SANY HEAVY EQUIPMENT INTERNATIONAL HOLDINGS COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 631

Quality Changes the World

Annual Report **2009**

Contents

Overview

Sany Heavy Equipment International Holdings Company Limited ("Sany International" or the "Company") was incorporated in the Cayman Islands on 23 July 2009. The Company and its subsidiaries (hereinafter collectively referred to as the "Group") is a leading integrated coal mining equipment supplier in China. At present, the Group owns three companies, namely, Sany Heavy Equipment Co., Ltd. ("Sany Heavy Equipment"), Sany Heavy Integrated Coal Mining Equipment Co., Ltd. ("Sany Zongcai") and Sany Group Shenyang Mining Transportation Equipment Co., Ltd. ("Sany Transportation"). On 25 November 2009, Sany International was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and its share price was up by 46.5% on its first trading day.

With its strong capability in technology innovation and in-depth understanding of the coal industry, the Group has made significant achievements in research and development, production and sales of integrated equipment for coal mining, excavation and transportation. The products of the Group cover a comprehensive range of equipment like soft rock excavating, hard rock excavating, coal pillar recycling, excavation and bolting machine with self-supporting function, coal mine concrete pumps, mining vehicles and coal ploughing unit. The Group has also developed and launched its first fully-automated combined coal mining unit using integrated design and manufacture as basic concepts, and the Company is the first domestic company which provides integrated mining equipment and one-stop solutions. Such development has fundamentally changed the single function coal mining machinery design and manufacture mode in China, and leads the product development towards an integrated and intelligent approach in the industry. At present, the Company's products are extensively used in major coal mining regions, including Shanxi, Anhui, Henan, Shaanxi and Inner Mongolia Autonomous Region.

As an industry leader in technology innovation, up to the end of 2009, Sany Heavy Equipment had applied for 275 national patents applications (of which 62 are invention patents), with 144 approved, and had launched about 24 new products or upgrade products, including the high power hard rock mining roadheader (EBZ318H), and the ML340 continuous mining machine, which is the first product of its kind in the domestic market. The Group's production lines have extended comprehensively in many aspects covering tunneling, coal extraction, coal mine vehicles and coal mine concrete delivery equipment, and the Company has become a renowned integrated equipment provider in the industry.

Financial Summary

(RMB'000)	2009	2008	Year-on-year Increase (%)
Sales revenue	1,901,376	1,146,789	65.8%
Gross profit	905,157	534,375	69.4%
Profit before tax	524,827	223,990	134.3%
Net profit	490,432	211,869	131.5%
Profit attributable to Shareholders of the Company	490,432	189,044	159.4%
Profit attributable to Shareholders of the Company (excluding one-off items and revaluation items)[1]	490,432	189,044	159.4%
Total assets	5,458,927	3,122,337	74.8%
Total equity	4,211,743	1,574,571	167.5%
Cash flow from operating activities	505,170	(147,989)	N/A
Cash flow from investing activities	(462)	(455,697)	N/A
Cash flow from financing activities	2,302,501	631,762	N/A
Earnings per share			
— Basic[2] (RMB Yuan)	0.32	0.13	146.2%
— Diluted (RMB Yuan)	0.32	0.13	146.2%

(Percentage)	2009	2008	Increase (%)
Gross profit margin	47.6%	46.6%	1.0%
Percentage of profit attributable to shareholders of the Company[3]	25.8%	16.5%	9.3%
Percentage of profit attributable to shareholders of the Company (excluding one-off items and revaluation items)	25.8%	16.5%	9.3%
Assets turnover	44.3%	47.7%	(3.4%)
Asset — Liability ratio	22.8%	49.6%	(27.2%)
Average total assets	4,290,632	2,402,798	

[1] *The Group has no one-off item and revaluation item.*

[2] *Earnings per share is calculated based on: Before IPO, the Group offered 1.5 billion shares; upon IPO, the Group offered 0.5 billion shares and over-allotted 75 million shares; and the weighted average shares up to 31 December 2009 were 1.554 billion.*

[3] *Profit attributable to shareholders of the Company divided by sales revenues.*

Important Milestones in Year 2009

March

On 20 March 2009, Wen Jiabao, member of the Standing Committee of the Political Bureau of the CPC Central Committee and the Premier of the State Council, visited the Group and said: "I have said before that we will turn Sany into a world-class enterprise. I do hope, with the wisdom and strength of all from Sany, this enterprise can stand firmly at the top of the world."

April

On 1 April 2009, the Group held a plaque opening ceremony for its workstation of academicians (院士工作站) and ushered in a new era in the cooperation between enterprises, institutions of higher learning, and research institutions.

August

On 30 August 2009, Sany Heavy Equipment was reported by the day's "7 PM News" program of CCTV Channel One, China's most viewed news program. The news program commended the company as a leading enterprise in innovation in the industry. According to the program, Sany Heavy Industry was the first company in China to develop and manufacture a continuous miner with proprietary intellectual rights. The continuous miner has achieved mass production and has taken the place of imported products in China.

October

On 27 October 2009, China's 13th International Technology Exchange & Equipment Exhibition on Coal & Mining (第十三屆中國國際煤炭採礦技術交流及設備展覽會) was held at the Beijing Agricultural Exhibition Center. With its complete and advanced coal-mining machinery and equipment display, the Group became the focal point in the exhibition.

November

On 25 November 2009, with one year of hardwork, the Company was successfully listed on the Main Board of the Stock Exchange, which became a landmark and historical event for both China's coal-mining machinery industry and the Group.

December

On 29 December 2009, the Group was granted approval by the Liaoning Provincial Development and Reform Commission to set up a provincial-level engineering laboratory for coal mining equipment.

Chairman's Statement

EBZ318H Hard Rock Roadheader

ZMX-75 Coal Loading Machinery

Coal Ploughing Unit

Chairman's Statement

Mao Zhongwu
Chairman

Dear Shareholders,

On behalf of the board of directors (the "Board") of Sany International, I am pleased to present the first annual report of the Group for the year ended 31 December 2009 since its successful listing on the Main Board of the Stock Exchange on 25 November 2009.

Full Year Review

During the financial year under review, sales revenue of the Group was approximately RMB1,901.4 million, a year-on-year growth of approximately 65.8%. Net profit of the Group for 2009 was approximately RMB490.4 million, a year-on-year growth of approximately 131.5%. Such growth was achieved as a result of the implementation of the Group's comprehensive marketing strategy, steadily achieving the Group's prime production targets, continuously improving its product research & development capability, enhanced efforts in introducing talents and training and endeavour to improve product quality. The Company was listed on the Main Board of Stock Exchange on 25 November 2009 and raised proceeds of HK$2,760.0 million. Part of the proceeds were used to expand the Group's production scale and improve its operating environment. Subject to shareholders' approval, the Board recommended to declare a final dividend of HK6 cents per share for the financial year to reward the shareholders with sharing of the results of the rapid development of the Group.

In 2009, the Group further strengthened its research and development capabilities. The Company completed 102 patent applications, of which 25 were invention patents. The Company also obtained coal mining security certificates for 49 of its products. At the same time, the Group launched new products one after another such as the more powerful EBZ318H hardrock roadheader, combined coal mining units and coal mine transportation vehicles. Such move had procured more satisfactory sales and the Group became one of most important domestic manufacturers covering tunneling and coal extraction equipment and mining vehicles.

Outlook

Looking back at the first quarter of 2010, about 43 accidents occurred in coal mines across China, causing about 310 losses of life. As most of the serious accidents like explosion, collapse and water percolation were concentrated in regions with relatively worse working conditions, hundreds of precious lives were taken away within moments, leaving people with deep regret. The dead are gone, what can the living do? As such, it is necessary and imperative to improve the coal mines working environment and enhance its mechanization standard, an important responsibility entrusted by our nation and people, which is also a social responsibility. Since 2007, the Chinese government has promulgated a series of policies to enhance the mechanization standard of small and medium sized coal mines, with the objective to improve the coal mines' production safety. The Group will actively respond to the government's call for higher safety standards and increase its investment in those products, striving to give back to the society with quality products with highest value.

Since Autumn 2009, unprecedented severe droughts hit vast areas of south-western China. The State Flood Control and Drought Relief Headquarters warned that the whole nation will likely experience a grim situation of drought in both Southern and Northern China in 2010. This will seriously reduce the power generating capacity of hydroelectric power stations with reduced water storage capacity and thus increase the demand for coal power generation for certain regions. Accordingly, the coal production volume for 2010 is expected to have a significant increase compared with previous years. To satisfy the demand due to production expansion by coal enterprises, the Group will strive to improve its product performance and expand its production scale.

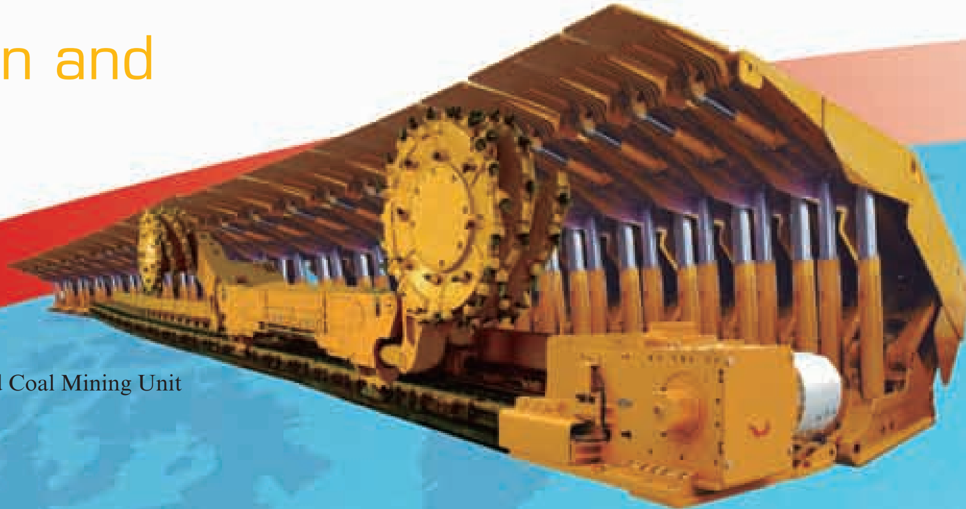
During the long period before the Group entered the coal and machinery industry, the domestic high-end roadheader markets were dominated by overseas coal machinery manufacturers. However, since the Group had launched the then leading EBZ160 roadheaders in the PRC in 2004, the market share of overseas roadheader producers in the PRC gradually decreased year by year. The Group even sold a roadheader to Russia through Sany International Development Ltd. (Hong Kong) (三一國際發展有限公司) ("Sany Development") in 2009. From 2010 onwards, the Group will implement its "going global" strategy comprehensively and is expected to set up four overseas sales outlets in the year, thereby striving to achieve a breakthrough in the Group's 2010 overseas sales volume.

The year of 2010 will also be a critical year for the Group to improve its position as an industry leader and to realize significant achievements. The Group will fully integrate its existing competitive strengthens, continue to enhance its research and development and manufacturing capabilities, strengthen product competitiveness, increase investments in service network building, go closer to and understand its customers, so as to fulfill the diversified needs of its customers. At the same time, the Group will adopt aggressive measures to cope with the rise in raw material prices and continue to implement its operation strategy to continue improving value for money of products, thereby consolidating its competitive strengths and bringing maximum values to its shareholders.

Finally, on behalf of the Board, I would like to express my sincere gratitude to all our dedicated staff for their efforts and contributions as well as our shareholders and customers for their strong support.

Mao Zhongwu
Chairman
Hong Kong, 26 April 2010

Management Discussion and Analysis



Combined Coal Mining Unit

JM11 Bolting Integrated Roadheader

EBZ200H Hard Rock Roadheader

WJD-20FB Support Transportation vehicle

EBZ260H Hard Rock Roadheader

Drilling and Loading Machinery

Management Discussion and Analysis

The Group recorded a turnover of approximately RMB1,901.4 million (2008: approximately RMB1,146.8 million) in 2009, a significant year-on-year growth of approximately 65.8%. Net profit in 2009 was approximately RMB490.4 million (2008: approximately RMB211.9 million), a year-on-year growth of approximately 131.5%. Consolidated gross margin was up from approximately 46.6% in 2008 to approximately 47.6% in 2009.

Business Review

Products

At present, the products of the Group are mainly excavating machines, combined coal mining units and coal mine transportation vehicles. The excavating machines include soft rock excavating, hard rock excavating, coal pillar recycling, excavation and bolting machine with self-supporting function, coal mine concrete pumping equipment; the combined coal mining units include coal mining machines, hydraulic support structures, scrap conveyors; the coal mine transportation vehicle products include shuttle vehicle series, support structure transportation vehicles and lorries.

Product research and development

The Group strives to establish a competitive research and development team and has continued to increase its investments in research and development. The Group aims at producing state-of-the-art products for its customers through research and development for attaining the distinctive competitive advantages over both domestic and international competitors. The Company has already set up a head research institute, focusing on the overall planning and co-ordination of research and development projects. The Company has also set up five other research institutes responsible for the research and development of excavating machines, coal mining machines, scrap conveyors, hydraulic support structure equipment and coal mine transportation vehicles.

The Group mainly focuses its research and development on the development of new products with advanced technology elements so as to enlarge its existing product portfolio. The Group aims at improving the standards in product reliability, efficiency and safety. The Group explores the excavation technology as well as specialized technology and core spare parts localization and thus will enable the Company to provide a one-stop integrated coal mining solution and become an integrated equipment supplier. In 2009, The Group's strengths in research and development were further enhanced. During the year under review, the Group had 102 completed patent applications, of which 25 were invention patents. The Group obtained 49 coal mine safety accreditation certificates and launched new products like the higher power roadheaders, combined coal mining units, and coal mine transportation vehicles. At present, the Group has established strategic relationships with various universities and institutions in scientific research.

Distribution and service network

The Group has 17 sales branches, 16 service centers and 52 service outlets, covering 19 provinces throughout the PRC and are in proximity to major mining sites where its customers operate.

1. Liaoning (Three offices: Liaoxi, Shentie and Shenyang)
2. Heilongjiang and Jilin (“Heiji”) (Four offices: Jilin, Manzhouli, Heilongjiang and Hunchun)
3. Hebei (Two offices: Handan and Tangshan)
4. Shandong (Three offices: Jining, Xintai and Tengzhou)
5. Henan (Seven offices: Shenhuo, Pingdingshan, Xinzheng, Xuchang, Jiaozuo, Youngcheng and Yima)
6. Eastern China (Three offices: Suzhou, Peixian, Fengtai and Huainan)
7. Southern China (One office: Changsha)
8. Jinnan (Three offices: Jinan, Huozhou and Changzhi)
9. Jinbei (Two offices: Datong and Shuozhou)
10. Dongyu (Six offices: Dongsheng, Tongchuan, Jiawan, Yangshita, Yulin and Erdos)
11. Xinjiang (One office: Urumqi)
12. Ningwu (Three offices: Wuhai, Qipanjing and Yinchuan)
13. Shanganqing (Six offices: Tongchuan, Yan’an, Qinghai, Haishiwan, Huating and Xi’an)
14. Chuanyu (Five offices: Datong, Yibin, Panzhihua, Chongqing and Huaying)
15. Xinan (Four offices: Hongguo, Songhe, Shuicheng and Liupanshui)
16. Taiyuan (Three offices: Taiyuan, Yangquan and Lvliang)
17. Zhongyuan (One office: Zhengzhou)
18. Beijing (One office: Haidian District, Beijing)

Financial review

Product analysis

The business of the Group has experienced significant growth, which mainly benefited from: (1) sales income of excavating machines in 2009 in achieving approximately RMB1,521.8 million (2008: approximately RMB1,025.4 million), a year-on-year growth of approximately 48.4%; (2) various new products in achieving sales transactions, including EBZ260H hardrock roadheader, EBZ318H hardrock roadheader, continuous coal mining machines, combined coal mining units and coal mine transportation vehicles.

Excavating machines

Sales income of excavating machines registered a stable growth. However, its ratio to total revenue had dropped due to the gradual diversification of products. In 2009, the absolute sales increment was approximately RMB496.4 million reaching approximately RMB1,521.8 million (2008: approximately RMB1,025.4 million) but its ratio to revenue was down by approximately 9.4% on a year-on-year basis. Such growth was mainly due to the increase in market demand from the coal mining industry in the PRC, the Group's increased efforts in marketing and the market recognition of the Group's products (especially the higher power roadheaders).

Sales volume of EBZ160 and EBZ200 roadheaders increased and the Group realised the sales of its new products EBZ260H and EBZ318H hardrock roadheaders and continuous coal mining machines in 2009, which had contributed tremendously to the total revenue.

New products

The Group launched more new product series in 2009, including the EBZ260H hardrock roadheaders, EBZ318H hardrock roadheaders, continuous coal mining machines, combined coal mining units and coal mine transportation vehicles. Those new products were sold during the year under review.

The new excavating machine products contributed approximately 12.3% to the Group's sales revenue. The Group sold its first combined coal mining units and coal mine transportation vehicles in 2009, contributing over 10% of sales revenue to the Group's turnover.

Spare parts

For sales of parts, the Group maintained an on-going stable growth in its sales with sales income of spare parts reaching approximately RMB162.2 million in 2009, an increase of approximately RMB70.9 million over its sales income in 2008 of approximately RMB91.3 million, a growth of approximately 77.6%.

Regional analysis

In 2009, the main sales income of the Group continuously came from Shanxi, Anhui, Henan, Inner Mongolia Autonomous Region and Shaanxi. The average sales income of these five provinces was above 10% of total revenue. Sales income in Shanxi attributed to approximately 30.6% (2008: approximately 24.9%) of total revenue, a year-on-year growth of approximately 103.6%.

Gross profit and gross margin

Gross profit of the Group for 2009 was approximately RMB905.2 million (2008: approximately RMB534.4 million), a year-on-year growth of approximately 69.4%. Consolidated gross margin of the Group in 2009 was approximately 47.6% (2008: approximately 46.6%), a year-on-year growth of one percentage point. This was mainly due to the record-breaking sales income of high power excavating machines with higher gross margins.

Selling and distribution costs

Selling and distribution costs refer to those charges relevant to the sales and distribution of products, such as salesmen salaries, promotion and advertising, transportation, warranties and other charges.

