You should read the discussion and analysis set forth in this section in conjunction with our combined financial information dated as at, and for, the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, and in each case, together with the accompanying notes included in the Accountants' Report set out in Appendix I to this document. Our combined financial information was prepared in accordance with IFRS.

The combined income statements and cash flow statements for the six months ended 30 June 2008 have been derived from our unaudited combined financial statements included elsewhere in this document. We have prepared the unaudited interim combined financial statements on the same basis as our audited combined financial statements. The unaudited interim combined financial statements include all adjustments, consisting only of normal and recurring adjustments that we consider necessary to fairly present our financial positions for the periods indicated.

Our historical results do not necessarily indicate results expected for any future periods. In addition, our results as at, and for, the six months ended 30 June 2009 may not be indicative of our results as at, and for, the full year ending 31 December 2009. The discussion and analysis of our financial condition contains forward-looking statements that involve risks and uncertainties. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this document.

OVERVIEW

We are a leading manufacturer of roadheaders for coal mining and we are also a one-stop coal mining solutions and comprehensive coal mining equipment provider with strong research and development capabilities. We have the ability to design and manufacture a comprehensive range of coal mining equipment in accordance with the specific requirements of our customers with respect to excavating, coal mining, structural support and underground coal conveying functions.

We are the largest manufacturer of roadheaders for coal mining in the PRC, according to a report by the China National Coal Mining Machinery Industry Association (中國煤炭機械工業協會) published at www.coalchina.org.cn in July 2009, which ranks domestic manufacturers of roadheaders by the total number of roadheaders sold in 2008. According to same report, we also successfully developed China's first fully-automated combined coal mining unit in 2008, which integrates coal mining, structural support and coal conveying functions with a centralised control system into a single coal mining unit. This allows for automated control of coal mining operations and transportation at the work site, as well as a variety of other support functions and significantly enhances the safety and efficiency levels of coal mining. To meet the demands of our other customers, we also offer manually-controlled combined coal mining units. As at 30 September 2009, we had entered into 10 sales contracts for our combined coal mining units, amounting to a total contract price of approximately RMB511.0 million (including 17% value-added tax). Of the 10 sales contracts, we had delivered products, with total contract value amounting to approximately RMB136.0 million, to our customers and we expect products with contract value of approximately RMB223.6 million to be delivered to our customers by the end of 2009.

We have invested heavily in building a strong research and development platform. We have established a research headquarters, which is responsible for implementing the overall planning and co-ordination of research and development projects, and five research institutions, which are responsible for the research and development of excavating machinery, coal mining machinery, scraper conveyors, hydraulic structural support equipment and coal mine transportation vehicles, respectively. As at the Latest Practicable Date, we had successfully registered 146 patents, and had 80 patents pending registration, with the State Intellectual Property Office of China.

We believe our strong research and development capabilities have allowed us to develop new and innovative products. To further strengthen our market position in the coal mining industry, we have already started designing and manufacturing coal mine transportation vehicles, for which we expect to enter into sales contracts by the end of 2009. In recognition of our outstanding and continuing research and development efforts, we have been granted an approval by the PRC Ministry of Human Resources and Social Security (國家人力資源和社會保障部) to establish a National Postdoctoral Scientific Research Base (國家級博士後科研工作站). Furthermore, we have been accredited as a National High New Technology Enterprise in 2008, and our products have received numerous awards, including the Shenyang Technology Revitalisation Award and the Certificate of Technology Achievement. In addition, we have prepared a research report entitled "Ideas for Developing a Large-scale Coal Machinery and Equipment Manufacturing Group" (培育大型煤炭機械裝備製造集團發展思路) in 2008 which was awarded third prize by the China National Coal Machinery Industry Association (中國煤炭機械工業協會).

Our production facilities are strategically located in Shenyang City, Liaoning Province, which is an industrial base in Northeast China. Shenyang City is in close proximity to major coal mining sites and is a major rail and highway transportation hub in Northeast China. We have set up an extensive service network, with 11 service centres and 44 service outlets, covering 19 provinces throughout China near major mining sites where our customers operate.

We have experienced significant growth in sales revenue and profit in recent years. For the years ended 31 December 2006, 2007 and 2008, our total sales revenue was RMB159.9 million, RMB461.6 million and RMB1,146.8 million, respectively, representing a CAGR of approximately 167.8%. For the six months ended 30 June 2009, we had total sales revenue of RMB891.6 million, representing an increase of 103.3% as compared to the corresponding period in 2008. For the years ended 31 December 2006, 2007 and 2008, our profit for the year was RMB18.4 million, RMB141.4 million and RMB211.9 million, respectively, representing a CAGR of approximately 239.4%. For the six months ended 30 June 2009, our profit for the period was RMB250.2 million, representing an increase in 222.0% as compared to the corresponding period in 2008.

SELECTED COMBINED FINANCIAL DATA

The following table sets forth our selected income statement and other financial information for the periods indicated, as derived from the Accountants' Report in Appendix I to this document.

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
IFRS					
Revenue	159,857	461,600	1,146,789	438,616	891,583
Cost of sales	(77,947)	(233,312)	(612,414)	(222,026)	(453,570)
Gross profit	81,910	228,288	534,375	216,590	438,013
Other income	4,965	12,793	23,676	12,302	13,412
Selling and distribution costs	(30,935)	(71,657)	(165,601)	(64,834)	(85,462)
Administrative expenses	(32,431)	(69,735)	(113,621)	(44,294)	(72,320)
Other expenses	(2,654)	(14,868)	(33,535)	(29,489)	(15,488)
Finance costs	(2,740)	(6,908)	(21,247)	(9,347)	(3,825)
Share of profits and losses of an associate	—	4,479	(57)	(1,321)	4,325
Profit before tax	18,115	82,392	223,990	79,607	278,655
Tax	300	59,030	(12,121)	(1,892)	(28,440)
Profit for the year/period	18,415	141,422	211,869	77,715	250,215
Attributable to:					
Equity holders of the Company	9,947	106,066	189,044	66,478	250,215
Minority interests	8,468	35,356	22,825	11,237	—
	18,415	141,422	211,869	77,715	250,215
Dividends	—	—	—	—	197,087
Earnings per Share attributable to Equity Holders of the Company					
Basic	RMB0.01	RMB0.07	RMB0.13	RMB0.04	RMB0.17
Diluted	N/A	N/A	N/A	N/A	N/A

Selected Information From Statements of Financial Position

	Year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Total current assets	235,681	929,771	1,995,099	2,054,339
Total non-current assets	140,074	753,488	1,127,238	639,405
Total assets	375,755	1,683,259	3,122,337	2,693,744
Total current liabilities	280,330	1,160,685	1,211,628	805,200
Total non-current liabilities	2,513	288,240	336,138	260,845
Total liabilities	282,843	1,448,925	1,547,766	1,066,045
Net current assets (liabilities)	(44,649)	(230,914)	783,471	1,249,139
EQUITY				
Equity attributable to equity holders of the Company	69,684	175,750	1,574,571	1,627,699
Minority interests	23,228	58,584	—	—
Total equity	92,912	234,334	1,574,571	1,627,699

Selected Combined Cash Flow Information

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net cash inflow (outflow) from operating activities	(674)	(12,630)	(147,989)	(57,790)	47,154
Net cash inflow (outflow) from investing activities	(28,234)	(200,940)	(455,697)	(110,072)	392,153
Net cash inflow (outflow) from financing activities	41,932	230,976	631,762	143,923	(225,233)
Net increase/(decrease) in cash and cash equivalents	13,024	17,406	28,076	(23,939)	214,074
Cash and cash equivalents at beginning of year/period	1,283	14,307	31,713	31,713	59,789
Cash and cash equivalents at end of year/period	14,307	31,713	59,789	7,774	273,863

BASIS OF PRESENTATION

The financial information includes the financial statements of the Company and its subsidiaries for the relevant period. The Reorganisation has been accounted for as a combination of businesses under common control in a manner similar to pooling-of-interests. The pooling-of-interests method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs in the relevant periods as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or any excess of acquirer's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

All significant intra-group balances and transactions within our Group are eliminated on consolidation in full.

Minority interests represent the interests of outside shareholders not held by our Group in the results and net assets of the Company's subsidiaries, and are presented separately in the combined income statement and within equity in the combined balance sheet, separately from the equity attributable to equity holders of the Company. Our Group applies the policy of treating transactions with minority interests as transactions with equity participants of our Group. The acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration paid and the book value or the share of net assets acquired is recorded in equity.

We have not applied the following new and revised IFRSs that have been issued but are not yet effective to the financial information:

IAS 27 (amended)	Consolidated and Separate Financial Statements
IFRS 3 (revised)	Business Combinations

IAS 27 (amended) and IFRS 3 (revised) shall be applied for annual periods beginning on or after 1 July 2009. We are in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. We anticipate that these new and revised IFRSs are unlikely to have a significant impact on our results of operations and financial position.

Apart from the above, the IASB has also issued *Improvements to IFRS 5*, primarily with a view to removing inconsistencies and clarifying wording. It will be effective for annual periods on or after 1 July 2009.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition have been and will continue to be affected by a number of factors, primarily including those set out below:

Growth of the Coal Industry and the Economy in China

We derive substantially all of our revenue from the sale of our products in China. Demand for our products is particularly sensitive to the level of coal exploration and production activities, which are in turn driven by the demand level and price trends for coal in China. According to the BP Statistical Review of World Energy 2009, China was the world's largest coal-producing and coal-consuming country in 2008 (accounting for 42.5% of global coal production and 42.6% of global consumption) and coal is considered China's most important energy resource, accounting for 70.2% of the country's total primary energy consumption in 2008. China's demand for energy and coal is heavily dependent on the condition of the PRC economy at large. The demand for energy and coal has increased during the Track Record Period and is expected to continue increasing along with China's continued economic growth. The rate of increase, however, could be affected by the current economic slowdown in China and around the world. For the period from 2000 to 2008, China's coal production grew from 656.7 million metric tons oil equivalent to 1,414.5 million metric tons oil equivalent and China's coal consumption grew from 667.4 million metric tons oil equivalent to 1,406.3 million metric tons oil equivalent. According to the China National Coal Machinery Association, the sales value of coal mining machines in China grew from RMB10,410.8 million in 2003 to RMB57,988.2 million in 2008. The sales value of roadheaders in China grew from RMB354.0 million to RMB2,551.7 million during the same period. Please refer to the section headed "Industry Overview" for more details. While the demand for coal, roadheaders and coal mining-related machines experienced significant continuous growth in recent years, coal prices in China have been volatile since 2008 due to external factors such as global economic conditions. We believe the growth of the coal industry in China and the PRC economy will continue to have a significant impact on our results of operations.

Research and Development

We believe the research and development of new and improved products has been an important driver of our historical growth. We place a significant amount of emphasis on our research and development with a view to increasing our competitive advantage. In particular, our research facilities have been substantial contributors to the Company's technological achievements. Past innovations have included the first roadheader in China to be equipped with high-gradient downward excavating technology and China's first fully-automated combined coal mining unit. As at the Latest Practicable Date, we had successfully registered 146 patents and had 80 patents pending registration with the State Intellectual Property Office of China. In June 2008, we were granted an approval by the PRC Ministry of Human Resources and Social Security (國家人力資源和社會保障部) to establish a National Postdoctoral Scientific Research Base (國家級博士後科研工作站). Going forward, we plan to continue to make substantial investments in research and development to maintain our technological edge.

For the years ended 31 December 2006, 2007 and 2008 and for the six months ended 30 June 2009, we spent approximately RMB12.9 million, RMB29.9 million, RMB43.7 million and RMB22.5 million, respectively, on research and development. Our ability to develop new products and improve existing products will continue to be critical to our ability to maintain and increase our sales volume and profitability. We expect that our ability to successfully introduce new or improved products will continue to play an important role in sustaining our growth.

PRC Government Policies

The PRC government may from time to time implement new policies which may directly or indirectly affect our business. For example, the PRC government promulgated a series of policies and economic incentives to enhance and accelerate the technological development and the modernisation of China's coal mining industry. According to statistics from the China National Coal Mining Machinery Industry Association (中國煤炭機械工業協會), the mechanisation rate for the extraction of coal in China was approximately 80% for large coal mines, approximately 40% for medium-sized coal mines and almost zero for small coal mines. The "Eleventh Five-Year Plan for Coal Industry Development" proposed that the mechanisation rate for the extraction of coal should reach over 95%, 80% and 40%, respectively, for large, medium-sized and small coal mines in China by 2010. The PRC government has also explicitly stated that technological upgrades for coal production and coal mining equipment should be expedited. The PRC government also encouraged (i) the development of domestic coal mining machine manufacturers by providing certain refunds for the import duty and value added tax on key machine components and raw materials and (ii) coal mine operators to adopt higher safety standards. We expect these policies to have a positive impact on our results of operations. Please refer to the section headed "Industry Overview" for more details. However, we cannot assure you that the PRC government will not terminate or change these favourable policies in the future. The PRC government has also adopted policies that are favourable to non-carbon and renewable energies including tax credits and other government incentives in recent years. Such measures may negatively affect our customers' businesses, which in turn may materially and adversely affect our business and results of operations.

Product Quality and Market Positioning

Our focus on product quality and reliability positions us to compete with international importers of high-quality machinery and distinguishes us from many domestic competitors who produce lower-quality machinery. This commitment to quality has allowed us to gain the leading position in China's roadheader market. We also are committed to continuing our research and development efforts in order to offer superior products and meet the demand of the high-end machinery market, which had traditionally been dominated by foreign manufacturers. In addition, we use high-quality parts and components in the manufacture of our equipment, including imported parts and components. As a result, our products command a premium compared to those of domestic competitors, and we aim to gain market share through competitive pricing and comprehensive sales services against international manufacturers. In recognition of our achievements, we were accredited as a National High New Technology Enterprise in 2008 and our products have received many awards, which include the Shenyang Technology Revitalisation Award and Certificate of Technology Achievement.

