers with credit sales was tightened so as to improve the quality of customers. Staff responsible for collection of receivables and overdue payments and legal officers were appointed to major sales regions. The quality of debt management and lawsuit management of the Company were enhanced.

The implementation of these initiatives had facilitated the risk control of the Company. The Company was granted the "Golden Shield Award for the Best Legal Risk Management of 2012", being the only company specializing in construction machinery in the PRC to win the award for three consecutive years.

6. **Further enhancement of brand image**

With the success of the acquisition and consolidation of CIFA, the Company has developed the five basic principles of international merger and acquisitions, namely “leniency, sharing, accountability, regulation and synergy”. These innovative principles have gain wide recognition in the community, especially among business enterprises and academies, significantly enhancing the brand image and overall strengths of the Company.

The major achievements of the Company in 2012:

- The Company ranked 776th on the Forbes Global 2000 list, an advancement of 676 places from the previous year. It also ranked sixth among the global construction machinery enterprises and ranked first among the construction machinery enterprises in the PRC on the list;

- The brand value of the Company was RMB17,258 million, ranking 74th among “500 Most Valuable Brands in the PRC in 2012” released by World Brand Lab. The brand value of the Company grew nearly 40% over that of last year and its ranking rose by five places;

- The Company was ranked 108th of the Fortune China 500 in 2012, and 39th in terms of profitability;

- The Company was ranked 86th among the Most Innovative Enterprises in the World by the Forbes;

- The Company received the Five Star certification by the National Evaluation System for After-sales Service of Commodities (商品售後服務評價體系) for the third time, and was the only enterprise in the industry with after sales services achieving five-star standard;

- The Company received the Most Outstanding Board of Directors Award during the Golden Roundtable Award campaign for the fifth time;

- The Company was awarded the National Outstanding Unit by the Central Commission for Guiding Cultural and Ethical Progress;

- The Company was honoured as the National Advanced Enterprise on Employment (全國就業先進企業) by the State Council;

- Dr. Zhan Chunxin, the chairman of the Company, received the Most Outstanding Person Award in 2012, being the first entrepreneur in the construction machinery industry to receive this award.

Report of the Board of Directors

7. **Breakthrough in market value**

In 2012, the Company further improved the market value management system and strengthened the comprehensive capacity of investor relationship management team. The Company improved the regulation and transparency of its operation and enhanced investors' understanding of and confidence in the Company through market value management. As at 31 December 2012, the prices of A shares and H shares of the Company recorded an increase of 19.77% and 36.60% respectively as compared with the previous year, exceeding that of the indices of the respective places of listing and the listed companies in the industry. The market value management of the Company was also recognized by the market. The Company was listed as the "Listed Company with the Best Investor Relations" in the China Finance and Economics Ranking of the Listed Companies. The Company was also honored as the "Best Listed Company with Highest Overseas Influence" by the Golden Bauhinia award of Takung Pao of Hong Kong. The Company ranked 16th in the "50 Most Reputable Listed Companies in 2012 (2012年50家最受尊敬上市公司名單) " selected by 70 public funds, five major private funds and 200 fund managers in China.

(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

Total purchases by the Company from the top five suppliers amounted to RMB5,971,000,000, accounting for 18.02% of the aggregate annual purchase of the Company and total purchases by the Company from the largest supplier accounted for 5.15% of the aggregate annual purchase of the Company. To the best knowledge of the 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 had an interest in the top five suppliers of the Company.

Total sales to the top five customers of the Company amounted to RMB1,472,000,000, accounting for 3.06% of the aggregate annual sales of the Company and the total sales to the largest customer of the Company accounted for 0.74% of the aggregate annual sales of the Company. To the best knowledge of the 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 had an interest in the top five customers of the Company.

(III) Financial position

Details of the 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	Type of company	Industry	Major products or services	Registered capital	Total assets (RMB million)	Net assets (RMB million)	Revenue (RMB million)	Gross profit (RMB million)	Net profit (RMB million)
Zoomlion H.K. Holding Co., Ltd.	Subsidiary	Construction machinery industry	Construction machinery	HKD6,500,000,000	24,963.88	6,175.64	6,637.60	1,082.32	972.70
Hunan Teli Hydraulic Co., Ltd.	Subsidiary	Construction machinery industry	Construction machinery	RMB180,198,400	1,506.80	893.13	1,071.19	166.20	144.53
Hunan Zoomlion Crawling Crane Co., Ltd.	Subsidiary	Construction machinery industry	Construction machinery	RMB360,000,000	930.38	638.66	1,179.52	169.93	149.60
Hunan Zoomlion Axle Co., Ltd.	Subsidiary	Construction machinery industry	Construction machinery	RMB465,590,800	1,030.29	562.24	1,027.64	5.13	3.25
Zoomlion Material Handling Equipment Co., Ltd.	Subsidiary	Construction machinery industry	Construction machinery	RMB100,000,000	638.88	3.68	293.84	-36.41	-36.23
Shaanxi Zoomlion Earth Working Machinery Co., Ltd.	Subsidiary	Construction machinery industry	Construction machinery	RMB473,940,000	520.29	102.15	496.87	28.03	49.58

* Except for Zoomlion H.K. Holding Co., Ltd, the financial data of which were derived from its financial statements prepared in accordance with Hong Kong Financial Reporting Standards, the financial data of the other companies were derived from their PRC GAAP financial statements.

Report of the Board of Directors

(V) Analysis of core competitiveness

1. **Capabilities to formulate strategies with foresight and implement strategies effectively ensured the long-term and healthy development of the Company**

   The Company stressed on the study of the development trend of the industry worldwide in formulating its global strategy. The Company focused on its development in the international market and strengthened the foresight of its strategic directions to ensure it will develop on the right track.

   Proactive strategies demonstrated the foresight and insight of the management of a company. The Company employed the development strategy of division and agglomeration pursuant to the principle of establishing itself into a professional, stock-based and international enterprise. The Company strengthened its business divisions through division strategy and expanded its major businesses through agglomeration strategy. The transparent governance structure, system and procedures allowed effective implementation of its strategies and realized a sustainable, healthy and rapid development of the Company.

2. **Successful mergers and acquisitions made the Company a pioneer and leader in the industry for integrating domestic and overseas resources**

   The Company has merged and acquired dozen domestic and foreign enterprises since 2001, which represents a new practice in PRC construction machinery industry to integrate overseas resources. The Company acquired CIFA, an enterprise based in Italy, in 2008. This acquisition was an important step for Zoomlion to introduce the most advanced technology, making the Company a pioneer of the internationalization of the industry and maintained a leading position in the industry. The management team acquired extensive experience through numerous mergers and acquisitions. With the success of the merger and acquisition, the Company has developed the five basic principles of merger and acquisition, namely “leniency, sharing, accountability, regulation and synergy”. The acquired enterprises were integrated into the Company successfully. In addition, the Company employed talents with extensive experiences through acquisitions, and the management problems raised after merger and acquisition were solved.

3. **The Company formulated standards for the industry with products and technologies leading the development of the industry**

   The predecessor of Zoomlion was Changsha Construction Machinery Research Institute under the former Ministry of Construction. With more than 50 years of experiences in machinery technology, it can be regarded as the origin of construction machinery technologies in the PRC. Zoomlion participated in the formulation of standards of the construction machinery industry in the PRC and formulated and revised over 300 national and industrial standards. It is also the only enterprise participated in the formulation and revision of International Organization for Standardization (ISO) standards as a representative from the construction machinery industry in PRC. As the first ISO secretariat established in the PRC, the Company enhanced the influence of PRC construction machinery in accessing international market for the benefit of the whole industry.

   The Company has a national technology research center, which is the only national laboratory for key technologies of construction machinery and the only national construction technology research center for concrete machinery in the PRC. The Company possessed core technologies for construction machinery and obtained various National Science and Technology Advancement Awards, leading the technology development of the industry. The Company focused on solving potential and basic technological R&D difficulties for the industry, launching an average of more than 300 new technologies and products annually, which accounting for over 60% of the annual turnover of the Company. The number of patents granted increased across the years. In 2012, the Company made applications for 1,738 patents, securing a leading position among the industry.

4. **Transparent corporate governance safeguarded interests and returns of the shareholders**

   Zoomlion has maintained a healthy and balanced equity structure to realize and maximize the interests of all shareholders of the Company. The Board of the Company consists of seven Directors, four of which are independent Directors, exceeding half of the total number of members of the Board. These four independent Directors are experts in strategy, management, finance and human resources. The Board has established four committees, each of which mainly consists of independent Directors. Such governance structure ensures the independence and professionalism of the Board, providing effective and rational decisions for the Company. Moreover, Zoomlion has been listed in 2008 with a completely transparent financial disclosure system. The Company no longer has a parent company. All transactions will be entered into in accordance with market practises in order to preclude any potential transmission of benefits. Such arrangements carry through the principle of transparency, fairness and justice, safeguarding the interests of both domestic and overseas shareholders, especially the minority shareholders, and establishing a solid foundation for the long term and stable growth of the Company.

Report of the Board of Directors

5. **Excellent resource allocation and high operation efficiency promoted steady development of the Company**

Zoomlion has excellent resource allocation and high operation efficiency. For personnel allocation, the efficiency per capita is higher than the average level among the industry due to the reasonable scale and structure of its human resources. For asset allocation, the Company has adopted a prudent approach in investments in fixed assets, resulting in higher economic benefits from fixed assets per unit as compared with the average level among the industry. As the development of the industry slowed down, higher operation efficiency and lower fixed costs will promote steady growth of the Company.

II. Business Outlook for Future Development of the Company

(I) Industry development and market outlook

1. **International market**

In 2013, the global economy is expected to maintain steady growth despite various challenges. According to the International Monetary Fund, it is estimated that the global economic growth rate will be 3.5% in 2013, representing a slight increase as compared with 3.3% in 2012. As the market demand for construction machinery will continue to increase, construction machinery companies in the PRC will have more opportunities to expand into the global market. However, the comparative advantages of the PRC construction machinery industry in the global market are partially eliminated due to the increasing costs of labour, financing and raw materials. In face of the increasingly competitive international market, the enterprises with outstanding competitive strength will obtain more market shares.

2. **Domestic market**

In 2013, the domestic economy will continue to recover moderately. Driven by the urbanization progress, infrastructure and real estate investments will pick up its momentum and investment loans will maintain steady growth. The government's policies are expected to be favourable to the development of the construction machinery industry in general. However, the growth of the construction machinery industry was only moderate due to the impacts of the macro-economic environment and excessive production capacity. As market shares are concentrated in the hands of leading companies, companies with rational product structure, strong technology innovation and efficient resource integration will excel over the stiff competition.

(II) Major business objectives and action initiatives in 2013

Targeting at the market and capitalizing on its talents and technologies, the Company will push forward its reform and further expand into overseas markets by establishing a comprehensive international business division with three-dimensional matrix management. The Company will strictly comply with its principles of operating with integrity as well as innovation so as to achieve steady and effective growth.

1. **Comprehensively implement reform of management**

The Company will reform its incentive mechanism and the management and supervision of its business divisions to further improve the operation efficiency. Corporate structure and functions will be adjusted and optimized by moving forward its management functions. The Company will also establish platforms for products of similar nature, continue to promote the reform of IPD R&D and improve the R&D processes of new products to improve the quality and efficiency of its research and development. Sales management reform will be first implemented in key areas for prompt response to market changes.

2. **Improve strategic and operational management**

Strategic planning capacity of departments, guidance to business divisions and strategic management and control will be strengthened so as to enhance the implementation of strategies. By utilizing its corporate resources, the Company will formulate competitive strategies tailored to each of the business divisions according to their needs and requirements. It will also continue to improve its risk management by further developing the internal control system to identify major risks in operations. With its effective production management and technology, the productivity of the Company will increase significantly. Moreover, the Company will strengthen the collection and management of trade receivables, strategic planning of brand building and responsiveness to the market trend.

3. **Speed up global expansion**

Operation and management of its overseas subsidiaries will be enhanced by establishing and improving a matrix management system in overseas business. The establishment of overseas information system will also be expedited. The Company will optimize overseas distribution channels through accelerating the set-up of overseas bases and expanding its bases in India and Brazil. Emphasis will be placed on major markets and districts. The management of overseas spare part depots will be enhanced. The distribution channels of all product lines will also be expanded.