In 2009, selling and distribution costs of the Group were approximately RMB232.8 million (2008: approximately RMB165.6 million), a year-on-year increase of approximately 40.6%.

The overall increase was mainly due to the growth in sales that led to the increase in sales staff, increase in marketing and promotion efforts, product transportation and warranties. The increase in marketing and promotion efforts was mainly the increment in advertising coverage in coal mining periodicals, exterior advertisements and internet advertisement coverage. The Group also increased its participation in product exhibitions and had increased its product exposure in exhibitions, leading to an increase in promotion expenses. With the expanding business of the Group, sales staff also increased correspondingly and thus staff salaries and relevant expenses were also up. The absolute increment amount in transportation costs was due to the increase in sales. Its ratio to total revenue dropped due to the change of payment arrangement initiated by the Group whereby customers are responsible for transportation costs. The increase in warranties expenses was mainly due to the increase in sales.

In 2009, the ratio of selling and distribution costs of the Group to revenue was approximately 12.2% (2008: approximately 14.4%), a year-on-year decrease of approximately 2.2%. This decrease was a result of improved economies of scale.

Administrative expenses

Administrative expenses mainly include research and development expenses, management salaries, traveling expenses, office expenses and other charges.

In 2009, administrative expenses of the Group were approximately RMB171.3 million (2008: approximately RMB 113.6 million), a year-on-year growth of approximately 50.8%. Such increase was mainly due to the expansion of administration management in supervising the growth of the Group, increase in investments in research and development and the related expenses of the Company's listing in 2009.

In 2009, the ratio of administrative expenses of the Group to revenue was approximately 9.1% (2008: approximately 9.9%), a year-on-year decrease of approximately 0.8%. Such a decrease was also due to the economies of scale.

Finance costs

Finance costs were approximately RMB3.8 million in 2009 (2008: approximately RMB21.2 million). The decrease in finance costs was mainly due to the fact that all bank borrowings were repaid in March 2009.

Taxation

Sany Heavy Equipment, a wholly-owned subsidiary of the Group, is a high new technological enterprise in Liaoning Province and is entitled to enjoy preferential tax treatments. Its enterprise income tax rate in 2009 was 10% with effective tax rate being 6.6% (2008: effective tax rate being 5.4%). The income tax increased from approximately RMB12.1 million in 2008 to approximately RMB34.4 million in 2009, of which enterprise income tax was approximately RMB37.1 million (2008: approximately RMB20.3 million) and deferred tax income was approximately RMB2.7 million (2008: approximately RMB8.2 million). The increase in income tax was mainly due to the increase in sales. For details regarding deferred tax, please refer to note 27 to the financial statements.

Profit Attributable to Equity Holders of the Company

The Group achieved a profit attributable to equity holders of approximately RMB490.4 million (2008: approximately RMB189.0 million), increased by approximately RMB301.4 million, as compared with the year of 2008. Basic earnings per share rose by approximately 146.2% to RMB0.32 Yuan from RMB0.13 Yuan in 2008.

Liquidity and financial resources

Cash and cash equivalent of the Group mainly come from the cash flow deriving from operating activities and financing activities.

As at 31 December 2009, cash and cash equivalent of the Group was approximately RMB2,865.8 million (2008: approximately RMB59.8 million), including bank deposits of approximately HK$2,645.3 million.

As compared with the year of 2008, cash and cash equivalent increased by approximately RMB2,806.0 million, which mainly came from the net cash inflow of operating activities of approximately RMB505.2 million, net cash outflow of investing activities of approximately RMB0.5 million, net cash inflow of financing activities of approximately RMB2,302.5 million, and the net effect of foreign exchange rates changes of approximately RMB1.2 million.

As at 31 December 2009, net current assets of the Group were approximately RMB3,633.9 million (2008: approximately RMB783.5 million). The Group financed its operation through operating activities and financing activities. As at 31 December 2009, cash and cash equivalent of the Group was approximately RMB3,095.8 million (2008: approximately RMB59.8 million). As at 31 December 2009, the current ratio of the Group was approximately 469.0% (2008: approximately 164.7%). This was mainly due to the raising of capital through listing that had led to an increase in bank deposits and repayment of all the long and short bank loans.

As at 31 December 2009, total assets of the Group were approximately RMB5,458.9 million (2008: approximately RMB3,122.3 million) and total liabilities were approximately RMB1,247.2 million (2008: approximately RMB1,547.8 million). As at 31 December 2009, the asset to liability ratio was approximately 22.8% (2008: approximately 49.6%).

As at 31 December 2009, the Group did not have any bank borrowing and hence, the gearing ratio was not applicable to the Group.

Trade and bills receivable

Trade receivables of the Group in 2009 were approximately RMB596.0 million (2008: approximately RMB291.5 million), a year-on-year increase of approximately 104.4%; provision for bad debts of the Group in 2009 was approximately RMB30.3 million (2008: approximately RMB9.8 million), a year-on-year increase of approximately 209.2%.

Bills receivable of the Group in 2009 were approximately RMB251.7 million (2008: approximately RMB182.1 million), a year-on-year increase of approximately 38.2%.

The average turnover days of its trade and bills receivable increased from 106.8 in 2008 to 126.8 in 2009.

The main reasons of aforesaid increase in trade receivables were: (1) increase in product sales and deliveries to customers, which was in line with business growth; (2) extension of trade receivables credit period to some customers with better reputation and longer business relationship; (3) the coal machine industry where the business of the Group is engaged in is a low risk industry, and hence, the Group has formulated special contractual terms to certain premium customers.

The Group strives to exert stringent control on any outstanding receivables and had set up a risk control department to minimize credit risks. At the same time, the Group has also set up accountability systems for tackling overdue receivables with senior management, who carries out itemized analyses for overdue amounts and follows up its collection.

Inventory

Net inventory value of the Group in 2009 was approximately RMB558.2 million (2008: approximately RMB373.8 million) which mainly reflected the increase in raw materials sourcing and finished goods as a result of sales increase and the expected higher market demand for its products in keeping more finished goods.

The average turnover days in inventory decreased from 186.0 in 2008 to 173.9 in 2009. This was due to the Group's better understanding of its products in terms of market supply which provided the Group a better estimate of customer demand on its products and enhance the inventory control of its raw material and finished goods.

Pledged assets

As at 31 December 2009, bills of the Group under pledged was approximately RMB81.6 million (2008: approximately RMB31.2 million), bank guarantee amount of approximately RMB69.0 million (2008: approximately RMB21.7 million), for obtaining the banking facility granted to the Group.

Contingent liabilities

As at 31 December 2009, the Group had no contingent liability (2008: approximately RMB18 million). This was mainly due to the release of bank guarantee for the bank loans granted to Ningxia Sany Northwest Junma Motor Manufacture Co., Ltd. (寧夏三一西北駿馬電機製造股份有限公司) (hereinafter referred to as "Sany Junma").

Capital commitment

As at 31 December 2009, the contracted capital commitments of the Group which are not provided in the financial statements were approximately RMB253.0 million (2008: approximately RMB136.2 million). Such capital commitments were mainly for the purchase of property, plant and equipment.

Employees and remuneration policy

As at 31 December 2009, the Group had 3,045 employees (2008: 2,431 employees). For the year ended 31 December 2009, total employee costs were approximately RMB138.9 million (2008: approximately RMB116.7 million).

The Group also provides internal training, external training and correspondence courses for its staff with an aim for self-improvement and enhancement of their skills relevant to work. In addition, the Group paid year-end bonuses to staff to reward them for their contributions and dedication to the Group. The remuneration of the directors of the Company ("Directors") was determined with reference to their positions, responsibilities and experience and prevailing market conditions.

Foreign exchange risk

The business of the Group is located in the PRC and most of the transactions are carried out in Renminbi. Most of the assets and liabilities of the Group are computed in Renminbi, except that the raising of capital of approximately HK$2,760.0 million on 25 November 2009 was denominated by foreign currency. As at 31 December 2009, the Group's foreign currencies was approximately HK$2,645.3 million. The Group does not utilize any future contracts, currency borrowings and otherwise to hedge against its foreign exchange risk. However, the Group will monitor the risk exposures and will consider to hedge against material currency risk if required.

In coping with foreign exchange risk, the Group uses the raw materials bulk purchase strategy to counteract such risk. The prepayments of raw materials will lower purchasing costs and thus reducing foreign exchange losses.

Acquisition of a subsidiary and disposal of an associate

The Group had the following acquisitions and disposals in 2009:

(1) On 31 May 2009, Sany Heavy Equipment transferred its 51% equity interests in Sany Junma to Sany Group Co. Ltd. ("**Sany Group**") at a consideration of RMB141.5 million. The consideration of such acquisition was determined with reference to the book value of Sany Junma as at 31 May 2009.

(2) On 23 July 2009, Sany Group transferred all its equity in Sany Transportation to Sany Heavy Equipment at a consideration of RMB166.8 million.

Use of proceeds from the Company's initial public offering

The Company was listed on the Stock Exchange on 25 November 2009 and raised proceeds of HK$2,760.0 million. Details of the use of proceeds have been set out in the Prospectus. These proceeds were applied during the year ended 31 December 2009 with the remaining sum of approximately HK$2,646.0 million being unutilised as at 31 December 2009, as follows:

— approximately HK$0.6 million was used for construction of new production facilities and related infrastructure in Shenyang Economic and Technological Development Area;

— approximately HK$3.7 million was used for upgrading and expansion of the Group's existing production facilities and to finance construction costs; and

— approximately HK$109.7 million was used for working capital and other general corporate purposes, and payment of certain listing expenses.

In March 2010, the Board evaluated the timing for the payment with regard to the expansion of the Group's existing and new production facilities, and the low interest rate offered by banks on the unused proceeds held by the Company. With the low interest-rate environment and the reduced procurement costs that would result from prepayment and bulk-purchasing of raw materials, and parts and components to be used in the Group's production, the Board considered that the proceeds would be better utilized and the redesignation of use is beneficial to and in the interest of the shareholders of the Company. Accordingly, the Board on 18 March 2010 resolved to apply an additional amount of approximately HK$665.8 million out of the proceeds for general working capital purposes, and prepaying and increasing its purchases of raw materials, and parts and components including steel for its production.

Prospect

As the coal resources consumption structure will not undergo any drastic change and the future coal consumption in the PRC will continue to grow steadily. This has implied a strong demand for coal mining machines. At the same time, the PRC government is carrying out a series of significant measures like what the document "Certain Opinions On Accelerating the Rejuvenation of Equipment Manufacturing Industry" of the State Council had revealed: it is necessary to "develop large-scale integrated coal mining, transporting and washing equipment in China and realize the use of large-scale integrated coal mining, transporting and washing equipment" produced by Chinese manufacturers. The Eleventh Five-Year Plan of the PRC government has indicated clearly the construction of 13 bases of 1 trillion tones capacity each, 10 modernized open coal mines of over 10 million capacity each and 10 safe and highly efficient coal mines of over 10 million capacity each to support the economic development. At the same time, the PRC government requires, by 2010, the mechanization rate of large, medium and small coal mines will reach 95%, 80% and 40% respectively so as to improve the utilization rate of resources and to ensure safe production in coal mining. Furthermore, the PRC government regulates and reorganizes small- and medium-sized coal mines stringently and encourages the construction of large coal mine bases. The Group is increasing its production capacity to cope with these demands. It is expected that both production and sales in 2010 will continue to grow.

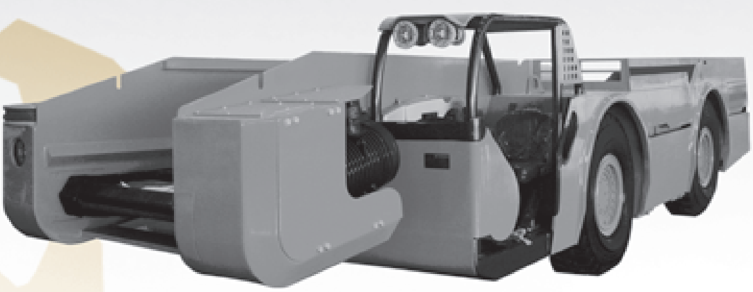
It is expected that in 2010, the Group will gradually complete the construction of the production facility, office building, service center complex of its new site at No. 25 Development Road, Shenyang Economic And Technology Development Zone, Liaoning Province, PRC. It is expected that when the new production facility is put into use, it will enhance the production capacity of the Group significantly.

At the same time, with the strong research and development capabilities of the Group, the Group is the leading integrated coal mining machinery manufacturer in the PRC. The Group is equipped with strong manufacturing capabilities and advanced production system and are able to supply integrated mining equipment and one-stop solution according to the specified requirements of its customers. The Group has set up an integrated service mechanism and can provide fast, efficient and comprehensive services to its customers. The Group has a management team with industry experience and skilled workers. With the above competitive strengths, the Group is confident of having a bright and promising future.

Directors and Senior Management

ML340 Continuous Mining Machinery

ZZL10000-30-50
Crawler Hydraulic Support System



SC15-111 Shuttle Car

Directors and Senior Management

Executive Directors

Mr. Mao Zhongwu (毛中吾), aged 48, was appointed as the Chairman of the Company on 23 July 2009. From July 2009 to April 2010, he was also the Chief Executive Officer of the Company. Mr. Mao is and has been the chairman of Sany Heavy Equipment since July 2006, and he was also the general manager of Sany Heavy Equipment between July 2006 and April 2010. Mr. Mao is also and has been an executive director of Sany Zongcai and Sany Transportation since their establishment in May 2008 and September 2009, respectively. He is mainly responsible for the Group's overall strategy planning and investment decisions. Mr. Mao has more than 25 years of experience in the machinery industry.

Mr. Mao is currently a non-executive director of Sany Group and does not have any executive functions in Sany Group. He founded Sany Group in 1989 and was mainly responsible for business development. He subsequently took on different positions in Sany Group's various subsidiaries and became a director of Sany Group in 2000 and was appointed as vice chairman of Sany Group between June 2005 and June 2006. During his tenure in Sany Group, Mr. Mao was granted the honorary title of "Pioneering Star (創業之星)" by the Research Development Centre of the State Council (國務發展研究中心). Mr. Mao was also elected as vice president of the Loudi Industrial and Commercial Union, Hunan Province (湖南省婁底工商聯) in 2000.

Mr. Mao received professional training in Economics and Management from the National University of Singapore in 1999.

Mr. Liang Jianyi (梁堅毅), aged 53, was appointed as executive Director of the Company on 23 July 2009. Mr. Liang has been the deputy general manager, chief engineer and head of the research institute of Sany Heavy Equipment since June 2009. He is also and has been an executive director of Sany Heavy Equipment and Sany Zongcai since July 2008 and May 2008, respectively. Mr. Liang currently does not have any interest in, nor does he hold any positions or have any roles in the Sany Group. Mr. Liang has more than 25 years of experience in the machinery industry.

Mr. Liang joined Sany Heavy Equipment in May 2004 as assistant general manager and head of the research institute. Between February 1996 and May 2004, Mr. Liang served as the assistant general manager at Sany Group, mainly responsible for manufacture and production. Currently, Mr. Liang does not hold any director or senior management roles in Sany Group. Prior to joining Sany Group, Mr. Liang worked in the technology section of Changsha Transformer Factory (長沙變壓器廠工藝處) from December 1989 to February 1996 assuming the positions of Large Tool Design Engineer (大型工裝設計工程師), deputy section chief and section chief. Between 1982 and 1989, Mr. Liang worked for Hunan Province Coal Mine Machinery Factory (湖南省煤礦機械廠機修車間) and served in several positions during his stay, such as technician, leader of technology team, large tool design engineer in the technology division, deputy chief and chief of the scientific research institute.

Mr. Liang received a Master's Degree in Management Science and Engineering, major in Business Management, in 2003 at Central South University (中南大學).

During his tenure at Sany Heavy Equipment, Mr. Liang was awarded numerous prizes. He was awarded the title of "outstanding corporate management worker" (優秀企業管理工作者) by Shenyang Federation of Industrial Economics (瀋陽市工業經濟聯合會), Shenyang Enterprise Confederation (瀋陽市企業聯合會) and Shenyang Enterprise Directors Association (瀋陽市企業家協會) in 2008 for advancing a system of innovative corporate management in Shenyang City. In 2009, Mr. Liang was also designated as a "Labour Model" (勞動模範) by Shenyang Tiexi Area Committee of Shenyang Tiexi Area People Government (瀋陽市鐵西區人民政府中共瀋陽市鐵西區委員會).

Non-executive Directors

Mr. Xiang Wenbo (向文波), aged 48, was appointed as non-executive Director of the Company on 23 July 2009. He is also and has been a non-executive director of Sany Heavy Equipment since January 2004. Mr. Xiang has more than 20 years of experience in the machinery industry. Mr. Xiang is currently the president and vice-chairman of Sany Heavy Industry Co., Ltd. ("Sany Heavy Industry"), a subsidiary of Sany Group, and is responsible for its overall business operations and strategy planning.

Mr. Xiang joined Sany Group in 1991 and was mainly responsible for the production business and marketing. Mr. Xiang has served various positions in Sany Group, such as the vice president, executive president, standing director and general manager of the marketing department under Sany Group, and the standing vice general manager and general manager of Sany Heavy Industry. Mr. Xiang has also assumed several social positions, such as being a representative of the 11th National People's Congress (第十一屆全國人大代表), a standing director of China Construction Machinery Association (中國工程機械工業協會), the vice president of Industrial and Commercial Union in Hunan Province (湖南省工商聯合會), the vice president of the Direct Private Enterprise Association in Hunan Province (湖南省直私營企業協會), and a director of Association of Private-owned Sci-Tech Enterprise in China (中國民營科技企業協會). Mr. Xiang graduated from Dalian University of Technology (大連理工大學) with a master's degree in Moulding from the Materials department in October 1988.