The coal-mining machinery industry in China, however, is highly competitive. The level of competition in the industries in which we operate could affect our business and results of operations. For example, compared with the products of certain international enterprises, some of our newly developed products, such as some of our higher-end roadheaders, have relatively shorter track records and operating histories since they were only introduced into the market in 2007. Please refer to the section headed "Business — Competition" in this document.

In view of the above, our ability to maintain or further increase our profitability, revenue and market share will largely depend on our ability to improve existing technology, develop new products and differentiate ourselves from our competitors based on our reputation and the quality of our products.

Cost of Steel, Machinery Components and Other Raw Materials

Our results of operations are significantly affected by the cost of machinery components and other components (that are produced by third parties or are designed by us with the manufacturing process outsourced to external parties) and, to a lesser extent, the cost of steel. The total cost of steel, machinery components and other raw materials accounted for 81.0%, 80.0%, 78.7% and 80.2% of our cost of sales for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively, or approximately RMB63.1 million, RMB186.7 million, RMB482.2 million and RMB363.7 million over the respective periods. The cost of steel depends on the market price for steel, which is subject to fluctuations in both domestic and international commodities markets. In particular, we experienced increases in steel prices from 2006 to the third quarter of 2008 due to the surge in steel demand in China during that period. Since the third quarter of 2008, steel prices have decreased due to the deterioration of the world economy and the slowdown of growth in China. However, we are of the view that increases in steel prices affect us to a lesser extent for the following reasons:

(a) Although our costs for steel, machinery components and other raw materials together accounted for approximately 81.0%, 80.0%, 78.7% and 80.2% of the total cost of sales for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively, the cost of steel accounted for a relatively small proportion of our total cost of sales during this period. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, the cost of steel accounted for approximately 8.6%, 9.2%, 9.5% and 5.1% of our total cost of sales.

(b) Also, our products are offered at premium prices over those of our domestic competitors. As such, increases in steel prices may be cushioned to same extent by our relatively higher prices and are not expected to affect our business to the same extent as the cost of machinery components and other components.

In addition, we source some of our supplies from members of the SG Group or pursuant to our co-operation with Sany Group to obtain more favourable pricing terms. We also maintain multiple suppliers for our steel, key machinery components and other raw materials in an effort to minimise our reliance on a small number of key suppliers.

We do not engage in any hedging transactions to protect us against price fluctuations. We typically attempt to reflect increases in prices of steel, machinery components and other raw materials in our product prices. However, to the extent that we cannot pass on these price increases to our customers, our results of operations and financial condition may be negatively affected. As a result, we believe fluctuations in (i) the cost of key machinery components and other raw materials and (ii) to a lesser extent, the cost of steel, will continue to affect our profitability. Please refer to the section headed "Risk Factors — Fluctuations in the price of steel and other raw materials could significantly affect our business performance and results of operations" in this document.

Production Capacity

Our results of operations have been and are expected to continue to be affected by our production capacity. We have continued to expand our production capacity to capture increasing demand for our excavating machinery and coal mining-related products. We sold 61, 151, 318 and 226 roadheaders for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively, and the utilisation rates of our roadheader production facilities for the same periods were 90%, 92%, 90% and 98%, respectively. The number of our roadheaders sold increased from 2006 to 2008 partially due to the expansion of our existing production capacity. The new production facilities, with a total area of approximately 629,015.2 sq.m. located in Shenyang, will be used for the production of our combined mining units and coal mine transportation vehicles. We believe that our expansion plan will enable us to meet the growth in demand we anticipate for our products and will help us capture a larger share of the markets in which we operate.

Taxation

Our profit is affected by tax exemptions and preferential tax treatments that we enjoy, which, if ceased, would adversely affect our profitability and financial condition. Our effective income tax rates for 2006, 2007 and 2008 and the six months ended 30 June 2009 were -1.7%, -71.7%, 5.4% and 10.2%, respectively. For the year ended 31 December 2008 and the six months ended 30 June 2009, our effective income tax rates were 5.4% and 10.2%, respectively, due to the following reasons:

(a) Pursuant to the State Council Circular on the Implementation of the Transitional Concession Policies for Corporate Income Tax (Guo Fa 2007 no. 39), enterprises previously entitled to a reduced tax rate shall have a grace period of five years regarding the tax reduction commencing on 1 January 2008. Enterprises entitled to a 15% Corporate Income Tax ("**CIT**") rate were subject to tax rates of 18% and 20% in 2008 and 2009, respectively. As mentioned above, as Sany Heavy Equipment is entitled to a 50% deduction in CIT between 2008 to 2010, it further received a tax reduction from the above rates to reduced rates of 9% and 10% in 2008 and 2009, respectively; and

(b) For the year 2008, deferred tax assets were recognised for government grants, provision against slow-moving and obsolete inventories and warranty provisions of RMB65.3 million, 0.5 million and 1.7 million respectively. The difference between the total deferred tax asset balances as at 31 December 2007 and 31 December 2008 were charged to tax income and led to a tax credit of RMB8.2 million.

We were entitled to net tax credits of RMB0.3 million and RMB59.0 million in 2006 and 2007 for the following reasons:

(a) In accordance with the relevant PRC income tax laws and regulations for manufacturing enterprises, Sany Heavy Equipment (a subsidiary of the Group), as a production enterprise with foreign investment, is entitled to a full exemption from CIT for the first two years and a 50% deduction in CIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years. The year ended 31 December 2006 was Sany Heavy Equipment's first profit-making year and was the first year of its tax holiday. Accordingly, Sany Heavy Equipment was exempted from CIT for the years ended 31 December 2006 and 2007;

(b) For the year 2006, deferred tax assets of RMB0.3 million were recognised for provision against slow-moving and obsolete inventories, which led to a tax credit of RMB0.3 million; and

(c) In 2007, the Company received government grants of RMB228.2 million for development in the Shenyang Economic and Technological Development Area. In accordance with PRC tax law, government grants are taxable when they are received but according to accounting standards, government grants are recognised as deferred income and should be amortised in future beneficial periods. Hence, the difference between tax law and accounting standards led to a temporary tax difference of RMB228.2 million and we recognised deferred tax assets of approximately RMB57.1 million to account for this temporary difference. As at 31 December 2007, deferred tax assets were recognised for government grants, provision against slow-moving and obsolete inventories and warranty provisions of RMB58.6 million, 0.3 million and 0.5 million, respectively. The difference between total deferred tax asset balance as at 31 December 2006 and 31 December 2007 was charged to tax income and therefore led to a tax credit of RMB59.0 million.

We have a negative effective tax rate in 2006 and 2007 because we received net tax credits due to certain tax exemptions and preferential tax treatments. Our effective tax rate increased from 5.4% for 2008 to 10.2% for the six months ended 30 June 2009 mainly due to the increase in profit before tax of RMB54.7 million and the income tax rate increasing from 9% to 10%. Our deferred income tax increased by RMB6.7 million over the same period mainly because certain deferred tax was recognised as a result of the receipt of certain government grants in 2009. Our 2006 net tax credit was mainly due to deferred tax assets arising from a provision against slow-moving and obsolete inventories of RMB0.3 million. Our 2007 net tax credit was mainly due to deferred tax assets arising from government grants and warranty provisions of RMB58.6 million and RMB0.5 million, respectively. The government grants related to the development of certain industrial areas in the Shenyang Economic and Technological Development Area, where we will construct our new production facility. Our tax charge increased to RMB12.1 million in 2008 because our subsidiary, Sany Heavy Equipment, no longer enjoys an exemption from the PRC Corporate Income Tax ("**CIT**"). Sany Heavy Equipment was entitled to a full exemption from the 15% CIT for the first two profitable years and a 50% reduction for the following three years. Sany Heavy Equipment is subject to CIT at a rate of 9% in 2008, 10% in 2009, 11% in 2010, 24% in 2011 and 25% in 2012. Please refer to Notes 12 and 27 in the Accountants' Report in Appendix I to this document for further details. Termination or revision of any of such preferential tax treatments which our subsidiaries or associates currently enjoy could have a negative impact on our results of operations and financial condition.

RECENT DEVELOPMENTS

We entered into an equity transfer agreement with Sany Group on 31 May 2009 pursuant to which Sany Heavy Industry has agreed to transfer its 51% interest in Sany Junma to Sany Group. Sany Junma has therefore ceased to be an associate of our Group. Please refer to the section headed "History, Reorganisation and Corporate Structure" for further details. Sany Junma principally manufactures and sells electrical components. We acquired a total of 51% of the equity of Sany Junma in December 2007. The acquisition was conducted through a purchase of 41% of Sany Junma's total equity and a capital contribution to gain an additional 10% interest. In order to focus on our core business and in line with our Group's strategic direction and development plan, we have disposed of Sany Junma for consideration of RMB141.5 million as part of our Reorganisation, as Sany Junma's core business is not directly related to our principal business of manufacturing mining machinery. Sany Junma's revenue and profit for the year ended 31 December 2008 were RMB292.5 million and negative RMB0.1 million, respectively. Sany Junma's assets as at 31 December 2007 and 2008 were RMB413.6 million and RMB745.2 million, respectively, and its liabilities as at the same dates were RMB144.6 million and RMB476.3 million, respectively.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our financial statements. These significant accounting policies are important for an understanding of our financial condition and results of operations and are set forth in Note 4 "Summary of Significant Accounting Policies" of the Accountants' Report in Appendix I to this document. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are set forth in Note 5 "Significant Accounting Estimates" of the Accountants' Report in Appendix I to this document. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items such as revenue recognition, cost or expense allocation and provision for liabilities. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. We believe the following significant accounting policies involve the most significant estimates and judgments used in the preparation of our financial statements:

Revenue Recognition

Revenue is recognised when it is probable that the economic benefits will flow to us and when the revenue can be measured reliably. For the sale of goods, we recognise revenue when the significant risks and rewards of ownership have been transferred to the buyer, provided that we maintain neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate portion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down required involves management's judgment and estimates. Where the actual outcome or expectation in the future is different from the original estimate, such differences will impact the carrying amounts of inventories and the write-down charge/write-back in the period for which such estimate was changed. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, we made adjustments of RMB2.0 million, RMB2.5 million, RMB5.2 million and RMB7.7 million as provisions against slow-moving and obsolete inventories.

Property, Plant and Equipment Depreciation

Property, plant and equipment, other than construction in progress, is stated at cost less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits of the property, plant and equipment, and where the cost of the item can be reliably measured, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives and residual values used for this purpose are as follows:

	Estimated useful lives	Residual values
Buildings	20 years	3%
Plant and machinery	10 years	3%
Office and other equipment	8.33 years	3%
Motor vehicles	8.33 years	3%

In determining the useful lives and residual values of items of property, plant and equipment, we consider various factors, such as technical commercial obsolescence arising from changes or improvements in production, or from a change in the market demands for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on our experience with similar assets that are used in a similar way. Depreciation is calculated on a straight-line basis. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement is recognised in the income statement in the year that the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents plant and machinery under construction, which is stated at cost less any impairment losses and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Impairment of Financial Assets

We assess at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

We first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics that our Group assesses collectively for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that we will not be able to collect all the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Impairment of Non-financial Assets

When an indication of impairment exists, or when annual impairment testing for an asset is required (other than for inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statement in the period in which the loss arises in those expense categories consistent with the function of the impaired asset.

We assess whether there are any indicators of impairment for an asset at each reporting date. We test the asset for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are taken, an estimation of the value in use of the cash-generating units to which the asset belongs is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but, not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Research and Development Costs

All research costs are charged to the income statement as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when we can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, our intention to complete and our ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred. During the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our research and development costs were RMB12.9 million, RMB29.9 million, RMB43.7 million and RMB22.5 million, respectively.

Investment and Other Financial Assets

Financial assets within the scope of IAS 39 are classified as loans and receivables. When financial assets are recognised initially they are measured at fair value.

The Group determines the classification of its financial assets after initial recognition and where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All ordinary purchases and sales of financial assets are recognised on the trade date; that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost. Gains and losses are recognised at the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Provision for Product Warranties

We generally provide one-year warranties on the products sold to our customers, under which faulty products are repaired or replaced. The amount of the warranty provision is estimated based on the sales volume and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

DESCRIPTION OF SELECTED COMPONENTS OF RESULTS OF OPERATIONS

Revenue

Our revenue represents the sales of excavating machines, combined coal mining units, spare parts and others. Others includes sales of individual components of our combined coal mining units, and repair and maintenance income. Our revenue in a given period is affected primarily by the sales volume of our products in the period and, to a lesser extent, by fluctuations in the average sale prices of our products.

The following table sets forth a breakdown of our revenue and each item is also expressed as a percentage of our revenue for the periods indicated.

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue
Excavating machines										
All roadheaders	156,500	97.9%	437,144	94.7%	1,018,296	88.8%	404,495	92.2%	739,151	82.9%
EBZ120 or below	4,855	3.1%	3,231	0.7%	27,927	2.4%	12,274	2.8%	10,987	1.2%
EBZ132 series	35,706	22.3%	64,469	14.0%	231,699	20.2%	82,692	18.9%	103,534	11.6%
EBZ160 series	112,538	70.4%	240,073	52.0%	431,551	37.7%	187,132	42.7%	265,393	29.8%
EBZ200 series	3,401	2.1%	129,371	28.0%	327,119	28.5%	122,397	27.8%	321,844	36.1%
EBZ260 series	—	—	—	—	—	—	—	—	37,393	4.2%
Continuous mining machine	—	—	—	—	—	—	—	—	18,034	2.0%
Coal mine concrete pumps	—	—	—	—	6,149	0.5%	1,009	0.2%	9,780	1.1%
Coal loading machinery	—	—	—	—	923	0.1%	—	—	—	—
Combined coal mining units (whole unit)	—	—	—	—	—	—	—	—	24,757	2.8%
Spare parts	2,544	1.6%	23,113	5.0%	91,316	8.0%	29,307	6.7%	62,328	7.0%
Others	813	0.5%	1,343	0.3%	30,105	2.6%	3,805	0.9%	37,533	4.2%
Total	159,857	100.0%	461,600	100.0%	1,146,789	100.0%	438,616	100.0%	891,583	100.0%

The following table sets forth the number of units sold and the average sale prices of our products for the periods indicated.