Report of the Board of Directors

(III) Overall objectives for 2013

The Company aims to achieve a turnover of RMB55.0 billion in 2013.

III. Capital Expenditure of the Company during the Reporting Period

(I) External investments

External investments		
Investment amount for 2012 (RMB)	Investment amount for 2011 (RMB)	Changes
100,000,000.00	0.00	–

Invested company		
Name	Principal business	Percentage of the equity interests held in the invested company (%)
Jixiang Life Insurance Company Limited	Life insurance	8.7%

(II) Equity held in other enterprises

Name	Category of the company	Initial investment cost (RMB million)	Number of shares held at the beginning of the period (shares)	Percentage of shareholding in the company at the beginning of the period (%)	Number of shares held at the end of the period (shares)	Percentage of shareholding in the company at the end of the period (%)	Book value at the end of the period (RMB million)	Gain/loss for the reporting period (RMB million)	Accounting item	Source of shares
Bank of Communication Co., Ltd.	Commercial bank	5.29	847,348	0%	847,348	0%	4.19	0.39	Available-for-sale financial assets	
Shanghai Tunnel Engineering Co., Ltd.	Other	0.07	55,716	0%	55,716	0%	0.51	0.07	Available-for-sale financial assets	
Total		5.36	903,064	–	903,064	–	4.69	0.46	–	–

IV. Profit Distribution Plan for the Year

At the fourth extraordinary meeting in 2012 of the fourth session of the Board of Directors held on 13 July 2012, the Company considered and approved "Resolution regarding the Amendments to the Articles of Association". Profit distribution policies, especially cash dividend policy, are defined specifically in the Articles of Association. The resolution was considered and approved by the first extraordinary general meeting in 2012 held on 30 August 2012.

The Company has emphasized on shareholders' returns and strictly complied with the relevant requirements of regulatory authorities. Since its listing in 2000, the Company has distributed cash dividend in every year. As at 31 December 2012, the accumulative cash dividend distributed by Zoomlion amounted to RMB4,851,779,300 and issued 3,761,030,000 bonus shares and allotted 2,496,947,000 additional shares.

According to the profit distribution plan for 2012 of the Company, based on the total share capital of 7,705,954,050 shares, the Company will pay cash dividend of RMB2 (tax inclusive) for every 10 shares and will not issue bonus shares by capitalization of the capital reserve.

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

Cash dividend distributed by the Company in the past three years

Unit: RMB million

Year	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
2012	**1,541.19**	7,330.04	21.03%
2011	**1,926.49**	8,065.65	23.89%
2010	**1,876.27**	4,665.59	40.22%

V. 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 existing shareholders on a pro-rata basis according to their existing shareholdings.

VI. Property and Equipment

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

VII. Donations

During the reporting period, the charity donations and other donations of the Group amounted to approximately RMB8.7 million in aggregate.

VIII.Human Resources

As at 31 December 2012, the Company had employed a total of 31,707 employees. Details of the Company's staff costs and employee benefit plans for 2012 are disclosed in note 5(b) and 24 of the financial statements prepared under IFRSs respectively.

IV. Charge on Assets

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

X. Material investments and capital assets

The Company did not have any material investments or capital asset acquisition, or material acquisitions and disposals of subsidiaries and associated companies for the year ended 31 December 2012.

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: (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 of our consolidated results of operations for 2012. Each item has also been expressed as a percentage of our consolidated turnover.

	Year Ended 31 December			
	2012		2011	
	RMB	**%**	RMB	%
	(in millions, except for percentages)			
Turnover	**48,071**	**100**	46,323	100
Cost of sales and services	**(32,546)**	**(67.70)**	(31,316)	(67.60)
Gross profit	**15,525**	**32.30**	15,007	32.40
Other revenues and net income	**(101)**	**(0.21)**	14	0.03
Sales and marketing expenses	**(3,376)**	**(7.02)**	(3,160)	(6.82)
General and administrative expenses	**(2,368)**	**(4.93)**	(1,861)	(4.02)
Research and development expenses	**(584)**	**(1.22)**	(398)	(0.86)
Profit from operations	**9,096**	**18.92**	9,602	20.73
Gain on disposal of an associate	**—**	**—**	12	0.03
Net finance costs	**(274)**	**(0.57)**	(36)	(0.08)
Share of profits less losses of associates	**36**	**0.08**	24	0.06
Profit before taxation	**8,858**	**18.43**	9,602	20.73
Income tax expenses	**(1,329)**	**(2.77)**	(1,429)	(3.08)
Profit for the year	**7,529**	**15.66**	8,173	17.64
Attributable to:				
Equity shareholders of the Company	**7,330**	**15.25**	8,066	17.41
Non-controlling interests	**199**	**0.41**	107	0.23

Management Discussion and Analysis

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 2012:

	Year Ended 31 December			
	2012		2011	
	RMB	**%**	RMB	%
	(in millions, except for percentages)			
Concrete machinery	**23,596**	**49.09**	21,212	45.79
Crane machinery	**14,132**	**29.40**	15,618	33.72
Environmental and sanitation machinery	**3,034**	**6.31**	2,978	6.43
Road construction and pile foundation machinery	**1,558**	**3.24**	1,737	3.75
Earth working machinery	**2,269**	**4.72**	1,048	2.26
Material handling machinery and systems	**294**	**0.61**	504	1.09
Finance lease services	**1,600**	**3.33**	1,583	3.42
Total of reportable segments	**46,483**	**96.70**	44,680	96.45
All other segments	**1,588**	**3.30**	1,643	3.55
Total	**48,071**	**100**	46,323	100

Management Discussion and Analysis

Our turnover increased by 3.77% from RMB46,323 million for the year ended 31 December 2011 to RMB48,071 million for the year ended 31 December 2012. In 2012, the economic growth in the PRC remained slackened with low investment in infrastructure. The construction machinery industry was also under severe challenges brought by the sluggish growth of production and sales and the increase in credit risks. Faced with the uncertainties in the economic development in the PRC, the Company focused on enhancing the quality of growth by strengthening the control of the sales volumes. In particular, turnover from sales of concrete machinery increased by 11.24%, from RMB21,212 million in 2011 to RMB23,596 million in 2012. This was mainly due to our obvious advantages in truck-mounted pumps with long arms and high-end mixing plants and mixers resulting in a significant increase of our market share. Turnover from sales of earth working machinery increased by 116.51% from RMB1,048 million in 2011 to RMB2,269 million in 2012, which was mainly due to the continuous increase in the market share of our excavators and bulldozers. Turnover from sales of crane machinery decreased by 9.51% from RMB15,618 million in 2011 to RMB14,132 million in 2012, which was mainly due to the fact that the demand of the crane market declined to the lowest level of the past decade.

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 2012:

	Year Ended 31 December			
	2012		2011	
	RMB	**%**	RMB	%
	(in millions, except for percentages)			
PRC	**45,300**	**94.24**	44,085	95.17
Outside PRC	**2,771**	**5.76**	2,238	4.83
Total	**48,071**	**100**	46,323	100

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 2012:

	Year Ended 31 December			
	2012		2011	
	RMB	**%**	RMB	%
	(in millions, except for percentages)			
PRC	**44,575**	**92.73**	43,600	94.12
Outside PRC	**3,496**	**7.27**	2,723	5.88
Total	**48,071**	**100**	46,323	100

Management Discussion and Analysis

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 total cost of sales and services for 2012:

	Year Ended 31 December			
	2012		2011	
	RMB	**%**	RMB	%
	(in millions, except for percentages)			
Raw materials	**30,624**	**94.09**	29,463	94.08
Staff costs	**1,182**	**3.63**	1,047	3.34
Depreciation and amortization	**272**	**0.84**	253	0.81
Costs of finance lease services	**109**	**0.33**	207	0.66
Others	**359**	**1.10**	346	1.10
Total cost of sales and services	**32,546**	**100**	31,316	100

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

Management Discussion and Analysis

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 total cost of sales and services for 2012:

	Year Ended 31 December			
	2012		2011	
	RMB	%	RMB	%
	(in millions, except for percentages)			
Concrete machinery	**15,589**	**47.90**	13,668	43.65
Crane machinery	**10,330**	**31.74**	11,595	37.03
Environmental and sanitation machinery	**2,174**	**6.68**	2,061	6.58
Road construction and pile foundation machinery	**906**	**2.78**	1,072	3.42
Earth working machinery	**1,766**	**5.43**	834	2.66
Material handling machinery and systems	**250**	**0.77**	453	1.45
Finance lease services	**109**	**0.33**	207	0.66
Total cost of sales and services of reportable segments	**31,124**	**95.63**	29,890	95.45
Other operating segments	**1,422**	**4.37**	1,426	4.55
Total cost of sales and services	**32,546**	**100**	31,316	100

Cost of sales and services

Our cost of sales and services increased by 3.93% from RMB31,316 million for the year ended 31 December 2011 to RMB32,546 million for the year ended 31 December 2012 as a result of our continued growth and expansion, which was in line with the increase in our sales and production volume.

Gross profit

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

	Year Ended 31 December			
	2012		2011	
	RMB	%	RMB	%
	(in millions, except for percentages)			
Concrete machinery	**8,007**	**51.58**	7,544	50.26
Crane machinery	**3,802**	**24.49**	4,023	26.81
Environmental and sanitation machinery	**860**	**5.54**	917	6.11
Road construction and pile foundation machinery	**652**	**4.2**	665	4.43
Earth working machinery	**503**	**3.24**	214	1.43
Material handling machinery and systems	**44**	**0.28**	51	0.34
Finance lease services	**1,491**	**9.6**	1,376	9.17
Total gross profits of reportable segments	**15,359**	**98.93**	14,790	98.55
Other non-reportable segments	**166**	**1.07**	217	1.45
Total gross profits	**15,525**	**100**	15,007	100

Management Discussion and Analysis

As a result of the foregoing, our gross profit increased by 3.45% from RMB15,007 million for the year ended 31 December 2011 to RMB15,525 million for the year ended 31 December 2012, and our gross margin decreased from 32.40% for the year ended 31 December 2011 to 32.30% for the year ended 31 December 2012.

Other revenues and net income

Our other revenues and net income decreased significantly from net income of RMB14 million for the year ended 31 December 2011 to net loss of RMB101 million for the year ended 31 December 2012. The decrease was mainly attributable to the significant increase in the cost of assets transfer.

Sales and marketing expenses

Our sales and marketing expenses increased by 6.84% from RMB3,160 million for the year ended 31 December 2011 to RMB3,376 million for the year ended 31 December 2012. This increase was primarily due to the fact that we expanded our distribution network and strengthened our sales and marketing efforts, which resulted in an increase in the relevant expenses. Sales and marketing expenses as a percentage of our consolidated turnover increased from 6.82% for the year ended 31 December 2011 to 7.02% for the year ended 31 December 2012.

General and administrative expenses

Our general and administrative expenses increased by 27.24% from RMB1,861 million for the year ended 31 December 2011 to RMB2,368 million for the year ended 31 December 2012 due to the increase in our provisions for bad debts and impairment of inventories for the period. General and administrative expenses as a percentage of our consolidated turnover increased from 4.02% for the year ended 31 December 2011 to 4.93% for the year ended 31 December 2012.

Research and development expenses

Our research and development expenses increased by 46.73% from RMB398 million for the year ended 31 December 2011 to RMB584 million for the year ended 31 December 2012. 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 decreased by 5.27% from RMB9,602 million for the year ended 31 December 2011 to RMB9,096 million for the year ended 31 December 2012. Our operating margin decreased from 20.73% for the year ended 31 December 2011 to 18.92% for the year ended 31 December 2012.

Net finance costs

Net finance costs increased significantly from RMB36 million for the year ended 31 December 2011 to RMB274 million for the year ended 31 December 2012 primarily due to an increase in interest expenses of debts during the period.

Income tax expenses

Our income tax expenses decreased by 7.00% from RMB1,429 million for the year ended 31 December 2011 to RMB1,329 million for the year ended 31 December 2012 primarily due to the decrease in our taxable income. Our effective income tax rate increased from 14.88% for the year ended 31 December 2011 to 15.00% for the year ended 31 December 2012.