Mr. Huang Jianlong (黃建龍), aged 47, was appointed a non-executive Director of the Company on 23 July 2009. He has also been a non-executive director of Sany Heavy Equipment since January 2004. Mr. Huang has more than 20 years of experience in the machinery industry. Mr. Huang is currently a director and vice-president of Sany Heavy Industry and the general manager of Shanghai Sany Technology Co., Ltd.. Mr. Huang joined Sany Group in 1992 and was mainly responsible for the financial, production and overseas business. Mr. Huang has served in various positions at Sany Group, such as the manager of the machine plant, the manager of the super-hard materials plant, the finance manager, the assistant general manager, the deputy general manager and the general manager of Sany Heavy Industry. Mr. Huang was the general manager of Sany Development, Middle East branch, in 2007, and the general manager of Sany Development in 2008. Before joining Sany Group, Mr. Huang worked in Hunan Ferroalloy Factory (湖南鐵合金廠) between 1983 and 1991 as an assistant engineer and subsequently worked as an engineer. Mr. Huang graduated with a bachelor degree in Metallic Materials from Central South University (中南大學) in July 1983 and also obtained a master degree in Business Administration from Wuhan University (武漢大學) in June 2008.

Mr. Wu Jialiang (吳佳梁), aged 48, was appointed a non-executive Director of the Company on 23 July 2009. He has also been a director of Sany Heavy Equipment since January 2004. Mr. Wu joined the Group in 2003 and was the general manager of Sany Heavy Equipment from January 2004 to August 2007. Mr. Wu is currently also a vice president of Sany Group and the general manager of Sany Electric Co., Ltd. (三一電氣有限責任公司), a subsidiary of the Sany Group. Mr. Wu has more than ten years experience in the machinery industry.

Mr. Wu started his career in the Changzheng Machinery Factory, Aerospace Department (航天部四川長征機械廠) as a technician from 1982 till 1985. During the years 1988 to 1997, Mr. Wu served as the general manager of various companies, including HRB Zhongguang Electronics Co., Ltd. (哈爾濱中光電氣公司), Zhuhai Tiancheng Mechanical Equipment Co., Ltd. (珠海天成機電設備有限公司) and Zhuhai Weier Jinka Co., Ltd. (珠海威爾金卡有限公司). Between 1998 and 2002, Mr. Wu worked as an assistant to the chairman U.S. representative in Harbin Industrial University Xinghe Industrial Co., Ltd. (哈爾濱工業大學星河有限公司).

Mr. Wu graduated with a bachelor's degree in Precise Machinery Manufacturing from National University of Defence (中國人民解放軍國防科學技術大學) in 1982 and obtained a master's degree in Mechanical Engineering from Harbin Industrial University (哈爾濱工業大學) in 1987.

Independent non-executive Directors

Mr. Xu Yaxiong (許亞雄), aged 64, was appointed an independent non-executive Director of the Company on 5 November 2009. Mr. Xu is currently the President of the China National Coal Machinery Industry Association (中國煤炭機械工業協會).

Mr. Xu worked as head of the mechanical and electrical section of the Capital Construction Engineer Corps 41st Team (基建工程兵第四十一支隊) between 1965 and 1983 and was the team leader and deputy party committee secretary (assistant department level) in No. 2 Construction Company of the Ministry of Coal (煤炭部第二建設公司) between 1983 and 1985. From 1985 to 1994, Mr. Xu served several positions such as deputy director and director of the general office in Northeast Inner Mongolian Coal United Company (東北內蒙古煤炭聯合公司). Thereafter, between 1994 and 2007, Mr. Xu worked in the general office of Ministry of Coal Industry (煤炭工業部辦公廳) subsequently and the State Administration of Work Safety (國家安全生產監督管理總局), assuming various positions including deputy director and director. In June 2007, Mr. Xu joined the China National Coal Machinery Industry Association (中國煤炭機械工業協會) and was elected as president.

Mr. Ngai Wai Fung (魏偉峰), aged 48, was appointed an independent non-executive Director of the Company on 5 November 2009. Mr. Ngai is currently a vice president of the Hong Kong Institute of Chartered Secretaries and a chairman of its membership committee, a director and head of listing services of KCS Hong Kong Limited formerly the corporate and commercial divisions of KPMG and Grant Thornton, respectively, (an independent integrated corporate services provider).

Mr. Ngai is currently an independent non-executive director and a member of the Audit Committee of Franshion Properties (China) Limited (方興地產(中國)有限公司) and China Railway Construction Corporation Limited (中國鐵建股份有限公司), and an independent non-executive director and chairman of the Audit Committee of Bosideng International Holdings Limited (波司登國際控股有限公司), Bawang International (Group) Holdings Limited (霸王國際(集團)控股有限公司) and Powerlong Real Estate Holdings Limited. (寶龍地產控股有限公司), all of which are companies listed on the Stock Exchange.

Mr. Ngai has led or participated in a number of significant corporate finance projects including listing, mergers and acquisitions as well as issuance of debt securities, and the provision of professional services and support to many state-owned enterprises and red-chip companies in the areas of regulatory compliance, corporate governance and secretarial services.

Mr. Ngai received a master's degree in Business Administration from Andrews University of Michigan in 1992 and also a master's degree in Corporate Finance from Hong Kong Polytechnic University in 2002. He is a doctoral candidate in Finance at Shanghai University of Finance and Economics. Mr. Ngai is a member of the Association of Chartered Certified Accountants in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants, a fellow of the Institute of Chartered Secretaries and Administrators and a fellow of the Hong Kong Institute of Company Secretaries.

Mr. Ng Yuk Keung (吳育強), aged 45, was appointed an independent non-executive Director of the Company on 5 November 2009. Mr. Ng is currently the honorary adviser of China Huiyuan Juice Group Limited (中國匯源果汁集團有限公司).

He is also an independent non-executive director of Xinjiang Xinxin Mining Industry Co., Ltd. (新疆新鑫礦業股份有限公司), Beijing Capital Land Ltd. (首創置業股份有限公司) and Zhongsheng Group Holdings Limited (中升集團控股有限公司), all of which are companies listed on the Stock Exchange.

Mr. Ng worked with PricewaterhouseCoopers for over 12 years from 1988 to 2001. From 2004 to 2006, he was the deputy chief financial officer, joint company secretary and qualified accountant of Irico Electronics Group Company Limited (彩虹集團電子股份有限公司), a company listed on the Stock Exchange. From 2006 to 2010, he was the vice-president, the chief financial officer, company secretary and the qualified accountant of China Huiyuan Juice Group (中國匯源果汁集團).

Mr. Ng graduated from The University of Hong Kong with a bachelor degree in Management Studies and Economics and a master degree in Global Business Management and E-commerce. He is a professional accountant and a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and a member of the Institute of Chartered Accountants in England and Wales.

Senior Management

Mr. Zhou Wanchun (周萬春), aged 42, was appointed Chief Executive Officer of the Company on 26 April 2010. On the same date, he was also appointed as the general manager of Sany Heavy Equipment. Mr. Zhou joined Sany Group in 1991 and worked successively in Sany Group Material Industry Co., Ltd. (三一集團材料工業有限公司), Hunan Zhongfa Asset Management Co., Ltd. (湖南中發資產管理有限公司) and Sany Heavy Industry as the department head of legislative affairs, the general manager of Hunan Zhongfa Asset Management Co., Ltd. and deputy general manager of Sany Heavy Industry, respectively. He served as the standing vice general manager of pump department and the general manager of sales department in October 2007. Mr. Zhou assumed the positions of vice president and the standing vice general manager of pump department of Sany Heavy Industry in February 2009, responsible for the daily marketing service. Mr. Zhou has more than twenty years of experience in the machinery industry.

Mr. Zhou was graduated from Macau University of Science and Technology with a master's degree in Law. He also graduated with a degree of Executive Master of Business Administration (EMBA) from Wuhan University (武漢大學) in the same year. He is currently pursuing an EMBA in Guanghua School of Management, Peking University.

During his employment in Sany Heavy Industry, Mr. Zhou was awarded numerous prizes including "Sany Figures" for Year 2004 and "Excellent Manager" of Management Committee of Changsha Economic and Technology Development Zone of Communist Party of China (中共長沙經濟技術開發區管委會) awarded in May 2008. In respect of academic research, Mr. Zhou has created a new mortgage mode in construction machines industry in China and published a lot of articles at numerous provincial level magazines such as "World of Entrepreneurs". He participated in the compilation of the book "行政法與行政訴訟法2003年度司法考試名師指導" in 2003. Mr. Zhou has achieved remarkable accomplishments in mechanical manufacturing, law, and finance.

Mr. Wang Zhiqiang (王志強), aged 36, is the executive deputy general manager of the Company. Mr. Wang has more than 10 years of experience in the machinery industry. Since 2009, Mr. Wang assumed the position of executive deputy general manager in Sany Heavy Equipment. From January 2002 to June 2009, Mr. Wang assumed numerous positions while working in the various departments in Sany Group, such as the bulldozer research centre, the bulldozer customer service department, integrated management division of customer service department, the secretarial and supervisory department of the president's office (董事長辦公室文秘督辦部), the executive department in Loudi Zhongyuan Machinery Co., Ltd. (婁底市中源機械有限公司) and Sany Heavy Industry. In April 2008, Mr. Wang was appointed deputy general manager of Sany Group.

Before joining Sany Group, Mr. Wang worked in the Special Electric Appliance Research Institute of Xiangtan Electronic & Machinery Co., Ltd. (湘潭電機股份有限公司特種電氣研究所) for three and a half years.

Mr. Wang studied in Xi'an Jiaotong University from September 1994 to July 1998, majoring in Chemical Machinery and Equipment. He is currently pursuing an EMBA in China Europe International Business School.

Mr. Liu Wei Li (劉偉立), aged 47, is the general manager of the sales department of the Company. He is also and has been a director of Sany Transportation since September 2009. Mr. Liu has more than 10 years of experience in the machinery industry. Mr. Liu has been the general manager of the sales department and the vice-president in Sany Heavy Equipment since 2006. From 1996 to 2006, Mr. Liu worked in Sany Group and assumed the positions of operator, the department head and president's assistant. Prior to joining Sany Group, Mr. Liu worked as a manager in Changsha Clothing Industry Company (長沙市服裝工業公司) between 1991 and 1995 and in Changsha No. 2 Textile Printing and Dyeing Factory (長沙第二紡織印染廠) between 1978 and 1991.

Mr. Liu received in-service training at the Textile Administrator's College in China (中國紡織政治函授學院) between 1985 and 1987 and also received an EMBA from Sun Yat-sen University in Guangdong Province, China in 2003.

Mr. Du Xing (杜興), aged 41, is the chief financial officer of Sany Heavy Equipment and has assumed this position since 2006. Mr. Du has more than 10 years of experience in the machinery industry. From 2001 to 2006, Mr. Du assumed the position of financial manager of Sany Group. Before joining Sany Group, Mr. Du was the financial manager of the Guangzhou branch of Shenzhen Konka Telecommunication Technology Co., Ltd. (深圳康佳通信科技有限公司) from 1999 to 2001 and was the chief financial and auditing officer of Yueyang Engineering Company (岳陽工程公司) from 1993 to 1999.

Mr. Du graduated from the Shanghai University of Finance and Economics (上海財經大學) in June 1993 with a bachelor degree in Economics and has also received MBA training for financial executives from the Shanghai National Accounting Institute. He received an Executive Master of Business Administration degree awarded by Arizona State University WP Carey School of Business (美國亞利桑那州凱瑞商學院).

Joint Company Secretaries

Mr. Du Xing (杜興) is a member of the senior management of the Company and one of the joint company secretaries of the Company. Please refer to his biography under the paragraph headed "— Senior Management" above.

Ms. Kam Mei Ha Wendy (甘美霞), aged 42, is one of the joint company secretaries of the Company. Ms. Kam is a senior manager of the Corporate Services Division of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. Ms. Kam is a Chartered Secretary, and an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Currently, Ms. Kam also serves as the company secretary of China CITIC Bank Corporation Limited (中信銀行股份有限公司) and China Communications Construction Company Limited (中國交通建設股份有限公司), both of which are companies listed on the Stock Exchange. She has over 18 years of experience in the corporate secretarial practice.

Directors' Report

The Board is pleased to present the audited financial statements of the Group for the year ended 31 December 2009.

General Information

The Company was incorporated in the Cayman Islands on 23 July 2009 under the Companies Law, Chapter 22, of the Cayman Islands with limited liability.

In preparing for the listing of the Company's shares on the Main Board of the Stock Exchange, the Group has undergone a structural reorganization since 1 June 2009. As a result, the Company became the holding company of each of the companies currently comprising the Group. Details of the reorganization are set out in the Prospectus. The shares of the Company were listed on the Main Board of the Stock Exchange on 25 November 2009.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year under review.

Results and Distribution

The results of the Group for the year ended 31 December 2009 are set out in the financial statements on pages 42 to 43.

The Directors proposed to recommend the payment of a final dividend of HK6 cents per ordinary share for the year ended 31 December 2009 to the shareholders on the register of members on 24 June 2010 at the forthcoming annual general meeting of the Company to be held on 25 June 2010, and the payment of final dividends will be in cash. This recommendation has been incorporated in the financial statements as an allocation of share premium within the equity section of the balance sheet.

The final dividend of HK6 cents per share is subject to approval by the shareholders in general meeting. Such dividend will be distributed from the share premium of the Company. In the opinion of the Directors, such distribution is in compliance with the Articles of Association adopted by the Company on 5 November 2009, which states that dividend may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution dividend may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law of the Cayman Islands; subject to the provisions of its Memorandum of Association or Articles of Association and provided that immediately following the distribution or paying dividend the Company will be able to pay its debts as they fall due in the ordinary course of business.

Financial Statements

The summary of the results, assets and liabilities of the Group for the year ended 31 December 2009 is set out on pages 42 to 45.

Reserves

Movements in the reserves of the Company during the year under review are set out in note 29 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2009, the Company's reserves, including the share premium account, available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands ("Companies Law"), amounted to approximately RMB3,815.4 million, of which approximately RMB109.6 million has been proposed as a final dividend for the year. Under the Companies Law, a company may make distribution to its shareholders out of the share premium account under certain circumstances.

Share capital

Changes in share capital of the Company for the year ended 31 December 2009 and as at that date are set out in note 28 to the financial statements.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, which would oblige the Company to offer new shares to existing shareholders on a pro-rata basis.

Share Option Scheme

No share option scheme has been adopted by the Company since its listing on the Stock Exchange on 25 November 2009.

Major Suppliers and Customers

During the year under review, the aggregate sales attributable to the Group's five largest customers comprised approximately 17.0% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 5.2% of the Group's total sales. The aggregate purchases during the year under review attributable to the Group's five largest suppliers were approximately 28.1% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 6.8% of the Group's total purchases.

So far as is known to the directors, none of the directors, their associates or substantial shareholders owns more than 5% of the Company's issued share capital nor had any interest in the share capital of any of the five largest customers and suppliers of the Group.

Bank Borrowings

Particulars of bank borrowings of the Group as at 31 December 2009 are set out in note 24 to the consolidated financial statements.

Donations

Charitable and other donations made by the Group during the year under review amounted to approximately RMB0.3 million (2008: approximately RMB0.2 million).

Property, Plant and Equipment

During the year ended 31 December 2009, the Group held property, plant and equipment of approximately RMB402.3 million. Details of the movements are set out in note 14 to the consolidated financial statements. The valuation of the Group's land and buildings as disclosed in the Prospectus were RMB606.3 million as at 31 August 2009. Had the Group's

buildings been included in these financial statements at such valuation amount throughout the year ended 31 December 2009, an additional depreciation charge of RMB1.4 million would have been changed to the consolidated income statement for the year ended 31 December 2009.

Purchase, Sale or Redemption of the Company's Shares

The Company has not redeemed any of its listed shares during the year ended 31 December 2009. Neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the listed shares of the Company during the year ended 31 December 2009.

Directors

The directors in 2009 comprised:

Executive Directors:
Mr. Mao Zhongwu *(Chairman and Chief Executive Officer) (appointed on 23 July 2009)*
Mr. Liang Jianyi *(appointed on 23 July 2009)*

Non-executive Directors:
Mr. Xiang Wenbo *(appointed on 23 July 2009)*
Mr. Huang Jianlong *(appointed on 23 July 2009)*
Mr. Wu Jialiang *(appointed on 23 July 2009)*

Independent non-executive Directors:
Mr. Ngai Wai Fung *(appointed on 5 November 2009)*
Mr. Ng Yuk Keung *(appointed on 5 November 2009)*
Mr. Xu Yaxiong *(appointed on 5 November 2009)*

In accordance with article 84 of the Company's articles of association, each of Mr. Mao Zhongwu, Mr. Liang Jianyi, Mr. Xiang Wenbo, Mr. Huang Jianlong, Mr. Wu Jialiang, Mr. Ngai Wai Fung, Mr. Ng Yuk Keung and Mr. Xu Yaxiong will retire from the office of Director by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

Directors' Service Contracts

Each of the executive Directors and the non-executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from 25 November 2009, whereas each of the independent non-executive Directors has entered into a letter of appointment with the Company and is appointed for an initial term of three years commencing from 25 November 2009.

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Confirmation of Independence

The Company has received from each of the independent non-executive Director an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

Directors' Remuneration

The Remuneration Committee considers and recommends to the Board the remuneration and other benefits paid by the Company to the Directors. The remuneration of all Directors is subject to regular monitoring by the Remuneration Committee to ensure that the levels of their remuneration and compensation are appropriate. Details of Directors' remuneration are set out in note 8 to the financial statements.

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 17 to 22 of the annual report.

Directors' Interests in Contracts of Significance

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party to and in which a Director had a material interest in, whether directly or indirectly, and subsisted at the end of the financial year under review or at any time during the financial year under review save as disclosed under the section headed "Connected Transactions" below and note 34 to the financial statements.

Director's Interests in Competing Business

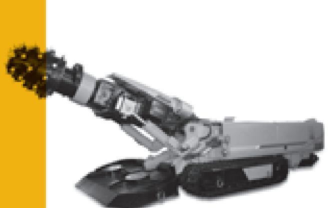
None of the Directors held any interests in any competing business against the Company or any of its jointly controlled entities and subsidiaries for the year ended 31 December 2009.