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	Unit Sold	Average Sale Price	Unit Sold	Average Sale Price	Unit Sold	Average Sale Price	Unit Sold	Average Sale Price	Unit Sold	Average Sale Price
		RMB'000		RMB'000		RMB'000		RMB'000		RMB'000
Excavating machines										
All roadheaders	61	2,566	151	2,895	318	3,202	141	2,869	226	3,271
EBZ120 or below	3	1,618	2	1,616	18	1,552	8	1,534	7	1,570
EBZ132 series	17	2,100	34	1,896	106	2,186	41	2,017	50	2,071
EBZ160 series	40	2,813	87	2,759	131	3,294	65	2,879	97	2,736
EBZ200 series	1	3,401	28	4,620	63	5,192	27	4,533	67	4,804
EBZ260 series	—	—	—	—	—	—	—	—	5	7,479
Continuous mining machine	—	—	—	—	—	—	—	—	2	9,017
Coal mine concrete pumps	—	—	—	—	5	1,230	1	1,009	8	1,223
Coal loading machinery	—	—	—	—	1	923	—	—	—	—
Combined coal mining units (whole unit)	—	—	—	—	—	—	—	—	1	24,757
Spare parts	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Others	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Note: N/A means not applicable

Gross Profit and Gross Profit Margin

Our gross profit is our revenue less cost of sales. The following table sets forth the gross profits of our products by category.

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Excavating machines					
All roadheaders	80,543	215,491	470,101	197,900	375,394
EBZ120 or below	1,199	711	6,983	3,999	2,100
EBZ132 series	15,803	25,385	73,077	27,993	38,877
EBZ160 series	61,811	116,504	202,201	95,520	124,486
EBZ200 series	1,730	72,891	187,840	70,388	188,251
EBZ260 series	—	—	—	—	21,680
Continuous mining machine	—	—	—	—	9,129
Coal mine concrete pumps	—	—	4,518	600	6,242
Coal loading machinery	—	—	666	—	—
Combined coal mining units (whole unit)	—	—	—	—	3,664
Spare parts	1,339	12,112	52,787	16,316	33,253
Others	28	685	6,303	1,774	10,331
Total	81,910	228,288	534,375	216,590	438,013

The table below sets forth the gross profit margins of our products by category.

	For the year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	%	%	%	% (unaudited)	%
Excavating machines					
All Roadheaders	51.5%	49.3%	46.2%	48.9%	50.8%
EBZ120 or below	24.7%	22.0%	25.0%	32.6%	19.1%
EBZ132 series	44.3%	39.4%	31.5%	33.9%	37.6%
EBZ160 series	54.9%	48.5%	46.9%	51.0%	46.9%
EBZ200 series	50.9%	56.3%	57.4%	57.5%	58.5%
EBZ260 series	—	—	—	—	58.0%
Continuous mining machine	—	—	—	—	50.6%
Coal mine concrete pumps	—	—	73.5%	59.5%	63.8%
Coal loading machinery	—	—	72.2%	—	—
Combined coal mining units (whole unit)	—	—	—	—	14.8%
Spare parts	52.6%	52.4%	57.8%	55.7%	53.4%
Others	3.4%	51.0%	20.9%	46.6%	27.5%
Overall	51.2%	49.5%	46.6%	49.4%	49.1%

Cost of Sales

Our cost of sales includes cost of steel, cost of machinery components, cost of other raw materials, direct labour costs, manufacturing expenses and spare parts. Cost of other raw materials includes the cost for driving wheel, auxiliary materials and other materials.

The following table sets forth a breakdown of our cost of sales and each item is also expressed as a percentage of our revenue for the periods indicated.

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue
Steel	13,729	8.6%	42,379	9.2%	109,020	9.5%	39,524	9.0%	45,396	5.1%
Machinery components	26,855	16.8%	78,973	17.1%	200,786	17.5%	72,793	16.6%	182,315	20.4%
Other raw materials	22,549	14.1%	65,337	14.2%	172,435	15.0%	62,516	14.3%	135,990	15.3%
Labour	4,498	2.8%	12,116	2.6%	30,002	2.6%	10,877	2.5%	18,963	2.1%
Manufacturing expenses	9,127	5.7%	24,551	5.3%	62,463	5.5%	22,645	5.2%	41,753	4.7%
Spare parts	1,189	0.8%	9,956	2.1%	37,708	3.3%	13,671	3.0%	29,153	3.3%
Total	77,947	48.8%	233,312	50.5%	612,414	53.4%	222,026	50.6%	453,570	50.9%

Other Income

Other income is composed of bank interest income, sales of scrap material, government grants and others.

Selling and Distribution Costs

Selling and distribution costs represent the costs associated with selling and distributing our products such as sales staff salaries, promotion and advertising, transportation, warranties and others.

The following table sets forth a breakdown of our selling and distribution costs and each item is also expressed as a percentage of our revenue for the periods indicated.

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue
Staff salaries and related expenses	5,794	3.6%	18,698	4.1%	35,060	3.0%	12,037	2.7%	13,099	1.5%
Promotion and advertising	13,925	8.7%	32,418	7.0%	71,716	6.3%	26,760	6.2%	38,736	4.3%
Transportation	2,984	1.9%	8,491	1.8%	31,391	2.7%	15,226	3.5%	12,541	1.4%
Warranties	5,281	3.3%	9,247	2.0%	23,081	2.0%	8,075	1.8%	17,974	2.0%
Others	2,951	1.9%	2,803	0.6%	4,353	0.4%	2,736	0.6%	3,112	0.4%
Total	30,935	19.4%	71,657	15.5%	165,601	14.4%	64,834	14.8%	85,462	9.6%

Administrative Expenses

Administrative expenses mainly include expenses for research and development, salaries for administrative staff, travelling expenses, office expenses and others.

The following table sets forth a breakdown of our administrative expenses and each item is also expressed as a percentage of our revenue for the periods indicated.

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue
Research and development expenses	12,908	8.1%	29,917	6.5%	43,707	3.8%	17,181	3.9%	22,453	2.5%
Staff salaries and related expenses	7,764	4.9%	17,877	3.9%	29,007	2.5%	9,141	2.1%	13,088	1.5%
Travelling expenses	1,460	0.9%	2,371	0.5%	5,322	0.5%	2,084	0.5%	2,853	0.3%
Office expenses	3,506	2.2%	9,323	2.0%	14,151	1.2%	7,900	1.8%	7,654	0.9%
Others	6,793	4.2%	10,247	2.2%	21,434	1.9%	7,988	1.8%	26,272	2.9%
Total	32,431	20.3%	69,735	15.1%	113,621	9.9%	44,294	10.1%	72,320	8.1%

Other Expenses

Other expenses largely include costs incurred as a result of net foreign currency differences, impairment of uncollectable trade receivables and provisions against obsolete inventories.

Finance Costs

Finance costs are solely composed of interest on bank loans.

Share of Profits and Losses of an Associate

This represents the profits or losses stemming from our 51% interest in an associate, Sany Junma.

Tax

Tax represents the corporate income tax imposed under various PRC corporate income tax laws, subject to certain tax concessions and exemptions for enterprises with foreign investment.

RESULTS OF OPERATIONS

The following discussion addresses the principal trends that have affected our results of operations during the periods under review.

Six Months Ended 30 June 2009 Compared to Six Months Ended 30 June 2008

Revenue

Our revenue increased 103.3% from RMB438.6 million for the six months ended 30 June 2008 to RMB891.6 million for the same period in 2009. The substantial growth of our revenues for the six months ended 30 June 2009 was primarily attributable to two main trends: (i) increased sales volume, particularly significant sales increases from more advanced products with higher profit margin (EBZ132 series, EBZ160 series, EBZ200 series Roadheaders) and (ii) to a lesser extent, increasing overall average sale prices of our roadheaders.

The sales volume of our roadheaders increased from 141 units for the six months ended 30 June 2008 to 226 units for the same period in 2009, which made up the vast majority of our sales and contributed 92.2% and 82.9% of our revenues for the six months ended 30 June 2008 and 2009, respectively. This increase was primarily driven by the increase in market demand from the coal industry in China, our increased marketing efforts and market recognition of our products' quality, particularly our higher series roadheaders with high cutting power.

In particular, our EBZ132 series, EBZ160 series, EBZ200 series and EBZ260 series products helped fuel our growth during the period. Sales of our EBZ132 series roadheaders increased 25.2% to RMB103.5 million, contributing 11.6% of our total revenue for the six months ended 30 June 2009. Our EBZ160 series roadheaders continued to sell well, growing 41.8% from the prior period to RMB265.4 million and contributing 29.8% of our total revenue for the six months ended 30 June 2009. Sales of our EBZ200 series roadheaders increased 163.0% from the prior period to RMB321.8 million, contributing 36.1% of our total revenue for the six months ended 30 June 2009. The sales of our newly launched EBZ260 series roadheaders contributed 4.2% of our total revenue for the six months ended 30 June 2009.

The sales of our combined coal mining units and continuous mining machines and increased sales of our spare parts and coal mine concrete pumps also contributed to our increased revenue.

The average sale prices of our products increased moderately for the six months ended 30 June 2009 as compared with the same period in 2008. The average sale prices of our EBZ120 or below series, EBZ132 series and EBZ200 series roadheaders increased by 2.3%, 2.7% and 6.0%, respectively, for the six months ended 30 June 2009 compared to the same period in 2008. The average sale prices of our EBZ160 series decreased by 5.0% from the prior period due to a higher proportion of higher price and configuration EBZ160 series products being sold during the first six months of 2008.

Cost of Sales

Our cost of sales increased 104.3% from RMB222.0 million for the six months ended 30 June 2008 to RMB453.6 million for the six months ended 30 June 2009, mainly reflecting an increase of (i) RMB109.5 million in cost of machinery components, (ii) RMB73.5 million in cost of other raw materials, (iii) RMB19.1 million in manufacturing expenses; and (iv) RMB15.5 million in spare parts as compared to the same period in 2008. The overall increases in the costs of machinery components, other raw materials, manufacturing expenses and spare parts was primarily due to increases in sales volumes driven by demand and, to a lesser extent, the higher costs of certain components relating to our new products. These increases were partially offset by a decrease in the average purchase cost of steel. As a percentage of revenue, our cost of sales remained relatively stable at 50.6% and 50.9% for the six months ended 30 June 2008 and the six months ended 30 June 2009, respectively.

Gross Profit and Gross Profit Margin

Our gross profit increased 102.2% from RMB216.6 million for the six months ended 30 June 2008 to RMB438.0 million for the six months ended 30 June 2009. Primarily as a result of increases in the purchase prices of machinery components and other raw materials which was largely offset by increases in average sales prices, our gross profit margin remained relatively stable at 49.4% for the six months ended 30 June 2008 and 49.1% over the same period in 2009.

Excavating Machines

The gross profit of our roadheaders as a whole increased by 89.7%, from RMB197.9 million for the six months ended 30 June 2008 to RMB375.4 million over the same period in 2009, mainly due to increased sales volume. The gross profit margin of our roadheaders increased slightly from 48.9% for the six months ended 30 June 2008 to 50.8% over the same period in 2009, primarily due to higher average sale price, partially offset by higher cost of sales.

The gross profit on our EBZ120 or below roadheaders decreased from RMB4.0 million for the six months ended 30 June 2008 to RMB2.1 million over the same period in 2009 due to decreased sales and increased cost of sales. The EBZ120 or below roadheaders had a decrease in gross profit margin from 32.6% for the six months ended 30 June 2008 to 19.1% over the same period in 2009 due to our strategy to increase the competitiveness of these lower-end series by using higher quality and more expensive components and parts.

The gross profit on our EBZ132 series roadheaders increased from RMB28.0 million for the six months ended 30 June 2008 to RMB38.9 million over the same period in 2009 due to increased sales and, to a lesser extent, increased average sale price. Our EBZ132 series roadheaders' gross profit margin increased from 33.9% for the six months ended 30 June 2008 to 37.6% over the same period in 2009 as a result of higher average sale price, partially offset by higher cost of sales.

The gross profit on our EBZ160 series roadheaders increased from RMB95.5 million for the six months ended 30 June 2008 to RMB124.5 million over the same period in 2009 due to increased sales. Our EBZ160 roadheaders' gross profit margin decreased from 51.0% for the six months ended 30 June 2008 to 46.9% over the same period in 2009 because of increased cost of sales, driven by the higher cost of machinery components and other raw materials. The decrease in gross profit margin was also partly due to the fact that we sold more higher profit margin machines among the EBZ 160 series during the first six months of 2008 than in the corresponding period in 2009.

The gross profit on our EBZ200 roadheaders increased from RMB70.4 million for the six months ended 30 June 2008 to RMB188.3 million over the same period in 2009 due to increased sales and an increase in the average sale price. The gross profit margin of our EBZ200 series roadheaders increased slightly from 57.5% for the six months ended 30 June 2008 to 58.5% over the same period in 2009 as a result of higher average sale price partially offset by higher cost of sales.

The gross profit on our EBZ260 series roadheaders was RMB21.7 million for the six months ended 30 June 2009. We launched these products in 2009. The gross profit margin on our EBZ260 series product was 58.0%. We expanded into these products as part of our plan to focus on higher profit margin and more advanced roadheaders.

The gross profit on our continuous mining machines was RMB9.1 million for the six months ended 30 June 2009. The gross margin on our continuous mining machines was 50.6%. We launched these products in 2009 as part of our effort to broaden our product range.

The gross profit on our coal mine concrete pumps increased from RMB0.6 million for the six months ended 30 June 2008 to RMB6.2 million over the same period in 2009 due to increased sales and, to a lesser extent, increasing average sale price. We launched these products along with coal loading machinery in 2008. The gross profit margins on our coal mine concrete pumps were 59.5% and 63.8% for the six month periods ended 30 June 2008 and 2009, respectively. We expanded into these products as they yield a relatively high gross profit margin and as part of our effort to diversify our revenue stream.