Profit for the year

As a result of the above factors, our profit for the year decreased by 7.88% from RMB8,173 million for the year ended 31 December 2011 to RMB7,529 million for the year ended 31 December 2012. Our net margin decreased from 17.64% for the year ended 31 December 2011 to 15.66% for the year ended 31 December 2012.

Profit attributable to equity shareholders of the Company

As a result of the above factors, profit attributable to equity shareholders of the Company decreased by 9.12% from RMB8,066 million in 2011 to RMB7,330 million in 2012.

Cash Flow and Capital Expenditure

During 2012, we financed our operations primarily through cash proceeds from our operations, proceeds from loans and borrowings, including bank borrowings and proceeds from the issued USD senior notes. As of 31 December 2012, we had RMB20,084 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 2012:

	Year Ended 31 December	
	2012	2011
	RMB	RMB
	(in millions)	
Net cash generated from operating activities	**2,611**	1,880
Net cash used in investing activities	**(3,050)**	(1,287)
Net cash generated from/(used in) financing activities	**4,512**	(3,275)
Net increase/(decrease) in cash and cash equivalents	**4,073**	(2,682)
Effect of foreign exchange rate changes	**9**	(74)
Cash and cash equivalents at the beginning of the year	**16,002**	18,758
Cash and cash equivalents at the end of the year	**20,084**	16,002

Operating activities

Net cash generated from operating activities in 2012 was RMB2,611 million, primarily derived from the profit before taxation of RMB8,858 million, adjusted to reflect the interest expenses of RMB779 million and depreciation and amortization of RMB502 million, after deducting the following items: (i) an increase in trade and other receivables of RMB8,312 million; (ii) an increase in inventories of RMB2,077 million; and (iii) income tax payment of RMB1,657 million and then adding back of a decrease in receivables under finance lease of RMB217 million and an increase in trade and other payables of RMB4,613 million.

Investing activities

Net cash used in investing activities in 2012 was RMB3,050 million, consisting primarily of (i) payments for the purchase of property, plant and equipment of RMB1,635 million; and (ii) the increase in pledged bank deposits of RMB1,381 million. Payments for the purchase of property, plant and equipment were related to our industrial parks construction and manufacturing facility upgrades and renovation projects in 2012. The amount of pledged bank deposits increase due to an increase in various deposits of the Company.

Financing activities

Net cash generated from financing activities in 2012 was RMB4,512 million, consisting primarily of net proceeds from issuance of USD senior notes of RMB6,181 million and proceeds from loans and borrowings of RMB16,356 million, partially offset by repayments of loans and borrowings of RMB15,368 million, dividends paid to our shareholders of RMB1,927 million and interests paid of RMB717 million.

Capital Expenditures

We incurred capital expenditures of RMB1,742 million in the year ended 31 December 2012, for purchase of property, plant and equipment, intangible assets and lease prepayments.

Commitments and Contingent Liabilities

As of 31 December 2012, our commitments consisted of capital commitments that have been authorized and contracted for in the amount of RMB576 million and capital commitments that have been authorized but not contracted for in the amount of RMB563 million, and operating lease commitments of RMB285 million, of which RMB92 million was payable within one year.

As of 31 December 2012, we had contingent liabilities of RMB12,385 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 year ended 31 December 2012, we made payments of RMB287 million, respectively, to banks under the guarantee arrangements. When called upon to fulfil 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.

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 2012, the maximum exposure to such guarantees was RMB892 million. In the year ended 31 December 2012, there was no material end-user customer default which required us to make guarantee payments to the third-party 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 2012:

	As of 31 December	
	2012	2011
	RMB	RMB
	(in millions)	
Current Assets		
Inventories	**11,733**	9,656
Other current assets	**231**	—
Trade and other receivables	**19,939**	13,614
Receivables under finance lease	**9,194**	7,089
Pledged bank deposits	**2,062**	1,481
Cash and cash equivalents	**20,084**	16,002
Total current assets	**63,243**	47,842
Current liabilities		
Trade and other payables	**23,387**	19,314
Bank and other borrowings	**9,639**	6,049
Income tax payable	**1,083**	1,289
Total current liabilities	**34,109**	26,652
Net current assets	**29,134**	21,190

Our net current assets increased from RMB21,190 million as of 31 December 2011 to RMB29,134 million as of 31 December 2012, primarily due to an increase in our cash and cash equivalents, trade and other receivables and inventories. Our trade and other receivables and trade and other payables continued to increase as we continued to expand our operations and our business continued to grow.

Management Discussion and Analysis

As of 31 December 2012, our outstanding short-term bank and other borrowings, including long-term bank and other borrowings due within one year, amounted to RMB9,639 million. The following table is a summary of our short-term and long-term bank and other borrowings as of 31 December 2012:

	As of 31 December	
	2012	2011
	RMB	RMB
	(in millions)	
Current		
Secured short-term bank loans	**143**	309
Unsecured short-term bank loans	**4,205**	4,490
Current portion of long-term loans and borrowings	**5,291**	1,250
Total	**9,639**	6,049
Non-current		
Secured long-term bank loans	**2,426**	2,036
Unsecured long-term bank loans	**6,260**	5,210
Unsecured bond	**1,094**	1,093
US dollar senior notes	**6,185**	—
Less: Current portion of long-term loans and borrowings	**(5,291)**	(1,250)
Total	**10,674**	7,089

As of 31 December 2012, our US dollar denominated unsecured short-term loans and long-term loans have an aggregate outstanding principal amount of RMB503 million and RMB962 million, respectively, subject us to certain financial covenants. As of 31 December 2012, we were in compliance with those financial covenants. If the Company is unable to comply with the relevant financial covenants without obtaining any exemption from the lending banks, the Company will be ordered to repay such bank loans immediately and its working capital will be adversely affected accordingly.

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 2012, our adjusted debt-to-equity ratio was 42% (2011: 28%). Please refer to note 27 of the financial statements prepared under IFRSs for the calculation basis of such ratio.

In 2012, our available credit line from various financial institutions amounted to RMB98,541 million. As of 31 December 2012, approximately RMB67,556 million of our credit lines from 30 domestic and foreign financial institutions remained unused. In addition, ten domestic financial institutions have granted us an aggregate of RMB30,200 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 2012, 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 2012) and the earliest date the Company would be required to repay:

	As of 31 December 2012					
	Carrying Amount	**Total Contractual Undiscounted Cash Flow**	**Within 1 Year or on Demand**	**More than 1 Year but Less than 2 Years**	**More than 2 Years but Less than 5 Years**	**More than 5 Years**
	RMB (in millions)					
Bank and other borrowings	**20,313**	**24,034**	**9,325**	**3,602**	**6,237**	**4,870**
Trade and other payables	**23,387**	**23,387**	**23,387**	**—**	**—**	**—**
Other long-term liabilities	**2,562**	**2,635**	**—**	**1,405**	**1,060**	**170**
	46,262	**50,056**	**32,712**	**5,007**	**7,297**	**5,040**
Maximum amount of financial guarantee issued		**13,277**	**13,277**			

	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 millions)					
Bank and other borrowings	13,138	13,989	6,487	5,226	2,276	—
Trade and other payables	19,314	19,314	19,314	—	—	—
Other long-term liabilities	1,789	1,829	—	710	1,119	—
	34,241	35,132	25,801	5,936	3,395	—
Maximum amount of financial guarantee issued		10,726	10,726			

The Company's directors confirmed that the current cash and cash equivalents, anticipated cash flow 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 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 bank and other 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 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 of the financial statements prepared under IFRSs for more quantitative information about the Company's currency risk.

Significant Events

I. Significant Litigations and Arbitrations of the Company during the Year

Litigation (arbitration) summary	Amount (RMB ten thousand)	Possible liabilities	Litigation (arbitration) progress	Litigation (arbitration) results and effects	Implementation of litigation (arbitration) judgement
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 pay a total amount of RMB21,070,598.44 to the Company in respect of equity transfer and interest accrued thereon as well as the attorney fees and court costs.	2,107.06	No	In progress	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. Execution of the case is still in progress. At present, several companies express intentions to accept the transfer of the equity interests in Zoomlion Beidou from Skyworth Mobile. The negotiation between the shareholders of Zoomlion Beidou and potential transferees is in progress.	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 judgment 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.

Significant Events

II. Material Guarantees during the Reporting Period

Unit: RMB ten thousand

Guarantee provided to subsidiaries by the Company								
Name of guarantee party	Disclosure date of the announcement regarding the guarantee	Guarantee limit	Actual date of event (Date of the agreement)	Actual amount of guarantee	Type of Guarantee	Period of guarantee	Discharged or not	Whether in favour of any related party (Yes or No)
Zoomlion International Trading (H.K.) Co., Limited	16 March 2012	400,000	15 May 2012	31,427.5	General guarantee	1 year	No	No
Zoomlion International Trading (H.K.) Co., Limited	16 March 2012	400,000	21 June 2012	33,533.14	General guarantee	2 years	No	No
Zoomlion International Trading (H.K.) Co., Limited	16 March 2012	400,000	3 July 2012	29,321.86	General guarantee	2 years	No	No
Zoomlion International Trading (H.K.) Co., Limited	16 March 2012	400,000	13 August 2012	31,427.5	General guarantee	1 year	No	No
ZOOMLION H.K. S.P.V. CO., LTD	29 March 2012	251,420	5 April 2012	251,420	General guarantee	5 years	No	No
ZOOMLION H.K. S.P.V. CO., LTD	14 December 2012	377,130	20 December 2012	377,130	General guarantee	10 years	No	No

III. 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 2012 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., a subsidiary of the Company, and is therefore a substantial shareholder of Hunan Zoomlion Axle Co., Ltd. and a connected person of the Company. Dongfeng Motor Corporation 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 Corporation. 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 2012, total sales of the Company to Dongfeng Group amounted to approximately RMB510 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）, a subsidiary of the Company, and is therefore a substantial shareholder of Hunan Zoomlion Axle Ziyang Co., Ltd. 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 2012, total sales of the Company to Nanjun Automobile amounted to approximately RMB172 million (excluding value-added tax).

The Independent Non-executive Directors unanimously confirmed that the connected transactions of the Company for the year 2012 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 favorable 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.

Significant Events

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

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

(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.

IV. Reception of Research Investigations, Communications and Interviews during the Reporting Period

Date of reception	Place of reception	Activity	Type of target group	Target group	Particulars and information provided
1 November 2012	Kunming	Strategic meeting	Institution	BNP	I. Main content: 1. The development of the industry in the fourth quarter of 2012, as well as the prospect of the industry; 2. The development history, corporate culture, historical operation condition and strategic plans of the Company; 3. The competition and comparison of advantages of various product segments in the industry; 4. Explanations to other enquiries. II. Information 1. Periodic reports and ad hoc announcements of the Company 2. Brochures of products
7 November 2012	Changsha	Meeting	Institution	Guotai Junan	
8 November 2012	Beijing	Investors' forum	Institution	Merrill Lynch	
8 November 2012	Changsha	Conference call	Institution	The Bosera Asset Management	
15 November 2012	Hong Kong	Strategic meeting	Institution	Daiwa Securities	
19 November 2012	Hong Kong	Strategic meeting	Institution	Macquarie	
28 November 2012	Beijing	Investors' forum	Institution	CICC	
29 November 2012	Sanya	Strategic meeting	Institution	Shenyin Wanguo	
6 December 2012	Taiwan	Strategic meeting	Institution	KGI Securities	
7 December 2012	Zhuhai	Strategic meeting	Institution	Sinolink Securities	
14 December 2012	Changsha	Meeting	Institution	China Merchants Fund	
17 December 2012	Changsha	Meeting	Institution	Fidelity Investments	
19 December 2012	Changsha	Meeting	Institution	Zeal Asset Management Ltd.	
21 December 2012	Beijing	Strategic meeting	Institution	Galaxy Securities	
21 December 2012	Changsha	Meeting	Institution	China Merchants Securities	

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

VI. Other Significant Events

(I) On 24 February 2012, the first extraordinary meeting of 2012 of the 4th session of the Board of the Company resolved to establish a wholly-owned subsidiary, Changsha Zoomlion Environmental and Sanitation Machinery Co., Ltd., with cash contribution of RMB2.1 billion. The Company would transfer the assets of environmental and sanitation machinery business to it at the consideration of approximately RMB1,943,280,000, which was equivalent to the carrying value of such assets as at 31 January 2012.