Directors' Rights to Purchase Shares or Debentures

At no time during the year under review were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Interests and Short Positions of the Directors and Chief Executive of the Company in the Shares, Underlying Shares and Debentures

As at 31 December 2009, the interests or short positions of each Director and chief executive in the shares, underlying shares or debentures of the Company or its any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which are being taken or deemed to have taken under such provision of the SFO); or were required pursuant to Section 352 of the



SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of the Company (the "Model Code") as set out in the Rules Governing the listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

Long positions in shares of the Company

Name of Director	Nature of interest	Number of shares held	Approximate percentage of issued share capital
Mr. Mao Zhongwu *(Note)*	Interest of a controlled corporation	1,500,000,000	72.29%
Mr. Xiang Wenbo *(Note)*	Interest of a controlled corporation	1,500,000,000	72.29%
Mr. Huang Jianlong *(Note)*	Interest of a controlled corporation	1,500,000,000	72.29%

Note: Each of Mr. Mao Zhongwu, Mr. Xiang Wenbo and Mr. Huang Jianlong holds 8.00%, 8.00% and 0.08% of the issued share capital of Sany Heavy Equipment Investments Company Limited ("Sany Investments"), respectively, which in turn holds the entire issued share capital of Sany Hong Kong Group Limited ("Sany HK"). Therefore, Mr. Mao Zhongwu, Mr. Xiang Wenbo and Mr. Huang Jianlong are deemed to be interested in 1,500,000,000 shares in the Company through their respective interest in Sany HK.

Save as disclosed above, as at 31 December 2009, none of the Directors and chief executive of the Company or any of their spouses or children under the age of eighteen were interested, or were deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any of its holding company, subsidiaries or other associated corporation (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required pursuant to the Model Code to be notified to the Company and the Stock Exchange. At no time had the Company or any of its holding company or subsidiaries been participated in any arrangements to enable the directors or chief executive (including their spouses or children under the age of eighteen) of the Company to acquire any interests and short positions of shares or underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO).

Interests and Short Positions of Substantial Shareholders and Other Parties in the Shares and Underlying Shares

As at 31 December 2009, so far as the Directors and chief executive of the Company were aware, the following persons and corporations (excluding the directors and chief executives of the Company) had interests or short positions in any of the shares or underlying shares of the Company which were required to be notified to the Company and Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who, directly or indirectly, is interested in 10% or more of the nominal value of any class of share capital to vote in all circumstances at general meetings of any other member of the Group:

Name of shareholder	Capacity	Number of shares held	Approximate percentage of issued share capital
Mr. Liang Wengen *(Note 1)*	Interest of a controlled corporation	1,500,000,000	72.29%
Sany Investments *(Note 2)*	Interest of a controlled corporation	1,500,000,000	72.29%
Sany HK *(Note 3)*	Beneficial owner	1,500,000,000	72.29%

Notes:

1. *Liang Wengen is interested in 58.24% of Sany Investments and is deemed to be interested in all the shares of Sany Investments pursuant to the SFO.*

2. *Sany Investments is beneficially owned as to 58.24% by Liang Wengen, as to 8.75% by Tang Xiuguo, as to 8.00% by Xiang Wenbo, as to 8.00% by Mao Zhongwu, as to 4.75% by Yuan Jinhua, as to 3.50% by Zhou Fugui, as to 3.00% by Wang Haiyan, as to 3.00% by Yi Xiaogang, as to 1.00% by Wang Zuochun, as to 0.60% by Zhai Xian, as to 0.40% by Zhai Chun, as to 0.38% by Zhao Xiangzhang, as to 0.30% by Duan Dawei and as to 0.08% by Huang Jianlong. Liang Wengen is deemed to be interested in all the shares of Sany Investments pursuant to the SFO.*

3. *Sany HK is wholly-owned by Sany Investments.*

Sufficiency of Public Float

Based on information available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float throughout the year ended 31 December 2009.

Retirement Scheme

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, each of the employer and employee are required to make contributions of 5% of the employees' relevant income to the scheme, subject to a cap of monthly relevant income of HK$20,000. Contributions made to the scheme are vested immediately.

The employees of the subsidiaries in the People's Republic of China participate in the retirement schemes operated by the local authorities. The subsidiaries are required to contribute a certain percentage of their salaries to these schemes to pay the benefits. The only obligation of the Group in respect to these schemes is the required contributions under the schemes.

For the year ended 31 December 2009, the Group's total contributions to the retirement schemes charged in the income statement amounted to RMB10.8 million (2008: RMB8.5 million). Details of the Group's pension scheme and the basis of calculation are set out in note 6 to the financial statements.

Code on Corporate Governance Practices

The Company is committed to the establishment of good corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. The Company therefore strives to attain and maintain effective corporate governance practices and procedures. Since its listing on 25 November 2009, the Company has complied with the CG Code contained in Appendix 14 to the Listing Rules for the year ended 31 December 2009. The Group's principal corporate governance practices are set out on pages 33 to 38 of the annual report.

Connected transactions

During the year ended 31 December 2009, the Group entered into the following continuing transactions with its connected persons. The transactions constituted "continuing connected transactions" for the Company under the Listing Rules. Waivers from strict compliance with the announcement requirements, or the announcement and independent shareholders' approval requirements, had been received from the Stock Exchange. The transactions are subject to the reporting requirements set out in Chapter 14A of the Listing Rules.

(1) Distribution Agreement with Sany Development

On 5 November 2009, Sany Heavy Equipment, a wholly-owned subsidiary of the Company, entered into a distribution agreement (the "Distribution Agreement") with Sany Development, pursuant to which Sany Development agreed to be responsible for the sales of Sany Heavy Equipment's products outside China and to locate marketing representatives in Russia, South Africa, India and Ukraine to be responsible for distributing certain coal mining machineries manufactured by Sany Heavy Equipment to customers in such countries for a term of two years commencing from 1 January 2009 to 31 December 2010. Prices of the products that are supplied by Sany Heavy Equipment to Sany Development under the Distribution Agreement were determined at a pre-agreed discount rate of approximately 10% to the standard retail prices charged by Sany Heavy Equipment, and such level of discount is negotiated on an arm's length basis. Details of the Distribution Agreement have been set out in the Prospectus.

Sany Development is wholly-owned by Sany Heavy Industry, an associate of Sany HK, Sany Investments and Mr. Liang Wengen, and is therefore a connected person of the Company under the Listing Rules. During the year under review, the aggregate amount of the transactions under the Distribution Agreement was RMB2,923,000 and the waiver granted by the Stock Exchange was RMB4,770,000.

(2) Purchase of parts and components, and pumps from the SG Group

On 5 November 2009, the Company entered into a master agreement (the "Master Purchase Agreement") with Sany Group ("Sany Group" together with its subsidiaries, ("SG Group")), pursuant to which the Company agreed to purchase or procure its subsidiaries to purchase from members of the SG Group certain parts and components (including fuel tanks and electric motors) and pumps produced by members of the SG Group for the production of the Group's products for a term of two years commencing from 1 January 2009 to 31 December 2010. The price for the parts and components, and pumps supplied by members of the SG Group was determined on the following basis in order of priority: (i) the price prescribed by the State (including any price prescribed by any relevant local authorities), if applicable; (ii) the price recommended under the State pricing guidelines, when no State-prescribed price is available; (iii) the market price, when neither the State-prescribed price nor the State recommended price is available; or (iv) the price which is no less favourable to the Group than is available from independent third parties, when none of the above is available or applicable. Details of the Master Purchase Agreement have been set out in the Prospectus.

Sany Group is owned as to 58.24% by Mr. Liang Wengen, a substantial shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules. During the year under review, the aggregate amount of the transactions under the Master Purchase Agreement was RMB64,321,000 and the waiver granted by the Stock Exchange was RMB132,700,000.

(3) Sale of equipment under finance lease arrangements to Kangfu International

On 5 November 2009, Sany Heavy Equipment entered into an equipment sale agreement (the "Sale Agreement") with China Kang Fu International Co., Ltd. ("Kangfu International"), pursuant to which Sany Heavy Equipment agreed to sell equipment to Kangfu International for a term of two years commencing from 1 January 2009 to 31 December 2010. Kangfu International is a finance company engaged in the business of providing finance leases. Sany Heavy Equipment has entered into tripartite financing arrangements with Kangfu International and some of Sany Heavy Equipment's end-customers on a back-to-back basis. Under such arrangements, Kangfu International enters into a sale and purchase agreement with Sany Heavy Equipment after Sany Heavy Equipment secures an end-customer, while at the same time entering into a finance lease agreement with such end-customer. Upon purchasing the equipment from Sany Heavy Equipment, Kangfu International will sell the equipment to such end-customer at cost and interest will be charged to such end-customers by Kangfu International under the finance lease agreement. The price of the equipment sold by Sany Heavy Equipment to Kangfu International was determined based on prices and terms which were no less favourable for products sold or to be sold to independent third parties. Details of the Sale Agreement have been set out in the Prospectus.

Kangfu International is owned as to 75% by Sany Group, an associate of Sany HK, Sany Investments and Mr. Liang Wengen, and is therefore a connected person of the Company under the Listing Rules. During the year under review, the aggregate amount of the transactions under the Sale Agreement was RMB374,845,000 and the waiver granted by the Stock Exchange was RMB559,710,000.

(4) Provision of procurement services by Sany Heavy Industry

On 5 November 2009, the Company entered into a purchasing agency agreement (the "Purchase Agency Agreement") with Sany Heavy Industry, pursuant to which Sany Heavy Industry has agreed to purchase certain raw materials, and parts and components including steel plates, electronic products, speed-reducing machines, motors and front and back driver axle from overseas third party suppliers, which will then be resold to the Group at cost, for a term of two years commencing from 1 January 2009 to 31 December 2010. In consideration of such service, the Company has agreed to pay or procure its subsidiaries to pay a management fee of 0.5% of such cost to Sany Heavy Industry. The management fee payable under the Purchase Agency Agreement was arrived at after arm's length negotiations, was no less favourable to the Company than those offered to independent third parties and was determined on terms comparable to the prevailing market rate and practice. Details of the Purchase Agency Agreement have been set out in the Prospectus.

Sany Heavy Industry is owned as to 60.73% by Sany Group, an associate Sany HK, Sany Investments and Mr. Liang Wengen, and is therefore a connected person of the Company under the Listing Rules. During the year under review, the aggregate amount of the transactions under the Purchase Agency Agreement was RMB46,113,000 and the waiver granted by the Stock Exchange was RMB61,700,000.

(5) Mutual Supply Agreement with Sany Group

On 5 November 2009, the Company entered into a mutual supply agreement (the "Mutual Supply Agreement") with Sany Group, pursuant to which the Company has agreed to supply or procure members of the Group to supply raw materials which are expected to be not required by the Group but required by the SG Group for its production, including steel plates, electronic products, speed-reducing machines, motors and front and back driver axle to the SG Group, and Sany Group has agreed to supply or procure members of the SG Group to supply raw materials which are expected to be not required by the SG Group but required by the Group for its production, including steel plates, electronic products, speed-reducing machines, motors and front and back driver axle to the Group for a term of one year commencing from 1 January 2009 to 31 December 2009. The price for the raw materials supplied by the Group to the SG Group, and by the SG Group to the Group was determined on the following basis in order of priority: (i) the price prescribed by the State (including any price prescribed by any relevant local authorities), if applicable; (ii) the price recommended under the State pricing guidelines, when no State-prescribed price is available; (iii) the market price, when neither the State-prescribed price nor the State recommended price is available; or (iv) the price which is no less favourable to the Group than is available from independent third parties, when none of the above is available or applicable. Details of the Mutual Supply Agreement have been set out in the Prospectus.

Sany Group is owned as to 58.24% by Mr. Liang Wengen, a substantial shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules. During the year under review, the aggregate amount of annual purchases by the Group from the SG Group under the Mutual Supply Agreement was RMB5,867,000 and the waiver granted by the Stock Exchange was RMB13,910,000. During the year under review, the aggregate revenue in respect of the raw materials supplied by the Group to the SG Group under the Mutual Supply Agreement was RMB638,000 and the waiver granted by the Stock Exchange was RMB4,640,000.

Pursuant to Rule 14A.38 of the Listing Rules, the Board has engaged the auditors of the Company to perform certain agreed-upon procedures on the aforesaid continuing connected transactions. Based on the work performed, the auditors of the Company have provided a letter to the Board confirming that the aforesaid continuing connected transactions:

(i) have been approved by the Directors;

(ii) were entered into in accordance with the pricing policies of the Company;

(iii) were entered into in accordance with the terms of the relevant agreements governing such transactions; and

(iv) did not exceed the annual cap amounts.

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of the business of the Company;

(ii) either (a) on normal commercial terms or; (b) where there is no available comparable terms, on terms no less favorable to the Company than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Save as disclosed in note 34 to the financial statements, there was no other transaction which needs to be disclosed as a connected transaction in accordance with the requirements of the Listing Rules during the year ended 31 December 2009.

Dividend

The Board has recommended the payment of a final dividend of HK6 cents per ordinary share of the Company for the year ended 31 December 2009. The proposed final dividend, if approved by the shareholders of the forthcoming annual general meeting, will be paid to the shareholders on the register of members of the Company on 24 June 2010.

Closure of Register of Members

The register of members of the Company will be closed from Tuesday, 22 June 2010 to Thursday, 24 June 2010, both days inclusive, during which period no transfer of shares will be registered. In order to determine who are entitled to the proposed final dividend and to attend and vote at the forthcoming annual general meeting of the Company to be held on 25 June 2010, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 21 June 2010. Subject to shareholders' approval of the proposed final dividend of shares at the annual general meeting to be held on Friday, 25 June 2010, will be paid to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 24 June 2010.

Audit Committee

The Audit Committee had reviewed together with the management and external auditors the accounting principles and policies adopted by the Group and the audited annual consolidated financial statements for the year ended 31 December 2009.

Auditors

The consolidated financial statements for the year ended 31 December 2009 have been audited by Ernst & Young who shall retire at the forthcoming annual general meeting of the Company. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Ernst & Young as auditors of the Company.

By order of the Board

Mao Zhongwu
Chairman

Hong Kong, 26 April 2010

Corporate Governance Report

Corporate Governance Practices

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Company's shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor to create more value for its shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for shareholders.

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2009, except for the following deviation:

Code Provision A.2.1

Under CG Code Provision A.2.1, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. In 2009, the Company did not separate the roles of chairman and chief executive officer. Mr. Mao Zhongwu is the chairman and chief executive officer of the Company responsible for overseeing the operations of the Group. Although the Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company, however, in order to comply with CG Code Provision A.2.1, the Company appointed Mr. Zhou Wanchun to take up the role of chief executive officer in place of Mr. Mao Zhongwu in April 2010.

The Board

The Board consists of 8 Directors, 2 of whom are executive Directors, 3 of whom are non-executive Directors and 3 of whom are independent non-executive Directors. The functions and duties conferred on the Board include convening shareholders' meetings and reporting on the work of the Board to the shareholders at shareholders' meetings as may be required by applicable laws, implementing resolutions passed at shareholders' meetings, determining the Company's business plans and investment plans, formulating the Company's annual budget and final accounts, formulating the Company's proposals for dividend and bonus distributions as well as exercising other powers, functions and duties as conferred on it by the articles of association of the Company (the "Articles") and applicable laws. The senior management is delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. The Board meets regularly to review the financial and operating performance of the Company, and considers and approves the overall strategies and policies of the Company. The composition of the Board is well balanced with the directors having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The executive directors and independent non-executive directors bring a variety of experience and expertise to the Company.

The Company has received an annual confirmation of independence from each of its independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company considers that the three independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

All Directors have separate and independent access to the Company's senior management to fulfill their duties and, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense. All Directors also have access to the company secretary who is responsible for ensuring that the Board procedures, and all applicable rules and regulations, are followed. An agenda and accompanying Board/committee papers are distributed to the Directors/Board committee members with reasonable notice in advance of the meetings. Minutes of Board meetings and meetings of Board committees, which records in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views expressed, are kept by the company secretary and are open for inspection by Directors.

The Company has subscribed appropriate and sufficient insurance coverage on directors' liabilities in respect of legal actions taken against directors arising out of corporate activities.

The Board meets regularly to review the financial and operating performance of the Company, and considers and approves the overall strategies and policies of the Company.

Chairman and Chief Executive Officer

During the year under review, Mr. Mao Zhongwu was the chairman and chief executive officer of the Company responsible for overseeing the operations of the Group. The Board believes that the appointment of Mr. Mao Zhongwu as the chairman and chief executive officer of the Company did not impair the balance of power and authority between the Board and the management of the Company.

Non-executive Directors

Each of the non-executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from 25 November 2009, whereas each of the independent non-executive Directors has entered into a letter of appointment with the Company and is appointed for an initial term of three years commencing from 25 November 2009.

In accordance with article 84 of the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.

Board Committees

As an integral part of sound corporate governance practices, the Board has established the following Board committees to oversee the particular aspects of the Group's affairs. Each of these committees comprises independent non-executive Directors who are being invited to join as members.

Audit Committee

The Audit Committee was established in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the Board. The members meet regularly with the external auditors and the Company's senior management for the review, supervision and discussion of the Company's financial reporting and internal control procedures and ensure that management has discharged its duty to have an effective internal control system. The Audit Committee consists of three members, namely Mr. Ngai Wai Fung, Mr. Xu Yaxiong and Mr. Ng Yuk Keung, of which are all independent non-executive Directors. Mr. Ngai Wai Fung, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the Audit Committee.

Since the Audit Committee was only established on 5 November 2009, the Audit Committee did not hold any meeting during the year under review.

The Audit Committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2009, including the accounting principles and practices adopted by the Group, selection and appointment of the external auditors.

Remuneration Committee

The Remuneration Committee was established on 5 November 2009 with written terms of reference in compliance with the CG Code. The Remuneration Committee is chaired by Mr. Mao Zhongwu with two independent non-executive Directors, namely Mr. Ngai Wai Fung and Mr. Ng Yuk Keung, as members. The principal responsibilities of the Remuneration Committee are to formulate and recommend remuneration policy to the Board, to determine the remuneration of executive directors and members of senior management, to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time and to make recommendation on other remuneration related issues. The Board expects the Remuneration Committee to exercise independent judgment and ensures that executive Directors do not participate in the determination of their own remuneration.

The Remuneration Committee did not hold committee meeting for the year ended 31 December 2009 because the Company only listed on 25 November 2009. The Remuneration Committee considers that it is not necessary to review the remuneration policy to the Board and members of senior management in the first year after listing.