Combined Coal Mining Units (Whole Unit)

The gross profit for our combined coal mining units was RMB3.7 million for the six months ended 30 June 2009. We entered into a number of sales contracts for our combined coal mining units in 2008 and 2009. We delivered and recognised revenue for one whole combined coal mining unit in June 2009. The gross profit margin on our combined coal mining unit was 14.8% for the six months ended 30 June 2009. Our combined coal mining unit is generally designed and manufactured according to our customer's specific requirements, including technical specifications and quantitative composition of the coal mining system, structural support system and coal conveying system. As such, the price and gross profit of each combined coal mining unit may vary significantly.

Spare Parts

The gross profit on our spare parts increased from RMB16.3 million for the six months ended 30 June 2008 to RMB33.3 million over the same period in 2009 due to growing demand for our spare parts from expanding our customer base. The gross profit margin on our spare parts decreased over the period, from 55.7% for the six months ended 30 June 2008 to 53.4% for the six months ended 30 June 2009 due to increased cost of sales and increased sales of more spare parts with lower profit margins.

Other Income

Our other income increased 8.9% from RMB12.3 million for the six months ended 30 June 2008 to RMB13.4 million over the same period in 2009, primarily due to (i) an increase of RMB1.3 million derived from sales of scrap materials, which is a direct result of the increase in the size of our manufacturing operations, and (ii) an increase of RMB1.2 million derived from bank interest income.

Selling and Distribution Costs

Our selling and distribution costs increased 31.9% from RMB64.8 million for the six months ended 30 June 2008 to RMB85.5 million over the same period in 2009, mainly reflecting an increase of RMB12.0 million in promotion and advertising and RMB9.9 million in warranties, partially offset by a decrease of RMB2.7 million in transportation expenses. This overall increase was primarily due to an expanded marketing effort and warranties associated with our increased sales, partially offset by decreased transportation costs. Our increased marketing effort primarily related to increased advertisements in coal industry publications, outdoor displays and the internet. We also increased the frequency of our participation in product promotional fairs and improved our product displays at these fairs, which led to greater promotional expenses. Our decreased transportation cost was mainly due to the fact that we began shifting towards a delivery model in which our customers will absorb the transportation cost. Our selling and distribution costs as a percentage of our revenue were 14.8% for the six months ended 30 June 2008 and 9.6% over the same period in 2009. This decrease was a result of improved economies of scale and the change in our delivery model.

Administrative Expenses

Our administrative expenses increased 63.2% from RMB44.3 million for the six months ended 30 June 2008 to RMB72.3 million over the same period in 2009, mainly reflecting an increase of (i) RMB3.9 million in administrative staff salaries and related expenses, (ii) RMB5.3 million in research and development expenses, (iii) RMB0.8 million in travelling expenses and (iv) RMB18.3 million in other administrative expenses. This increase was primarily due to the expansion of our administrative operations to oversee the growth of the Group, increased investments in our research and development and increased taxation and professional fees. As a percentage of our revenue, our administrative expenses decreased from 10.1% for the six months ended 30 June 2008 to 8.1% over the same period in 2009 due to an improvement in our economies of scale.

Other Expenses

Our other expenses decreased 47.5% from RMB29.5 million for the six months ended 30 June 2008 to RMB15.5 million over the same period in 2009. The decrease was primarily attributable to a decrease of RMB21.7 million in net foreign exchange differences arising from reduced prepayments for raw materials and supplies. The decrease was partially offset by an RMB5.4 million increase in impairment of trade receivables associated with increased sales. As a percentage of our revenue, other expenses were 6.7% and 1.7% for the six months ended 30 June 2008 and 2009, respectively.

Finance Costs

We calculate finance costs as interest on bank loans less interest capitalised. Our finance costs decreased 59.1% from RMB9.3 million for the six months ended 30 June 2008 to RMB3.8 million over the same period in 2009. This decrease was primarily due to a decrease of RMB6.6 million in interest expense on bank loans resulting from decreased borrowings.

Share of Profits and Losses of an Associate

Our interest in Sany Junma resulted in a loss of RMB1.3 million for the six months ended 30 June 2008. We recognised a gain of RMB4.3 million over the same period in 2009. We have entered into an equity transfer agreement to transfer our 51% equity interest in Sany Junma to Sany Group on 31 May 2009. All the requisite procedures in respect of the transfer have been completed and such transfer was completed on 24 August 2009. No profits or losses have been generated from Sany Junma after the completion of the transfer.

Profit for the Period

As a result of the foregoing, our profit increased 222.0% from RMB77.7 million for the six months ended 30 June 2008 to RMB250.2 million over the same period in 2009.

Profit Attributable to Equity Holders of the Company

Our profit attributable to equity holders of the Company was RMB66.5 million for the six months ended 30 June 2008 and RMB250.2 million for the same period in 2009. Other than the significant increase in our revenue, the increase in our profit attributable to our equity holders of the Company resulted from acquiring the remaining equity stake from minority shareholders.

Year Ended 31 December 2008 Compared to the Year Ended 31 December 2007

Revenue

Our revenue increased 148.4% from RMB461.6 million in 2007 to RMB1,146.8 million in 2008. The substantial growth of our revenues in 2008 was primarily attributable to two main trends: (i) increased sales volume, particularly significant sales increases from more advanced, higher profit margin products (EBZ132 series, EBZ160 and EBZ200 series roadheaders) and (ii) to a lesser extent, increasing average sale prices of our machinery.

The sales volume of our roadheaders increased from 151 units in 2007 to 318 units in 2008, which made up the vast majority of our sales and contributed 94.7% and 88.8% of our revenues in 2007 and 2008, respectively. This increase was primarily driven by the increase in market demand from the coal industry in China, our increased marketing efforts and market recognition of our products' quality.

In particular, our EBZ132 series, EBZ160 series and EBZ200 series products helped fuel our growth during the period. Sales of our EBZ132 series roadheaders increased 259.4% to RMB231.7 million, contributing 20.2% of our total revenue in 2008. Our EBZ160 series roadheaders continued to sell well, growing 79.8% to RMB431.6 million and contributing 37.7% of our total revenue in 2008. Sales of our EBZ200 series roadheaders increased 152.9% to RMB327.1 million, contributing 28.5% of our total revenue in 2008.

Increased sales of our spare parts, sales of our new products (coal mine concrete pumps and coal loading machinery) and the trial launch of components of combined coal mining units also contributed to our increased revenue.

The average sale prices of our products generally increased moderately from 2007 to 2008, except for the EBZ120 or below roadheaders. The average sale prices of our EBZ132 series, EBZ160 series and EBZ200 series roadheaders increased by 15.3%, 19.4% and 12.4%, respectively, from 2007 to 2008.

Cost of Sales

Our cost of sales increased 162.5% from RMB233.3 million in 2007 to RMB612.4 million in 2008, mainly reflecting an increase of (i) RMB66.6 million in the cost of steel, (ii) RMB121.8 million in the cost of machinery components and (iii) RMB107.1 million in the cost of other raw materials as compared with 2007. The overall increase in the costs of steel, machinery components and other raw materials was primarily due to an increase in sales volume driven by demand and, to a lesser extent, increases in the purchase prices of steel, machinery components and other raw materials. As a percentage of revenue, our cost of sales increased from 50.5% in 2007 to 53.4% in 2008.

Gross Profit and Gross Profit Margin

Our gross profit increased 134.1% from RMB228.3 million in 2007 to RMB534.4 million in 2008. Primarily as a result of increases in the purchase prices of steel, machinery components and other raw materials, our gross profit margin decreased from 49.5% in 2007 to 46.6% in 2008.

Excavating Machines

The gross profit of our roadheaders as a whole increased by 118.1%, from RMB215.5 million in 2007 to RMB470.1 million in 2008, due to increased sales volume. The gross profit margin of our roadheaders decreased from 49.3% in 2007 to 46.2% in 2008, primarily due to increased cost of sales driven by increased purchase prices for steel, machinery components and other raw materials.

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The gross profit on our EBZ120 or below roadheaders increased from RMB0.7 million in 2007 to RMB7.0 million in 2008 due to increased sales. The EBZ120 or below roadheaders had an increase in gross profit margin from 22.0% in 2007 to 25.0% in 2008 due to improved economies of scale resulting from increased sales volume.

The gross profit on our EBZ132 series roadheaders increased from RMB25.4 million in 2007 to RMB73.1 million in 2008 due to increased sales and average selling price. Our EBZ132 series roadheaders' gross profit margin decreased from 39.4% in 2007 to 31.5% in 2008 as a result of increased cost of sales primarily driven by the increased cost of steel.

The gross profit on our EBZ160 series roadheaders increased from RMB116.5 million in 2007 to RMB202.2 million in 2008 due to increased sales. Our EBZ160 roadheaders' gross profit margin decreased from 48.5% in 2007 to 46.9% in 2008 because of increased cost of sales, driven by the increased cost of steel. The increase in cost of sales was partly caused by greater costs of more advanced components.

The gross profit on our EBZ200 series roadheaders increased from RMB72.9 million in 2007 to RMB187.8 million in 2008 due to increased sales and an increase in the average sale price. The gross profit margin of our EBZ200 series roadheaders increased from 56.3% in 2007 to 57.4% in 2008 as a result of a higher average sale price, partially offset by higher cost of sales.

The gross profits on our coal mine concrete pumps and coal loading machinery in 2008 were RMB4.5 million and RMB0.7 million, respectively. We launched these products in 2008. The gross profit margins on our coal mine concrete pumps and coal loading machinery were 73.5% and 72.2%, respectively. We expanded into these products as they yield a relatively high gross profit margin and as part of our effort to diversify our revenue stream. In 2008 we conducted a trial launch of the components of our combined coal mining units. These products did not significantly affect our gross profit in 2008, as they were still at the trial stage.

Spare Parts

The gross profit on our spare parts increased from RMB12.1 million in 2007 to RMB52.8 million in 2008. The gross profit margin on our spare parts also increased over the period, from 52.4% in 2007 to 57.8% in 2008. These increases were driven by the growing demand for our spare parts from our continuously expanding customer base. The growing demand also enabled us to offer our spare parts at higher prices.

Other Income

Our other income increased 85.2% from RMB12.8 million in 2007 to RMB23.7 million in 2008, primarily due to an increase of RMB6.6 million derived from sales of scrap materials, which is a direct result of the increase in the size of our manufacturing operations.

Selling and Distribution Costs

Our selling and distribution costs increased 131.0% from RMB71.7 million in 2007 to RMB165.6 million in 2008, mainly reflecting an increase of (i) RMB16.4 million in sales staff salaries and related expenses, (ii) RMB39.3 million in promotion and advertising, (iii) RMB22.9 million in transportation and (iv) RMB13.8 million in warranties. This increase was primarily due to an increase in the total number of sales staff, an expanded marketing effort, and increased transportation costs and warranties associated with our increased sales. Our sales staff grew from 382 persons as at the end of 2007 to 465 persons as at the end of 2008. Our increased marketing effort primarily related to increased advertisements in coal industry publications, outdoor displays and the internet. We also increased the frequency of our participation in product promotional fairs and improved our product displays at these fairs, which led to greater promotional expenses. Our selling and distribution costs as a percentage of our revenue were 15.5% in 2007 and 14.4% in 2008. This decrease was a result of improved economies of scale.

Administrative Expenses

Our administrative expenses increased 63.0% from RMB69.7 million in 2007 to RMB113.6 million in 2008, mainly reflecting an increase of (i) RMB11.1 million in administrative staff salaries and related expenses, (ii) RMB13.8 million in research and development expenses, (iii) RMB4.8 million in office expenses, (iv) RMB3.0 million in travelling expenses and (v) RMB11.2 million in other administrative expenses. This increase was primarily due to an increase in the total number of staff over the period and an expansion of our administrative operations to oversee the growth of the Group and increased investments in our research and development efforts. As a percentage of our revenue, our administrative expenses decreased from 15.1% in 2007 to 9.9% in 2008 due to an improvement in our economies of scale.

Other Expenses

Our other expenses increased 124.8% from RMB14.9 million in 2007 to RMB33.5 million in 2008. The increase was primarily attributable to an increase of RMB9.4 million in net foreign exchange differences arising from prepayments for raw materials and supplies during a period of appreciation of Renminbi against the relevant foreign currencies. The increase was also due to an RMB7.3 million increase in impairment of trade receivables associated with increased sales. As a percentage of revenue, other expenses were 3.2% and 2.9% in 2007 and 2008, respectively.

Finance Costs

We calculate finance costs as interest on bank loans less interest capitalised. Our finance costs increased 207.2% from RMB6.9 million in 2007 to RMB21.2 million in 2008. This increase was due to an increase of RMB15.9 million in interest expenses resulting from increased borrowings.

Share of Profits and Losses of an Associate

Our interest in Sany Junma resulted in a loss of RMB0.1 million in 2008. We recognised a gain of RMB4.5 million in 2007 due to the negative goodwill arising from the cost of our investment in Sany Junma which was less than the fair value of Sany Junma's net assets. No gain or loss was recognised in our combined financial information prior to 2007. We entered into an equity transfer agreement to transfer our 51% equity interest in Sany Junma to Sany Group on 31 May 2009 and such transfer was completed on 24 August 2009. No profits or losses have been generated from Sany Junma after the completion of the transfer.

Profit for the Year

As a result of the foregoing, our profit increased 49.9% from RMB141.4 million in 2007 to RMB211.9 million in 2008.

Profit Attributable to Equity Holders of the Company

Our profit attributable to equity holders of the Company was RMB106.1 million in 2007 and RMB189.0 million in 2008. Other than the significant increase in our revenue, the increase in our profit attributable to our equity holders of the Company was due to our decision to further increase our equity stake.

Year Ended 31 December 2007 Compared to Year Ended 31 December 2006

Revenue

Our revenue increased 188.7% from RMB159.9 million in 2006 to RMB461.6 million in 2007. The substantial growth of our revenues in 2007 was primarily attributable to two main trends: (i) increased sales volume, particularly significantly increased sales of higher profit margin products (EBZ160 series and EBZ200 series products) and (ii) to a lesser extent, increasing average sale prices of our EBZ200 series products.

The sales volume of our roadheaders increased from 61 units in 2006 to 151 units in 2007, which made up the vast majority of our sales and contributed 97.9% and 94.7% to our revenues in 2006 and 2007, respectively. This increase was primarily driven by the increase in market demand from the coal industry in China and the growing market recognition of our products.