(II) On 15 March 2012, the fourth meeting of the 4th session of the Board of the Company resolved to sell 80% equity interests of Changsha Zoomlion Environmental and Sanitation Machinery Co., Ltd. by way of public tender on the Hunan United Assets and Equity Exchange. During the reporting period, no applications were submitted to Hunan United Assets and Equity Exchange by any potential acquirer. Currently, the public tender has been terminated.

(III) On 28 December 2012, the sixth extraordinary meeting of 2012 of the 4th session of the Board of the Company resolved to purchase 40.68% equity interest in Zoomlion Cifa (Hong Kong) Holdings Limited directly or indirectly held by Goldman Sachs, Hony Capital, Madarin Capital Partners and CIFA Management at a consideration of US$235,800,000. Upon the purchase, CIFA would be held as to 100% by the Company. Currently, the transaction has yet to be completed.

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. (the "Company") and its subsidiaries (together the "Group") set out on pages 87 to 184, which comprise the consolidated and company balance sheets as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion 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 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

28 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012
(Expressed in RMB)

	Note	2012 RMB millions	2011 RMB millions
Turnover	3	**48,071**	46,323
Cost of sales and services		**(32,546)**	(31,316)
Gross profit		**15,525**	15,007
Other revenues and net (loss)/income	4	**(101)**	14
Sales and marketing expenses		**(3,376)**	(3,160)
General and administrative expenses		**(2,368)**	(1,861)
Research and development expenses		**(584)**	(398)
Profit from operations		**9,096**	9,602
Gain on disposal of an associate		**–**	12
Net finance costs	5(a)	**(274)**	(36)
Share of profits less losses of associates		**36**	24
Profit before taxation	5	**8,858**	9,602
Income tax	6	**(1,329)**	(1,429)
Profit for the year		**7,529**	8,173
Other comprehensive income for the year (after tax)			
Change in fair value of available-for-sale equity securities		**–**	(1)
Exchange differences on translation of financial statements of subsidiaries outside PRC		**21**	(2)
Total other comprehensive income for the year		**21**	(3)
Total comprehensive income for the year		**7,550**	8,170

The notes on pages 96 to 184 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

(Expressed in RMB)

	Note	2012 RMB millions	2011 RMB millions
Profit attributable to:			
Equity shareholders of the Company	9	**7,330**	8,066
Non-controlling interests		**199**	107
Profit for the year		**7,529**	8,173
Total comprehensive income attributable to:			
Equity shareholders of the Company		**7,352**	8,050
Non-controlling interests		**198**	120
Total comprehensive income for the year		**7,550**	8,170
Basic and diluted earnings per share (RMB)	10	**0.95**	1.05

The notes on pages 96 to 184 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2012

(Expressed in RMB)

	Note	2012 RMB millions	2011 RMB millions
Non-current assets			
Property, plant and equipment	12	**6,112**	4,886
Lease prepayments		**1,443**	1,390
Intangible assets	13	**1,288**	1,216
Goodwill	14	**1,803**	1,793
Interests in associates	15	**188**	103
Other financial assets		**197**	43
Trade and other receivables	17	**2,685**	912
Receivables under finance lease	18	**10,458**	12,780
Pledged bank deposits	19	**1,061**	261
Deferred tax assets	23(b)	**456**	317
Total non-current assets		**25,691**	23,701
Current assets			
Inventories	16	**11,733**	9,656
Other current assets		**231**	—
Trade and other receivables	17	**19,939**	13,614
Receivables under finance lease	18	**9,194**	7,089
Pledged bank deposits	19	**2,062**	1,481
Cash and cash equivalents	20	**20,084**	16,002
Total current assets		**63,243**	47,842
Total assets		**88,934**	71,543
Current liabilities			
Loans and borrowings	21(a)	**9,639**	6,049
Trade and other payables	22	**23,387**	19,314
Income tax payable	23(a)	**1,083**	1,289
Total current liabilities		**34,109**	26,652
Net current assets		**29,134**	21,190
Total assets less current liabilities		**54,825**	44,891

The notes on pages 96 to 184 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2012

(Expressed in RMB)

	Note	2012 RMB millions	2011 RMB millions
Non-current liabilities			
Loans and borrowings	21(b)	**10,674**	7,089
Other non-current liabilities	25	**2,562**	1,789
Deferred tax liabilities	23(b)	**440**	418
Total non-current liabilities		**13,676**	9,296
NET ASSETS		**41,149**	35,595
CAPITAL AND RESERVES			
Share capital	26(a)	**7,706**	7,706
Reserves	26(b)	**33,056**	27,701
Total equity attributable to equity shareholders of the Company		**40,762**	35,407
Non-controlling interests		**387**	188
TOTAL EQUITY		**41,149**	35,595

Approved and authorised for issue by the board of directors on 28 March 2013.

Zhan Chunxin
Chairman and Chief Executive Officer

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

The notes on pages 96 to 184 form part of these financial statements.

Company Balance Sheet

As at 31 December 2012

(Expressed in RMB)

	Note	2012 RMB millions	2011 RMB millions
Non-current assets			
Property, plant and equipment	12	**4,509**	3,586
Lease prepayments		**869**	861
Intangible assets	13	**209**	135
Investments in subsidiaries	33	**11,264**	8,570
Interests in associates	15	**125**	57
Other financial assets		**194**	40
Trade and other receivables	17	**2,665**	887
Pledged bank deposits	19	**409**	261
Deferred tax assets	23(b)	**153**	107
Total non-current assets		**20,397**	14,504
Current assets			
Inventories	16	**8,915**	7,694
Other current assets		**231**	—
Trade and other receivables	17	**31,604**	28,839
Pledged bank deposits	19	**1,464**	1,406
Cash and cash equivalents	20	**7,080**	8,095
Total current assets		**49,294**	46,034
Total assets		**69,691**	60,538
Current liabilities			
Loans and borrowings	21(a)	**4,700**	4,095
Trade and other payables	22	**21,556**	16,388
Income tax payable	23(a)	**851**	1,177
Total current liabilities		**27,107**	21,660
Net current assets		**22,187**	24,374
Total assets less current liabilities		**42,584**	38,878

The notes on pages 96 to 184 form part of these financial statements.

Company Balance Sheet

As at 31 December 2012

(Expressed in RMB)

	Note	2012 RMB millions	2011 RMB millions
Non-current liabilities			
Loans and borrowings	21(b)	**3,237**	4,152
Other non-current liabilities	25	**170**	112
Total non-current liabilities		**3,407**	4,264
NET ASSETS		**39,177**	34,614
CAPITAL AND RESERVES			
Share capital	26(a)	**7,706**	7,706
Reserves	26(b)	**31,471**	26,908
TOTAL EQUITY		**39,177**	34,614

Approved and authorised for issue by the board of directors on 28 March 2013.

Zhan Chunxin
Chairman and Chief Executive Officer

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

The notes on pages 96 to 184 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

(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 2011	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
Appropriation (Note 26(b)(ii))	**–**	**–**	**650**	**–**	**–**	**(650)**	**–**	**–**	**–**
Cash dividends (Note 26(c)(i))	**–**	**–**	**–**	**–**	**–**	**(1,927)**	**(1,927)**	**–**	**(1,927)**
Contribution from non-controlling interests	**–**	**(1)**	**–**	**–**	**–**	**–**	**(1)**	**49**	**48**
Acquisition of non-controlling interests	**–**	**(69)**	**–**	**–**	**–**	**–**	**(69)**	**(9)**	**(78)**
Dividends paid by subsidiaries to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(39)**	**(39)**
Total comprehensive income for the year	**–**	**–**	**–**	**22**	**–**	**7,330**	**7,352**	**198**	**7,550**
Balance at 31 December 2012	**7,706**	**14,606**	**2,613**	**(59)**	**(2)**	**15,898**	**40,762**	**387**	**41,149**

The notes on pages 96 to 184 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2012
(Expressed in RMB)

	Note	2012 RMB millions	2011 RMB millions
Operating activities			
Profit before taxation		**8,858**	9,602
Adjustments for:			
Depreciation of property, plant and equipment		**407**	369
Amortisation of lease prepayments		**27**	27
Amortisation of intangible assets		**68**	60
Share of profits less losses of associates		**(36)**	(24)
Interest income		**(349)**	(214)
Interest expense		**779**	695
Loss on disposal of property, plant and equipment, and intangible assets		**19**	6
Gain on disposal of an associate		**—**	(12)
Loss/(gain) on remeasurement of derivate financial instruments at fair value		**18**	(19)
Impairment loss of property, plant and equipment		**18**	8
Impairment loss of goodwill		**18**	—
		9,827	10,498
Increase in inventories		**(2,077)**	(965)
Increase in trade and other receivables		**(8,312)**	(5,670)
Decrease/(increase) in receivables under finance lease		**217**	(3,697)
Increase in trade and other payables		**4,613**	2,689
Cash generated from operations		**4,268**	2,855
Income tax paid		**(1,657)**	(975)
Net cash generated from operating activities carried forward		**2,611**	1,880

The notes on pages 96 to 184 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2012

(Expressed in RMB)

	Note	2012 RMB millions	2011 RMB millions
Net cash generated from operating activities brought forward		**2,611**	1,880
Investing activities			
Payment for the purchase of property, plant and equipment		**(1,635)**	(1,210)
Lease prepayments		**(80)**	(260)
Payment for purchase of intangible assets		**(119)**	(112)
Dividends received from associates		**7**	—
Payment for investments in associates and equity investments		**(258)**	(7)
Proceeds from disposal of property, plant and equipment and intangible assets		**67**	37
Cash acquired in step acquisition		**—**	31
Interest received		**349**	214
(Increase)/decrease in pledged bank deposits		**(1,381)**	20
Net cash used in investing activities		**(3,050)**	(1,287)
Financing activities			
Proceeds from loans and borrowings		**16,356**	9,454
Repayments of loans and borrowings		**(15,368)**	(11,847)
Interest paid		**(717)**	(695)
Dividends paid to equity shareholders		**(1,927)**	(1,657)
Dividends paid by subsidiaries to non-controlling interests		**(19)**	(12)
Contribution from non-controlling interests		**56**	2
Prepayment for acquisition of non-controlling interests		**(50)**	(27)
Net proceeds from issuance of USD senior notes		**6,181**	—
Net proceeds from over-allotment of H Shares in Global Offering		**—**	1,507
Net cash generated from/(used in) financing activities		**4,512**	(3,275)
Net increase/(decrease) in cash and cash equivalents		**4,073**	(2,682)
Cash and cash equivalents at beginning of year		**16,002**	18,758
Effect of foreign exchange rate changes		**9**	(74)
Cash and cash equivalents at end of year	20	**20,084**	16,002

The notes on pages 96 to 184 form part of these financial statements.

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. (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.

(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%.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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 several amendments to IFRSs that are first effective for the current accounting year of the Group. Of these, the following development is relevant to the Group's financial statements:

- Amendments to IFRS7, "Financial instruments: Disclosures-Transfers of financial assets"
  The amendments to IFRS7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. In previous periods and the current period, the Group from time to time factored its trade receivables and finance lease receivables to banks and other financial institutions without recourse, which transferred substantially all the risks and rewards of the financial assets to the third party. The continuing involvement of the Group in respect of the factored receivables is limited to relaying the payments received from debtors to the financial institutions. The amounts of trade receivables and finance lease receivables that were factored to financial institutions without recourse are disclosed in Notes 17 and 18 respectively. Apart from these, the Group did not have other significant transfers of financial assets that were not derecognised in their entirety or any continuing involvement in transferred financial assets that were derecognised in their entirety in previous periods or the current period which require disclosure in the accounting period beginning on 1 January 2012. The adoption of the amendments to IFRS7 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 2012. The Group has not early adopted these IFRSs in preparing the financial statements for the year then ended.

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

(c) Basis of preparation (continued)

(ii) Basis of measurement

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

(iii) Use of estimates and judgements

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

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

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

2 Significant accounting policies

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

(a) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the acquirer. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus

2 Significant accounting policies (continued)

(a) Business combinations (continued)

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

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

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

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

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

(b) Subsidiaries and non-controlling interests

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

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

2 Significant accounting policies (continued)

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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.