Nomination Committee

The Nomination Committee was established on 5 November 2009. The chairman is Mr. Mao Zhongwu, an executive Director, and the two other members are Mr. Xu Yaxiong and Mr. Ngai Wai Fung, both of them are independent non-executive Directors. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, making recommendation to the Board on selection of candidates for directorships, appointment, reappointment of Directors and Board succession and assessing the independence of independent non-executive Directors.

During the period from 25 November 2009, the date of the Company's listing, to 31 December 2009, there was no meeting held by the Nomination Committee. The Nomination Committee considers that it is not necessary to review the composition of the Board during the first year of listing.

Number of Meetings and Directors' Attendance

The individual attendance record of each Director at the meetings of the Board, Audit Committee, Remuneration Committee and Nomination Committee during the year ended 31 December 2009 is set out below:

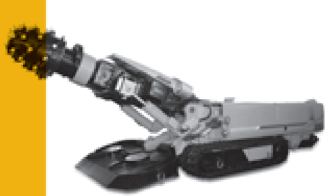
	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee
Executive directors				
Mr. Mao Zhongwu *(Chairman)*	4/4	N/A	N/A	N/A
Mr. Liang Jianyi	4/4	N/A	N/A	N/A
Non-executive Directors				
Mr. Xiang Wenbo	4/4	N/A	N/A	N/A
Mr. Huang Jianlong	4/4	N/A	N/A	N/A
Mr. Wu Jialiang	4/4	N/A	N/A	N/A
Independent non-executive Directors				
Mr. Ngai Wai Fung	1/4	N/A	N/A	N/A
Mr. Ng Yuk Keung	1/4	N/A	N/A	N/A
Mr. Xu Yaxiong	1/4	N/A	N/A	N/A

Compliance with the Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions. Specific enquiries have been made with all Directors, who have confirmed that, during the period under review, they were in compliance with the required provisions set out in the Model Code. All Directors declared that they have complied with the Model Code for the year ended 31 December 2009.

Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparation of the financial statements for the financial year ended 31 December 2009 which give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group's results and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with the applicable statutory requirements and accounting standards. The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report".



Auditors' Remuneration

During the year ended 31 December 2009, the remuneration paid or payable to the Group's auditors, Ernst & Young, in respect of their audit and non-audit services are as follows:

Items	Amount *(RMB)*
Initial public offering	3,899,000
Statutory audit services	1,700,000
Non-audit services	556,000
Total	6,155,000

During the year under review, Ernst & Young provided internal control audit services to the Group in connection with the Group's preparation for its listing, which is of non-audit service nature, at a fee of RMB556,000.

Internal Control

The Board is responsible for maintaining sound and effective internal control systems in order to safeguard the Group's assets and shareholders' interests, and review and monitor the effectiveness of the Company's internal control and risk management systems on a regular basis so as to ensure that internal control and risk management systems in place are adequate. The Company has established written policies and procedures applicable to all operating units to ensure the effectiveness of internal controls. The Company also has a process for identifying, evaluating, and managing the significant risks to the achievement of its operational objective. This process is subject to continuous improvement and was in place throughout 2009 and up to the date of this report. The day-to-day operation is entrusted to the individual department, which is accountable for its own conduct and performance, and is required to strictly adhere to the policies set by the Board. The Company carries out reviews on the effectiveness of the internal control systems from time to time in order to ensure that they are able to meet and deal with the dynamic and ever changing business environment.

During the year under review, the Board has conducted a review and assessment of the effectiveness of the Company's internal control systems including financial, operational and compliance controls and risk management for the year ended 31 December 2009. External consultants were engaged to assist the Board to perform high-level review of the internal control systems for its business operations and processes. Such review covered the financial, compliance and operational controls as well as risk management mechanisms and assessment was made by discussions with the management of the Company and its external auditors. The Board believes that the existing internal control system is adequate and effective.

Communication with Shareholders

The Board recognizes the importance of maintaining a clear, timely and effective communication with the shareholders of the Company and investors. The Board also recognizes that effective communication with its investors is critical in establishing investor confidence and to attract new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure the investors and the shareholders of the Company will receive accurate, clear, comprehensive and timely information of the Group through the publication of annual reports, interim reports, announcements and circulars. The Company also publishes all corporate communications on the Company's website at *www.sanyhe.com*. The Board maintains regular dialogues with institutional investors and analysts from time to time to keep them informed of the Group's strategy, operations, management and plans. The Directors and members of various board committees will attend the annual general meeting of the Company and answer any questions raised. The resolution of every important proposal will be proposed at general meetings separately.

The chairman of general meetings of the Company would explain the procedures for conducting a poll before proposing a resolution for voting. The poll results will be announced at general meetings and published on the websites of the Stock Exchange and the Company, respectively. In addition, the Company regularly meets with institutional investors, financial analysts and financial media, and promptly releases information related to any significant progress of the Company, so as to promote the development of the Company through mutual and efficient communications.

Corporate Information

Directors

Executive Directors

Mr. Mao Zhongwu
Mr. Liang Jianyi

Non-Executive Directors

Mr. Xiang Wenbo
Mr. Huan Jianlong
Mr. Wu Jialiang

Independent Non-Executive Directors

Mr. Ngai Wai Fung
Mr. Ng Yuk Keung
Mr. Xu Yaxiong

Joint Company Secretaries

Mr. Du Xing
Ms. Kam Mei Ha Wendy

Audit Committee

Mr. Ngai Wai Fung
Mr. Ng Yuk Keung
Mr. Xu Yaxiong

Remuneration committee

Mr. Mao Zhongwu
Mr. Ngai Wai Fung
Mr. Ng Yuk Keung

Nomination committee

Mr. Mao Zhongwu
Mr. Ngai Wai Fung
Mr. Xu Yaxiong

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong

Suite 6009, 60th Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Principal Bankers

Bank of China
ABN-AMRO Bank N.V.
Bank of Communications
China Merchants Bank
Shanghai Pudong Development Bank
HSBC Bank
Industrial and Commercial Bank of China
Agriculture Bank of China
Guangdong Development Bank

Auditors and Reporting Accountants

Ernst & Young

Legal Advisor

Sidley Austin

Stock Code

00631

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Company's Website

http://www.sanyhe.com

Investor Relationship

Mr. Hu Tao
Landline: +86 24 31808124
Fax: +86 24 31808050
Address: No. 31, Yansaihu Street,
Shenyang Economic and Technology Development Zone,
Shenyang, Liaoning Province, China
Post Code: 110027

Independent Auditors' Report

ERNST & YOUNG
安　永

To the shareholders of Sany Heavy Equipment International Holdings Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Sany Heavy Equipment International Holdings Company Limited set out on pages 42 to 112, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central, Hong Kong

26 April 2010

Consolidated Income Statement

Year ended 31 December 2009

	Notes	2009 *RMB'000*	2008 *RMB'000*
REVENUE	*5*	1,901,376	1,146,789
Cost of sales		(996,219)	(612,414)
Gross profit		905,157	534,375
Other income	*5*	50,928	23,676
Selling and distribution costs		(232,776)	(165,601)
Administrative expenses		(171,292)	(113,621)
Other expenses		(27,690)	(33,535)
Finance costs	*7*	(3,825)	(21,247)
Share of profits and losses of an associate		4,325	(57)
PROFIT BEFORE TAX	*6*	524,827	223,990
Income tax expense	*10*	(34,395)	(12,121)
PROFIT FOR THE YEAR		490,432	211,869
Attributable to:			
Owners of the parent		490,432	189,044
Minority interests		—	22,825
		490,432	211,869
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (RMB Yuan)	*13*	0.32	0.13
Diluted (RMB Yuan)	*13*	0.32	0.13

Details of the dividends paid and proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	2009 *RMB'000*	2008 *RMB'000*
PROFIT FOR THE YEAR	490,432	211,869
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	(1,231)	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	(1,231)	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	489,201	211,869
Attributable to:		
Owners of the parent	489,201	189,044
Minority interests	—	22,825
	489,201	211,869

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	402,271	312,669
Prepaid land lease payments	15	333,084	304,310
Interest in an associate	17	—	422,468
Non-current prepayments	20	34,602	20,306
Deferred tax assets	27	70,177	67,485
Total non-current assets		840,134	1,127,238
CURRENT ASSETS			
Inventories	18	558,162	373,842
Trade receivables	19	565,641	281,723
Bills receivable	19	251,742	182,058
Prepayments, deposits and other receivables	20	78,438	230,331
Due from a shareholder	34	—	4,427
Due from related parties	34	—	841,261
Pledged deposits	21	69,043	21,668
Cash and cash equivalents	21	3,095,767	59,789
Total current assets		4,618,793	1,995,099
CURRENT LIABILITIES			
Trade and bills payable	22	379,549	217,940
Other payables and accruals	23	520,773	289,076
Interest-bearing bank borrowings	24	—	310,000
Due to related parties	34	—	359,396
Tax payable		54,530	18,415
Provision for warranties	25	28,994	16,801
Government grants	26	1,021	—
Total current liabilities		984,867	1,211,628
NET CURRENT ASSETS		3,633,926	783,471
TOTAL ASSETS LESS CURRENT LIABILITIES		4,474,060	1,910,709

Consolidated Statement of Financial Position (continued)

31 December 2009

	Notes	2009 *RMB'000*	2008 *RMB'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*24*	—	75,000
Government grants	*26*	262,317	261,138
Total non-current liabilities		262,317	336,138
Net assets		4,211,743	1,574,571
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*28*	182,801	—
Reserves	*29(a)*	3,919,328	1,574,571
Proposed final dividend	*12*	109,614	—
Total equity		4,211,743	1,574,571

Mao Zhongwu
Director

Liang Jianyi
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

	Attributable to owners of the parent									
	Issued capital *RMB'000* *(note 28)*	Share premium account *RMB'000*	Contributed surplus *RMB'000* *(note 29)*	Reserve funds *RMB'000* *(note 29)*	Exchange fluctuation reserve *RMB'000*	Retained profits *RMB'000*	Proposed final dividend *RMB'000* *(note 12)*	Total *RMB'000*	Minority interests *RMB'000*	Total equity *RMB'000*
At 1 January 2009	—	—	1,332,316	34,629	—	207,626	—	1,574,571	—	1,574,571
Total comprehensive income for the year	—	—	—	—	(1,231)	490,432	—	489,201	—	489,201
Issued and fully paid shares*	—	—	—	—	—	—	—	—	—	—
Capitalisation issue of shares	132,149	(132,149)	—	—	—	—	—	—	—	—
Issuance of new shares for the global offering	44,048	2,070,299	—	—	—	—	—	2,114,347	—	2,114,347
Issuance of new shares upon exercise of the Over-allotment Option	6,604	310,404	—	—	—	—	—	317,008	—	317,008
Share issue expenses	—	(86,297)	—	—	—	—	—	(86,297)	—	(86,297)
Transfer from retained profits	—	—	—	52,389	—	(52,389)	—	—	—	—
Dividends paid by the Company and its subsidiaries to their then shareholders *(note 12)*	—	—	—	—	—	(197,087)	—	(197,087)	—	(197,087)
Proposed final 2009 dividend	—	(109,614)	—	—	—	—	109,614	—	—	—
At 31 December 2009	182,801	2,052,643#	1,332,316#	87,018#	(1,231)#	448,582#	109,614	4,211,743	—	4,211,743

* *Pursuant to the sale and purchase agreement dated 30 July 2009 entered into between Sany Hongkong Group Limited ("Sany HK") as vendor and the Company as purchaser, Sany HK transferred its 100% interest in Sany Heavy Equipment Co., Ltd. ("Sany Heavy Equipment") (三一重型裝備有限公司) to the Company, satisfied by the allotment and issue of 99 shares by the Company to Sany HK.*

\# *These reserve accounts comprise the consolidated reserves of RMB3,919,328,000 (2008: RMB1,574,571,000) in the consolidated statement of financial position.*

Consolidated Statement of Changes in Equity (continued)

Year ended 31 December 2009

	Attributable to owners of the parent								
	Issued capital *RMB'000*	Share premium account *RMB'000*	Contributed surplus *RMB'000*	Reserve funds *RMB'000*	Exchange fluctuation reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*	Minority interests *RMB'000*	Total equity *RMB'000*
At 1 January 2008	—	—	122,539	13,442	—	39,769	175,750	58,584	234,334
Total comprehensive income for the year	—	—	—	—	—	189,044	189,044	22,825	211,869
Capital contribution to Sany Heavy Equipment	—	—	1,178,016	—	—	—	1,178,016	(49,648)	1,128,368
Acquisition of minority interests in Sany Heavy Equipment	—	—	31,761	—	—	—	31,761	(31,761)	—
Transfer from retained profits	—	—	—	21,187	—	(21,187)	—	—	—
At 31 December 2008	—	—	1,332,316	34,629	—	207,626	1,574,571	—	1,574,571

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		524,827	223,990
Adjustments for:			
Finance costs	7	3,825	21,247
Share of profits and losses of an associate		(4,325)	57
Bank interest income	5	(4,458)	(501)
Depreciation	6	26,490	20,161
Amortisation of land lease prepayments	6	4,824	—
Government grants	5	(15,092)	(6,613)
Impairment of trade receivables	6	20,508	8,553
Provision against slow-moving and obsolete inventories	6	6,607	2,688
		563,206	269,582
Increase in inventories		(190,927)	(133,854)
Increase in trade receivables		(304,426)	(150,387)
Increase in bills receivable		(69,684)	(125,951)
Decrease/(increase) in prepayments, deposits and other receivables		158,819	(186,419)
Decrease/(increase) in an amount due from a shareholder		4,427	(2,572)
Decrease/(increase) in amounts due from related parties		860	419
Increase in trade and bills payable		161,609	9,278
Increase in other payables and accruals		166,142	162,295
Increase in provision for warranties		12,193	11,335
Decrease in amounts due to related parties		(535)	(355)
Cash generated from/(used in) operations		501,684	(146,629)

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Cash generated from/(used in) operations		501,684	(146,629)
Interest received		4,458	501
PRC tax paid		(972)	(1,861)
Net cash flows from/(used in) operating activities		505,170	(147,989)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(60,093)	(91,443)
Acquisition of assets from a related party	30	(128,081)	—
Purchase of land lease prepayment		(12,077)	—
Increase in non-current prepayments		(14,296)	(14,386)
Investment in an associate		—	(95,972)
Receipt from/(advance to) an associate	17	285,327	(285,327)
Proceeds from disposal of an associate	17	141,466	—
Increase in non-pledged deposits with original maturity of three months or more when acquired	21	(230,000)	—
Receipt of government grants	26	17,292	31,431
Net cash flows used in investing activities		(462)	(455,697)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		2,450,240	—
Listing expense		(95,798)	—
Proceeds from a capital contribution		—	1,128,368
New bank loans		—	360,000
Repayment of bank loans		(385,000)	(220,000)
Interest paid		(3,825)	(22,398)
Dividends paid		(197,087)	—
Release/(addition) of pledged deposits		(47,375)	3,222
Receipt from/(advance to) related parties		581,346	(617,430)
Net cash flows from financing activities		2,302,501	631,762
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		2,807,209	28,076
Cash and cash equivalents at beginning of year		59,789	31,713
Effect of foreign exchange rate changes, net		(1,231)	—
CASH AND CASH EQUIVALENTS AT END OF YEAR	21	2,865,767	59,789

Statement of Financial Position

31 December 2009

	Notes	2009 *RMB'000*
NON-CURRENT ASSETS		
Property, plant and equipment		80
Investment in a subsidiary	*16*	2,076,417
Total non-current assets		2,076,497
CURRENT ASSETS		
Prepayments, deposits and other receivables	*20*	197
Cash and cash equivalents	*21*	1,936,336
Total current assets		1,936,533
CURRENT LIABILITIES		
Other payables and accruals	*23*	12,026
Due to a subsidiary	*16*	4,029
Total current liabilities		16,055
NET CURRENT ASSETS		1,920,478
TOTAL ASSETS LESS CURRENT LIABILITIES		3,996,975
Net assets		3,996,975
EQUITY		
Equity attributable to owners of the parent		
Issued capital		182,801
Reserves	*29(b)*	3,704,560
Proposed final dividend	*29(b)*	109,614
Total equity		3,996,975

Mao Zhongwu
Director

Liang Jianyi
Director

Notes to Financial Statements

31 December 2009

1. Corporate Information

Sany Heavy Equipment International Holdings Company Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 23 July 2009. The initial authorised share capital of the Company was HK$380,000 divided into 3,800,000 shares of HK$0.10 each. The Company's registered office address is Cricket Square, Hutchins Drive P.O. Box 2681, Grand Cayman KYI-1111, Cayman Islands, and the head office and principal place of business of the Company is located at 31 Yansaihu Street, Economic and Technological Development Area, Shenyang City, Liaoning Province, the People's Republic of China (the "PRC"). The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacture and sale of integrated excavation machinery, integrated coal mining equipment and coal mining transportation equipment in Mainland China.

Pursuant to the group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies (note 16) now comprising the Group on 28 August 2009. The shares of the Company were listed on the Main Board of the Stock Exchange on 25 November 2009.

In the opinion of the directors of the Company (the "Directors"), as at the date of this report, the holding company and ultimate holding company of the Company are Sany HK and Sany Heavy Equipment Investments Company Limited ("Sany BVI"), respectively.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and the International Accounting Standards and Standing Interpretations Committee Interpretations approved by the International Accounting Standards Committee that remain in effect, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The acquisitions of the subsidiaries pursuant to the Reorganisation were regarded as a business combination under common control. Accordingly, the consolidated financial statements have been prepared in accordance with the principles of merger accounting. On this basis, the Company has been treated as the holding company of its subsidiaries since the beginning of the financial periods presented rather than from their respective dates of acquisition. Accordingly, the consolidated results for the year ended 31 December 2009 include the results of the Company and its subsidiaries with effect from 1 January 2009 or since their respective dates of incorporation, whichever is shorter. The comparative consolidated statement of financial position as at 31 December 2008 has been prepared as if the existing Group had been in place at that date.

In the opinion of the Directors, the consolidated financial statements prepared on the above basis present fairly the results and state of affairs of the Group as a whole.

All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

2.1 Basis of Preparation (continued)

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries, and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the equity attributable to owners of the Company. The Group applies the policy of treating transactions with minority interests as transactions with equity participants of the 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.

2.2 Changes in Accounting Policy and Disclosures

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised IFRSs has had no significant effect on these financial statements.