In particular, our EBZ160 series and EBZ200 series roadheaders helped fuel our growth during the period. Sales of our EBZ200 series roadheaders increased from 1 unit to 28 units, or from RMB3.4 million to RMB129.4 million, reflecting an increase of approximately 37 times and contributing 28.0% of our total revenue in 2007. Sales of our EBZ160 series roadheaders more than doubled, growing 113.4% to RMB240.1 million and contributing 52.0% of our total revenue in 2007.

Revenue from our spare parts increased approximately eight times from RMB2.5 million in 2006 to RMB23.1 million in 2007. Our spare parts sales accounted for 1.6% of revenue in 2006 and 5.0% of revenue in 2007, and contributed to an increase of RMB20.6 million in our revenue from 2006 to 2007. The increase in revenue derived from spare parts was driven by our growing customer base.

The average sale prices of our products generally declined somewhat from 2006 to 2007, though the average sale price of our advanced EBZ200 or above series roadheaders increased 35.3% from RMB3.4 million in 2006 to RMB4.6 million in 2007.

Cost of Sales

Our cost of sales increased 199.5% from RMB77.9 million in 2006 to RMB233.3 million in 2007, mainly reflecting an increase of (i) RMB28.7 million in the cost of steel, (ii) RMB52.1 million in the cost of machinery components and (iii) RMB42.8 million in the cost of other raw materials. The increase in the costs of steel, machinery components and other raw materials was primarily due to an increase in sales which was driven by higher demand for our products. The increase in cost of sales was also contributed to, to a lesser extent, by the increase in the purchase prices of steel, machinery components and raw materials. As a percentage of revenue, our cost of sales increased from 48.8% in 2006 to 50.5% in 2007.

Gross Profit and Gross Profit Margin

Our gross profit increased 178.8% from RMB81.9 million in 2006 to RMB228.3 million in 2007. Primarily as a result of the increase in the purchase prices of steel, machinery components and raw materials, our gross profit margin decreased from 51.2% in 2006 to 49.5% in 2007.

Excavating Machines

The gross profit on our roadheaders as a whole increased by 167.7%, from RMB80.5 million in 2006 to RMB215.5 million in 2007 as a result of increased sales. The gross profit margin on our roadheaders fell from 51.5% in 2006 to 49.3% in 2007 as a result of increased cost of sales driven by the increase in the purchase prices of steel, machinery components and raw materials.

The gross profits on our EBZ120 or below roadheaders decreased from RMB1.2 million in 2006 to RMB0.7 million in 2007 as a result of the decrease of sales from three units to two units. The gross profit margin on our EBZ120 or below roadheaders also fell slightly from 24.7% in 2006 to 22.0% in 2007 because of decreased economies of scale.

The gross profits on our EBZ132 series roadheaders increased from RMB15.8 million in 2006 to RMB25.4 million in 2007 due to increased sales. The gross profit margin on our EBZ132 series roadheaders fell from 44.3% in 2006 to 39.4% in 2007 as a result of increased cost of sales which was partly caused by an increased amount of imported high-price components used in the EBZ132 series roadheaders. In addition, we lowered our sales price as a strategy to maintain our market share because some new competitors entered the market.

The gross profits on our EBZ160 series roadheaders increased from RMB61.8 million in 2006 to RMB116.5 million in 2007 as a result of a significant increase in sales. The gross profit margin on our EBZ160 series roadheaders fell from 54.9% in 2006 to 48.5% in 2007 as a result of higher cost of sales, primarily attributable to the increased cost of steel. The lower profit margin was also partly contributed to by greater costs of more advanced components.

The gross profits on our EBZ200 series roadheaders increased from RMB1.7 million in 2006 to RMB72.9 million in 2007 as a result of a significant increase in sales and average selling price. The gross profit margin on our EBZ200 series roadheaders increased from 50.9% in 2006 to 56.3% in 2007 due to improved economies of scale and a significant increase in the sales price resulting from a sharp increase in market demand of our EBZ200 series roadheaders.

Spare Parts

The gross profits on our spare parts increased from RMB1.3 million in 2006 to RMB12.1 million in 2007. The gross profit margin on our spare parts remained relatively stable at 52.6% in 2006 and 52.4% in 2007. These increases were driven by the growing demand for our spare parts from our continuously expanding customer base.

Other Income

Our other income increased 156.0% from RMB5.0 million in 2006 to RMB12.8 million in 2007, primarily due to (i) an increase of RMB5.2 million derived from sales of scrap materials, which is a direct result of the increase in the size of our manufacturing operations, and (ii) an increase of RMB2.1 million in government grants. We received more government grants due to our increased scale of research and development in coal mining equipment.

Selling and Distribution Costs

Our selling and distribution costs increased 132.0% from RMB30.9 million in 2006 to RMB71.7 million in 2007 mainly reflecting an increase of (i) RMB12.9 million in salaries and related expenses, (ii) RMB18.5 million in promotion and advertising, (iii) RMB5.5 million in transportation and (iv) RMB4.0 million in warranties. This increase was mainly due to an increase in the total number of sales staff. Our sales staff grew from 84 persons as at the end of 2006 to 382 persons as at the end of 2007. The increase was also contributed to by our increased marketing efforts and promotional activities and greater warranties and transportation costs incurred as a result of increased sales volume for our excavating machines. In particular, we increased the frequency of our participation in product promotional fairs. We also conducted more promotional and advertising activities in targeted markets to help increase consumer familiarity with our products. As a percentage of our revenue, our selling and distribution costs decreased from 19.4% in 2006 to 15.5% in 2007 due to an increase in our economies of scale.

Administrative Expenses

Our administrative expenses increased 115.1% from RMB32.4 million in 2006 to RMB69.7 million in 2007, mainly reflecting an increase of (i) RMB10.1 million in salaries and related expenses for our administrative employees, (ii) RMB17.0 million in research and development expenses, (iii) RMB5.8 million in office expenses and (iv) RMB3.5 million in other administrative expenses. This increase was primarily due to an increase in the number of administrative employees and office expenses in line with our business growth and our continuous efforts in research and development. As a percentage of our revenue, our administrative expenses decreased from 20.3% in 2006 to 15.1% in 2007 due to an improvement in our economies of scale.

Other Expenses

Our other expenses increased 451.9% from RMB2.7 million in 2006 to RMB14.9 million in 2007. The increase was primarily attributable to an increase of RMB12.9 million in net foreign exchange differences resulting from the appreciation of the Renminbi against relevant foreign currencies and an RMB1.3 million increase in impairment of trade receivables associated with the increase in our sales. As a percentage of revenue, other expenses increased from 1.7% in 2006 to 3.2% in 2007.

Finance Costs

Our finance costs increased 155.6% from RMB2.7 million in 2006 to RMB6.9 million in 2007. This increase was due to an increase of RMB6.0 million in interest expense resulting from increased borrowings.

Profit for the Year

As a result of the foregoing, our profit increased 668.5% from RMB18.4 million in 2006 to RMB141.4 million in 2007.

Profit Attributable to Equity Holders of the Company

Our profit attributable to equity holders of the Company was RMB9.9 million in 2006 and RMB106.1 million in 2007. Other than the significant increase in profit, the increase in profit attributable to equity holders of the Company from 2006 to 2007 was because of our purchase of certain shareholdings from the minority shareholders, which made us entitled to a larger proportion of the profit.

LIQUIDITY AND CAPITAL RESOURCES

The following table sets forth details of our current assets and current liabilities for the periods indicated:

	Year ended 31 December			Six months ended 30 June	Nine months ended 30 September
	2006	2007	2008	2009	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
CURRENT ASSETS					
Inventories	107,536	242,676	373,842	465,970	565,932
Trade receivables	58,656	139,889	281,723	478,851	503,328
Bills receivable	15,190	56,107	182,058	483,530	377,344
Prepayments, deposits and other receivables	24,007	43,912	230,331	110,078	103,155
Due from a shareholder	198	1,855	4,427	91	434
Due from related parties	305	388,729	841,261	206,764	—
Pledged deposits	15,482	24,890	21,668	35,192	14,370
Cash and bank balances	14,307	31,713	59,789	273,863	402,352
Total current assets	235,681	929,771	1,995,099	2,054,339	1,966,915
CURRENT LIABILITIES					
Trade and bills payables	94,526	208,662	217,940	311,935	334,441
Other payables and accruals	48,337	229,246	289,076	409,157	380,445
Interest-bearing bank borrowings	60,000	190,000	310,000	—	—
Due to related parties	72,195	524,231	359,396	11,744	—
Tax payable	—	—	18,415	46,543	55,939
Provision for warranties	2,646	5,466	16,801	25,821	25,408
Government grants	2,626	3,080	—	—	1,217
Total current liabilities	280,330	1,160,685	1,211,628	805,200	797,450
NET CURRENT ASSETS/(LIABILITIES)	(44,649)	(230,914)	783,471	1,249,139	1,169,465

Historically we have financed our operations and expansion with cash generated from our operations, bank loans, advances from related parties, and capital contributions by Sany HK. Upon a capital contribution of RMB1,128.4 million by Sany HK during 2008, we have shifted from a net current liability position to a net current asset position. We had net current assets of RMB783.5 million, RMB1,249.1 million and RMB1,169.5 million as at 31 December 2008, 30 June 2009 and 30

September 2009, respectively. Our net current liabilities were RMB44.6 million and RMB230.9 million as at 31 December 2006 and 2007, respectively. In order to finance our expansion and fulfil our capital expenditures for purchases of property and equipment, we have taken out an increasing amount of short-term bank loans and advances from related parties. Our net current liabilities increased from RMB44.6 million in 2006 to RMB230.9 million in 2007, primarily due to increases in trade and bills payables, other payables and accruals, interest-bearing borrowings and related parties' transactions. We used a significant amount of cash generated from our short-term funding arrangements to finance the expansion and construction of our production facilities, to purchase relevant equipment, to make non-current prepayments such as for land use rights and to fund our general working capital. We also used a portion of our short-term funding to acquire our equity interest in our associate, Sany Junma, in 2007, which we subsequently disposed of in May 2009 and such transfer was completed on 24 August 2009. Our production facilities, land use rights and interest in Sany Junma were recorded as long-term assets rather than current assets.

Our net current liability position in 2006 and 2007 reflected our historical practice of using short-term bank financing to finance our operations and expansion, which has been our practice in China. To manage our interest expense, we also used a relatively larger proportion of short-term financing during the Track Record Period, as it bore comparatively lower interest rates than long-term financing. Despite our net current liability positions in 2006 and 2007, we did not default on payment of any of our borrowings, or experience any difficultly in raising funds with our principal banks or deriving funds from our related parties or rolling over the short-term loans borrowed from various banks. With an improved financial position and performance in 2008, we secured an additional long-term loan of RMB50.0 million. As our financial position and performance continued to improve in the six months ended 30 June 2009, we repaid RMB310 million of our current interest-bearing bank borrowings and RMB75 million of our non-current interest-bearing bank borrowings. As at 30 September 2009, we do not have any bank borrowings.

We plan to improve our liquidity by funding our expansion and operations with the net proceeds from [●], as well as bank loans and cash flows generated from our operating activities. We also intend to increase our proportion of long-term loans to finance our expansion and operations in order to improve our capital structure.

Cash Flow

The following table sets forth a summary of net cash flow for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net cash inflow (outflow) from operating activities	(674)	(12,630)	(147,989)	(57,790)	47,154
Net cash inflow (outflow) from investing activities	(28,234)	(200,940)	(455,697)	(110,072)	392,153
Net cash inflow (outflow) from financing activities	41,932	230,976	631,762	143,923	(225,233)
Net increase/(decrease) in cash and cash equivalents	13,024	17,406	28,076	(23,939)	214,074
Cash and cash equivalents at beginning of year/period	1,283	14,307	31,713	31,713	59,789
Cash and cash equivalents at end of year/period	14,307	31,713	59,789	7,774	273,863

Net Cash Generated from Operating Activities

The following table summarises our cash flow from operating activities for 2006, 2007 and 2008, and the six months ended 30 June 2008 and 2009.

	For the year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Operating cash flow before movements in working capital	26,888	89,691	269,582	104,387	304,333
Change in working capital — generated/(used)	(27,675)	(102,879)	(416,211)	(161,769)	(256,872)
Cash generated/used in operations	(787)	(13,188)	(146,629)	(57,382)	47,461
Interest received	113	558	501	248	1,420
PRC tax paid	—	—	(1,861)	(656)	(1,727)
Net cash inflow/(outflow) from operating activities	(674)	(12,630)	(147,989)	(57,790)	47,154

Net Cash Inflow/Outflow from Operating Activities

Over the Track Record Period, we derived our cash inflow from operating activities principally from the receipt of payments for the sale of our products. Our cash outflow from operating activities was principally for the purchase of steel, machinery components and other raw materials, payments for employee compensation, expenses for our research and development and expenses for marketing and distribution of our products.

Our net cash inflow from operating activities was RMB47.2 million for the six months ended 30 June 2009, primarily resulting from profit before tax of RMB278.7 million, as adjusted by income statement items with non-cash effects of RMB25.7 million and an outflow of RMB256.9 million for working capital adjustments. Working capital adjustments generally included:

- an increase in trade receivables of RMB210.0 million and an increase in bills receivable of RMB 301.5 million as a result of increased sales, which was in line with our business expansion and revenue growth.

- an increase in other payables and accruals of RMB115.3 million, primarily due to an increase in the amount of customer deposits derived from increased sales.

- an increase in trade and bills payables of RMB94.0 million, primarily due to the increase of raw materials procurement and key components as a result of increase sales.

- a decrease in prepayments, deposits, and other receivables of RMB126.3 million. This decrease is primarily due to our cancellation of a supplier contract with one of our suppliers.

- an increase in inventories of RMB94.6 million primarily due to the increase in raw materials and work in progress at our production facilities. We increased our production volume to meet the increase in market demand by maintaining a higher level of inventory of key components. In addition, our combined coal mining units, for which we launched in 2008, generally have a lead production time of three to four months and thus require more inventories.