Cash and cash equivalents

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

2 Significant accounting policies (continued)

(h) Financial instruments (continued)

(i) Non-derivative financial instruments (continued)

Interest-bearing borrowings

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

Trade and other payables

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

(ii) Derivative financial instruments

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

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

(i) Impairment of assets

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

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

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

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

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)

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in equity instrument below its cost.

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

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

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

— For trade, bills and other receivables, receivables under finance lease and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at 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.

2 Significant accounting policies (continued)

(i) Impairment of assets (continued)

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

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

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

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

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

(ii) Impairment of other assets

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

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

2 Significant accounting policies (continued)

(i) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

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

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

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

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

2 Significant accounting policies (continued)

(j) Inventories

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

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

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

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

(k) Employee benefits

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

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

(l) Income tax

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

2 Significant accounting policies (continued)

(l) Income tax (continued)

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.

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.

2 Significant accounting policies (continued)

(l) Income tax (continued)

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.

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 indentified 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.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2012

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.

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:

	2012 RMB millions	2011 RMB millions
Sales of:		
Concrete machinery	**23,596**	21,212
Crane machinery	**14,132**	15,618
Environmental and sanitation machinery	**3,034**	2,978
Road construction and pile foundation machinery	**1,558**	1,737
Earth working machinery	**2,269**	1,048
Material handling machinery and systems	**294**	504
Other machinery products	**1,588**	1,643
Finance income under finance lease	**1,600**	1,583
	48,071	46,323

4 Other revenues and net (loss)/income

	2012 RMB millions	2011 RMB millions
Government grants (Note (a))	**212**	87
Loss on disposal of property, plant and equipment and intangible assets	**(19)**	(6)
Cost of factoring trade receivables without recourse (Note (b))	**(298)**	(74)
Others	**4**	7
	(101)	14

4 Other revenues and net (loss)/income (continued)

Notes:

(a) Government grants mainly represent operating subsidies and other grants. There were no unfulfilled conditions and other contingencies attached to these grants.

(b) The Group factored trade receivables without recourse to banks and other financial institutions. Cost of factoring trade receivables without recourse represents the difference between the carrying amount of the receivables and the factoring proceeds.

5 Profit before taxation

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

(a) Net finance costs:

	2012 RMB millions	2011 RMB millions
Finance income:		
Interest income	**(349)**	(214)
Loss/(gain) on remeasurement of derivative financial instruments at fair value	**18**	(19)
	(331)	(233)
Finance costs:		
Interest on loans and borrowings (Note)	**756**	513
Net exchange gains	**(151)**	(244)
	605	269
	274	36

Note:

Interest expense on factoring the Group's receivables under finance lease with recourse amounted to RMB23 million for the year ended 31 December 2012 (2011: RMB182 million), and was included in cost of sales and services.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

5 Profit before taxation (continued)

(b) Staff costs:

	2012 RMB millions	2011 RMB millions
Salaries, wages and other benefits	**3,074**	2,898
Contributions to retirement schemes (Note 24)	**276**	178
	3,350	3,076

(c) Other items:

	2012 RMB millions	2011 RMB millions
Cost of inventories sold	**32,437**	31,109
Depreciation of property, plant and equipment (Note 12)	**407**	369
Amortisation of lease prepayments	**27**	27
Amortisation of intangible assets (Note 13)	**68**	60
Operating lease charges	**207**	128
Auditors' remuneration — audit services	**13**	11
Product warranty costs (Note 22(b))	**180**	154
Impairment losses:		
— trade receivables (Note 17(b))	**346**	(3)
— receivables under finance lease (Note 18(c))	**159**	140
— inventories	**187**	81
— property, plant and equipment (Note 12)	**18**	8
— goodwill (Note 14)	**18**	—

6 Income tax

Income tax in the consolidated statements of comprehensive income represents:

	2012 RMB millions	2011 RMB millions
Current tax — PRC income tax		
Provision for the year	**1,446**	1,504
Current tax — Income tax in other tax jurisdictions		
Provision for the year	**5**	2
Deferred taxation (Note 23(b))		
Origination and reversal of temporary differences	**(122)**	(77)
	1,329	1,429

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

	2012 RMB millions	2011 RMB millions
Profit before taxation	**8,858**	9,602
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned (Note (a))	**2,215**	2,401
Tax effect of non-deductible expenses	**26**	36
Tax effect of non-taxable income	**(37)**	(35)
Tax effect of tax concessions (Note (b))	**(730)**	(862)
Additional deduction for qualified research and development expenses (Note (c))	**(145)**	(111)
Actual income tax expense	**1,329**	1,429

6 Income tax (continued)

Notes:

(a) The PRC statutory income tax rate is 25% (2011: 25%).

The Company's subsidiaries in Italy are subject to income tax at rates ranging from 27.5% to 31.4% (2011: 27.5% to 31.4%).

The Company's subsidiaries in the HKSAR are subject to Hong Kong Profits Tax at 16.5% (2011: 16.5%).

(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 are subject to income tax at 15% for the years from 2011 to 2013.

(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 2012					
Executive directors					
ZHAN Chunxin	–	1,342	1,342	16	2,700
LIU Quan	–	792	792	16	1,600
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	–	542	542	16	1,100
LIU Chi	–	642	642	16	1,300
Total	360	3,318	3,318	64	7,060

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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 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

None of these directors and supervisors received any inducements or compensation for loss of office, or waived any emoluments during the year (2011: Nil).

8 Individuals with highest emoluments

Of the five highest paid individuals of the Group, two (2011: 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 (2011: three) individuals are as follows:

	2012 RMB thousands	2011 RMB thousands
Salaries, allowances and other benefits in kind	**5,152**	3,902
Retirement scheme contributions	**48**	48
	5,200	3,950

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

	2012 Number	2011 Number
RMB1,000,001—RMB1,500,000	**—**	3
RMB1,500,001—RMB2,000,000	**3**	—

None of these employees received any inducements or compensation for loss of office, or waived any emoluments during the year (2011: Nil).

9 Profit attributable to equity holders of the Company

The consolidated profit attributable to equity shareholders of the Company included a profit of RMB6,490 million (2011: RMB7,485 million) recorded in the stand-alone financial statements of the Company.

10 Basic and diluted earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB7,330 million (2011: RMB8,066 million), and the weighted average number of shares of 7,706 million in issue during the year (2011: 7,700 million shares after adjusting for the stock split mentioned in the below paragraph).

10 Basic and diluted earnings per share (continued)

For the purpose of calculating earnings per share for 2011, 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 that year.

There were no dilutive potential ordinary shares in issue as at 31 December 2012 (2011: 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 segment: this segment primarily researches, develops, manufactures and sells a variety of earth working machineries, including loaders, bulldozers and excavators.

11 Segment reporting (continued)

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

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

Other operating segments of the Group include research, development, manufacturing and sale of other machinery products, including specialised vehicles and vehicle axles. None of these segments met any of the quantitative thresholds for determining reportable segments for the years ended 31 December 2012 and 2011.

(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.

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11 Segment reporting (continued)

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2012 is set out below:

	2012 RMB millions	2011 RMB millions
Reportable segment revenue:		
Concrete machinery	**23,596**	21,212
Crane machinery	**14,132**	15,618
Environmental and sanitation machinery	**3,034**	2,978
Road construction and pile foundation machinery	**1,558**	1,737
Earth working machinery	**2,269**	1,048
Material handling machinery and systems	**294**	504
Finance lease services	**1,600**	1,583
Total reportable segment revenue	**46,483**	44,680
Revenue from all other segments	**1,588**	1,643
Total	**48,071**	46,323
Reportable segment profit:		
Concrete machinery	**8,007**	7,544
Crane machinery	**3,802**	4,023
Environmental and sanitation machinery	**860**	917
Road construction and pile foundation machinery	**652**	665
Earth working machinery	**503**	214
Material handling machinery and systems	**44**	51
Finance lease services	**1,491**	1,376
Total reportable segment profit	**15,359**	14,790
Profit from all other segments	**166**	217
Total	**15,525**	15,007

11 Segment reporting (continued)

(b) Reconciliation of segment profit

	2012 RMB millions	2011 RMB millions
Total segment profit	**15,525**	15,007
Other revenues and net (loss)/income	**(101)**	14
Sales and marketing expenses	**(3,376)**	(3,160)
General and administrative expenses	**(2,368)**	(1,861)
Research and development expenses	**(584)**	(398)
Gain on disposal of an associate	**—**	12
Net finance costs	**(274)**	(36)
Share of profits less losses of associates	**36**	24
Consolidated profit before taxation	**8,858**	9,602

(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.

	2012 RMB millions	2011 RMB millions
Revenue from external customers		
— Mainland PRC	**45,300**	44,085
— Outside PRC	**2,771**	2,238
Total	**48,071**	46,323

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11 Segment reporting (continued)

(c) Geographic information (continued)

	2012 RMB millions	2011 RMB millions
Specified non-current assets		
— Mainland PRC	7,389	6,088
— Outside PRC, primarily in Italy	166	188
Total	7,555	6,276

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 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
Balance at 1 January 2012	2,665	1,965	653	784	6,067
Additions	16	174	147	1,396	1,733
Transferred from construction in progress	427	186	21	(634)	—
Disposals	(51)	(125)	(47)	(4)	(227)
Effect of exchange rate difference	1	10	3	—	14
Balance at 31 December 2012	3,058	2,210	777	1,542	7,587

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 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)
Balance at 1 January 2012	**(369)**	**(590)**	**(222)**	**–**	**(1,181)**
Depreciation charge for the year	**(107)**	**(206)**	**(94)**	**–**	**(407)**
Impairment charge for the year	**(8)**	**(8)**	**(2)**	**–**	**(18)**
Written back on disposals	**16**	**90**	**35**	**–**	**141**
Effect of exchange rate difference	**(1)**	**(8)**	**(1)**	**–**	**(10)**
Balance at 31 December 2012	**(469)**	**(722)**	**(284)**	**–**	**(1,475)**
Net book value:					
Balance at 31 December 2012	**2,589**	**1,488**	**493**	**1,542**	**6,112**
Balance at 31 December 2011	2,296	1,375	431	784	4,886

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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 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
Balance at 1 January 2012	**1,940**	**1,277**	**508**	**671**	**4,396**
Additions	**7**	**108**	**122**	**1,044**	**1,281**
Transferred from construction in progress	**365**	**125**	**21**	**(511)**	**—**
Transferred from subsidiaries	**40**	**74**	**34**	**251**	**399**
Disposals	**(45)**	**(35)**	**(23)**	**(4)**	**(107)**
Transferred to subsidiaries	**(40)**	**(73)**	**(56)**	**(259)**	**(428)**
Balance at 31 December 2012	**2,267**	**1,476**	**606**	**1,192**	**5,541**

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 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)
Balance at 1 January 2012	**(258)**	**(380)**	**(172)**	**—**	**(810)**
Depreciation charge for the year	**(71)**	**(130)**	**(71)**	**—**	**(272)**
Transferred from subsidiaries	**(9)**	**(25)**	**(9)**	**—**	**(43)**
Written back on disposals	**13**	**22**	**15**	**—**	**50**
Transferred to subsidiaries	**8**	**18**	**17**	**—**	**43**
Balance at 31 December 2012	**(317)**	**(495)**	**(220)**	**—**	**(1,032)**
Net book value:					
Balance at 31 December 2012	**1,950**	**981**	**386**	**1,192**	**4,509**
Balance at 31 December 2011	1,682	897	336	671	3,586

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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 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
Balance at 1 January 2012	**762**	**113**	**167**	**350**	**49**	**1,441**
Additions	**—**	**17**	**81**	**—**	**21**	**119**
Disposal	**—**	**—**	**(2)**	**—**	**—**	**(2)**
Effect of exchange rate difference	**14**	**2**	**1**	**7**	**1**	**25**
Balance at 31 December 2012	**776**	**132**	**247**	**357**	**71**	**1,583**
Accumulated amortisation and impairment:						
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)
Balance at 1 January 2012	**(37)**	**(20)**	**(45)**	**(94)**	**(29)**	**(225)**
Amortisation for the year	**—**	**(6)**	**(18)**	**(30)**	**(14)**	**(68)**
Written back on disposals	**—**	**—**	**2**	**—**	**—**	**2**
Effect of exchange rate difference	**—**	**—**	**—**	**(3)**	**(1)**	**(4)**
Balance at 31 December 2012	**(37)**	**(26)**	**(61)**	**(127)**	**(44)**	**(295)**
Net book value:						
Balance at 31 December 2012	**739**	**106**	**186**	**230**	**27**	**1,288**
Balance at 31 December 2011	725	93	122	256	20	1,216