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments*
IFRS 8	*Operating Segments*
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 18 Amendment*	Amendment to Appendix to IAS 18 *Revenue — Determining whether an entity is acting as a principal or as an agent*
IAS 23 (Revised)	*Borrowing Costs*
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*
IFRIC-Int 9 and IAS 39 Amendments	Amendments to IFRIC-Int 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement — Embedded Derivatives*
IFRIC-Int 13	*Customer Loyalty Programmes*
IFRIC-Int 15	*Agreements for the Construction of Real Estate*
IFRIC-Int 16	*Hedges of a Net Investment in a Foreign Operation*
IFRIC-Int 18	*Transfers of Assets from Customers (adopted from 1 July 2009)*
Improvements to IFRSs (October 2008)	Amendments to a number of IFRSs

* *Included in Improvements to IFRSs 2009 (as issued in May 2009).*

2.2 Changes in Accounting Policy and Disclosures (continued)

The principal effects of adopting these new and revised IFRSs are as follows:

(a) Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The IAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively. As the Group is not a first-time adopter of IFRSs, the IFRS 1 Amendment is not applicable to the Group.

(b) Amendments to IFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*

The IFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendments have had no impact on the financial position or results of operations of the Group.

(c) Amendments to IFRS 7 *Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments*

The IFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. As the Group does not hold any financial instruments that are measured at fair value, the IFRS 7 Amendments are not applicable to the Group. The liquidity risk disclosures are presented in note 36 to the financial statements.

(d) IFRS 8 *Operating Segments*

IFRS 8, which replaces IAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. These operating segment disclosures are shown in note 4 to the financial statements.

2.2 Changes in Accounting Policy and Disclosures (continued)

(e) IAS 1 (Revised) *Presentation of Financial Statements*

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

(f) Amendment to Appendix to IAS 18 *Revenue — Determining whether an entity is acting as a principal or as an agent*

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has had no impact on the financial position or results of operations of the Group.

(g) IAS 23 (Revised) *Borrowing Costs*

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has had no impact on the financial position or results of operations of the Group.

(h) Amendments to IAS 32 *Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*

The IAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. The IAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments have had no impact on the financial position or results of operations of the Group.

2.2 Changes in Accounting Policy and Disclosures (continued)

(i) Amendments to IFRIC-Int 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement — Embedded Derivatives*

The amendment to IFRIC-Int 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

(j) IFRIC-Int 13 *Customer Loyalty Programmes*

IFRIC-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation has had no impact on the financial position or results of operations of the Group.

(k) IFRIC-Int 15 *Agreements for the Construction of Real Estate*

IFRIC-Int 15 clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with IAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with IAS 18 *Revenue*. The interpretation has had no impact on the accounting for the Group's construction activities.

(l) IFRIC-Int 16 *Hedges of a Net Investment in a Foreign Operation*

IFRIC-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation has had no impact on the financial position or results of operations of the Group.

2.2 Changes in Accounting Policy and Disclosures (continued)

(m) IFRIC-Int 18 *Transfers of Assets from Customers (adopted from 1 July 2009)*

IFRIC-Int 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(n) In May 2008, the IASB issued its first *Improvements to IFRSs* which sets out amendments to a number of IFRSs. Except for the amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary* which is effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to the Group. Details of the key amendments most applicable to the Group are as follows:

- IFRS 7 *Financial Instruments*: Disclosures: Removes the reference to "total interest income" as a component of finance costs.

- IAS 1 *Presentation of Financial Statements*: Clarifies that assets and liabilities which are classified as held for trading in accordance with IAS 39 are not automatically classified as current in the statement of financial position.

- IAS 16 *Property, Plant and Equipment*: Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use.

  In addition, items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventories when rental ceases and they are held for sale.

- IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*: Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with IAS 39 and the benefit of the reduced interest to be accounted for as a government grant.

- IAS 27 *Consolidated and Separate Financial Statements*: Requires that when a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

- IAS 28 *Investments in Associates*: Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

2.2 Changes in Accounting Policy and Disclosures (continued)

(n) (continued)

- IAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate "fair value less costs to sell", additional disclosures (e.g., discount rate and growth rate used) are required which are consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

- IAS 38 *Intangible Assets*: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

  The reference to there being rarely, if ever, persuasive evidence to support an amortisation method for intangible assets other than the straight-line method has been removed. The Group has reassessed the useful lives of its intangible assets and concluded that the straight-line method is still appropriate.

- IAS 39 *Financial Instruments: Recognition and Measurement*: (i) sets out a number of changes in circumstances relating to derivatives that are not considered to result in reclassification into or out of the fair value through profit or loss category; (ii) removes the reference to the designation of hedging instrument at the segment level; and (iii) requires that the revised effective interest rate (rather than the original effective interest rate) calculated on cessation of fair value hedge accounting should be used for the remeasurement of the hedged item when paragraph AG8 of IAS 39 is applicable.

- IAS 40 *Investment Property*: Revises the scope such that property being constructed or developed for future as an investment property is classified as an investment property. The Group has applied the amendment prospectively from 1 January 2009. The Group has no such property being constructed or developed for future as an investment property.

2.3 Issued but not yet Effective International Financial Reporting Standards

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*[1]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Additional Exemptions for First-time adopters*[2]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*[2]
IFRS 3 (Revised)	*Business Combinations*[1]
IFRS 9	*Financial Instruments*[6]
IAS 24 (Revised)	*Related Party Disclosures*[5]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*[3]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[1]
IFRIC-Int 14 Amendments	Amendments to IFRIC-Int 14 *Prepayments of a Minimum Funding Requirement*[5]
IFRIC-Int 17	*Distributions of Non-cash Assets to Owners*[1]
IFRIC-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to IFRS 5 included in *Improvements to IFRSs* issued in May 2008	Amendments to IFRS 5 *Non-current Asset Held for sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary*[1]

Apart from the above, the IASB has issued *Improvements to IFRSs 2009* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IAS 38, IFRIC-Int 9 and IFRIC-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 *Effective for annual periods beginning on or after 1 July 2009*
2 *Effective for annual periods beginning on or after 1 January 2010*
3 *Effective for annual periods beginning on or after 1 February 2010*
4 *Effective for annual periods beginning on or after 1 July 2010*
5 *Effective for annual periods beginning on or after 1 January 2011*
6 *Effective for annual periods beginning on or after 1 January 2013*

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, it has concluded that the adoption of IFRS 1 (Revised), IFRS 9, and IAS 24 (Revised) may result in new or amended disclosures, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Associate

An associate is an entity, not being a subsidiary or jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interest in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of an associate is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in an associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and an associate (previously referred to as negative goodwill), after reassessment, is recognised immediately in the consolidated income statement.

The excess relating to an acquisition of an associate is included in the Group's share of the associate's profits and losses in the period in which the investment was acquired.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, goodwill 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 it arises in those expense categories consistent with the function of the impaired asset.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of non-financial assets (continued)

An assessment is made at the end of the reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an 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, however 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 an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Group or its holding company;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

(f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are 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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of that asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the 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%

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 financial year end.

An item of property, plant and equipment and any significant part initially recognised 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 recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and 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.

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 the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its 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.

2.4 Summary of Significant Accounting Policies (continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets in the scope of IAS 39 are classified as loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value.

All regular way 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.

The Group's financial assets include cash and bank balances, trade and other receivables, and loans receivable.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

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 costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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 there is objective evidence that an impairment loss 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit and loss and loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to related parties, and interest-bearing loans and borrowings.

2.4 Summary of Significant Accounting Policies (continued)

Financial liabilities (continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on full completion of the transaction, provided that the revenue, the costs incurred to completion can be measured reliably. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

2.4 Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

2.4 Summary of Significant Accounting Policies (continued)

Revenue recognition (continued)

(b) from the rendering of services, on a full completion basis, as further explained in the accounting policy for "Contracts for services" above;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee retirement benefits

As stipulated by the rules and regulations of the PRC, the Company's subsidiaries registered in the PRC are required to contribute to a state-sponsored retirement plan for all its PRC employees at certain percentages of the basic salaries predetermined by the local governments. The state-sponsored retirement plan is responsible for the entire retirement benefit obligations payable to retired employees and the Group has no further obligations for the actual retirement benefit payments or other post-retirement benefits beyond the annual contributions.

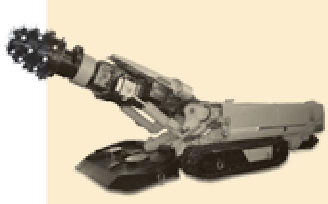
The costs of employee retirement benefits are recognised as expenses in the income statement in the period in which they are incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceased when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 5.69% and 6.33% has been applied to the expenditure on the individual assets.

Dividends

Dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.



2.4 Summary of Significant Accounting Policies (continued)

Foreign currencies

The Company incorporated in the Cayman Islands has the Hong Kong dollar ("HK$") as its functional currency. The functional currency of the PRC subsidiaries is RMB. As the Group mainly operates in Mainland China, RMB is used as the presentation currency of the Group. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

On consolidation, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group which is RMB at the exchange rates ruling at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year. Foreign exchange differences on retranslation are recognised directly in a separate component of equity.

For the purpose of the consolidated statement of cash flows, the cash flows of subsidiaries outside Mainland China are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries outside Mainland China which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. Significant Accounting Judgement and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

3. Significant Accounting Judgement and Estimates (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of property, plant and equipment

The Group assesses whether there are any indicators of impairment for an asset at each financial year end. The asset is tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, an estimation of the value in use of the cash-generating units to which the asset is allocated will be required. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units 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.

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand 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 the experience of the Group with similar assets that are used in a similar way. 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 based on changes in circumstances.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 27 to the financial statements.

Provision for product warranties

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

Write-down of inventories to net realisable value

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 judgement and estimates on market conditions. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of inventories and the write-down charge/write-back of inventories in the period in which such estimate has been changed.

3. Significant Accounting Judgement and Estimates (continued)

Estimation uncertainty (continued)

Impairment of trade receivables

The Group estimates the provisions for impairment of trade receivables by assessing their recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amount of trade receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the provisions at the end of the reporting period.

4. Operating Segment Information

For management purposes, the Group operates in one business unit based on their products, and has one reportable operating segment as follows:

The heavy equipment segment produces integrated excavation machinery, integrated coal mining equipment and coal mining transportation equipment.

No operating segments have been aggregated to form the above reportable operating segment.

Information about products

The revenues of the two major products are as follows:

	Group	
	2009 *RMB'000*	2008 *RMB'000*
Integrated excavation machinery	1,521,816	1,025,368
Integrated coal mining equipment	205,907	—
	1,727,723	1,025,368

Geographical information

As over 90% of the Group's revenue is derived from customers based in Mainland China and all the Group's identifiable assets and liabilities are located in Mainland China, no geographical information is presented in accordance with IFRS 8 "Operating Segments".

5. Revenue and Other Income

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold and services provided, after allowances for returns and trade discounts.

An analysis of revenue and other income is as follows:

		Group	
	Note	2009 *RMB'000*	2008 *RMB'000*
Revenue			
Sales of goods		1,889,856	1,138,852
Rendering of services		11,520	7,937
		1,901,376	1,146,789
Other income			
Bank interest income		4,458	501
Profit from sales of scrap materials		28,854	13,513
Government grants	*26*	15,092	6,613
Others		2,524	3,049
		50,928	23,676

6. Profit Before Tax

The Group's profit before tax is arrived at after charging:

		Group	
	Notes	2009 *RMB'000*	2008 *RMB'000*
Cost of inventories sold		991,946	595,330
Cost of services provided		4,273	3,736
Depreciation	*14*	26,490	20,161
Amortisation of land lease prepayments	*15*	4,824	—
Auditors' remuneration		4,920	266
Provision for warranties	*25*	36,126	23,081
Research and development costs		61,092	43,707
Minimum lease payments under operating leases:			
Dormitories for staff		1,465	2,245
Warehouses		358	297
		1,823	2,542
Employee benefit expenses:			
(including directors' remuneration *(note 8)*):			
Wages and salaries		128,130	108,220
Pension scheme contributions		10,776	8,513
		138,906	116,733
Other expenses:			
Foreign exchange differences, net		575	22,294
Impairment of trade receivables	*19*	20,508	8,553
Provision against slow-moving and obsolete inventories	*18*	6,607	2,688
		27,690	33,535

7. Finance Costs

	Group	
	2009 *RMB'000*	2008 *RMB'000*
Interest on bank loans	3,825	24,695
Less: Interest capitalised	—	(3,448)
	3,825	21,247

8. Directors' Remuneration

Details of directors' remuneration are as follows:

	Group	
	2009 *RMB'000*	2008 *RMB'000*
Fees	—	—
Other emoluments:		
Salaries, allowances and benefits in kind	672	1,043
Pension scheme contributions	42	42
	714	1,085
Total	714	1,085

The pension scheme contributions represented the Company's statutory contributions to a defined contribution pension scheme organised by the PRC government, and were determined based on certain percentage of the salaries of the directors.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2009 *RMB'000*	2008 *RMB'000*
Mr. Xu Yaxiong	27	—
Mr. Ngai Wai Fung	27	—
Mr. Ng Yuk Keung	27	—
	81	—

There were no emoluments payable to the independent non-executive directors during the year.

8. Directors' Remuneration (continued)

(b) Executive and non-executive directors

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
Year ended 31 December 2009				
Executive directors:				
Mr. Mao Zhongwu	—	28	14	42
Mr. Liang Jianyi	—	500	14	514
	—	528	28	556
Non-executive directors:				
Mr. Xiang Wenbo	—	—	—	—
Mr. Huang Jianlong	—	—	—	—
Mr. Wu Jialiang	—	63	14	77
	—	63	14	77
Year ended 31 December 2008				
Executive directors:				
Mr. Mao Zhongwu	—	230	14	244
Mr. Liang Jianyi	—	597	14	611
	—	827	28	855
Non-executive directors:				
Mr. Huang Jianlong	—	—	—	—
Mr. Xiang Wenbo	—	216	14	230
	—	216	14	230

There was no other arrangement under which a director waived or agreed to waive any remuneration during the year (2008: Nil).

9. Five Highest Paid Employees

The five highest paid employees of the Group during the year are analysed as follows:

	Group	
	2009 *RMB'000*	2008 *RMB'000*
Directors	764	855
Non-directors	1,202	811
	1,966	1,666

Details of the remuneration of the above non-director, highest paid employees during the year are as follows:

	Group	
	2009 *RMB'000*	2008 *RMB'000*
Salaries, allowances and benefits in kind	1,160	770
Pension scheme contributions	42	41
	1,202	811

The number of these non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Group	
	2009	2008
Nil to RMB1,000,000	3	3

During the year, no remuneration was paid by the Group to the Directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived or agreed to waive any emoluments during the year.

10. Income Tax

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year.

During the 5th Session of the 10th National People's Congress which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective from 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rates for domestic-invested and foreign-invested enterprises at 25%.

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; the enterprises entitled to a 15% corporate income tax rate will be subject to tax rates of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012 and thereafter.

In this connection, Sany Heavy Equipment was subject to Corporate Income Tax ("CIT") at a rate of 9% in 2008 and is subject to CIT at a rate of 10% in 2009 and will be subject to tax rates of 11% in 2010, 24% in 2011 and 25% in 2012.

	Group	
	2009 *RMB'000*	2008 *RMB'000*
Group:		
Current — Mainland China		
Charge for the year	37,087	20,276
Deferred *(note 27)*	(2,692)	(8,155)
Total tax charge for the year	34,395	12,121

10. Income Tax (continued)

A reconciliation of the income tax expense/(credit) applicable to profit before tax using the statutory rate for the location in which the Company and its subsidiaries are domiciled to the tax expense/(credit) at the effective tax rate, and a reconciliation of the applicable rate to the effective tax rate, are as follows:

	Group			
	2009		2008	
	RMB'000	*%*	*RMB'000*	*%*
Profit before tax	524,827		223,990	
Tax at the statutory tax rate	131,207	25	55,998	25
Entities subject to lower statutory income tax rates	(88,627)	(16.9)	(32,019)	(14.3)
Profits and losses attributable to an associate	(1,081)	(0.2)	14	—
Expenses not deductible for tax	10,686	2.0	6,661	3.0
Tax effect of change in tax rate when temporary difference is realised	(518)	(0.1)	(2,024)	(0.9)
Super-deduction of research and development costs	(7,636)	(1.4)	(16,509)	(7.4)
Tax concession granted	(18,003)	(3.4)	—	—
Tax losses not recognised	8,367	1.6	—	—
Tax charge at the Group's effective tax rate	34,395	6.6	12,121	5.4

11. Profit Attributable to Owners of the Parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a loss of RMB23,261,000 which has been dealt with in the financial statements of the Company (note 29(b)).

12. Dividends

	Group	
	2009	2008
	RMB'000	*RMB'000*
Special dividends	197,087	—
Proposed final — HK6 cents per ordinary share	109,614	—
	306,701	—

12. Dividends (continued)

The special dividend of RMB197,087,000 was approved and declared by the then owners of Sany Heavy Equipment on 13 February 2009, and was settled in March 2009.

The final dividend of HK6 cents per share is subject to approval by the shareholders in general meeting. Such dividend will be distributed from the share premium of the Company. In the opinion of the Directors, such distribution is in compliance with the Articles of Association adopted by the Company on 5 November 2009, which states that dividend may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution dividend may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law of the Cayman Islands; subject to the provisions of its Memorandum of Association or Articles of Association and provided that immediately following the distribution or paying dividend the Company will be able to pay its debts as they fall due in the ordinary course of business.

13. Earnings Per Share Attributable to Ordinary Equity Holders of the Company

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,553,972,603 (2008: 1,500,000,000) in issue during the year, as adjusted to reflect the rights issue during the year.

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2009 includes the pro forma issued share capital of the Company of 1,500,000,000 shares, comprising:

(i) 100 shares issued and fully paid (note 28(b)); and

(ii) the capitalisation issue of 1,499,999,900 shares (note 28(d)).