Our net cash outflow from operating activities was RMB148.0 million in 2008, primarily resulting from profit before tax of RMB224.0 million, as adjusted by income statement items with non-cash effects of RMB45.6 million and an outflow of RMB416.2 million for working capital adjustments. Working capital adjustments generally included:

- an increase in prepayments, deposits and other receivables of RMB186.4 million. This increase is primarily a result of increased production and sales volume.

- an increase in inventories of RMB133.9 million primarily due to the increase in finished goods and raw materials at our production facilities as we increased our volume of production to meet the increase in market demand. Therefore we maintained a higher inventory of key components.

- an increase in other payables and accruals of RMB162.3 million, primarily due to an increase in the amount of customer deposits derived from increased sales.

- an increase in trade and bills receivables of RMB276.3 million as a result of increased sales, which was in line with our business expansion and revenue growth.

Our net cash outflow from operating activities was RMB12.6 million in 2007, primarily resulting from profit before tax of RMB82.4 million, as adjusted by income statement items with non-cash effects of RMB7.3 million and an outflow of RMB102.9 million for working capital adjustments. Working capital adjustments generally included:

- an increase in prepayments, deposits and other receivables of RMB19.9 million, resulting from increased production scale and sales volume.

- an increase in inventories of RMB135.7 million. This increase was due to increases in stocks of raw materials, work in progress and finished goods, resulting from our increased production needs and the anticipation of an increase in demand for our products.

- an increase in trade and bills payables of RMB114.1 million primarily due to our purchase of a larger amount of supplies to support the growth of our operations.

- an increase in trade and bills receivables of RMB123.4 million and an increase in other payables and accruals of RMB60.9 million primarily as a result of increased sales and customer deposits which were in line with our business expansion and revenue growth.

Our net cash outflow from operating activities was RMB0.7 million in 2006, primarily resulting from profit before tax of RMB18.1 million, as adjusted by income statement items with non-cash effects of RMB8.8 million and an outflow of RMB27.7 million for working capital adjustments. Working capital adjustments generally included:

- an increase in inventories of RMB80.3 million. This increase is due to increases in raw materials, work in progress and finished goods in anticipation of increased sales.

- an increase in trade and bills payables of RMB73.7 million, primarily due to our purchase of a larger amount of supplies to support the growth of our operations and an increase in other payables and accruals of RMB36.7 million, primarily due to an increase in the amounts of customer deposits derived from increased sales.

- an increase in trade and bills receivables of RMB52.0 million due to increased sales of our products.

Net Cash Inflow/Outflow from Investing Activities

Our net cash inflow from investing activities for the six months ended 30 June 2009 was RMB392.2 million, primarily reflecting RMB35.1 million used for purchases of property, plant and equipment, the receipt from Sany Junma of RMB285.3 million and the proceeds received from disposal of Sany Junma of RMB141.5 million. Cash outflow used for the purchases of property, plant and equipment primarily related to the construction of our new production facilities and the purchase of related plant and machinery. We received RMB285.3 million from Sany Junma due to the cancellation of our non-trade supply contract with Sany Junma when we decided to dispose of Sany Junma. We decided to dispose of Sany Junma in May 2009 and received RMB141.5 million as consideration.

Our net cash outflow from investing activities in 2008 was RMB455.7 million, primarily reflecting an RMB285.3 million advance to an associate, Sany Junma, RMB91.4 million used for purchases of property, plant and equipment and RMB96.0 million used for investment in an associate, Sany Junma. We advanced RMB285.3 million to Sany Junma in 2008, mainly to support Sany Junma's expansion, through signing a non-trade long-term supply contract with Sany Junma. In order to focus on our core business, we decided to dispose of Sany Junma as part of the Reorganisation. In line with this strategic decision, we decided to terminate the contract with Sany Junma. We were able to negotiate with Sany Junma an agreement to cancel this contract. We advanced RMB285.3 million to Sany Junma to support their expansion. This amount was repaid to us in February 2009. Cash outflow used for the purchases of property, plant and equipment primarily related to the construction of our new production facilities and the purchase of related plant and machinery. We made a payment in 2008 for our remaining balance for our investment in Sany Junma.

Our net cash outflow in investing activities in 2007 was RMB200.9 million, primarily reflecting RMB94.5 million used for purchases of property, plant and equipment, RMB306.0 million for an increase in non-current prepayments, RMB36.7 million used for investments in an associate, Sany Junma and offset by RMB236.3 million for receipt of government grants[(1)] which was related to the development of certain industrial areas in the Shenyang Economic and Technological Development Area, where we will locate our new production facility. Cash outflow used for the purchases of property, plant and equipment primarily related to the construction of our new production facilities and the purchase of related plant and machinery. Cash outflow in connection with the increase in non-current prepayments primarily related to certain prepayments that we have made for our acquisition of land use rights. Cash outflow used for investment in Sany Junma was related to our acquisition of a 51% equity interest in Sany Junma. We acquired 41% of Sany Junma's total equity and made a capital contribution to gain a further 10% equity interest.

Our net cash outflow from investing activities in 2006 was RMB28.2 million, primarily reflecting RMB33.6 million used for the purchases of property, plant and equipment offset in part by receipt of government grants of RMB8.1 million. Cash outflow used for purchases of property, plant and equipment primarily related to the expansion and construction of our new production facilities and the purchase of related machinery. Cash inflow in connection with the government grants primarily relate to our research and development effort in the coal mining machinery technology.

Net Cash Inflow/Outflow from Financing Activities

Our net cash outflow from financing activities for the six months ended 30 June 2009 was RMB225.2 million, primarily including receipt of RMB374.2 million from related parties, partially offset by repayment of bank loans of RMB385.0 million and payment of dividends of RMB197.1 million.

Our net cash generated from financing activities in 2008 was RMB631.8 million, primarily including a capital contribution from Sany HK of RMB1,128.4 million and net new bank loans of RMB140.0 million, partially offset by an advance to related parties of RMB617.4 million. We received a capital contribution from Sany HK which improved our liquidity position. Please refer to section headed "History, Reorganisation and Corporate Structure — History" in this document for more information on our capital contribution by Sany HK in 2008.

Our net cash generated from financing activities in 2007 was RMB231.0 million, primarily representing net new bank loans of RMB185.0 million and a receipt of RMB63.8 million from related parties.

Our net cash generated from financing activities in 2006 was RMB41.9 million, primarily reflecting net new bank loans of RMB20.0 million and the receipt of RMB35.4 million from related parties.

(1) Note: Government Grant

During the Track Record Period, we mainly received two types of government grants relating to either (i) our research and development effort in the coal mining machinery technology (the **"Technology-related government grant"**) or (ii) the development of certain industrial areas in the Shenyang Economic and Technological Development Area where we will construct our new production facilities (the **"New Development-related government grant"**). We received approximately RMB26.9 million of Technology-related government grant and RMB249.9 million of New Development-related government grant during the Track Record Period, respectively. We received the Technology-related government grant mainly because the PRC Government generally supports research and development in coal mining machinery technology and we aim to provide innovative solutions to enhance (i) the mechanisation rate in the coal mining industry and (ii) the safety standard of the coal-mining machinery in the PRC. The PRC Government typically issues guidelines on the eligibility of the government grant and we apply for the government grants based on these guidelines. For example, we applied for certain Technology-related government grants in 2008 based on the policies set forth in the 2008 Shenyang City Technology Declaration Guidelines (2008年瀋陽市科技申報指南). As of the Latest Practicable Date, we are not aware of any specific circumstances that will trigger the return of the Technology-related government grant. According to our understanding, we believe we will continue to be eligible for certain Technology-related government grants as long as the PRC Government is supportive of development of coal-mining related machinery or heavy machinery in China.

In addition, we also received the New Development-related government grant during the Track Record Period. We received such grant mainly because the Shenyang local government encouraged the development of the Shenyang Economic and Technological Development Area and thereby provided us with a grant to develop infrastructure in connection with the new production facilities that we intend to construct. The Shenyang local government required us to use the entire New Development—related government grant in the development of infrastructure in connection with our new production facilities. The PRC Government may seek the return of the New Development-related government grant if we terminate our plan to develop our new production facilities and the related infrastructure. At present, we have no intention to terminate the development plan as it is one of our most important development strategies. As a result, we are not aware of any specific circumstances that will trigger the return of the New Development-related government grant. According to our understanding, the New Development-related government grant is subject to discretion of the relevant government authorities and we may not receive such grant in the future.

Capital Commitments and Contingent Liabilities

Capital Commitments

We have entered into several contracts to construct buildings, plant and machinery. The table below sets forth the total amount of our commitments as at the balance sheet dates indicated.

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted but not provided for [1]:				
Buildings	32,976	63,925	123,302	118,642
Plant and machinery	11,300	3,080	12,850	8,406
	44,276	67,005	136,152	127,048

Note:

(1) Contracts were signed but the contracted items have not been delivered as at each balance sheet date.

Operating Lease Arrangements

We lease some of our dormitories and warehouses under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years. The table below sets forth our future minimum lease payments under non-cancellable operating leases as at the balance sheet dates indicated.

	As at 31 December			Six months ended 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	—	610	1,105	668
In the second to third years, inclusive	—	250	482	113
	—	860	1,587	781

Contingent Liabilities

We had contingent liabilities of RMB18.0 million as of 31 December 2008, primarily because we provided guarantees to a bank in connection with the banking facilities granted to and utilised by Sany Junma. The guarantees were fully released in March 2009.

Statement of Indebtedness

The following table sets forth our short-term and long-term borrowings as at the dates indicated.

	As at 31 December			Six months ended 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans repayable:				
Within one year	60,000	190,000	310,000	—
In the second year	—	30,000	75,000	—
In the third year	—	25,000	—	—
	60,000	245,000	385,000	—
Secured	60,000	245,000	385,000	—
				—

As at 30 September 2009, the Group's utilised and unutilised banking facilities were nil and approximately RMB440.0 million, respectively.

The effective floating interest rate of our bank loans was 4.54% to 7.47% per annum throughout our Track Record Period.

Our directors confirm that there have been no material changes in our indebtedness and contingent liabilities since 30 September 2009.

Except as disclosed above, we do not have any outstanding debt securities authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages and charges, material contingent liabilities or guarantees outstanding as at 30 September 2009.

CAPITAL EXPENDITURES

The following table sets forth our capital expenditures for the periods indicated.

	Year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Buildings	—	6,783	4,060	424
Plant and machinery	10,704	63,978	24,602	7,692
Office and other equipment	2,618	3,845	7,494	2,484
Motor vehicles	4,046	7,527	9,356	2,507
Construction in progress	7,148	37,773	40,588	26,731
Total	24,516	119,906	86,100	39,838

We have historically funded our capital expenditures through cash generated from our operations, bank loans, advances from related parties and capital contributions from Sany HK. Our capital expenditures primarily comprised expenditures for buildings, plant and machinery, offices and other equipment, motor vehicles and construction in progress. Our capital expenditures were RMB24.5 million, RMB119.9 million, RMB86.1 million and RMB39.8 million in 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively. Our capital expenditures from 2006 to 2008 primarily related to the expansion of our existing production facilities, the construction of our new production facilities in Shenyang, the purchase of related equipment and the expansion of our product offering. Subject to the amount of net proceeds of the [●], we plan to continue our construction of a new production facility and staff dormitory at a second site in Shenyang, enhance our new production facility and research and development capabilities, and purchase equipment related to our expansion. From 1 July 2009 to 31 December 2009, we expect to spend approximately RMB270 million. We may adjust our capital expenditures for any given period according to our development plans and in light of market conditions and other factors we believe to be appropriate.

WORKING CAPITAL

Our Directors believe we will have sufficient cash flow to meet our expected cash requirements, including for working capital and capital expenditure purposes for the period ending 12 months from the date of this document.

Cash Flow and Capital Commitment Management

We seek to effectively manage our cash flow and capital commitments. The objective of our capital management is to ensure that we maintain healthy capital ratios to support our business and maximise our shareholders' value. Our managers monitor our capital structure and make adjustments in response to changes in economic conditions. We monitor our capital mainly using a gearing ratio, which is net debt divided by capital plus net debt. Our policy is to keep the gearing ratio at a reasonable level. Our gearing ratios as at the dates indicated are set forth below.

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank loans	60,000	245,000	385,000	—
Less: Cash and cash equivalents and pledged deposits	(29,789)	(56,603)	(81,457)	(309,055)
Net debt	30,211	188,397	303,543	N/A
Equity attributable to equity holders of the Company	69,684	175,750	1,574,571	1,627,699
Capital and net debt	99,895	364,147	1,878,114	1,318,644
Gearing ratio	30%	52%	16%	N/A

Note: Net debt is calculated as interest-bearing bank loans less cash and cash equivalents and pledged deposits. Capital represents equity attributable to equity holders of the Company.

We use a combined annual budget which is supplemented by quarterly and monthly cash flow rolling projections to control our current cash inflow and outflow. We also use a one to three year budgeting system to monitor our cash flow, which covers production and operational costs, construction costs of production facilities and realisation of our revenue from our sales and financing plans. All disbursements of funds are subject to the approval of appropriate managers.

INVENTORY ANALYSIS

The following table sets forth our inventories as of the balance sheet dates indicated and average inventory turnover days for the periods indicated.

	As at 31 December			Six months ended 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	33,864	86,094	155,359	221,199
Work in progress	31,871	61,222	81,315	111,167
Finished goods	43,799	97,871	142,367	141,318
	109,534	245,187	379,041	473,684
Less: Provision against slow-moving inventories and obsolete inventories[(1)]	(1,998)	(2,511)	(5,199)	(7,714)
	107,536	242,676	373,842	465,970
Average Inventory Turnover Days[(2)]	324.8	277.5	186.0	172.0

Notes:

(1) Slow-moving inventories represent inventories that have no incoming or outgoing movement for more than one year.

(2) Average inventory equals inventory (before provision against slow-moving inventories and obsolete inventories) at the beginning of the year/period plus inventory (before provision against slow-moving inventories and obsolete inventories) as at the end of the year/period divided by two. Average inventory turnover days for a given year equal average inventory divided by cost of sales and multiplied by 365. Average inventory turnover days for the six months ended 30 June 2009 equal average inventory divided by cost of sales and multiplied by 183 days.