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 2011	36	2	73	111
Additions	—	32	58	90
Disposal	—	—	(5)	(5)
Balance at 31 December 2011	36	34	126	196
Balance at 1 January 2012	**36**	**34**	**126**	**196**
Additions	**—**	**17**	**72**	**89**
Balance at 31 December 2012	**36**	**51**	**198**	**285**
Accumulated amortisation and impairment:				
Balance at 1 January 2011	(36)	(1)	(16)	(53)
Amortisation for the year	—	—	(8)	(8)
Balance at 31 December 2011	(36)	(1)	(24)	(61)
Balance at 1 January 2012	**(36)**	**(1)**	**(24)**	**(61)**
Amortisation for the year	**—**	**—**	**(15)**	**(15)**
Balance at 31 December 2012	**(36)**	**(1)**	**(39)**	**(76)**
Net book value:				
Balance at 31 December 2012	**—**	**50**	**159**	**209**
Balance at 31 December 2011	—	33	102	135

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14 Goodwill

	The Group	
	2012	2011
	RMB	RMB
	millions	millions
Balance at 1 January	**1,793**	1,907
Impairment loss	**(18)**	—
Effect of exchange rate difference	**28**	(114)
Balance at 31 December	**1,803**	1,793

The goodwill arose from the acquisition of the following entities:

		Carrying amount	
		2012	2011
	Date of	**RMB**	RMB
Name of entity	**acquisition**	**millions**	millions
Compagnia Italiana Forme Acciaio S.p.A ("CIFA")	September 2008	**1,607**	1,579
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	**49**	67
		1,803	1,793

14 Goodwill (continued)

Goodwill impairment test

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 13.6% to 21.8% (2011: 13.0% to 20.9%). 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% (2011: 3%), which does not exceed the long-term average growth rate for the business in which the respective cash-generating units operate.

The impairment loss recognised during the year 2012 relates to the Group's material handling machinery and systems cash generating unit. During 2012, considering the lowered profit margin of the material handling machinery and systems cash generating unit, the Group lowered its future sales forecast. Based on the 2012 impairment test, the recoverable amount of the cash generating unit was determined to be RMB18 million lower than its carrying amount, and an impairment loss was recognised accordingly.

15 Interests in associates

	The Group		The Company	
	2012 RMB millions	2011 RMB millions	**2012 RMB millions**	2011 RMB millions
Unlisted share, at cost	**—**	—	**125**	57
Share of net assets	**188**	103	**—**	—
	188	103	**125**	57

15 Interests in associates (continued)

The following list contains particulars of the principal associates of the Group as at 31 December 2012:

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 Zhonglianzhongke Crane Machinery Co., Ltd.	RMB10	35%	Sales of crane machinery
Xinjiang Zhongcheng Zhonglian Engineering Machinery Co., Ltd.	RMB20	48%	Sales of crane machinery
Hunan Zhonglian Engineering Machinery Co., Ltd.	RMB20	49%	Sales of crane machinery
Jiangsu Hesheng Zhonglian Engineering Machinery Co., Ltd.	RMB20	49%	Sales of crane machinery
Inner Mongolia Zhonglian Engineering Machinery Co., Ltd.	RMB15	36%	Sales of crane machinery
Ningxia Zhiyuan Zhonglian Engineering Machinery Co., Ltd.	RMB12	49%	Sales of crane machinery
Shandong Yifang Zhonglian Engineering Machinery Co., Ltd.	RMB30	44%	Sales of crane machinery
Fujian Zhonglian Zhicheng Engineering Machinery Co., Ltd.	RMB15	47%	Sales of crane machinery
Gansu Zhonglian Dongsheng Engineering Machinery Co., Ltd.	RMB15	49%	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	
	2012 RMB millions	2011 RMB millions	**2012 RMB millions**	2011 RMB millions
Raw materials	**4,687**	4,762	**4,043**	3,670
Work in progress	**1,597**	1,691	**985**	1,222
Finished goods	**5,449**	3,203	**3,887**	2,802
	11,733	9,656	**8,915**	7,694

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17 Trade and other receivables

	The Group		The Company	
	2012 RMB millions	2011 RMB millions	**2012 RMB millions**	2011 RMB millions
Trade receivables	**19,343**	12,096	**15,751**	10,272
Less: provision for impairment (Note (b))	**(871)**	(533)	**(680)**	(353)
	18,472	11,563	**15,071**	9,919
Less: trade receivables due after one year	**(2,685)**	(912)	**(2,665)**	(887)
	15,787	10,651	**12,406**	9,032
Bills receivable (Note (c))	**1,721**	1,138	**1,241**	677
	17,508	11,789	**13,647**	9,709
Amounts due from related parties (Note 31(b))	**441**	99	**441**	99
Amounts due from subsidiaries	**—**	—	**16,514**	18,163
Prepayments for purchase of raw materials	**565**	508	**362**	263
Prepaid expenses	**396**	310	**278**	193
VAT recoverable	**284**	247	**148**	162
Deposits	**150**	118	**82**	28
Others	**595**	543	**132**	222
	19,939	13,614	**31,604**	28,839

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 60 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 2012, the weighted average discount rate was approximately 6.15% (2011: 6.65%) per annum. As at 31 December 2012, trade receivables due after one year of RMB2,685 million (31 December 2011: RMB912 million) were presented net of unearned interest of RMB246 million (31 December 2011: RMB80 million).

During the year ended 31 December 2012, trade receivables of RMB4,830 million (2011: RMB1,000 million) were factored to banks and other financial institutions without recourse, and were therefore derecognised.

(a) Ageing analysis of trade receivables

Ageing analysis based on billing date of trade receivables (net of provision for impairment) as at the balance sheet date is as follows:

	The Group		The Company	
	2012 RMB millions	2011 RMB millions	**2012 RMB millions**	2011 RMB millions
Within 1 month	**4,947**	4,547	**4,392**	3,932
Over 1 month but less than 3 months	**4,345**	2,362	**3,581**	2,102
Over 3 months but less than 1 year	**7,826**	3,401	**6,038**	2,855
Over 1 year but less than 2 years	**1,018**	932	**773**	802
Over 2 years but less than 3 years	**251**	249	**226**	179
Over 3 years but less than 5 years	**85**	72	**61**	49
	18,472	11,563	**15,071**	9,919

Trade receivables under credit sales arrangement are generally due within 1 to 3 months from the date of billing, and customers are normally required to make an upfront payment ranging from 10% to 30% of the product price. For sales under instalment payment method that has instalment payment periods generally ranging from 3 to 60 months, customers are normally required to make an upfront payment ranging from 3% to 40% of the product price.

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 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	
	2012 RMB millions	2011 RMB millions	**2012 RMB millions**	2011 RMB millions
Balance at 1 January	**(533)**	(557)	**(353)**	(418)
Impairment losses recognised	**(346)**	3	**(328)**	61
Uncollectible amounts written off	**8**	21	**1**	4
Balance at 31 December	**(871)**	(533)	**(680)**	(353)

As at 31 December 2012, the Group did not have any trade receivables past due but not impaired (31 December 2011: Nil).

(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. The Group periodically endorses bills receivable to suppliers to settle trade payables. As at 31 December 2012, undue bills receivable endorsed to suppliers amounted to RMB814 million (31 December 2011: RMB259 million).

18 Receivables under finance lease

	The Group	
	2012	2011
	RMB	RMB
	millions	millions
Gross investment	**21,499**	22,135
Unearned finance income	**(1,548)**	(2,126)
	19,951	20,009
Less: provision for impairment (Note (c))	**(299)**	(140)
	19,652	19,869
Less: receivables under finance lease due after one year	**(10,458)**	(12,780)
Receivables under finance lease due within one year	**9,194**	7,089

The Group provides equipment finance lease services to customers purchasing machinery products of the Group or other vendors through its leasing subsidiaries. Under the finance lease arrangement, the collectability of the minimum lease payments is reasonably predictable, there is no significant uncertainty surrounding the amount of un-reimbursable cost yet to be incurred by the Group under the lease arrangement. The finance lease contracts entered into by the Group typically are for a period ranging from 2 to 5 years. Customers are normally required to make an upfront payment ranging from 5% to 20% of the product price and pay a security deposit ranging from 1% to 10% of the product price. 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 2012, receivables under finance lease of RMB1,064 million (31 December 2011: RMB586 million) were factored to banks with recourse (Note 21 (a)&(b)).

During the year ended 31 December 2012, receivables under finance lease of RMB16,518 million (2011: RMB12,258 million) were factored to banks without recourse, and were therefore derecognised.

Under the non-recourse factoring agreements, the Group has agreed to repurchase equipment at fair market value of the equipment from banks to which the Group factored its receivables, upon repossession of the equipment under the relevant finance lease contracts by such banks.

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18 Receivables under finance lease (continued)

(a) Ageing analysis of receivables under finance lease

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

	The Group	
	2012 RMB millions	2011 RMB millions
Present value of the minimum lease payments		
Within 1 year	**9,336**	7,139
Over 1 year but less than 2 years	**5,373**	6,300
Over 2 years but less than 3 years	**3,116**	4,178
Over 3 years	**2,126**	2,392
	19,951	20,009
Unearned finance income		
Within 1 year	**882**	1,024
Over 1 year but less than 2 years	**405**	671
Over 2 years but less than 3 years	**182**	318
Over 3 years	**79**	113
	1,548	2,126
Gross investment		
Within 1 year	**10,218**	8,163
Over 1 year but less than 2 years	**5,778**	6,971
Over 2 years but less than 3 years	**3,298**	4,496
Over 3 years	**2,205**	2,505
	21,499	22,135

18 Receivables under finance lease (continued)

(b) Overdue analysis

Overdue analysis of receivables under finance lease as at the balance sheet date is as follows:

	The Group	
	2012	2011
	RMB	RMB
	millions	millions
Not yet due	**19,510**	21,671
Less than 1 month past due	**309**	123
1 to 3 months past due	**483**	117
3 to 12 months past due	**1,086**	175
12 to 24 months past due	**101**	49
More than 24 months past due	**10**	—
Total past due	**1,989**	464
Gross investment	**21,499**	22,135

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	
	2012	2011
	RMB	RMB
	millions	millions
Balance at 1 January	**140**	—
Impairment losses recognised	**159**	140
Balance at 31 December	**299**	140

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18 Receivables under finance lease (continued)

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

As at 31 December 2012, the Group did not have any receivables under finance lease past due but not impaired (31 December 2011: Nil).

(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 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 receivables, the restriction on the bank deposits is released.

20 Cash and cash equivalents

	The Group		The Company	
	2012 RMB millions	2011 RMB millions	**2012 RMB millions**	2011 RMB millions
Cash at bank and on hand				
— RMB denominated	**15,462**	15,351	**6,951**	7,995
— USD denominated	**4,032**	345	**98**	80
— EUR denominated	**506**	202	**31**	6
— HKD denominated	**16**	29	**—**	—
— Other currencies	**68**	75	**—**	14
	20,084	16,002	**7,080**	8,095

21 Loans and borrowings

(a) Short-term loans and borrowings:

		The Group		The Company	
	Note	**2012 RMB millions**	2011 RMB millions	**2012 RMB millions**	2011 RMB millions
Secured short-term bank loans					
— RMB denominated	(i)	**135**	304	**—**	—
— EUR denominated		**8**	5	**—**	—
Unsecured short-term bank loans					
— RMB denominated		**—**	265	**—**	240
— JPY denominated		**—**	50	**—**	50
— EUR denominated		**162**	132	**139**	127
— USD denominated	(ii)	**4,043**	3,986	**2,518**	3,385
— HKD denominated		**—**	57	**—**	—
Add: Current portion of long-term loans and borrowings	21(b)	**5,291**	1,250	**2,043**	293
		9,639	6,049	**4,700**	4,095

Notes:

(i) The RMB denominated secured short-term bank loans as at 31 December 2012 were secured by certain receivables under finance lease with a carrying value of RMB135 million (31 December 2011: secured by fixed assets and receivables with an aggregate carrying amount of RMB339 million).