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2009 includes the weighted average of 50,684,932 shares issued upon the listing of the Company's shares on the Stock Exchange on 25 November 2009 and the weighted average of 3,287,671 shares issued upon exercise of the Over-allotment Option (as defined in note 28(f)) on 11 December 2009 in addition to the aforementioned 1,500,000,000 ordinary shares.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

14. Property, Plant and Equipment

Group	Buildings *RMB'000*	Plant and machinery *RMB'000*	Office and other equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2009						
At 31 December 2008 and at 1 January 2009:						
Cost	158,397	132,774	17,576	23,402	18,636	350,785
Accumulated depreciation	(12,171)	(16,778)	(4,288)	(4,879)	—	(38,116)
Net carrying amount	146,226	115,996	13,288	18,523	18,636	312,669
At 1 January 2009, net of accumulated depreciation	146,226	115,996	13,288	18,523	18,636	312,669
Additions	88,068	28,012	5,391	8,065	74,240	203,776
Disposal*	(87,684)	—	—	—	—	(87,684)
Depreciation provided during the year	(7,311)	(13,977)	(2,229)	(2,973)	—	(26,490)
Transfers	10,997	—	—	—	(10,997)	—
At 31 December 2009, net of accumulated depreciation	150,296	130,031	16,450	23,615	81,879	402,271
At 31 December 2009:						
Cost	157,404	160,720	22,967	31,466	81,879	454,436
Accumulated depreciation	(7,108)	(30,689)	(6,517)	(7,851)	—	(52,165)
Net carrying amount	150,296	130,031	16,450	23,615	81,879	402,271

Included in the carrying amount of the property, plant and equipment as at 31 December 2009 was the capitalised interest of RMB6,714,000 (31 December 2008: RMB6,714,000).

The Group's buildings are located in Mainland China.

* *The buildings were sold to Sany Group Limited ("Sany Group") at the net carrying amount in May 2009, and subsequently Sany Group injected the buildings into Sany Group Shenyang Mining Transportation Equipment Co., Ltd. ("Sany Transportation") (三一集團瀋陽煤礦輸送設備有限公司), which was 100% acquired by the Group on 23 July 2009. Further details of the transaction are set out in note 30.*

14. Property, Plant and Equipment (continued)

Group	Buildings *RMB'000*	Plant and machinery *RMB'000*	Office and other equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2008						
At 31 December 2007 and at 1 January 2008:						
Cost	109,565	102,009	10,082	14,046	28,983	264,685
Accumulated depreciation	(6,750)	(5,943)	(2,623)	(2,639)	—	(17,955)
Net carrying amount	102,815	96,066	7,459	11,407	28,983	246,730
At 1 January 2008, net of accumulated depreciation	102,815	96,066	7,459	11,407	28,983	246,730
Additions	4,060	24,602	7,494	9,356	40,588	86,100
Depreciation provided during the year	(5,421)	(10,835)	(1,665)	(2,240)	—	(20,161)
Transfers	44,772	6,163	—	—	(50,935)	—
At 31 December 2008, net of accumulated depreciation	146,226	115,996	13,288	18,523	18,636	312,669
At 31 December 2008:						
Cost	158,397	132,774	17,576	23,402	18,636	350,785
Accumulated depreciation	(12,171)	(16,778)	(4,288)	(4,879)	—	(38,116)
Net carrying amount	146,226	115,996	13,288	18,523	18,636	312,669

15. Prepaid Land Lease Payments

	Group	
	2009 *RMB'000*	2008 *RMB'000*
Carrying amount at 1 January	304,310	304,310
Additions	40,524	—
Recognised during the year	(4,824)	—
Carrying amount at 31 December	340,010	304,310
Current portion included in prepayments, deposits and other receivables	(6,926)	—
Non-current portion	333,084	304,310

Included in the carrying amount as at 1 January 2009 is the land lease prepayments reclassified from non-current prepayments to conform to the current year's presentation. The reclassification of the amount has had no impact on the Group's net profit and equity.

Certificates of ownership of the Group with an aggregate net book value of RMB2,393,000 has not been issued by the relevant PRC authorities as at 31 December 2009 (31 December 2008: RMB304,310,000). The Group is in the process of obtaining the relevant certificates of ownership.

The Group's leasehold land is held under a medium term lease and is situated in Mainland China.

16. Investments in Subsidiaries

	Company 2009 *RMB'000*
Unlisted shares, at cost	2,076,417

The amounts due to a subsidiary included in the Company's current liabilities of RMB4,029,000 are unsecured, interest-free and are repayable on demand or within one year.

16. Investments in Subsidiaries (continued)

Particulars of the principal subsidiaries are as follows:

Company name	Place and date of registration and operations	Issued and paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Sany Heavy Equipment Co., Ltd. *	PRC/Mainland China 13 January 2004	RMB1,627,770,000	100	—	Manufacture and sale of integrated excavation machinery, integrated coal mining equipment and coal mining transportation equipment
Sany Heavy Integrated Coal Mining Equipment Co., Ltd. ("Sany Zongcai") (三一重型綜採成套裝備有限公司)*	PRC/Mainland China 20 May 2008	RMB100,000,000	—	100	Manufacture and sale of integrated excavation machinery, integrated coal mining equipment and coal mining transportation equipment#
Sany Transportation	PRC/Mainland China 25 September 2008	RMB166,800,000	—	100	Manufacture and sale of heavy industry equipment#

* *Companies incorporated as limited liability companies under the PRC law.*

\# *The companies have not yet commenced operation.*

During the year, the Group acquired Sany Transportation from Sany Group, a fellow subsidiary of the Company. Further details of this acquisition are included in note 30 to the financial statements.

17. Interest in an Associate

	Group	
	2009 *RMB'000*	2008 *RMB'000*
Share of net assets	—	137,141
Due from an associate	—	285,327
	—	422,468

The outstanding amount due from its associate as at 31 December 2008 was non-trade in nature, unsecured, interest-free and repayable on demand.

The Group's outstanding amounts payable to its associate as at 31 December 2008 is disclosed in note 22.

Particulars of the associate are as follows:

Company name	Place and date of registration and operations	Issued and paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Sany Junma	PRC/Mainland China 21 August 2000	RMB216,807,298	—	51*	Manufacture and sale of coal mining machine engines

* *Sany Heavy Equipment acquired a 51% equity interest in Sany Junma in 2007. The Group's control over Sany Junma is restricted by its memorandum and articles of association.*

On 31 May 2009, Sany Heavy Equipment disposed of the equity interest in Sany Junma to Sany Group at a consideration of RMB141,466,000, being the carrying amount of the investment. No gain or loss was resulted in the disposal.

17. Interest in an Associate (continued)

The following table illustrates the summarised financial information of the Group's associate extracted from its management accounts:

Sany Junma	Assets *RMB'000*	Liabilities *RMB'000*	Revenue *RMB'000*	Profit *RMB'000*
Five months ended 31 May 2009	501,792	209,467	169,177	8,480
Year ended 31 December 2008	745,192	476,288	292,475	(112)

18. Inventories

	Group	
	2009 *RMB'000*	2008 *RMB'000*
Raw materials	177,863	155,359
Work in progress	132,233	81,315
Finished goods	259,872	142,367
	569,968	379,041
Less: Provision against slow-moving and obsolete inventories	(11,806)	(5,199)
	558,162	373,842

The movements in the provision against slow-moving and obsolete inventories are as follows:

		Group	
	Note	2009 *RMB'000*	2008 *RMB'000*
At 1 January		5,199	2,511
Charge for the year	*6*	6,607	2,688
At 31 December		11,806	5,199

19. Trade and Bills Receivable

	Group	
	2009	2008
	RMB'000	*RMB'000*
Trade receivables	595,973	291,547
Impairment	(30,332)	(9,824)
Trade receivables, net	565,641	281,723
Bills receivable	251,742	182,058

The Group generally requires its customers to make payments at various stages of the sales transaction, however, the Group grants certain credit periods to old customers with good payment history. The credit period of individual customers is considered on a case-by-case basis and is set out in the sales contracts, as appropriate.

The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

At 31 December 2008 and 2009, an aged analysis of the trade receivables, based on the invoice date and net of provision for impairment, is as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Within 60 days	376,308	113,088
61 to 90 days	46,735	41,376
91 to 180 days	30,944	63,445
181 to 360 days	95,787	44,811
Over 1 year	15,867	19,003
	565,641	281,723

19. Trade and Bills Receivable (continued)

The movements in the provision for impairment of trade receivables are as follows:

		Group	
	Note	2009 *RMB'000*	2008 *RMB'000*
At 1 January		9,824	1,271
Impairment losses recognised	*6*	20,508	8,553
At 31 December		30,332	9,824

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB20,508,000 (2008: RMB8,553,000) with a carrying amount before provision of RMB20,508,000 (2008: RMB8,553,000). The individually impaired trade receivables relate to customers that were in financial difficulties or in default in payments. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

			Past due but not impaired			
Group	Total *RMB'000*	Neither past due nor impaired *RMB'000*	Within 90 days *RMB'000*	91 to 180 days *RMB'000*	181 to 360 days *RMB'000*	Over 1 year *RMB'000*
31 December 2009	565,641	376,308	46,735	30,944	95,787	15,867
31 December 2008	281,723	113,088	41,376	63,445	44,811	19,003

The 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.

The trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

19. Trade and Bills Receivable (continued)

The maturity profile of the bills receivable of the Group as at the end of the reporting period is as follows:

	Group	
	2009 *RMB'000*	2008 *RMB'000*
Within 6 months	251,742	182,058

Included in the balances of bills receivable are amounts of approximately RMB31,153,000 and RMB81,649,000 as at 31 December 2008 and 2009, respectively, which were pledged to secure the issuance of bills payable.

20. Prepayments, Deposits and Other Receivables

	Group		Company
	2009 *RMB'000*	2008 *RMB'000*	2009 *RMB'000*
Non-current prepayments	34,602	20,306	—
Current assets			
Prepayments	61,723	40,226	197
Deposits and other receivables	16,715	190,105	—
	78,438	230,331	197

Included in the Group's deposits and other receivables under current assets as at 31 December 2008 was an amount of approximately RMB176,000,000 relating to amounts paid in advance to a supplier for the purchase of raw materials for the Group. The contract was cancelled in October 2008 and the amount was received from the supplier in April 2009, by way of endorsement to the Group of bank acceptances issued by Sany Group to the supplier, a supplier to Sany Group.

Included in the prepayments was an amount of RMB5,668,000 as at 31 December 2009 (2008: Nil) prepaid to a related party for purchasing new materials.

21. Cash and Cash Equivalents and Pledged Deposits

	Group		Company
	2009 *RMB'000*	2008 *RMB'000*	2009 *RMB'000*
Cash and bank balances	3,164,810	81,457	1,936,336
Less: Bank deposits pledged for banking facilities	(69,043)	(21,668)	—
Cash and cash equivalents	3,095,767	59,789	1,936,336
Less: Non-pledged time deposits with original maturity of three months or more when acquired	(230,000)	—	—
Cash and cash equivalents in the consolidated statement of cash flows	2,865,767	59,789	1,936,336
Cash and bank balances and time deposits denominated in			
— RMB	835,728	81,457	—
— Hong Kong dollars	2,329,082	—	1,936,336
	3,164,810	81,457	1,936,336

At the end of the reporting period, the cash and bank balances of the Group were denominated in HK$ and RMB. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Pledged bank deposits represented balances pledged to banks for the issuance of the Group's bills payable and letters of credit. Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

22. Trade and Bills Payable

An aged analysis of the trade and bills payable as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2009 *RMB'000*	2008 *RMB'000*
Within 30 days	128,996	60,911
31 to 90 days	160,645	81,882
91 to 180 days	79,561	59,698
181 days to 360 days	5,443	15,449
Over 1 year	4,904	—
	379,549	217,940

Included in the trade and bills payable are amounts due to the Group's fellow subsidiaries and an associate of RMB1,529,000 (2008: RMB1,460,000) and nil (2008: RMB13,418,000), respectively, which are repayable within 30 days.

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days. The carrying amounts of the trade and bills payable approximate to their fair values.

The bills payable are all due to mature within 180 days.

23. Other Payables and Accruals

	Group		Company
	2009 *RMB'000*	2008 *RMB'000*	2009 *RMB'000*
Deposits received from customers	285,640	192,008	—
Other payables	227,556	94,549	9,385
Accruals	7,577	2,519	2,641
	520,773	289,076	12,026

Included in the deposits received from customers was an amount of RMB21,824,000 as at 31 December 2009 (2008: Nil) received from a related party for purchasing products from the Group.

The other payables are non-interest-bearing and are due to mature within one year.

24. Interest-Bearing Bank Borrowings

	Effective floating interest rate (%)	Maturity	Group 2009 RMB'000	Group 2008 RMB'000
Current				
Bank loans — secured	4.54 –7.47	2009	—	280,000
Current portion of long term bank loans — secured	7.2	2009	—	30,000
			—	310,000
Non-current				
Bank loans — secured	7.2	2010	—	75,000
			—	385,000
Analysed into:				
Bank loans repayable:				
Within one year			—	310,000
In the second year			—	75,000
In the third year			—	—
			—	385,000

The Group's secured bank loans were guaranteed by certain related parties (note 34(2)).

All bank loans are denominated in RMB.

The Group has the following undrawn banking facilities:

	Group 2009 RMB'000	Group 2008 RMB'000
Floating rate — expiring within one year	440,000	80,000

The Group's banking facilities amounting to RMB80,000,000 as at 31 December 2008 were guaranteed by Sany Group which were released in March 2009.

25. Provision for Warranties

		Group	
	Note	2009 *RMB'000*	2008 *RMB'000*
At 1 January		16,801	5,466
Additional provision	*6*	36,126	23,081
Amounts utilised during the year		(23,933)	(11,746)
At 31 December		28,994	16,801

The Group provides one-year warranties for repair and maintenance of the products sold to its customers. 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 when appropriate.

The warranties for repair and maintenance the Group provides for its products include the products sold to its customer, China Kangfu International Leasing Co., Ltd. ("Kangfu International") (中國康富國際租賃有限公司), a company owned and controlled by the controlling shareholders* ("Controlling Shareholders"). Kangfu International is a finance company engaging in the business of providing finance lease services. Revenue on sales to Kangfu International is recognised upon the acceptance of installation of the products sold. Further details of the sales to Kangfu International are included in note 34(1).

* *The Controlling Shareholders refer to the 14 individual shareholders: Liang Wengen, Tang Xiuguo, Xiang Wenbo, Mao Zhongwu, Yuan Jinhua, Zhou Fugui, Wang Haiyan, Yi Xiaogang, Wang Zuochun, Zhai Xian, Zhai Chun, Zhao Xiangzhang, Duan Dawei and Huang Jianlong, who hold 58.24%, 8.75%, 8.00%, 8.00%, 4.75%, 3.50%, 3.00%, 3.00%, 1.00%, 0.60%. 0.40%, 0.38%, 0.30% and 0.08% of the equity interests in Sany BVI, respectively.*

26. Government Grants

	Group	
	2009 *RMB'000*	2008 *RMB'000*
At 1 January	261,138	236,320
Grants recognised during the year	17,292	31,431
Amortised as income during the year *(note 5)*	(15,092)	(6,613)
At 31 December	263,338	261,138
Current portion	(1,021)	—
Non-current portion	262,317	261,138

Included in the Group's government grant balances as at 31 December 2008 and 2009 were government grants received for the development of certain industrial areas, of RMB249,863,000, which are not amortised during 2008 and 2009 as the relevant construction work had not yet commenced as at 31 December 2008 and 2009.

27. Deferred Tax

Deferred tax assets

Group	Government grants *RMB'000*	Provision against slow-moving and obsolete inventories *RMB'000*	Warranty provision *RMB'000*	Total *RMB'000*
At 1 January 2008	58,587	251	492	59,330
Credited to the consolidated income statement *(note 10)*	6,698	269	1,188	8,155
At 31 December 2008 and 1 January 2009	65,285	520	1,680	67,485
Credited to the consolidated income statement *(note 10)*	404	779	1,509	2,692
At 31 December 2009	65,689	1,299	3,189	70,177

The Group has tax losses arising in Mainland China of RMB10,203,000 (2008: Nil) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in a subsidiary that has been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

27. Deferred Tax (continued)

Deferred tax liabilities

At 31 December 2009, no deferred tax has been recognised for withholding taxes would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

28. Share Capital

	2009 *HK$'000*
Authorised:	
3,000,000,000 ordinary shares of HK$0.10 each	300,000,000
Issued and fully paid:	
2,075,000,000 ordinary shares of HK$0.10 each	207,500,000
Equivalent to RMB'000	182,800,850

28. Share Capital (continued)

During the year, the movements in authorised and issued share capital were as follows:

	Notes	Number of ordinary shares of HK$0.10 each	Nominal value of ordinary shares HK$'000	RMB'000
Authorised:				
On incorporation	(a)	3,800,000	380	335
As at 23 July 2009		3,800,000	380	335
Increase in authorised share capital	(c)	2,996,200,000	299,620	263,962
As at 31 December 2009		3,000,000,000	300,000	264,297
Issued:				
Issued and fully paid:	(b)	100	—	—
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of the new shares to the public	(d)	1,499,999,900	—	—
Pro forma share capital as at 5 November 2009		1,500,000,000	—	—
Capitalisation of the share premium account as set out above	(d)	—	150,000	132,149
Issuance of new shares for the global offering	(e)	500,000,000	50,000	44,048
Issuance of new shares upon exercise of the Over-allotment Option	(f)	75,000,000	7,500	6,604
As at 31 December 2009		2,075,000,000	207,500	182,801

28. Share Capital (continued)

Notes:

(a) On incorporation of the Company, the authorised share capital of the Company was HK$380,000 divided into 3,800,000 shares of HK$0.10 each.

(b) Pursuant to the sale and purchase agreement dated 30 July 2009 entered into between Sany HK as vendor and the Company as purchaser, Sany HK transferred its 100% interest in Sany Heavy Equipment to the Company for a consideration of RMB1,566,460,700, which was determined with reference to the fair value of net assets of Sany Heavy Equipment as at 31 March 2009, satisfied by the allotment and issue of 99 shares by the Company to Sany HK.

(c) Pursuant to the resolution passed on 5 November 2009, the authorised share capital of the Company was increased from HK$380,000 to HK$300,000,000 by the creation of additional 2,996,200,000 shares of HK$0.10 each.