Our inventory comprises raw materials, work in progress and finished goods less any provisions that we make against slow-moving and obsolete inventories. Our inventory also includes products undergoing research and development, parts and components to be delivered from our overseas suppliers and finished products to be delivered and installed at our customers' sites. While we aim to keep our inventory levels at a minimum, our average inventory turnover days are long primarily due to two reasons: (i) our research and development may take several months to a year and components used for research and development purposes are also treated as part of our inventory and (ii) the time taken for the delivery of parts and components from our overseas suppliers is typically three to six months, which is longer than the delivery time required for our domestic suppliers. As such, in order to ensure the timely delivery of our final products to our customers, we strategically maintain an appropriate level of inventory for these parts and components from overseas suppliers. Our inventory balances as at 31 December 2006, 2007 and 2008 and as at 30 June 2009 amounted to RMB107.5 million, RMB242.7 million, RMB373.8 million and RMB466.0 million, respectively. In determining an impairment loss on inventory, we estimate the amount to be impaired based on the net realisable value of the inventories. We typically record an impairment loss for certain raw materials when they age more than one year and there is no plan to utilise these materials in the foreseeable future due to production modifications.

Our inventory balances increased from RMB107.5 million as of 31 December 2006 to RMB242.7 million as of 31 December 2007, primarily reflecting a larger inventory of raw materials and finished goods that we carried for our increased production needs.

Our inventory balances increased from RMB242.7 million as of 31 December 2007 to RMB373.8 million as of 31 December 2008 and further to RMB466.0 million as of 30 June 2009, primarily reflecting increased purchases of raw materials and finished goods as a result of increased sales and stockpiling of more finished goods in anticipation of greater market demand for our products. We also implemented a supermarket inventory model for certain small key parts and components and purchased more raw materials as a strategy to secure sufficient supplies of raw materials.

Our average inventory turnover days decreased from 324.8 days in 2006 to 277.5 days in 2007, mainly due to rapidly growing market demand for our products and better inventory control of our raw materials and work-in-progress materials. In September 2007, we installed an ERP (enterprise resource planning) system, which provides us with instant information about purchases, production schedules and supplies of our raw materials. By providing us with quick access to various data and easy formulation of operating models, the ERP system substantially improved our inventory controls.

Our average inventory turnover days further decreased from 277.5 days in 2007 to 186.0 days in 2008 and further to 172.0 days by 30 June 2009 as we gained a better understanding of market demand, made better estimates of customer needs for our products and better controlled our inventory of raw materials and work-in-progress materials.

TRADE AND BILLS RECEIVABLES ANALYSIS

The following table sets forth the total amounts of our trade and bills receivables as of the balance sheet dates indicated and our average trade and bills receivables turnover days for the periods indicated.

	As at 31 December			Six months ended 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	58,656	141,160	291,547	501,594
Impairment	—	(1,271)	(9,824)	(22,743)
Bills receivable	15,190	56,107	182,058	483,530
	73,846	195,996	463,781	962,381
Average trade and bills receivables turnover days (1)	108.1	107.2	106.8	149.7

Note:

(1) Average trade and bills receivables equal trade and bills receivables (before impairment) at the beginning of the year/period plus trade and bills receivables (before impairment) at the end of the year/period divided by two. Average trade and bills receivables turnover days for a given year equal average trade and bills receivables divided by revenue and multiplied by 365. Average trade and bills receivables turnover days for the six months ended 30 June 2009 equal average trade and bills receivables divided by revenue and multiplied by 183 days.

Our trade and bills receivables represent receivables from the sales of our products. Bills receivable are similar to a letter of credit in that payments made by bills receivable are guaranteed by a bank, whereas our customers are responsible for the payment of trade receivables. Typically, we receive an initial payment of 30% of the total contract price within seven days of entering into a sales contract, 30% of the total contract price within seven days after the delivery of our products, and another 30% of the total contract price within one month after the delivery of our products. The remaining 10% is paid to us within seven days after the warranty period of our products ends, which is typically 12 months after the delivery of our products. The settlement term of bills receivable is no more than six months.

We generally grant an average credit period of around one to two months to customers, which is in line with the practice of our industry, but we have granted longer credit periods to some long-standing customers with good payment histories. The credit period of individual customers is evaluated on a case-by-case basis and set out in the sales contracts, as appropriate. We seek to maintain strict control over our outstanding receivables and have a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

In determining impairment losses, we conduct regular reviews of aging analyses and evaluate collectibles on an individual basis. Our impairment of trade and bills receivables relates to customers that are in financial difficulties or in default on their payments. Our provision for impairment of trade and bills receivables as at 31 December 2006, 2007 and 2008 and as at 30 June 2009, amounted to nil, RMB1.3 million, RMB9.8 million and RMB22.7 million, representing 0%, 0.6%, 2.1% and 2.4% of our trade and bills receivables (before impairment), respectively. The increase in impairment provision for trade and bill receivables was mainly due to increased sales. We do not hold any collateral or other credit enhancements over these balances. We estimate that certain trade and bills receivables unsettled for over six months may still be recoverable based on individual analyses of relevant customers' credit history and financial condition. However, such estimates involve inherent uncertainties and the actual uncollectible amounts may be higher or lower than the amount estimated.

Our trade and bills receivables as at 31 December 2006, 2007 and 2008 and as at 30 June 2009 amounted to RMB73.8 million, RMB196.0 million, RMB463.8 million and RMB962.4 million, respectively. With respect to the trade and bills receivables of RMB463.8 million as of 31 December 2008, approximately RMB452.1 million has been subsequently settled by 30 June 2009. Our trade and bills receivables increased over the Track Record Period largely due to the increase in our sales and products delivered to our customers, which was in line with our business growth. Between 2007 and 2008, our trade and bills receivables grew by 140.1%, roughly in line with revenue growth of 148.4% over the same period. Between 2006 and 2007, revenue grew somewhat faster than trade and bills receivables, with growth of 188.8% over the period, compared to trade and bills receivables growth of 167.1%.

Our average trade and bills receivables turnover days decreased slightly from 108.1 days in 2006 to 107.2 days in 2007 and further to 106.8 days in 2008 mainly due to increased efforts on customer management and control over outstanding receivables. Our average trade and bills receivable turnover days increased to 149.7 days for the six months ended 30 June 2009 mainly due to the increase in our revenue and the increase in the proportion of bill receivables that generally have a credit period of six months.

Our bills receivable all settled within six months over the Track Record Period. With respect to the Group's trade receivables of approximately RMB478.9 million as of 30 June 2009, approximately RMB164.5 million had been settled by 30 September, 2009. With respect to the Group's bills receivable of approximately RMB483.5 million as of 30 June 2009 which are all bank acceptance bills and generally have a credit period of six months, approximately RMB173.3 million had been settled by 30 September 2009.

As at 30 June 2009, our gross trade receivables were approximately RMB501.6 million (net trade receivables were approximately RMB478.9 million and the impairment was RMB22.7 million), of which RMB164.5 million had been settled by 30 September 2009. As of 30 September 2009, the unsettled trade receivable balance of RMB 337.1 million included (i) receivables derived from sales of machines comprising an amount not past due of approximately RMB193.1 million and an amount past due of approximately RMB75.3 million and (ii) receivables from sales of spare parts and other components comprising an amount not past due of approximately RMB44.0 million and an amount past due of approximately RMB24.7 million. We provide special sales policies to selected customers and allow them to settle (a) their payments within one year from their receipt of goods and (b) 90% of their payments within three months after the issuance of an installation report issued by such customers. The above past due amounts arose mainly for the following reasons: (i) we extended the credit periods of our trade receivables for some of our reputable and long-term customers; and (ii) according to our historical financial records, some of our customers typically do not settle their trade payables until the last one or two months of each year.

The following table sets forth an aging analysis of our total trade receivables, based on credit terms, that are neither individually nor collectively considered to be impaired:

			Past due but not impaired			
	Total	**Neither past due nor impaired**	**< 90 days**	**91 to 180 days**	**181 to 360 days**	**over 1 year**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
31 December 2006 .	58,656	23,119	3,876	15,703	12,156	3,802
31 December 2007 .	139,889	37,709	11,476	48,243	26,112	16,349
31 December 2008 .	281,723	113,088	41,376	63,445	44,811	19,003
30 June 2009	478,851	294,108	36,651	40,562	90,425	17,105

Our trade receivables that were neither past due nor impaired relate to a number of diversified customers for whom there was no recent history of default. These customers typically have a good track record with us. Our Directors are of the view that no provision for impairment is necessary with respect to these balances as there has been no significant change in credit-worthiness of these customers and therefore these balances are still considered to be fully recoverable. We do not hold any collateral or other credit enhancements over these balances.

PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES ANALYSIS

The following table sets forth our prepayments, deposits and other receivables as of the balance sheet dates indicated.

	As at 31 December			Six months ended 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current prepayments	4,204	310,230	324,616	23,191
Current assets				
Prepayments	9,587	25,884	40,226	91,705
Deposits and other receivables	14,420	18,028	190,105	18,373
	24,007	43,912	230,331	110,078
Total	28,211	354,142	554,947	133,269

Our prepayments, deposits and other receivables as at 31 December 2006, 2007 and 2008 and 30 June 2009 were RMB28.2 million, RMB354.1 million, RMB554.9 million and RMB133.3 million, respectively. The increase in prepayments, deposits and other receivables from 31 December 2006 to 31 December 2007 was primarily due to the increase of non-current prepayments associated with prepayment for our land use rights and an increase in prepayments to our suppliers as our operations expanded. RMB304.3 million was included in our non-current prepayments as at 31 December 2007 and 2008 as prepayments for acquisitions of land use rights. Pursuant to our agreements with the Shenyang City Development and Planning and National Land Resource Economic and Technological Development Office's Branch Office, we acquired the land use rights for three pieces of land (with a total site area of approximately 629,015.2 m^2) in Shenyang Economic and Technological Development Area for a total consideration of approximately RMB301.9 million. We intend to use these three pieces of land to construct our new production facilities. The acquisitions of these land use rights were completed in March and April of 2009. The increase in prepayments, deposits and other receivables from 31 December 2007 to 31 December 2008 was mainly caused by an amount of approximately RMB176.0 million for the purchase of steel. The steel purchase was cancelled in October 2008 because we found some of the steel to be substandard and the market conditions with respect to the steel price had changed. This amount was refunded in April 2009. The prepayments, deposits and other receivables decreased to RMB133.3 million as at 30 June 2009, mainly due to (i) our cancellation of the steel supply contract and (ii) the decrease in non-current prepayments resulting from the recognition of prepayments as actual payment when the acquisition was completed in March and April 2009.

TRADE AND BILLS PAYABLES

The following table sets forth the total amounts of our trade and bills payables as of the balance sheet dates indicated, our average trade and bills payable turnover days and an aging analysis of the trade and bills payables, based on the invoice date.

	As at 31 December			Six months ended 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	39,132	55,856	60,911	116,683
61 to 90 days	29,412	72,623	81,882	112,519
91 to 180 days	18,207	63,606	59,698	49,793
180 to 360 days	7,775	16,577	15,449	28,020
Over 1 year	—	—	—	4,920
	94,526	208,662	217,940	311,935
Average trade and bills payable turnover days (1)	270.2	237.2	127.1	106.9

Note:

(1) Average trade and bills payables equal trade and bills payables at the beginning of the year/period plus trade and bills payables at the end of the year/period divided by two. Average trade and bills payables turnover days for a given year equal average trade and bills payables divided by cost of sales and multiplied by 365. Average trade and bills payables turnover days for the six months ended 30 June 2009 equal average trade and bills payables divided by cost of sales and multiplied by 183 days.

Our total trade and bills payables as at 31 December 2006, 2007 and 2008 and as at 30 June 2009 amounted to RMB94.5 million, RMB208.7 million, RMB217.9 million and RMB311.9 million, respectively. We use trade and bills payables primarily in connection with purchases of steel, machinery components and other raw materials. Our increase in trade and bills payables from 2006 to 2007 was primarily due to increased purchases of raw materials and machinery components to meet increased sales. In 2008, our trade and bills payables increased at a slower rate than our revenue because we significantly increased the amount of prepayments and deposits to our suppliers. The credit period of trade payables is normally 30 to 90 days while the credit period of bills payables is 180 days. Because of our products' relatively long production cycles and our importance as a key customer to some of our suppliers, we have a strong bargaining position and many of our trade and bills payable are settled beyond the standard credit terms.

Our average trade payables turnover days decreased from 270.2 days in 2006 to 237.2 days in 2007, primarily because we better utilised our cash flow generated from operating activities to settle some of our trade payables earlier and in order to maintain better relationships with our suppliers.

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Our average trade payables turnover days further decreased from 237.2 days in 2007 to 127.1 days in 2008 and further to 106.9 days for the six months ended 30 June 2009 as our improved liquidity position in 2008 and the six months ended 30 June 2009 (due to the increased cash flow from our operating activities and the capital contribution from Sany HK) allowed us to settle some of our trade payables earlier and to further strengthen our relationships with our suppliers.

OTHER PAYABLES AND ACCRUALS

The following table sets forth a breakdown of our other payables and accruals as of the balance sheet dates indicated.

	As at 31 December			Six months ended 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits received from customers	31,838	72,288	192,008	259,063
Other payables	15,900	155,954	94,549	139,298
Accruals	599	1,004	2,519	10,796
	48,337	229,246	289,076	409,157

Other payables and accruals as at 31 December 2006, 2007 and 2008 and as at 30 June 2009 amounted to RMB48.3 million, RMB229.2 million, RMB289.1 million and RMB409.2 million, respectively.

Other payables and accruals increased from RMB48.3 million as at 31 December 2006 to RMB229.2 million in 2007, mainly reflecting an increase of RMB140.1 million in other payables and an increase of RMB40.5 million in deposits received from customers. The increase in deposits received from customers from 2006 to 2007 was primarily attributable to increased sales. The increase in other payables mainly represented an outstanding payment of RMB96.0 million in relation to our acquisition of our equity interest in Sany Junma and an RMB23.6 million increase in payables related to the expansion of our production facility and purchases of related equipment. We also incurred an increase of RMB18.9 million in salary and welfare payable from 2006 to 2007 due to the increase in the number of our staff.