(ii) As at 31 December 2012, USD denominated unsecured short-term loans of RMB503 million (31 December 2011: RMB1,197 million), bore interest at 4.21% per annum. Such loans were subject to the fulfilment of certain financial covenants of the Group. As at 31 December 2012, the Group was in compliance with these financial covenants.

As at 31 December 2012, the remaining USD denominated unsecured short-term bank loans of RMB3,540 million (31 December 2011: RMB2,789 million) bore interest ranging from 1.31% to 4.61% per annum.

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21 Loans and borrowings (continued)

(b) Long-term loans and borrowings:

		The Group		The Company	
	Note	**2012 RMB millions**	2011 RMB millions	**2012 RMB millions**	2011 RMB millions
Secured long-term bank loans					
— RMB denominated	(i)	**929**	560	**—**	—
— EUR denominated	(ii)	**1,497**	1,476	**—**	—
Unsecured long-term bank loans					
— RMB denominated	(iii)	**600**	460	**600**	460
— EUR denominated	(iv)	**835**	819	**—**	—
— USD denominated	(v)	**4,825**	3,931	**3,586**	2,892
Unsecured bond	(vi)	**1,094**	1,093	**1,094**	1,093
Guaranteed USD senior notes	(vii)	**6,185**	—	**—**	—
		15,965	8,339	**5,280**	4,445
Less: Current portion of long-term loans and borrowings	21(a)	**(5,291)**	(1,250)	**(2,043)**	(293)
		10,674	7,089	**3,237**	4,152

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 2012 were secured by certain receivables under finance lease with a carrying value of RMB929 million (31 December 2011: RMB586 million) and had maturities ranging from 1 to 3 years from the balance sheet date.

(ii) As at 31 December 2012, EUR denominated secured long-term bank loans of RMB1,497 million (31 December 2011: RMB1,468 million) were secured by 100% equity interest of certain Company's subsidiaries in Italy. Such loans bore interest at 2.33% per annum and will be repayable in full in June 2013.

(iii) As at 31 December 2012, RMB denominated unsecured long-term bank loan of RMB600 million (31 December 2011: nil) bore interest ranging from 4.20% to 4.93% per annum with maturities in 2015.

(iv) As at 31 December 2012, EUR denominated unsecured long-term bank loan of RMB831 million (31 December 2011: RMB814 million) bore interest at 2.13% per annum and will be repayable in full in June 2013. The remaining unsecured long-term bank loans of RMB4 million (31 December 2011: RMB5 million) were repayable in quarterly instalments through 2017.

(v) As at 31 December 2012, USD denominated unsecured long-term bank loan of RMB962 million (31 December 2011: RMB964 million) bore interest at 4.81% per annum and had maturity of 21 months from the balance sheet date. Such loan is subject to the fulfilment of certain financial covenants of the Group. As at 31 December 2012, the Group was in compliance with these financial covenants.

As at 31 December 2012, USD denominated unsecured long-term bank loan of RMB63 million (31 December 2011: nil) bore interest at 3.91% per annum and had maturity of 11 months from the balance sheet date. Such loan is subject to the fulfilment of certain annual financial covenants of the Group. As at 31 December 2012, the Group was in compliance with these financial covenants.

The remaining USD denominated unsecured long-term bank loans of RMB3,800 million (31 December 2011: RMB2,967 million) bore interest ranging from 2.51% to 4.31% per annum and had maturities ranging from 2 months to 29 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 will 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 at par value on the fifth anniversary date of the bond issuance date, which is 21 April 2013. Request for redemption may be submitted 10 days before the mentioned date, at which the Company should unconditionally repurchase the bonds at par value. If the bond holders do not redeem the bonds, the bond will mature in April 2016.

(vii) In April 2012, Zoomlion H.K. SPV Co., Limited, a wholly-owned subsidiary of the Company, issued 5-year senior notes with principal amount of USD400 million (RMB equivalent 2,521 million). The senior notes are guaranteed by the Company, bear interest at a fixed rate of 6.875% per annum and will mature in April 2017. Interest on the notes will be payable semi-annually in arrears in April and October of each year, beginning from October 2012.

In December 2012, Zoomlion H.K. SPV Co., Limited issued 10-year senior notes with principal amount of USD600 million (RMB equivalent 3,773 million). The senior notes are guaranteed by the Company, bear interest at a fixed rate of 6.125% per annum and will mature in December 2022. Interest on the notes will be payable semi-annually in arrears in June and December of each year, beginning from June 2013.

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

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22 Trade and other payables

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB	RMB	**RMB**	RMB
	millions	millions	**millions**	millions
Trade creditors	**7,720**	7,136	**6,151**	6,429
Bills payable	**5,763**	4,967	**5,640**	4,771
Trade creditors and bills payable (Note (a))	**13,483**	12,103	**11,791**	11,200
Amounts due to related parties (Note 31(b))	**94**	13	**82**	—
Amounts due to subsidiaries	**—**	—	**3,355**	626
Receipts in advance	**1,225**	1,166	**776**	733
Payable for acquisition of property, plant and equipment	**608**	403	**562**	372
Accrued staff costs	**713**	940	**504**	646
VAT payable	**1,106**	1,224	**1,012**	1,096
Security deposits (Note 25)	**749**	864	**126**	172
Product warranty provision (Note (b))	**93**	131	**66**	68
Sundry taxes payable	**496**	546	**356**	423
Payables for factoring discount (Note (c))	**970**	687	**63**	74
Cash collected on behalf of banks	**2,385**	168	**2,076**	—
Others	**1,465**	1,069	**787**	978
	23,387	19,314	**21,556**	16,388

22 Trade and other payables (continued)

Notes:

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

	The Group		The Company	
	2012 RMB millions	2011 RMB millions	2012 RMB millions	2011 RMB millions
Due within 1 month or on demand	4,643	4,974	4,318	4,933
Due after 1 month but within 3 months	5,120	3,938	4,343	3,666
Due after 3 months but within 6 months	3,119	2,496	2,652	2,091
Due after 6 months but less than 12 months	601	695	478	510
	13,483	12,103	11,791	11,200

(b) Product warranty provision

	The Group RMB millions	The Company RMB millions
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
Balance at 1 January 2012	131	68
Provision for the year	180	145
Utilisation during the year	(218)	(147)
Balance at 31 December 2012	93	66

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 18 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 without recourse (see Notes 17) will be paid to the banks within 1 year, and the discount on factoring of the Group's receivables under finance lease without recourse (see Notes 18) will be paid by instalments over periods ranging from 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	
	2012 RMB millions	2011 RMB millions	**2012 RMB millions**	2011 RMB millions
Provision for PRC income tax	**1,078**	1,286	**851**	1,177
Provision for income tax in other tax jurisdictions	**5**	3	**—**	—
	1,083	1,289	**851**	1,177

(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 2012

	Balance at 1 January 2012 RMB millions	Credited/ (charged) to profit or loss RMB millions	Effect of exchange rate RMB millions	Balance at 31 December 2012 RMB millions
Deferred tax assets arising from:				
Receivables	109	103	1	213
Inventories	35	8	—	43
Accrued expenses	58	(5)	1	54
Tax losses	73	1	—	74
Others	42	29	1	72
Total	317	136	3	456
Deferred tax liabilities arising from:				
Property, plant and equipment	(9)	1	—	(8)
Intangible assets	(349)	16	(5)	(338)
Lease prepayments	(46)	15	(2)	(33)
Others	(14)	(46)	(1)	(61)
Total	(418)	(14)	(8)	(440)

23 Income tax in the balance sheets (continued)

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

The Group (continued)

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)

As at 31 December 2012, RMB102 million (31 December 2011: RMB72 million) of deferred tax assets in respect of impairment losses and tax losses were not recognised by certain subsidiaries of the Company, as it is not probable that sufficient future taxable profits will be available to utilise such tax benefits.

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23 Income tax in the balance sheets (continued)

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

The Company

Year ended 31 December 2012

	Balance at 1 January 2012 RMB millions	Credited/ (charged) to profit or loss RMB millions	Balance at 31 December 2012 RMB millions
Deferred tax assets arising from:			
Receivables	57	49	106
Accrued expenses	41	(10)	31
Others	9	7	16
Total	107	46	153

Year ended 31 December 2011

	Balance at 1 January 2011 RMB millions	Credited 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

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".

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26 Capital and reserves

(a) Share capital

	The Group and The Company	
	2012	2011
	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		
(2011: 6,275,925,164 A Shares of RMB1.00 each		
1,430,028,886 H Shares of RMB1.00 each)	**7,706**	7,706
Ordinary shares issued and fully paid:		
At 1 January	**7,706**	5,797
Over-allotment of H Shares in Global Offering	**–**	131
Bonus shares issued (Note 26(c)(ii))	**–**	1,778
At 31 December	**7,706**	7,706

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	
	2012 RMB millions	2011 RMB millions
Capital reserve		
Balance at 1 January	**14,648**	15,050
Share premium of Over-allotment of H Shares in Global Offering (Note 26(a))	**–**	1,376
Bonus shares (Note 26(c)(ii))	**–**	(1,778)
Balance at 31 December	**14,648**	14,648
Statutory reserve		
Balance at 1 January	**1,962**	1,211
Appropriation (Note 26(b)(ii))	**650**	751
Balance at 31 December	**2,612**	1,962
Fair value reserve		
Balance at 1 January	**(2)**	(1)
Other comprehensive income	**–**	(1)
Balance at 31 December	**(2)**	(2)

26 Capital and reserves (continued)

(b) Reserves (continued)

	The Company	
	2012 RMB millions	2011 RMB millions
Retained earnings		
Balance at 1 January	**10,300**	5,107
Appropriation (Note 26(b)(ii))	**(650)**	(751)
Cash dividends (Note 26(c)(i))	**(1,927)**	(1,541)
Profit for the year	**6,490**	7,485
Balance at 31 December	**14,213**	10,300
Total		
Balance at 1 January	**26,908**	21,367
Balance at 31 December	**31,471**	26,908

(i) Capital reserve

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

(ii) Statutory surplus reserve

Under PRC rules and regulations, the Company and its PRC subsidiaries are required to set aside 10% of the net income determined in accordance with the PRC accounting rules and regulations to a statutory surplus reserve until such reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of any dividend to shareholders. For the year ended 31 December 2012, the Company transferred RMB650 million (2011: RMB751 million), being 10% of the current year's net profit as determined in accordance with PRC accounting rules and regulations, to this reserve.

26 Capital and reserves (continued)

(b) Reserves (continued)

(ii) Statutory surplus reserve (continued)

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

(iii) Exchange reserve

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

(iv) Fair value reserve

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

(c) Profit appropriations

(i) Cash dividends

Pursuant to the shareholders' approval at the Annual General Meeting held on 29 June 2012, a final cash dividend of RMB0.25 per share based on 7,706 million ordinary shares totalling RMB1,927 million in respect of the year ended 31 December 2011 was declared, and was fully paid by the end of 2012.

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.

(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.

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.

During 2012, the Group's strategy, which was unchanged from 2011, 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.

27 Capital management (continued)

As at 31 December 2012, the Group's adjusted debt-to-equity ratio was as follows:

	2012 RMB millions	2011 RMB millions
Short-term loans and borrowings	9,639	6,049
Long-term loans and borrowings	10,674	7,089
	20,313	13,138
Less:		
Loans arising from factoring of receivables with recourse	(1,064)	(843)
Loans obtained to finance business combinations	(2,328)	(2,282)
Adjusted debt	16,921	10,013
Total equity attributable to equity shareholders	40,762	35,407
Adjusted debt-to-equity ratio	42%	28%

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.

28 Financial risk management and fair values (continued)

(a) Credit risk (continued)

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 60 months, customers are normally required to make an upfront payment ranging from 3% to 40% 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.