(d) Pursuant to the resolutions passed on 5 November 2009, an aggregate of 1,499,999,900 shares of HK$0.10 each of the Company were allotted and issued, credited as fully paid at par, by way of capitalisation of the sum of HK$149,999,990 from the share premium account, to the then existing shareholders of the Company, whose names appeared on the register of the Company at the close of business on 5 November 2009, in proportion to their respective shareholdings. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering as detailed in (e) below.

(e) In connection with the Company's initial public offering, 500,000,000 shares of HK$0.10 each were issued at a price of HK$4.80 per share for a total cash consideration, before listing expenses, of HK$2,400,000,000. Dealings of these shares on the Stock Exchange commenced on 25 November 2009.

(f) Pursuant to the international underwriting agreement dated 18 November 2009, the Company granted an option (the "Over-allotment Option") to the international underwriters, exercisable by The Hongkong and Shanghai Banking Corporation Limited ("HSBC") in consultation with the joint global coordinators on behalf of the international underwriters at the sole and absolute discretion of HSBC, whereby the Company was required to allot and issue up to an aggregate of 75,000,000 additional shares to cover any over-allocation in the international offering. The exercise price per share for the Over-allotment Option is HK$4.80. On 11 December 2009, the Over-allotment Option was exercised and, as a result, the Company issued 75,000,000 additional shares. Dealings of these shares on the Stock Exchange commenced on 16 December 2009.

The proceeds of HK$7,500,000, representing the par value, have been credited to the Company's share capital and the remaining proceeds of HK$352,500,000 have been credited to the share premium account.

29. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

The Group's contributed surplus represents the excess of the nominal value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor pursuant to the Reorganisation.

In accordance with the PRC Company Law, the PRC subsidiaries of the Group are required to allocate 10% of their profit after tax to the reserve fund until such reserve reaches 50% of the registered capital of the PRC subsidiaries. Subject to certain restrictions set out in the Company Law of the PRC, part of the reserve fund may be converted to increase paid-up capital/issued capital of the PRC subsidiaries, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital. The reserve fund of the PRC subsidiaries amounted to RMB34,629,000 and RMB87,018,000 as at 31 December 2008 and 2009, respectively.

(b) Company

	Notes	Share premium account RMB'000	Contributed surplus RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Proposed final dividend RMB'000	Total RMB'000
On incorporation		—	—	—	—	—	—
Total comprehensive loss for the year		—	—	—	(23,261)	—	(23,261)
Arising from the Reorganisation		—	1,676,409	—	—	—	1,676,409
Capitalisation issue of shares	*28(d)*	(132,149)	—	—	—	—	(132,149)
Issuance of new shares for the global offering	*28(e)*	2,070,299	—	—	—	—	2,070,299
Issuance of new shares upon exercise of the Over-allotment Option	*28(f)*	310,404	—	—	—	—	310,404
Listing expenses for issue of new shares		(86,297)	—	—	—	—	(86,297)
Proposed final 2009 dividend	*12*	(109,614)	—	—	—	109,614	—
Exchange realignment		—	—	(1,231)	—	—	(1,231)
As at 31 December 2009		2,052,643	1,676,409	(1,231)	(23,261)	109,614	3,814,174

The contributed surplus of the Company represents the difference between the cost of investment in a subsidiary pursuant to the Reorganisation and the nominal value of the Company's shares issued.

30. Note to the Consolidated Statement of Cash Flows

Acquisition of assets from a related party

According to the Reorganisation, Sany Heavy Equipment acquired the 100% interest in Sany Transportation from Sany Group in July 2009, at a consideration of RMB166,800,000. The transaction was accounted for as the acquisition of assets rather than as a business combination.

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of assets from a related party is as follows:

	Group	
	2009 *RMB'000*	2008 *RMB'000*
Cash consideration paid	166,800	—
Cash and cash equivalents acquired	(38,719)	—
Net outflow of cash and cash equivalents in respect of the acquisition of assets from a related party	128,081	—

31. Contingent Liabilities

	Group	
	2009 *RMB'000*	2008 *RMB'000*
Guarantees given to a bank in connection with banking facilities granted to and utilised by Sany Junma	—	18,000

The guarantees given to a bank in connection with the banking facilities granted to and utilised by Sany Junma were released in full in March 2009.

32. Operating Lease Arrangements

(a) As lessor

The Group leases its plant under operating lease arrangements, with leases negotiated for terms of two years.

At 31 December 2009, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2009 *RMB'000*	2008 *RMB'000*
Within one year	219	—

During the year, the Group recognised RMB219,000 in respect of rentals receivable.

(b) As lessee

The Group leases certain of its dormitories and warehouse under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31 December 2008 and 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2009 *RMB'000*	2008 *RMB'000*
Within one year	1,767	1,105
In the second to third years, inclusive	1,477	482
	3,244	1,587

33. Commitments

In addition to the operating lease commitments as set out in note 32 above, the Group had the following capital commitments as at the end of the reporting period:

	Group	
	2009 *RMB'000*	2008 *RMB'000*
Contracted, but not provided for:		
Buildings	100,558	123,302
Plant and machinery	152,414	12,850
	252,972	136,152

34. Related Party Transactions and Balances

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

(1) Recurring transactions

		Group	
	Notes	2009 RMB'000	*2008 RMB'000*
Sales of products to:			
Sany International Development Ltd. (Hong Kong) ("Sany Development") (三一國際發展有限公司)	*(i)&(vi)*	2,923	—
Kangfu International	*(ii)&(vi)*	374,845	159,327
		377,768	159,327
Sales of raw materials to:			
Shanghai Sany Technology Co., Ltd. (上海三一科技有限公司)	*(iv)&(vi)*	638	—
Purchases of raw materials from:			
Sany Junma	*(iii)*	38,614	21,751
Loudi Zhongxing Hydraulic Parts Co., Ltd. (婁底市中興液壓件有限公司)	*(iv)&(vi)*	14,820	4,455
Sany Heavy Industry Co., Ltd.	*(iv)&(vi)*	43,963	41,568
Shanghai Sany Technology Co., Ltd.	*(iv)&(vi)*	3,868	—
Suote Transmission Equipment Co., Ltd. (索特傳動設備有限公司)	*(iv)&(vi)*	679	—
Sany Port Machinery Co., Ltd. (三一港口機械有限公司)	*(iv)&(vi)*	554	—
Sany Heavy Machinery Co., Ltd. (三一重機有限公司)	*(iv)&(vi)*	537	—
Hunan Sany Pump Machinery Co., Ltd. (湖南三一泵送機械有限公司)	*(iv)&(vi)*	12,213	—
Hunan Sany Road Machinery Co., Ltd. (湖南三一路面機械有限公司)	*(iv)&(vi)*	1,053	—
		116,301	67,774
Operating rental received from:			
Hunan Sany Repair Services Co., Ltd. (湖南三一維修有限公司)	*(v)&(vi)*	219	—

34. Related Party Transactions and Balances (continued)

(1) Recurring transactions (continued)

Notes:

(i) The sales to Sany Development were made at a pre-agreed discount rate of approximately 10% to the normal retail prices and Sany Development would carry out the delivery of products and/or machinery parts and after-sales services to the overseas end-customers.

(ii) The sales to Kangfu International were made with reference to the published prices and conditions offered to the major customers of the Group.

(iii) The purchases from the associate were made on prices and conditions as mutually agreed.

(iv) The sales to and purchases from companies owned and controlled by the Controlling Shareholders were made on prices and conditions as mutually agreed.

(v) The rental was made according to the prevailing market rent.

(vi) Sany International Development Ltd., Kangfu International, Shanghai Sany Technology Co., Ltd., Loudi Zhongxing Hydraulic Parts Co., Ltd., Sany Heavy Industry Co., Ltd., Sany Port Machinery Co., Ltd., Sany Heavy Machinery Co., Ltd., Hunan Sany Road Machinery Co., Ltd., Hunan Sany Pump Machinery Co., Ltd. and Hunan Sany Repair Services Co., Ltd. are companies which are owned and controlled by the Controlling Shareholders.

In the opinion of the Directors, the above transactions were carried out in the ordinary course of business of the Group and will continue in future.

34. Related Party Transactions and Balances (continued)

(2) Non-recurring transactions

		Group	
	Notes	2009 RMB'000	2008 RMB'000
Sales of products to:			
Sany Heavy Industry Co., Ltd.	(i)&(ii)	—	4,060
Sales of raw materials to:			
Hunan Sany Road Machinery Co., Ltd.	(i)&(iii)	29,647	—
Hunan Sany Pump Machinery Co., Ltd.	(i)&(iii)	1,377	—
Sany Heavy Machinery Co., Ltd.	(i)&(iii)	105,958	—
Shanghai Sany Technology Co., Ltd.	(i)&(iii)	23,811	—
Sany Heavy Industry Co., Ltd.	(i)&(iii)	628	—
		161,421	—
Purchases of raw materials from:			
Synnium Machinery Co., Ltd. (新利恒機械有限公司)	(i)&(iv)	157,225	—
Bank loans guaranteed by:			
Sany Group	(i)&(v)	—	345,000
Sany Group & Sany Heavy Machinery Co., Ltd. — jointly and severally	(i)&(v)	—	40,000
		—	385,000
Guarantees provided to:			
Sany Junma	(vi)	—	18,000
Purchases of machinery from:			
Sany Heavy Industry Co., Ltd.	(i)&(vii)	—	2,471
Sany Automotive Manufacturing Co., Ltd. (三一汽車製造有限公司)	(i)&(vii)	—	573
		—	3,044
Disposal of buildings to:			
Sany Group	(i)&(viii)	87,684	—
Acquisition of assets from:			
Sany Group	(i)&(ix)	166,800	—

34. Related Party Transactions and Balances (continued)

(2) Non-recurring transactions (continued)

Notes:

(i) *Sany Group, Sany Heavy Industry Co., Ltd., Sany Heavy Machinery Co., Ltd., Shanghai Sany Technology Co., Ltd., Synnium Machinery Co., Ltd., Hunan Sany Road Machinery Co., Ltd., Hunan Sany Pump Machinery Co., Ltd. and Sany Automotive Manufacturing Co., Ltd. are companies owned and controlled by the Controlling Shareholders.*

(ii) *The sales to Sany Heavy Industry Co., Ltd. were made with reference to the published prices and conditions offered to the major customers of the Group.*

(iii) *The sales to Hunan Sany Road Machinery Co., Ltd., Hunan Sany Pump Machinery Co., Ltd., Sany Heavy Machinery Co., Ltd., Shanghai Sany Technology Co., Ltd., and Sany Heavy Industry Co., Ltd. were made on prices and conditions as mutually agreed.*

(iv) *The purchases from Synnium Machinery Co., Ltd. were made on prices and conditions as mutually agreed.*

(v) *Certain of the Group's bank loans were guaranteed jointly and severally by Sany Group and Sany Heavy Machinery Co., Ltd.*

(vi) *As at 31 December 2008, the Group provided corporate guarantees totalling RMB18,000,000 to a bank in connection with banking facilities granted to and utilised by Sany Junma. Such guarantees were released in full in March 2009.*

(vii) *The purchases of machinery from the related parties were conducted on prices agreed between the Group and the related parties.*

(viii) *The disposal of buildings to Sany Group was made at the net carrying amount as at 31 May 2009.*

(ix) *The acquisition of assets was made at the net carrying amount as at 23 July 2009.*

In addition to the above transactions, on 31 May 2009, Sany Heavy Equipment disposed of the equity interest in Sany Junma to Sany Group at a consideration of RMB141,466,000, being the carrying amount of the investment. No gain or loss was resulted in the disposal.

In the opinion of the directors, the above related party transactions were carried out in the ordinary course of the Group's business during the year and these transactions will not continue after the listing of the Company's shares on the Stock Exchange.

34. Related Party Transactions and Balances (continued)

(3) Outstanding balances with related parties

	Group	
	2009 *RMB'000*	2008 *RMB'000*
Amounts due from companies which are owned by close family members of the Controlling Shareholders		
Synnium Machinery Co., Ltd.	—	149,892
Shanghai Synnium Leasing Co., Ltd. (上海新利恒租賃有限公司)	—	13,106
	—	162,998
Amounts due from companies which are owned and controlled by the Controlling Shareholders		
Sany Automotive Manufacturing Co., Ltd.	—	417,473
Hunan Automobile Manufacturing Co., Ltd. (湖南汽車製造有限責任公司)	—	217,399
Sany Heavy Industry Co., Ltd.	—	42,756
Others	—	635
	—	678,263
Amounts due to companies which are owned and controlled by the Controlling Shareholders		
Sany Group	—	358,778
Others	—	618
	—	359,396

Included in the balances due from related parties as at 31 December 2008 was an aggregate amount of approximately RMB860,000, which was trade in nature, unsecured, interest-free and repayable on demand. Included in the balances due to related parties as at 31 December 2008 was an aggregate amount of approximately RMB535,000, respectively, which was trade in nature, unsecured, interest-free and has no fixed terms of repayment. The remaining balances with related parties were non-trade in nature, unsecured, interest-free and repayable on demand.

The carrying amounts of the balances with related parties were related to parties for whom there was no recent history of default.

34. Related Party Transactions (continued)

(3) Outstanding balances with related parties (continued)

Details of the Group's amount due from an associate as at 31 December 2008 are included in note 17 to the financial statements.

The carrying amounts of the balances with the related parties approximate to their fair values.

(4) Amount due from a shareholder

The Group had an outstanding receivable from a shareholder as follows:

	Group	
	2009 *RMB'000*	2008 *RMB'000*
Due from a shareholder	—	4,427

The amount due from the shareholder was non-trade in nature, unsecured, interest-free and repayable on demand. The carrying amount of the balance approximated to its fair value.

(5) Compensation of key management personnel of the Group

	Group	
	2009 *RMB'000*	2008 *RMB'000*
Salaries, allowances and benefits in kind	998	1,060
Pension scheme contributions	69	69
Total compensation paid to key management personnel	1,067	1,129

Further details of the directors' emoluments are included in note 8 to the financial statements.

35. Financial Instruments By Category

The carrying amounts of each of the categories of financial instruments as at end of the reporting period are as follows:

2009 Financial assets	Group Loans and receivables *RMB'000*
Trade receivables	565,641
Bills receivable	251,742
Financial assets included in deposits and other receivables	16,715
Pledged deposits	69,043
Cash and cash equivalents	3,095,767
	3,998,908

Financial liabilities	Financial liabilities at amortised cost *RMB'000*
Trade and bills payable	379,549
Financial liabilities included in other payables and accruals	513,196
	892,745

35. Financial Instruments by Category (continued)

2008 Financial assets	Group Loans and receivables *RMB'000*
Due from an associate	285,327
Trade receivables	281,723
Bills receivable	182,058
Financial assets included deposits and other receivables	190,105
Due from a shareholder	4,427
Due from related parties	841,261
Pledged deposits	21,668
Cash and cash equivalents	59,789
	1,866,358

Financial liabilities	Financial liabilities at amortised cost *RMB'000*
Trade and bills payable	217,940
Financial liabilities included in other payables and accruals	286,557
Interest-bearing bank borrowings	385,000
Due to related parties	359,396
	1,248,893

2009 Financial assets	Company Loans and receivables *RMB'000*
Cash and cash equivalents	1,936,336

Financial liabilities	Financial liabilities at amortised cost *RMB'000*
Financial liabilities included in other payables and accruals	9,385
Due to a subsidiary	4,029
	13,414

36. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise interest-bearing bank loans, amounts due from/to related parties, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates and time deposits with fixed interest rates which are short term.

The effective interest rates and terms of repayment of the interest-bearing bank loans of the Group are set out in note 24 to the financial statements.

The following table demonstrates the sensitivity to a reasonably possible change in RMB interest rates, with all other variables held constant, of the Group's profit before tax (through the impact of floating rate borrowings).

Group	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax *RMB'000*
31 December 2009		
RMB	100	253
RMB	(100)	(253)
31 December 2008		
RMB	100	(1,518)
RMB	(100)	1,518

Foreign exchange risk

The Group's businesses are located in Mainland China and all transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB, except for certain bank balances denominated in Hong Kong dollars ("HK$") and United States dollars ("US$"). The Group has not hedged its foreign exchange rate risk.

36. Financial Risk Management Objectives and Policies (continued)

Foreign exchange risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$ and HK$ exchange rates, with all other variables held constant, of the Group's profit before tax and the Group's equity due to changes in the fair value of monetary assets and liabilities.

Group	Increase/ (decrease) in US$ and HK$ rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity*
	%	*RMB'000*	*RMB'000*
31 December 2009			
If RMB weakens against HK$	5	19,637	—
If RMB strengthens against HK$	(5)	(19,637)	—
31 December 2008			
If RMB weakens against US$	5	19,355	—
If RMB strengthens against US$	(5)	(19,355)	—

* *Excluding retained profits*

Credit risk

There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are dispersed. Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 19 and 20 to the financial statements.

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents, amounts due from an associate and related parties and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets.

36. Financial Risk Management Objectives and Policies (continued)

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents and have available funding through capital contribution and financial support from related parties and bank borrowings.

The maturity profile of the financial liabilities as at end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group	31 December 2009			
	On demand	Less than 1 year	Over 1 year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payable	—	379,549	—	379,549
Other payables and deposits received from customers	—	513,196	—	513,196
Due to related parties	—	—	—	—
	—	892,745	—	892,745

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

Company	31 December 2009			
	On demand	Less than 1 year	Over 1 year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payables and deposits received from customers	—	9,385	—	9,385
Due to a subsidiary	—	4,029	—	4,029
	—	13,414	—	13,414

36. Financial Risk Management Objectives and Policies (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2008 and 2009.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. 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. The Group's policy is to keep the gearing ratio at a reasonable level. The gearing ratios at the end of the reporting period are as follows:

	Group	
	2009 *RMB'000*	2008 *RMB'000*
Interest-bearing bank loans	—	385,000
Less: Cash and cash equivalents and pledged deposits	(3,164,810)	(81,457)
Net debt	Not applicable	303,543
Equity attributable to owners of the parent	4,211,743	1,574,571
Capital and net debt	4,211,743	1,878,114
Gearing ratio	Not applicable	16%

37. Event after the Reporting Period

A dividend of HK$124,500,000 was declared on 26 April 2010 and approved by the board of directors on the same date.

38. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 26 April 2010.