Other payables and accruals increased from RMB229.2 million as at 31 December 2007 to RMB289.1 million as at 31 December 2008, primarily due to a significant increase in deposits received from customers as a result of increased sales, which was partly offset by the decrease in other payables.

Other payables and accruals increased from RMB289.1 million as at 31 December 2008 to RMB409.2 million as at 30 June 2009, primarily due to an increase in deposits received from customers as a result of increased sales as well as an increase in other payables.

OFF-BALANCE SHEET ARRANGEMENT

We do not have any outstanding derivatives instruments, off-balance sheet guarantees or foreign currency forward contracts. We do not engage in trading activities involving non-exchange trade contracts.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

Interest Rate Risk

We are exposed to interest rate risk resulting from our long-term and short-term borrowings. We undertake borrowings for general corporate purposes and for our expansion needs. Our borrowings with floating interest rates and our short-term time deposits with fixed interest rates are subject to the risk of changes in market interest rates. An interest rate hike increases the cost of new borrowings and interest costs of our outstanding borrowings with floating interest rates.

Subject to certain assumptions, we have conducted a sensitivity analysis to determine our exposure to interest rates. If interest rates had been 100 basis points higher/lower and all other variables had been held constant, our profit before tax would have decreased/increased by approximately nil, RMB0.5 million, RMB1.5 million and RMB0.2 million in 2006, 2007 and 2008 and for the six months ended 30 June 2009 respectively.

The range of effective interest rates on our bank loans was 4.54% to 7.47% during the Track Record Period.

Foreign Exchange Risk

Our Group's businesses are located in the PRC and most of the transactions are conducted in Renminbi. Most of our Group's assets and liabilities are denominated in Renminbi, except for the amount due from one of our related parties which was denominated in United States dollar. We have not used any forward contracts, currency borrowings, or other means to hedge our foreign currency exposure, but we monitor our exposure and consider hedging significant currency exposure should the need arise. Please refer to note 34 of the Accountant's Report in Appendix I to this document for more information.

Credit Risk

We are exposed to credit risk in the event that our customers fail to perform their payment obligations. With respect to credit risk in connection with cash and cash equivalents, amounts due from an associate and related parties and other receivables, our maximum risk exposure is equal to the carrying amount of those financial assets. In order to minimise credit risk, we typically trade with recognised and creditworthy third parties and therefore we do not require collateral from our customers. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant. There are no significant concentrations of credit risk in terms of our customer bases and our trade receivables are dispersed among a number of customers. Further quantitative data in respect of our credit risk arising from trade and other receivables is disclosed in Notes 19 and 20 of the Accountant's Report in Appendix I to this document.

Liquidity Risk

We are potentially exposed to liquidity risk as we had net current liabilities as at 31 December 2006 and 2007, despite net current assets in 2008 and for the six months ended 30 June 2009. Our policy is to maintain sufficient cash and cash equivalents and have available funding through bank and other borrowings to meet our working capital requirements. We systematically and periodically review our risk to a shortage of funds. We evaluate the maturity of both our financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The following table sets forth the maturity profile of financial liabilities as at the dates indicated, based on contractual undiscounted payments.

	As at 31 December 2006			
	On demand	Less than 1 year	Over 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	—	94,526	—	94,526
Other payables and deposits received	—	47,738	—	47,738
Interest-bearing bank loans	—	61,961	—	61,961
Due to related parties	72,195	—	—	72,195
	72,195	204,225	—	276,420

	As at 31 December 2007			
	On demand	Less than 1 year	Over 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	—	208,662	—	208,662
Other payables and deposits received				
- from customer	—	228,242	—	228,242
Interest-bearing bank loans	—	200,951	61,677	262,628
Due to related parties	524,231	—	—	524,231
	524,231	637,855	61,677	1,223,763

	As at 31 December 2008			
	On demand	Less than 1 year	Over 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	—	217,940	—	217,940
Other payables and deposits received				
- from customer	—	286,557	—	286,557
Interest-bearing bank loans	—	324,125	80,082	404,207
Due to related parties	359,396	—	—	359,396
	359,396	828,622	80,082	1,268,100

	As at 30 June 2009			
	On demand	Less than 1 year	Over 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	—	307,015	4,920	311,935
Other payables and deposits received				
- from customer	—	398,361	—	398,361
Interest-bearing bank loans	—	—	—	—
Due to related parties	11,744	—	—	11,744
	11,744	705,376	4,920	722,040

DIVIDEND POLICY

We may in the future distribute dividends by way of cash or by other means that we consider appropriate. A decision to declare and pay any dividends would require the recommendation of our Directors and approval of our Shareholders. Under the Articles, our Directors have the power to pay interim dividends but only if they are justified by the profits of our Company. The decision to pay dividends will be reviewed in light of factors such as the results of our operations, financial condition and position, and other factors deemed relevant.

PRC law requires that dividends be paid only out of the net profit calculated according to PRC accounting principles which differ from generally accepted accounting principles in other jurisdictions, including IFRS. PRC law also requires foreign-invested enterprises such as some of our subsidiaries in China, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends.

Any distributable profits that are not distributed in any given year may be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plans or at all. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Board.

RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set out in Note 32 of the Accountants' Report in Appendix I to this document, our Directors confirm that the transactions were conducted on normal commercial terms and/or terms not less favourable than terms available from independent third-parties, which are considered fair, reasonable and in the interest of the shareholders of our Company as a whole.

Recurring Transactions

We engage in transactions with our SG Group's subsidiary company, Kangfu International, which provides financing for our customers. Revenues from product sales to Kangfu International for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 were nil, RMB5.5 million, RMB159.3 million and RMB97.9 million, respectively.

We also purchase raw materials, parts and components from other subsidiaries of our SG Group. Our purchases of raw materials from Sany Junma (which was our associate during 2007 and 2008) totaled nil, RMB2.7 million, RMB21.8 million and RMB21.6 million for years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively. For the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009, our related party transactions with Sany Heavy Industry (including purchase of pumps, raw materials and other materials procured through Sany Heavy Group) amounted to RMB0.8 million, RMB13.6 million, RMB41.6 million and RMB22.6 million, respectively.

Non-recurring Transactions

We have in the past engaged in a number of non-recurring transactions with fellow subsidiaries of the SG Group which we do not expect to continue. Most such transactions were bank loan guarantees or purchases of property and equipment. These guarantees have been released in full or will be in the future.

We have also sold products to one subsidiary of the SG Group, Sany Heavy Industry, with sales for the year ended 31 December 2008 of RMB4.1 million. For the six months end 30 June 2009, we sold a total of RMB119.4 million of raw materials to Hunan Sany Road Machinery Co., Ltd., Sany Heavy Industry, Sany Heavy Machinery and Shanghai Sany Technology.

We made a number of purchases from related parties. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, we purchased a total of RMB7.6 million, RMB1.0 million, RMB3.0 million and nil of machinery from our related parties. We also purchased RMB118.0 million of raw materials from Synnium Machinery for the six months ended 30 June 2009, which we then sold to Sany Heavy Industry, Sany Heavy Machinery and Shanghai Sany Technology.

At the end of 2007, we entered into procurement contracts of a total of RMB387.1 million with Synnium Machinery for future procurement of raw materials from overseas suppliers in order to assist and support the development of the business of Synnium Machinery and transferred the full contract amount to Synnium Machinery as prepayment. However, at that time, we had not yet procured any raw materials through Synnium Machinery as the intention was to obtain raw materials on an as-needed basis through Synnium Machinery. At that time, we were not aware that Hunan Sany Road Machinery and Hunan Sany Pump Machinery (the "**Subsidiaries of Sany Heavy Industry**"), Sany Heavy Machinery and Shanghai Sany Technology would make purchases of raw materials from Synnium Machinery through us. When we commenced preparations for the [●], we started taking steps to terminate such related party transactions and to clear our related party balances. As a result, Synnium Machinery and we agreed to terminate the procurement contract and Synnium Machinery agreed to refund the prepayment to us. Around the same time, we were aware that the Subsidiaries of Sany Heavy Industry, Sany Heavy Machinery and Shanghai Sany Technology required raw materials from overseas suppliers and at the same time, as a partial settlement of related party balances due from Synnium Machinery, we purchased certain raw materials from Synnium Machinery and resold such materials to the Subsidiaries of Sany Heavy Industry, Sany Heavy Machinery and Shanghai Sany Technology. While the procurement of raw materials is required as part of our busines, the provision of such assistance and support to Synnium Machinery was not necessarily in line with our business strategy. Our non-recurring transaction with Synnium Machinery was a one-time purchase and we do not intend to continue such procurement activities with Synnium Machinery in the future. This one-time transaction had an impact of approximately RMB0.6 million on our profit before taxation for the six months ended 30 June 2009 and had no impact on our inventory and all the inventory had been settled within a short period of time after we acquired the raw materials. Please refer to Note 32 of the Accountants' Report in Appendix I to this document for details.

For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, the amount of guarantees provided by Sany Group or Sany Heavy Machinery or both for our bank loans was RMB60.0 million, RMB245.0 million, RMB385.0 million and nil, respectively.

For the year ended 31 December 2008, we guaranteed bank loans of RMB18.0 million, for Sany Junma. These guarantees were released in full in March 2009. For the year ended 31 December 2007, we had bills payable of RMB61.8 million, guaranteed by Sany Group. For the year ended 31 December 2006, we had bills payable of RMB4.7 million, jointly and severally guaranteed by Sany Group and Sany Heavy Machinery.

Outstanding Balances with Related Parties

As at 31 December 2006, 2007, 2008 and 30 June 2009, we had RMB0.3 million, RMB388.7 million, RMB841.3 million and RMB206.8 million due from related parties. The increase of the amount due from related parties from as at 31 December 2006 to as at 31 December 2007 was mainly because of an amount of RMB 387.1 million due from Synnium Machinery. At the end of 2007, the Group provided RMB 387.1 million as financial assistance to assist Synnium Machinery in the development of its business by entering into procurement contracts with Synnium Machinery for future procurement of raw materials from overseas suppliers. The increase of the amount due from related parties from as at 31 December 2007 to as at 31 December 2008 was mainly because of an amount of RMB417.5 million due from Sany Automotive Manufacturing Co., Ltd. and an amount of RMB217.4 million due from Hunan Automobile Manufacturing Co., Ltd. The Group provided certain financial assistance to assist these related parties to expand their businesses and capture the then-existing market opportunities. The balances due from related parties as at 31 December 2006, 2007 and 2008 and 30 June 2009 included aggregated amounts of approximately RMB0.2 million, RMB1.3 million, RMB0.9 million and nil which were trade in nature, unsecured, interest-free and had no fixed terms of repayment. The remaining balances were non-trade in nature, unsecured, interest-free and repayable on demand. For the six months ended 30 June 2009, the Group had an amount of RMB165.8 million due from Sany Group. This amount is primarily due to the Group's prepayment to Sany Group for the Group's acquisition of Sany Transportation. Pursuant to the Reorganisation, Sany Heavy Equipment acquired 100% interest in Sany Transportation from Sany Group in July 2009.

As at 31 December 2006, 2007, 2008 and 30 June 2009, we had RMB72.2 million, RMB524.2 million, RMB359.4 million and RMB11.7 million due to related parties. The increase in the amount due to related parties from as at 31 December 2006 to as at 31 December 2007 was mainly because of an amount of RMB522.1 million due to Sany Group. Sany Group provided this amount to the Group as financial assistance for (i) the acquisitions of certain lands in Shenyang Economic and Technological Development Area for its new facilities and (ii) the acquisitions of a total of 51% equity stake in Sany Junma. The decrease in the amount due to related parties from as at 31 December 2007 to as at 31 December 2008 was mainly because we made a repayment to Sany Group in 2008. The balances due to related parties as at 31 December 2007 and 2008 included aggregated amounts of approximately RMB0.9 million and RMB0.5 million which were trade in nature, unsecured, interest-free and had no fixed terms of repayment. The remaining balances were non-trade in nature, unsecured, interest-free and repayable on demand.

Amount Due From a Shareholder

As at 31 December 2006, 2007, 2008 and the six months ended 30 June 2009, we had outstanding advances receivable due from a shareholder of RMB0.2 million, RMB1.9 million, RMB4.4 million and RMB0.1 million. The amounts due from the shareholder were non-trade in nature, unsecured, interest-free and had no fixed terms of repayment. The carrying amount of the balance approximated to its fair value.

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Please refer to Note 32 of the Accountants' Report in Appendix I to this document for more information on related party transactions.

DISTRIBUTABLE RESERVES

As at [●], 2009, the Company had no distributable reserves.

PROPERTY INTERESTS AND VALUATION

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued the property interests of our Group at [31 August 2009]. Texts of its letters, a summary of valuation and valuation certificates issued by Jones Lang LaSalle Sallmanns Limited are included in Appendix [IV] to this document.

The table below sets forth the reconciliation of the net book value of our Group's property interests as at [date of last audited accounts] with the valuation of such interests as at [●] as stated in Appendix [IV] to this document:

	RMB'000	HK$'000
Valuation of properties with certificates as at 30 June 2009 as set out in the Valuation Report included in Appendix V	[●]	[●]
[Valuation of properties without certificates as at 30 June 2009 as set out in the Valuation Report included in Appendix V]	[●]	[●]
Net book value of the following properties as at 30 June 2009 as set out in the Accountants' Report of the Company included in Appendix I		
— Properties	[●]	[●]
— Lease payments	[●]	[●]
Less: Depreciation of properties during the period from 1 January 2009 to 30 June 2009 (unaudited)	[●]	[●]
Less: Amortization of lease payments during the period from 1 January 2009 to 30 June 2009 (unaudited)	[●]	[●]
Net book value of properties as at 30 June 2009 subject to valuation as set out in the Valuation Report included in Appendix V	[●]	[●]
Net revaluation surplus	[●]	[●]

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position since 30 June 2009, being the date of our last audited accounts.