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 2012, 0.7% (31 December 2011: 1.9%) of the total trade and bills receivables was due from the Group's largest customer and 2.5% (31 December 2011: 5.7%) of the total trade and bills receivables was due from the Group's five largest customers respectively.

28 Financial risk management and fair values (continued)

(a) Credit risk (continued)

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

(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.

28 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

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 2012					
	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	20,313	24,034	9,325	3,602	6,237	4,870
Trade and other payables	23,387	23,387	23,387	–	–	–
Other non-current liabilities	2,562	2,635	–	1,405	1,060	170
	46,262	50,056	32,712	5,007	7,297	5,040
Financial guarantees issued						
Maximum amount guaranteed		13,277	13,277	–	–	–

28 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

The Group (continued)

	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	–	–	–

The Company

	As at 31 December 2012					
	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	7,937	8,512	3,881	2,222	2,409	–
Trade and other payables	21,556	21,556	21,556	–	–	–
Other non-current liabilities	170	170	–	16	30	124
	29,663	30,238	25,437	2,238	2,439	124
Financial guarantees issued						
Maximum amount guaranteed		13,277	13,277	–	–	–

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28 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

The Company (continued)

	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	–	–	–

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 2012.

	The Group			
	2012		2011	
	Weighted average interest rate %	Amount RMB millions	Weighted average interest rate %	Amount RMB millions
Fixed rate financial instruments:				
Short-term loans and borrowings	5.1%	(1,755)	4.8%	(1,090)
Long-term loans and borrowings	6.7%	(6,334)	6.1%	(1,314)
		(8,089)		(2,404)
Variable rate financial instruments:				
Pledged bank deposits	0.5%	3,123	0.5%	1,742
Bank deposits	1.0%	20,082	1.0%	16,000
Receivables under finance lease	6.5%	19,652	8.0%	19,869
Short-term loans and borrowings	3.0%	(7,884)	4.2%	(4,959)
Long-term loans and borrowings	4.5%	(4,340)	3.9%	(5,776)
		30,633		26,876
Net amount		22,544		24,472

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28 Financial risk management and fair values (continued)

(c) Interest rate risk (continued)

	The Company			
	2012		2011	
	Weighted average interest rate	**Amount**	Weighted average interest rate	Amount
	%	**RMB millions**	%	RMB millions
Fixed rate financial instruments:				
Short-term loans and borrowings	**5.6%**	**(1,520)**	4.3%	(764)
Long-term loans and borrowings	**3.5%**	**(148)**	6.1%	(1,314)
		(1,668)		(2,078)
Variable rate financial instruments:				
Pledged bank deposits	**0.5%**	**1,873**	0.5%	1,667
Bank deposits	**1.6%**	**7,079**	1.3%	8,094
Short-term loans and borrowings	**3.5%**	**(3,180)**	4.4%	(3,331)
Long-term loans and borrowings	**4.4%**	**(3,089)**	4.9%	(2,839)
		2,683		3,591
Net amount		**1,015**		1,513

As at 31 December 2012, 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 RMB222 million (2011: RMB215 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 2011.

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 balance sheet 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)							
	2012				2011			
	USD	**EUR**	**Yen**	**HKD**	USD	EUR	Yen	HKD
Trade debtors	**345**	**144**	**221**	**–**	304	211	126	–
Cash and cash equivalents	**127**	**80**	**–**	**16**	115	52	37	29
Trade creditors	**(377)**	**(319)**	**(54)**	**–**	(113)	(399)	(272)	(1)
Loans and borrowings	**(8,007)**	**(139)**	**–**	**–**	(6,289)	(127)	(50)	(56)
Net exposure arising from recognised assets and liabilities	**(7,912)**	**(234)**	**167**	**16**	(5,983)	(263)	(159)	(28)

28 Financial risk management and fair values (continued)

(d) Currency risk (continued)

The Company

	Exposure to foreign currencies risk (expressed in equivalent RMB millions)							
	2012				2011			
	USD	EUR	Yen	HKD	USD	EUR	Yen	HKD
Trade debtors	295	80	178	–	234	168	79	–
Cash and cash equivalents	98	31	–	–	79	6	14	–
Trade creditors	(370)	(282)	(46)	–	(94)	(382)	(238)	–
Loans and borrowings	(6,104)	(139)	–	–	(6,277)	(127)	(50)	–
Net exposure arising from recognised assets and liabilities	(6,081)	(310)	132	–	(6,058)	(335)	(195)	–

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			
	2012		2011	
	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%	(336)	5%	(254)
	-5%	336	-5%	254
EUR	5%	(10)	5%	(11)
	-5%	10	-5%	11
Yen	5%	7	5%	(7)
	-5%	(7)	-5%	7
HKD	5%	1	5%	(1)
	-5%	(1)	-5%	1

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 2012 and 2011.

The Group's available-for-sale listed equity securities are stated at fair value measured using the quoted market prices on a PRC stock exchange. The fair value of the Group's available-for-sale listed equity securities was RMB5 million as at 31 December 2012 (31 December 2011: RMB4 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.

28 Financial risk management and fair values (continued)

(e) Fair values (continued)

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

The fair values of the Group's long-term bank loans are estimated by discounting future cash flows using current market interest rates, having considered the foreign currency denomination of the loans and borrowings, which ranged between 5.6% to 6.6% for 2012 (2011: 6.1% to 7.1%). The fair values of the Group's bond and senior notes are determined based on quoted market prices of the securities in the PRC Stock Exchange and Singapore Exchange Securities Trading Limited 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 2012:

The Group

	2012 RMB millions		2011 RMB millions	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term bank loans	8,686	8,636	7,246	7,244
Bond	1,094	1,132	1,093	1,111
Senior notes	6,185	6,525	—	—

The Company

	2012 RMB millions		2011 RMB millions	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term bank loans	4,186	4,186	3,352	3,354
Bond	1,094	1,132	1,093	1,111

29 Commitments

(a) Capital commitments

As at 31 December 2012, the Group and the Company had capital commitments as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB millions	RMB millions	**RMB millions**	RMB millions
Authorised and contracted for				
— property, plant and equipment	**545**	434	**434**	279
— equity investments	**—**	100	**—**	100
— intangible assets	**21**	51	**21**	51
— lease prepayments	**10**	31	**10**	31
	576	616	**465**	461
Authorised but not contracted for				
— property, plant and equipment	**173**	303	**23**	142
— lease prepayments	**390**	1,880	**390**	1,880
	563	2,183	**413**	2,022

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 2012, the future minimum lease payments under operating lease are as follows:

	The Group		The Company	
	2012 RMB millions	2011 RMB millions	**2012 RMB millions**	2011 RMB millions
Within 1 year	**92**	95	**82**	60
After 1 but within 2 years	**59**	43	**56**	39
After 2 but within 3 years	**47**	27	**44**	25
After 3 but within 4 years	**42**	15	**41**	15
After 4 but within 5 years	**19**	5	**19**	4
Thereafter	**26**	4	**26**	3
	285	189	**268**	146

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 2012, the Group's maximum exposure to such guarantees was RMB12,385 million (31 December 2011: RMB9,092 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 2012, the Group made payments of RMB287 million (2011: RMB190 million) to the banks under the guarantee arrangement as a result of customer default.

30 Contingent liabilities (continued)

(a) Financial guarantee issued (continued)

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 2012, the Group's maximum exposure to such guarantees was RMB892 million (31 December 2011: RMB1,634 million). The terms of these guarantees coincide with the tenure of the lease contracts which generally range from 2 to 5 years. For the years ended 31 December 2012 and 2011, 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

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

	2012 RMB millions	2011 RMB millions
Transactions with associates:		
Sales of products	**998**	157
Purchase of raw materials and finished goods	**502**	148

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.

31 Related party transactions (continued)

(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:

	2012 RMB thousands	2011 RMB thousands
Short-term employee benefits	**35,072**	26,225
Retirement scheme contributions	**363**	375
	35,435	26,600

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

(d) Contributions to retirement plans

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

32 Accounting estimates and judgements

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

32 Accounting estimates and judgements (continued)

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.

(b) Warranty provision

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

(c) Write-down of inventories

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

32 Accounting estimates and judgements (continued)

(d) Impairment of long-lived assets

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

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

(e) Depreciation and amortisation

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

32 Accounting estimates and judgements (continued)

(e) Depreciation and amortisation (continued)

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	
	2012 RMB millions	2011 RMB millions
Unlisted shares, at cost	**11,264**	8,570

The following list contains particulars of subsidiaries as at 31 December 2012 which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

		Proportion of ownership interest			
Name of company	**Particulars of issued and paid up capital (millions)**	**Group's effective interest**	**held by the Company**	**held by subsidiary**	**Principal activities**
Compagnia Italiana Forme Acciaio S.p.A. (CIFA)	EUR 15	59.32% (Note)	—	59.32%	Manufacture of concrete machinery
Shaanxi Zoomlion Earth Working Machinery Co., Ltd.	RMB474	100%	100%	—	Manufacture of earth working machinery

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33 Investments in subsidiaries (continued)

Name of company	Particulars of issued and paid up capital (millions)	Proportion of ownership interest			Principal activities
		Group's effective interest	held by the Company	held by subsidiary	
Hunan Zoomlion Axle Co., Ltd.	RMB466	88.86%	88.86%	—	Manufacture of motor vehicle components
Zoomlion Material Handling Equipment Co., Ltd.	RMB100	97%	97%	—	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.	RMB50	100%	100%	—	Trading of equipment and machinery
Hunan Teli Hydraulic Co., Ltd.	RMB180	77.61%	77.61%	—	Manufacture of hydraulic products
Hunan Zoomlion Special 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.	RMB360	100%	100%	—	Manufacture of crawling cranes
Hunan Zoomlion Hardware Co., Ltd.	RMB100	100%	100%	—	Manufacture of crane components

33 Investments in subsidiaries (continued)

Name of company	Particulars of issued and paid up capital (millions)	Proportion of ownership interest: Group's effective interest	held by the Company	held by subsidiary	Principal activities
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
Changsha Zoomlion Environmental and Sanitation Machinery Co., Ltd.	RMB2,100	100%	100%	—	Manufacture of environmental and sanitation equipment
Hunan Cifa Engineering Machinery Co., Ltd.	USD2	59.32%	—	59.32%	Manufacture of concrete machinery

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

Note:

Pursuant to a resolution passed at the directors' meeting on 28 December 2012, a proposed acquisition by Zoomlion Overseas Investment Management (H.K.) Co., Ltd., a wholly-owned subsidiary of the Group, of 40.68% equity interest in Zoomlion Cifa (Hong Kong) Holdings Limited with a cash consideration of USD236 million was approved. Upon completion of the proposed acquisition, Zoomlion Overseas Investment Management (H.K.) Co., Ltd. will own 100% of the total issued share capital of Zoomlion Cifa (Hong Kong) Holdings Limited, which owns 100% equity interest of CIFA. Until the financial statements approval date, the acquisition has not yet been completed.

34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2012

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 2012:

	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
Amendments to IFRS 10, IFRS 11 and IFRS 12, — "Consolidated financial statements, Joint arrangements and Disclosure of interests in other entities: Transition guidance"	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
Annual improvements to IFRSs-2009-2011 Cycle	1 January 2013
Amendments to IFRS 7 "Financial instruments: Disclosures — Offsetting financial assets and financial liabilities"	1 January 2013
IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine"	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

The Group 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

	2012 RMB millions	2011 RMB millions
Total equity reported under PRC GAAP	**41,189**	35,635
— Acquisition-related costs incurred on prior year business combination	**(40)**	(40)
Total equity reported under IFRSs	**41,149**	35,595

(b) Other than the differences in the presentations and classifications of certain financial statements captions, 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) Final dividend for 2012

Pursuant to a resolution passed at the directors' meeting on 28 March 2013, a final dividend in respect of the year ended 31 December 2012 of RMB0.20 (2011: RMB0.25) per share totalling RMB1,541 million (2011: 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) Proposal of Share Option Scheme and Restricted A Share Incentive Scheme

On 26 February 2013, the Company's board of directors proposed to adopt the Zoomlion Share Option Scheme and the Restricted A Share Incentive Scheme and the respective grants under the Schemes. The Schemes shall become effective upon receipt of no objection notice from the China Securities Regulatory Commission and upon approval by the Company's shareholders at a general meeting.